



**Tungsten Corporation plc**  
Annual report and accounts 2016

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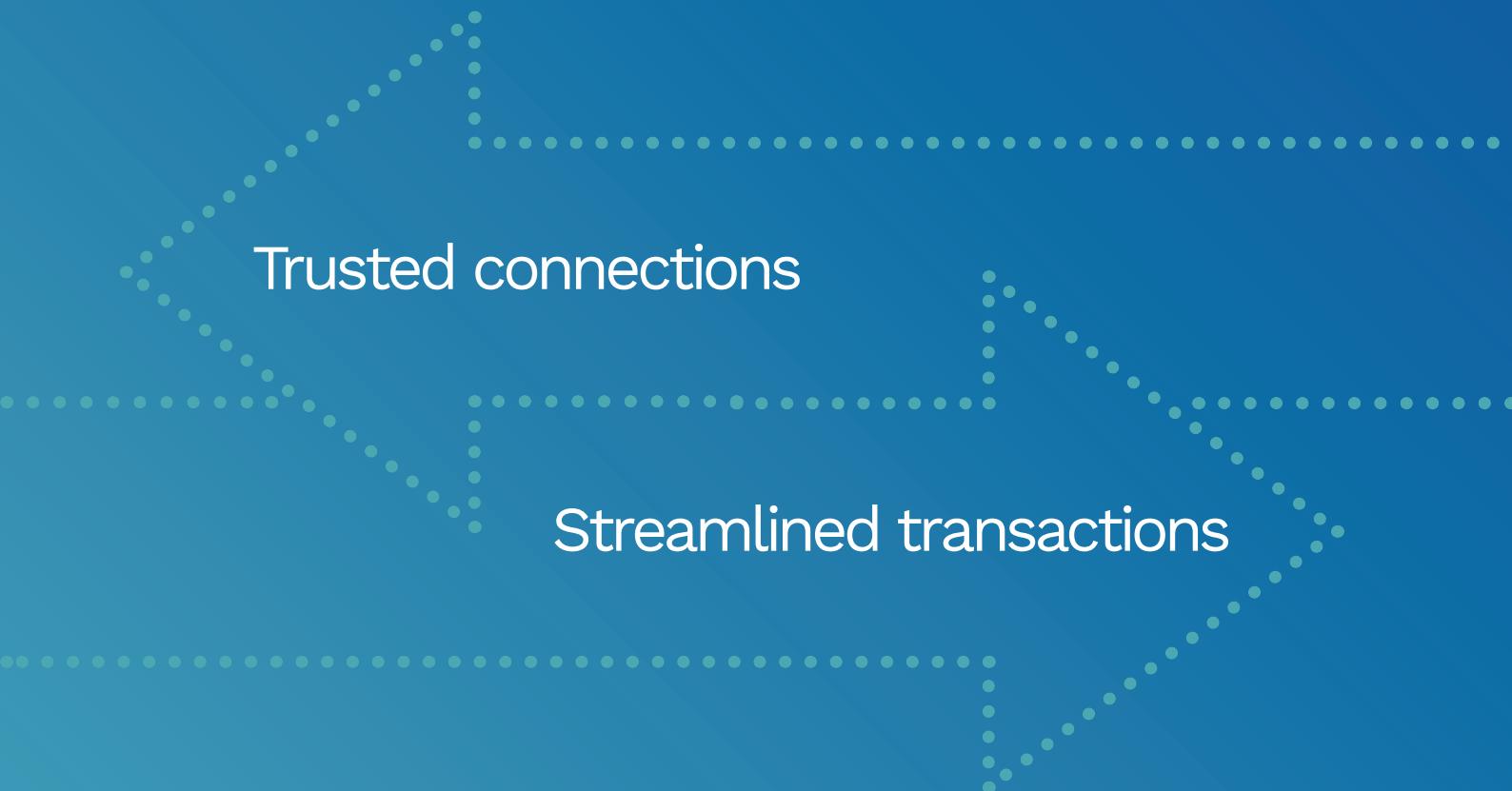
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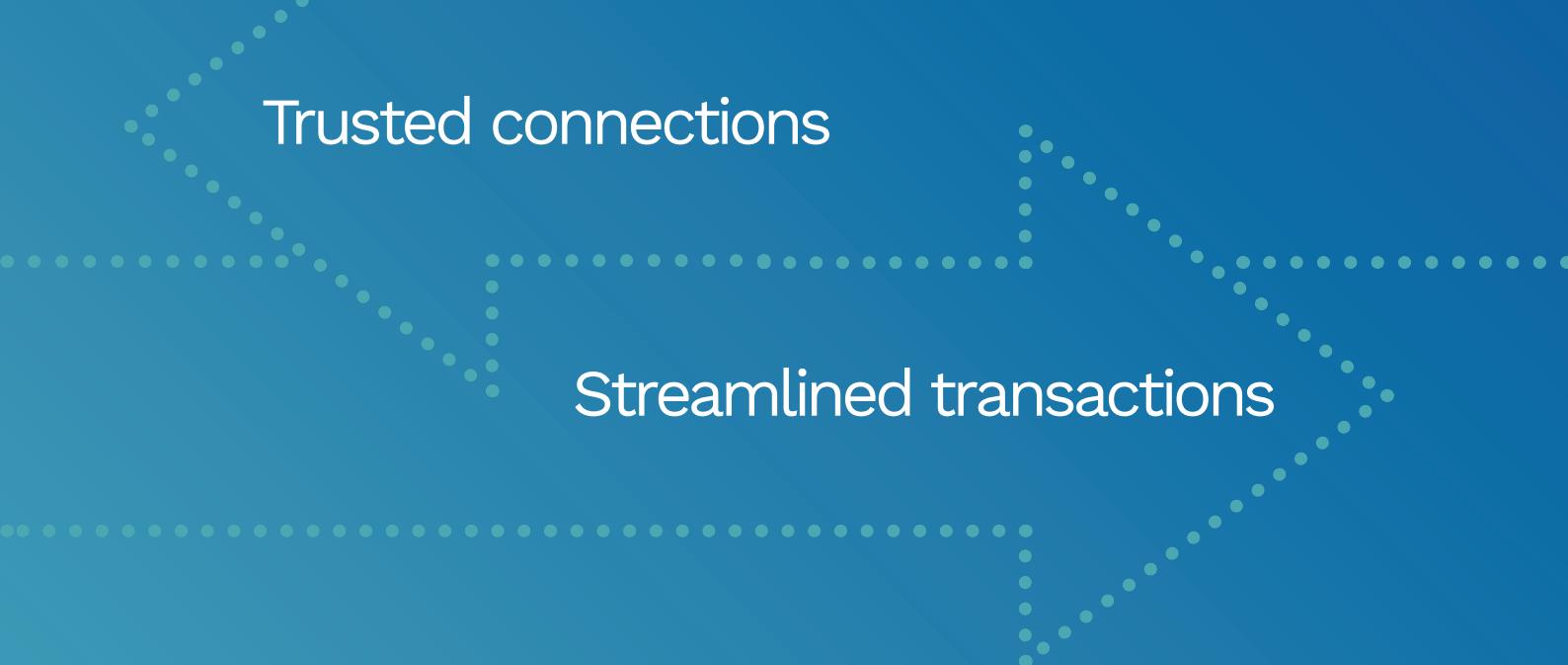
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COLLEGE  
AT  
KONYA  
TURKEY



**Tungsten Corporation plc**  
Annual report and accounts 2016



Trusted connections



Streamlined transactions

## Who we are

We strive to be  
the world's



Tungsten aims to be the world's most trusted business transaction network by using data intelligently to strengthen the global supply chain.

Delivering safe and streamlined connections while automating the entire invoice process, Tungsten is making the digitisation of commerce faster, easier and smarter between buyers and suppliers around the world.

most trusted business transaction network



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## FINANCIAL HIGHLIGHTS

- Revenue increased 16% to £26.1 million (FY15: £22.5 million)<sup>1</sup>
- EBITDA<sup>2</sup> loss decreased to £18.7 million, a £6.5 million improvement from prior year (FY15: £25.2 million loss<sup>1</sup>)
- Statutory loss after tax of £27.9 million (FY15: £27.6 million<sup>1</sup>), including a £6.8 million impairment following signing of a conditional agreement in December 2015 for the sale of Tungsten Bank
- Net cash and cash equivalents ended at £9.3 million (30 April 2015: £13.1 million), excluding the £17.8 million of cash in Tungsten Bank
- Sale of Tungsten Bank expected to close by 31 October 2016 to release cash of approximately £30 million
- Successful placing of 22.9 million shares to raise £17.5 million of new funding in May 2015
- Agreed £10 million revolving credit facility with HSBC should Tungsten Bank sale be unexpectedly delayed.

<sup>1</sup> Restatement of prior year revenue reduces it by £0.6m, as discussed at notes 2 and 3 to the accounts.

<sup>2</sup> EBITDA is defined as operating loss before other income, depreciation, amortisation, impairments and share-based payments charge.

## OPERATIONAL HIGHLIGHTS

- Strengthened board and enhanced executive management team under new CEO Richard Hurwitz
- 34 existing buyers renewed contracts with weighted average price increase of 64%. Four further renewals after the year end at similar increases
- 11 new buyers signed for contract value of at least £1.9 million; 175 total buyers
- 22,000 net new suppliers added to bring total suppliers to 203,000
- 1,000 new Integrated suppliers connected to Tungsten Network, generating aggregate revenue of £1 million in first year of contracts, and a further 24,500 Web Form suppliers added
- Total invoice volumes increased 9% to 16.1 million (FY15: 14.8 million)
- Tungsten Network Finance being restarted to allow for profitable growth of the early payment solution

## OUTLOOK

- Revenue of at least £30 million expected in FY17, with upside potential reflecting the variability and phasing of new customer sales and successes of new product and service initiatives
- Operating costs to continue to decline in FY17 through a combination of actions to increase automation, reduce headcount and implement procurement efficiencies
- Committed to achieving monthly EBITDA breakeven during calendar 2017, with precise month dependent on the phasing of new customer and product sales
- Expect FY17 EBITDA loss of between £12 million and £14 million, including expected £1.3 million EBITDA loss in Tungsten Bank prior to sale, a reduction of between £6.7 million and £4.7 million from FY16
- Cash in excess of £20 million expected at 30 April 2017
- Tungsten Network Early Payment financing levels anticipated to double by end of FY17, with material impact on revenues expected in FY18

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## Strategic report

## Group at a glance

Tungsten provides smarter and safer connections to the world's businesses, which strengthens the entire global supply chain. With a commitment to innovation and security, Tungsten's technology is easing the accounts payable process with higher visibility, greater insights and unprecedented speed.

## CORE BUSINESS

## Tungsten Network

The core of the Tungsten offering is the Tungsten Network, a secure e-invoicing platform that brings businesses and their suppliers closer together with unique technology that revolutionises invoice processing, maximises efficiency and improves cash flow management.

The Tungsten Network is engineered with an advanced, multi-layered world-

class security system to protect client data, prevent major security breaches and counteract fraud.

It simplifies and streamlines the complex invoice-to-pay process, offering legal and tax compliant invoicing across multiple jurisdictions. Buyers can reduce invoice processing costs by 60%, while suppliers – who can quickly and easily submit accurate

invoices – gain efficiencies and peace of mind from greater visibility of the status of their invoices, including payment date.

Tungsten Network processes invoices for 70% of the FTSE 100 and 72% of the Fortune 500 and is the world's largest globally compliant e-invoicing platform.

## OTHER SERVICES

## Tungsten Network Early Payment

Tungsten Network Early Payment is a low cost and easy-to-access alternative to bank finance and factoring solutions, and is available to eligible suppliers on the Tungsten Network. Whether short-term financing is required to meet extended payment terms, seasonal demands or to take on more business, suppliers across the supply chain can use their approved receivables for optional financing directly via their Tungsten Network portal.

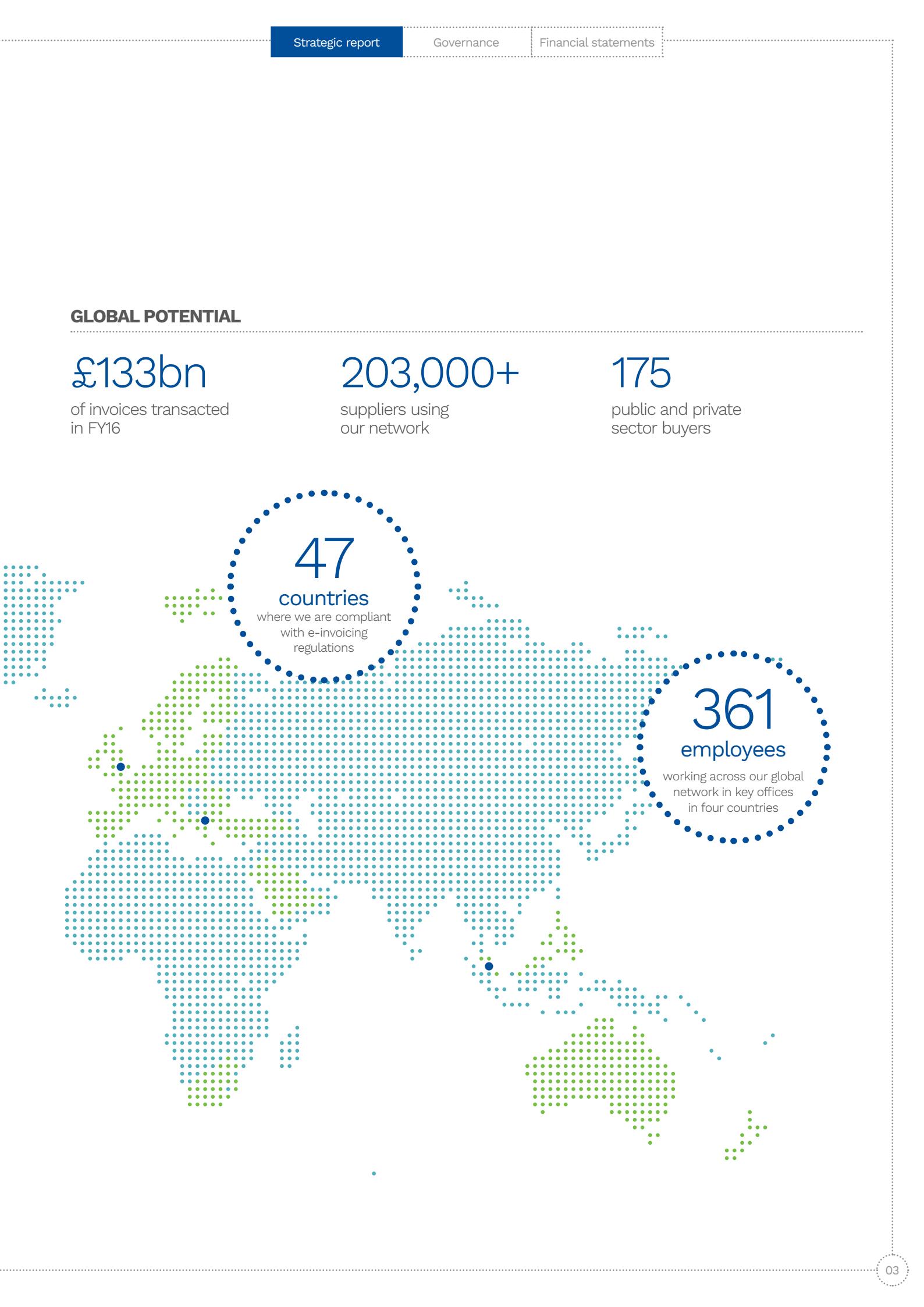
## Tungsten Network Analytics

Billions of dollars' worth of transactions are processed by the Tungsten Network every year. Tungsten Network Analytics combines Tungsten's vast archive of invoices – with a value of over \$900 billion – with sophisticated spend analytics technology and a powerful reporting interface. It examines line-level invoice data in real time to quickly identify price variances on individual items and opportunities for cost savings. It can also be used to ensure compliance with procurement policy and contracts.

## Tungsten Network Workflow

Tungsten Network Workflow streamlines AP processes from initial receipt of invoices until their submission for payment, providing reporting and a full audit trail of all activity. It integrates easily with clients' existing enterprise resource planning (ERP) systems, and saves accounts payable teams valuable time and money while enabling them to maximise their ERP investment.



**GLOBAL POTENTIAL****£133bn**of invoices transacted  
in FY16**203,000+**suppliers using  
our network**175**public and private  
sector buyers

**47**  
countries  
where we are compliant  
with e-invoicing  
regulations

**361**  
employees  
working across our global  
network in key offices  
in four countries

## Strategic report

## Chairman's statement



**Nick Parker**  
Non-Executive Chairman

Tungsten has special operating assets. We have technology, products, customers and people that are the envy of our peers. We process invoices for over 70% of the FTSE 100 and the Fortune 500. However, our financial performance since Tungsten was admitted to London Stock Exchange's AIM in September 2013 has proved disappointing for investors and a new approach was required in order to realise the Company's significant potential.

We had invested heavily in previous years in expanding Tungsten Network and in building Tungsten Network Finance, including the acquisition of a regulated bank. However, given the rate of cash depletion and the operational performance, the Board recognised the need for a change in approach. The 2016 financial year was therefore a period of realigning our strategy under the leadership of Richard Hurwitz with the aim of pursuing profitable growth in Tungsten Network and a more targeted development of the opportunity in Tungsten Network Finance.

The sale of Tungsten Bank is an important component of the execution of our reshaped strategy. Owning a bank proved to be unnecessary to the achievement of our ambitions, and the costs of its operation and regulatory burden impeded our progress. A sale of Tungsten Bank was agreed in December 2015 and on completion the disposal will help to increase our free cash resources, reduce operating expenditure and remove operational complexity from our business.

Tungsten aims to be the world's most trusted business transaction network by using data intelligently to strengthen the global supply chain. The four strategic objectives that support this goal are: elevating our customer engagement by realising network benefits for them; using end-to-end digital processes to ensure our people and processes are effective; using our network and its data to provide distinctive financing products; and offering our customers valuable adjacent products and services.

The Board believes that the Company is making good headway against these objectives, achieving favourable price increases in renewed contracts to reflect the value we generate, realising cost savings by reducing organisational complexity and removing operational inefficiencies, refocusing the invoice financing business, and developing ancillary customer offerings. Our new focus gives the management team the clarity required to execute the Company's strategy for the benefit of customers and shareholders. This puts Tungsten on a stable footing for sustainable future growth.

### Board and Management

I was delighted to accept the role as Chairman of Tungsten at our Annual General Meeting ('AGM') in September 2015. I took over from Arnold Hoevenaars, who steered the Company through its admission to LSE AIM and beyond. Arnold retired from the Board with our thanks. Lincoln Jopp also retired from the Board at our AGM and our thanks also go to him.



**We are confident that we have now identified the strategic priorities to take advantage of this market growth... We look forward to a year of further progress and success.”**

Nick Parker  
Non-Executive Chairman

Tungsten made a number of other changes to its Board during the course of FY16 to increase its breadth and depth of experience and improve corporate governance. In particular, we were pleased to announce the appointment of new Independent Non-Executive Directors, David Benello and Ian Wheeler, at our AGM. Edi Truell, Tungsten's founder, stepped down from the Board in March 2016. The Board of Tungsten would like to thank Edi for his significant contribution to the creation of Tungsten.

The Board appointed Richard Hurwitz as CEO of Tungsten with effect from 13 July 2015 to lead the strategic change required in the business. Rick has built a talented executive management team around him in order to steer the business through its transformation.

Tungsten operates in markets with significant growth characteristics: back-office automation, digitisation, and alternative financing. We are confident that we have now identified the strategic priorities to take advantage of this market growth and have put in place the organisational structure needed to achieve our targets. We look forward to a year of further progress and success.

#### **Annual General Meeting**

The Company's Annual General Meeting will be held at 2pm UK time on 16 September 2016 at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA.

A handwritten signature in black ink that reads "Nick Parker".

**Nick Parker**  
Non-Executive Chairman

## Strategic report

# Our key market drivers

## The global opportunity

Billions of transactions are processed in the global B2B market every day. As this number continues to grow, so does the size of the opportunity to support businesses and governments through digital solutions that automate financial processes, deliver efficiencies, increase transparency and combat fraud.

### ESTIMATED MARKET SIZE

## Electronic invoicing

More than 170 billion B2B invoices will be exchanged around the world in 2016, with over 30 billion of these sent electronically<sup>1</sup>. In the US alone, the number of companies using e-invoicing networks is expected to grow from 19% to 41% over the next two years<sup>2</sup>. The growth is not limited to businesses, and the US Office of Management and Budget has directed federal agencies to implement e-invoicing systems by 2018.

As more and more businesses transact with each other across increasing geographies, challenges arise, such as meeting tax and regulatory requirements. Concurrently, the development of new technologies has enabled businesses to be more agile and efficient by automating labour-intensive processes. Automated solutions are already being used by 85% of business and IT executives to improve their business processes<sup>3</sup>.

The march toward digital networks will drive this growth as businesses upgrade from legacy EDI connections and seek the efficiencies that cannot be achieved from PDFs.

### OTHER MARKET DYNAMICS

#### Fraud detection and mitigation

Governments and businesses are mandating the use of e-invoicing to combat fraud and improve tax collection rates.

The use of e-invoicing supports government visibility of tax obligations. In the US, the IRS estimates the 'tax gap' as \$406 billion per year, and in Mexico the Tax Administration Service lost \$3.4 billion through 'apocryphal invoicing' between 2007 and 2009<sup>4</sup>. Now, more than 5.4 million taxpayers are issuing e-invoices for goods and services in Mexico<sup>5</sup>.

Latin America is a leader in the adoption of e-invoicing. Recent mandates include Chile and Peru, in addition to long-standing mandates in Mexico and Brazil. A number of Asian nations have also implemented e-invoicing directives or intend to do so. China has announced plans to create a modern tax collection system and is consequently on a path to mandate e-invoicing. And the European Union (EU) has implemented a directive that obliges all EU public authorities to receive e-invoices by 2018.

Meanwhile, in the private sector 90% of large organisations experienced a security breach in 2015, an increase of 81% from the previous year<sup>6</sup>, and UK SMEs alone are losing more than £9 billion from invoice fraud every year<sup>7</sup>.

<sup>1</sup> Koch, Bruno, e-Invoicing/e-Billing, Digitisation & Automation, Billentis, May 2016

<sup>2</sup> Koch, Bruno, e-Invoicing/e-Billing, Digitisation & Automation, Billentis, May 2016

<sup>3</sup> Accenture, Technology Vision 2016, January 2016, [www.accenture.com](http://www.accenture.com)

<sup>4</sup> The Economist, Electronic Arm-Twisting, 17 May 2014

<sup>5</sup> Koch, Bruno, e-Invoicing/e-Billing, Digitisation & Automation, Billentis, May 2016

## Invoice Financing

Our Tungsten Network Early Payment product is a distinctive invoice financing solution that is fully integrated with Tungsten's e-invoicing network. It was developed as a market-competitive alternative to traditional financing options that are expensive and often difficult to access.

The flow over Tungsten Network defines the size of the financing opportunity for Tungsten Network Early Payment. Over £133 billion of invoices were sent over Tungsten Network in FY16; however, our product was available to only 4,000 of the network's 200,000+ suppliers.

We are re-engineering the product to make our financing more competitive, redesigning and relaunching our supplier portal to more effectively promote financing and onboard suppliers, and using better supplier segmentation data for improved targeting. These initiatives will have a significant impact on our addressable market over the coming years.

## Spend Analytics

A rise in digital business – where the amount and accuracy of available data is growing – has corresponded with a rise in spend analysis and the use of artificial intelligence and cognitive technologies to deliver business insights. There has been an advent in insight-driven organisations that seek to leverage data across the entire organisation, and the overall market for cognitive solutions will exceed \$60 billion by 2025<sup>8</sup>.

Tungsten Network Analytics gives businesses the clarity to make better buying decisions by illuminating deep insights generated by the volume of invoice data on the Tungsten Network. And launching this year is a new pricing model of free, paid and premium – giving our clients access from day one and a simple upgrade path to unlock additional value.

170  
billion

B2B invoices sent  
globally each year

<sup>6</sup> Department for Business, Innovation & Skills, Information Security Breaches Survey 2015, June 2015

<sup>7</sup> Tungsten Network, SMEs lose £9 billion in invoice fraud, 25 April 2016, [www.tungsten-network.com](http://www.tungsten-network.com)

<sup>8</sup> Deloitte, Analytics Trends 2016, January 2016, [www.deloitte.com](http://www.deloitte.com)

## Strategic report

# Our business model

Our unique global network makes it easier for both buyers and suppliers to do business more efficiently and securely. We connect them through our e-invoicing platform and offer other adjacent services that strengthen the entire supply chain.

## THE RESOURCES WE HAVE

Highly skilled, experienced and diverse workforce

Resilient, secure and scalable digital platform

Global network of buyers and suppliers

Knowledge of international regulatory environment

Funding partners



## OUR SERVICES

**Tungsten Network**

**Tungsten Network Workflow**

**Tungsten Network Early Payment**

**Tungsten Network Analytics**

**Adjacent products and services**

## THE VALUE THIS CREATES

- > Enables buyers to reduce their AP costs by 60%
- > Helps SMEs control and optimise their cash flow
- > Improves tax collection for governments
- > Streamlines global trade
- > Reduces environmental footprint

## Chief Executive's review

# Our approach



**Richard Hurwitz**  
Chief Executive

### Strategic Review

The 2016 financial year has been a year of encouraging progress where we demonstrated momentum in the achievement of our revised aims. I was appointed CEO in July 2015, so these results represent a little over nine months of my stewardship. My first act on becoming CEO was to undertake an in-depth analysis of the business; what I found both excited and troubled me.

Tungsten is a global business with a loyal blue-chip customer base and enormous embedded value. Through its predecessor firm, Tungsten pioneered e-invoicing and remains at the vanguard of digitising accounts payable processes. But I also found structural deficiencies and a pressing need for a clearer strategy to produce profitable growth by leveraging the strengths of our core business. That strategic realignment is now in place and so is a talented team of committed individuals that is executing our plans with confidence and achieving notable early successes.

Our vision is to be the world's most trusted business transaction network, using data intelligently to strengthen the global supply chain

1. Focus on our core
2. Improve operational performance
3. Disruptive supply chain financing
4. Expansion through adjacent services

It was clear that the Company suffered from skills gaps in certain key areas. To close these gaps, we have made external appointments of Brian Proffitt as Chief Technology Officer, Guy Miller as Head of Corporate Development, Connie O'Brien as Chief Marketing Officer, and Prabhat Vira as President of Tungsten Network Finance. We have also undertaken internal promotions, including the appointment of Kevin Wilbur as Head of AP Automation.

In December 2015, I set out four areas of strategic priority to achieve profitable growth:

- Focussing on our core business to provide efficiencies and further benefits for our customers;
- Improving operational performance by deploying end-to-end digital tools to ensure our people and processes provide products and services to our customers effectively;
- Further leveraging our network and its data to deliver distinctive financial products for our customers to support their working capital needs; and
- Enhancing the value of the Tungsten Network by providing value-added adjacent products and services to increase operational efficiencies across the global supply chain.

I am confident we now have the right executive management team in place with shared and targeted objectives, performance measures and incentive structures for the Company to make substantial progress in FY17.

..... to value creation

## Strategic report

## Chief Executive's review continued

## Focus on our core

Tungsten Network is growing. Revenues for the year grew 16%, with total invoice volumes increasing 9% to 16.1 million. By value, total invoices increased 16% to £133 billion. Some 34 of our e-invoicing buyer customer contracts were renewed at a weighted average price increase of 64%, demonstrating that customers recognise the value of our offering. Since the end of our financial year we have renewed four further buyer customer contracts at similar price increases. We added 11 new buyers to Tungsten Network, including Duracell and Sanofi. The global agreement with Sanofi was signed at the end of FY16 and will therefore contribute to revenue in FY17. Each buyer brings their own supply chain to add to our network, and we are working more effectively with new and current buyers to sign up these suppliers. 22,000 net new suppliers were added over the year. This is the virtuous circle of the Tungsten Network: buyers bring suppliers who want to connect with other buyers.

We want to increase the rate of new business sales within Tungsten Network. Our pipeline is strong and continues to grow as we refine and strengthen our customer engagement strategy and increase our portfolio of products and services. We have revised our sales strategy to leverage more effectively our strong Tungsten Network connections and Tungsten Network Workflow customers. We have also developed partnerships with third parties, and won our first two buyer customers through PNC Bank which distributes our e-invoicing platform in the US. We are exploring ways to expand further in the near future our partnership strategy with PNC and others.

Notably, we have established a Digital Command Centre to connect more frequently and materially with our 203,000 suppliers under the direction of our newly appointed Chief Marketing Officer. Maintaining a regular dialogue



**This is the virtuous circle of the Tungsten Network: buyers bring suppliers who want to connect with other buyers.”**

Richard Hurwitz  
Chief Executive

with our network of suppliers ensures they remain active users as we engage them on the issues important to their commercial success, serving to strengthen the network of buyers and suppliers that underpins our growth strategy. Our Digital Command Centre is deploying advanced digital marketing capabilities and a host of leading-edge tools to increase the presence of Tungsten Network in internet search and traffic.

## Improved operational performance

Tungsten seeks to grow profitably. Our history is one of a business where overheads have grown in line with revenues and we therefore needed to increase efficiency and leverage costs, while maintaining product and service standards. We have identified and started to effect the changes required in order to simplify and rationalise the business; sizing costs to match the tangible opportunity, removing organisational inefficiencies and maximising the use of automation tools.

Underpinning operational improvements is a re-design of the architecture of our core systems. This will be an incremental process to decouple core system components and will result in greater stability and flexibility of our systems. This project is well underway and is expected to be completed over FY17.

These initiatives included:

- A reorganisation of customer relationship management resources designed to consolidate all on boarding activities into separate, dedicated buyer or supplier teams;
- The first phase of a re-engineering of the technology platform to deliver a simplified infrastructure that will meet future capacity requirements and deliver efficiency benefits;
- Increased use of digital marketing to improve the identification and conversion of new business leads and existing customer opportunities into product or service sales;

- A restructuring of our finance team, including implementing new enterprise resource planning software that allows us to use a wider range of accounts payable automation tools and switch to a shared services environment; and
- The introduction of a swathe of upgraded procurement and cost policies, processes and disciplines to allow more effective management of the Group's cost base.

Collectively, the initial impact of these measures is demonstrated in the narrowing of our EBITDA loss by £6.5 million to £18.7 million (FY15: £25.2 million<sup>1</sup>).

As we look to the year ahead, we have identified the initiatives to deliver EBITDA breakeven by the end of FY17, and we will continue to manage our cost base while making the necessary investments in technology, products, digital marketing and operational improvements. However, we will not surrender future growth for the sake of reaching EBITDA breakeven by the end of our financial year in April. We will be prepared to achieve this landmark later in calendar 2017 if we believe to do so is in the best interests of sustaining long term profitable growth and the creation of shareholder value.

### Distinctive supply chain financing products

Tungsten Network Finance, our invoice financing business, remains a cornerstone of our strategy. We will pursue this without Tungsten Bank, as we determined that operating a regulated deposit-taking financial institution is incompatible with the pursuit of profitable growth and not needed to successfully pursue our invoice financing opportunity. The sale of Tungsten Bank is expected to close by the end of H1-FY17. This will release substantial cash resources of approximately £30 million to enable us to invest in our core business as well as reduce our cost base and enhance profitability and cash flow.

Tungsten financed over £100 million of invoices in FY16 for an average duration of 34 days at an average gross yield of 6.3%. However, the revenue generated from this activity was less than £200,000, and the number of suppliers using the product was limited.

In April 2016, we welcomed Prabhat Vira to Tungsten to lead our efforts in restarting Tungsten Network Finance to scale up the level and profitability of financing. Prabhat has previously held senior positions in banking businesses across the world and at Tungsten has already started to revise our invoice finance offering to widen the number of suppliers that can take advantage of it and make it more flexible and appropriate to our customers' needs.

Following Prabhat's arrival we have commenced the execution of a revised strategy which includes reaffirming and expanding our funding arrangement with Insight Investment, redesigning our product to better meet market needs, segmenting our supplier customers, improving our pricing model, enhancing the Tungsten Network portal, streamlining the on-boarding process, investing in supplier sales and relationship activities and improving the effectiveness of the back-office technology.

We expect the changes to give us the capability to increase the volume of invoices financed and the income that Tungsten is able to earn from the activity. However, we need to complete the execution of the improvements we have identified to capture an increased invoice finance opportunity. As a result we anticipate a steady increase to financing volumes in FY17, with a more material impact expected from FY18.

### Adjacent products and services

Tungsten and its predecessor companies have been at the forefront of accounts payable automation for over 15 years. As a result, 175 of the world's most sophisticated buying organisations connect with 203,000 of their global suppliers over the Tungsten Network. We have identified a series of opportunities to leverage this

global connectivity in order to provide our customers with highly relevant adjacent products and services.

The range of opportunities currently include foreign currency transaction services, e-invoicing for suppliers in China, and cross-border recovery of value-added taxes on goods and services. Each of these initiatives is currently at a different stage of development, ranging from design to trial. We are pursuing each opportunity with partners, to minimise setup and ongoing costs, with the potential targeted benefit being a share of revenues generated. We expect the list of opportunities to fluctuate over time as some are launched and some are terminated. We are anticipating only marginal revenues from adjacent products and services in FY17, with more material contributions targeted from FY18.

## Operational Review

### Tungsten Network

Tungsten Network continued to grow in the period, both through the addition of new buyers and their suppliers to the network, and through creating additional connections between existing buyers and suppliers.

Eleven new buyers contracted to join Tungsten Network in FY16. Total buyers as at 30 April 2016 amounted to 175, of which 124 take e-invoicing and other associated solutions, and 51 take Tungsten Network Workflow services. Expanding the solutions that buyers take is a development focus for FY17.

The new e-invoicing buyers each agreed three- or four-year deals for total minimum fees over the aggregate contract periods of £1.2 million. This excludes revenues generated from their suppliers, which are expected to contribute from H2-FY17. The new Tungsten Network Workflow buyers each agreed deals with total minimum fees over the aggregate contract periods of £0.7 million.

## Strategic report

## Chief Executive's review continued

The number of buyers reduced by nine during FY16. This figure includes three buyers with minimal invoice flow leaving the network as part of Tungsten's strategy to focus on accounts with growth potential. Six further buyer contracts were merged, three as a result of customer mergers and three through the replacement of local contracts with global agreements. The buyer reductions are not expected to have a material impact on revenue in FY17.

Buyer revenues represent 39% of total Tungsten Network revenue. Contracts with 42 buyers that take the e-invoicing service were due for renewal in FY16. A key focus of the business during the year was to work with these buyers as part of contract discussions to demonstrate the value Tungsten Network delivers. Tungsten completed contract renegotiations with 34 of these buyers, agreeing weighted average price increases of 64% on a like-for-like basis which applies to approximately 30% of total invoice volumes. We have also secured buyer commitments to acquire additional products and widen the scope of our relationships, and we expect to see the financial benefit of these initiatives in FY17.

New contracts have been agreed with four of the remaining eight buyers after the year end at similar rates of price increase with discussions nearing conclusion with the remaining four buyers.

Due to legacy contractual restrictions we were unable to renegotiate pricing with an additional 10 buyers who had their current contracts extended during the year. We are in discussions with each of these to agree new terms when the extended contracts expire.

As part of the review of our business we have segmented our supplier customers into four categories, reflecting the products they use and the associated sales channel. These are: Corporate suppliers; Integrated Solution suppliers; Web Form suppliers; and Non-Electronic suppliers. This segmentation has allowed us to identify targeted pricing and development opportunities.

A total of 1,000 new Integrated and 24,500 new Web Form suppliers were added to the network during the period. Around 3,500 supplier accounts were closed, the majority of which had stopped trading with our buyer customers. The net impact of these changes was that the total number of suppliers increased 12% to 203,000.

We continue to connect growing numbers of customers to each other, enhancing the interconnectedness of our network. Through our newly created Digital Command Centre we will continue to segment our customer base to actively engage with them.

Growing the number of connected suppliers remains a key factor in the development of the business. This involves working closely with our buyer customers to help them identify where they can further benefit from digitising their accounts payable processes and then supporting them in the change management required to deliver this. Many of our buyer customers want to grow in this way with our support, with the challenge always being the timing of delivering this growth.

The first phase of a restructuring of the operations of Tungsten Network was completed in FY16. This included: the reorganisation of resources into separate teams to focus on the implementation of buyer customers; the sale, implementation and support of supplier customers; and the technical operations of Tungsten Network. The restructuring allows for greater accountability and focus across these teams. The second phase of the restructuring, to be completed over FY17, will be to introduce greater process automation and standardisation across these teams in order to increase their efficiency.

#### Tungsten Network Finance

Revenue from Tungsten Network Early Payment was £194,000 (FY15: £120,000). This comprised £14,000 of income from Tungsten Network Finance and £180,000 of income from Tungsten Bank.

By the end of FY16, 361 suppliers had registered for Tungsten Network Early Payment (FY15: 188). A total of £148.5 million of invoices were paid through supplier accounts (FY15: £41.0 million), of which Tungsten financed £102.7 million (FY15: £32.0 million). The average duration of financed invoices was 34 days (FY15: 33 days) and the average gross yield achieved was 6.3% (FY15: 5.3%).

Shortly prior to the end of the period, in April 2016, Prabhat Vira was appointed to lead the restructuring of Tungsten Network Finance and he has already made strong progress.

#### Tungsten Bank

Following a strategic review, we took the decision to sell Tungsten Bank. The Board had determined that the benefits of owning a regulated firm like Tungsten Bank were outweighed by the fixed costs of operating it, making the retail funding it might provide for Tungsten Network Early Payment relatively expensive compared with the Group's alternative funding arrangement with Insight Investment. A sale agreement was announced in December 2015. The divestment is progressing to plan and the acquirer is expected to make its formal change of control application to the relevant regulatory authorities shortly.

Following the sale, Tungsten will receive approximately £30 million in cash. While the sale is expected to complete by the end of H1-FY17, in the event of unexpected delay we have secured a £10 million revolving credit facility from HSBC to fund any potential working capital shortfall.

The divestment of Tungsten Bank is expected to produce a net reduction in run-rate costs of £2 million per annum. In FY16, Tungsten Bank's operating expenses amounted to £2.8 million.

## Tungsten Network Analytics

Despite positive feedback from our buyer customers, the Tungsten Network Analytics product remains in development. Pilot users have continued to react favourably throughout FY16 and we remain confident that the core tool, offering access to real-time spend data, can provide our customers with critical information to help them make better buying decisions. We remain in discussions with several buyer customers who are interested in buying the tool.

In order to stimulate demand, early in FY17 we will launch a freemium, or limited feature, version of our Tungsten Network Analytics tool to all buyer customers. This will give them access to certain basic data analysis for free, with a paid-for upgrade available for more advanced services.

We are also using the capabilities that our Analytics tool provides us in other areas of product development. For example, our value-added tax reclaim product is built on the Tungsten Network Analytics platform. In addition, as part of the development of services we offer to our supplier customers, we will launch a form of Tungsten Network Analytics geared to assist suppliers make optimal decisions informed by market level data.

## FY17 Priorities

FY17 is a year for delivery. This includes the development of opportunities to grow with our existing customers and attracting new customers as the automation of accounts payable increases.

Equally as important is the capture of benefits from the change underway across the business to achieve the operational excellence we are targeting to provide outstanding products and services to our customers in an efficient manner.

We expect to see benefits from our work to clarify our organisational culture and principles, and invest in our people. Each member of staff is clear how they contribute to ensuring

smarter, safer connections for our customers through a cross-border compliant, many-to-many network by providing leading global e-invoicing, purchase order, analytics and financing services.

We have an executive management team in place to achieve our strategic objectives, and outstanding talent across the business to support them. Our immediate aims are to be profitable on a monthly EBITDA basis and to grow our revenues to at least £30 million in FY17.

We have identified the initiatives to achieve monthly EBITDA breakeven by the end of FY17, and we will continue to manage our cost base while making the necessary investments in technology, products, digital marketing and operational improvements. However, we will not surrender future growth for the sake of reaching monthly EBITDA breakeven by the end of our financial year in April. We will be prepared to achieve this landmark later in calendar 2017 if we believe to do so is in the best interests of our sustaining long term profitable growth and the creation of shareholder value.

Following the sale of Tungsten Bank, we expect free cash resources to be increased by approximately £30 million.

We are confident that we have the right strategy in place to develop the business to achieve profitable growth and a successful future.

## Outlook

Subsequent to the end of our financial year, in June 2016 the UK electorate voted to leave the European Union. This decision commences a process expected to take a minimum of two years to complete. The outcome of the process as regards the structure of the UK's trade relationships without European Union membership is unknown. There will be uncertainty over this period and the role that Tungsten Network plays in supporting businesses to navigate international trade has never been more important. Over half of Tungsten's revenues are denominated in currencies other

than Sterling. We expect the effect of changes in the value of Sterling on our non-sterling denominated operating expenses to offset broadly any currency-related movements in reported revenues.

We provide updated guidance on our expectations for trading as follows:

- Revenue of at least £30 million expected in FY17, with upside potential reflecting the variability and phasing of new customer sales and success of new product and service initiatives
- Operating costs to continue to decline in FY17 through a combination of actions to increase automation, reduce headcount and implement procurement efficiencies
- On track to achieve monthly EBITDA breakeven in 2017, with the precise month dependent on the phasing of new customer and product sales
- Expect FY17 EBITDA loss of between £12 million and £14 million, including expected £1.3 million EBITDA loss in Tungsten Bank prior to sale, a reduction of between £6.7 million and £4.7 million from FY16
- Cash in excess of £25 million expected at 30 April 2017
- Tungsten Network Early Payment financing levels anticipated to double by end of FY17, with material impact on revenues expected in FY18



**Richard Hurwitz**

Chief Executive

## Case studies

A unique network  
to make



Blue-chip companies, governments and hundreds of thousands of SMEs use Tungsten to build relationships and transform the way they do business. Over the next few pages we show you how our network helps these businesses become more efficient.

## BT Group and Tungsten

# Communicating...



**Suppliers need to know that the buyer has accountability, which Tungsten Network's digital platform provides”**

Sam Green,  
BT Group



## the benefits

As a communications services provider, BT's purpose is to use the power of communications to make a better world, bringing together the best networks and technology to broaden and strengthen customer relationships.

Developing e-invoicing as the preferred accounts processing method has been a collaborative effort between BT and Tungsten Network, explains Sam Green, BT's Global Process Owner for Purchase to Pay.

“As a business at the leading edge of innovation, we know the benefits of e-invoicing to our business, making new connections and creating new

possibilities,” he said. “To achieve those benefits, however, we rely on our suppliers taking up the mantle of e-invoicing themselves.”

Tungsten Network worked closely with BT Group to develop a supplier on-boarding campaign, where specific groups of businesses were targeted. These suppliers were encouraged to stop sending paper invoices and start using Tungsten Network's e-invoicing platform with a campaign centred on its benefits.

“Change doesn't come easily to many organisations, who may have been running their businesses in a certain way for years,” said Sam. “The invoicing process traditionally involves paper and a postage stamp. That is now changing, as technology has enabled the whole process to go digital. It's far easier, but not as familiar. It's this familiarity we're looking to kindle in the e-invoicing process – that the whole thing is so simple and makes complete sense to do.”

Since joining Tungsten, 704 BT suppliers have been enrolled onto the network to take up the use of e-invoicing via Tungsten's simple and accessible platform. In the past year alone, these

suppliers have processed 189,616 invoices, representing significant time reductions and savings totalling £910,156, based on the average saving of £4.80 per invoice suggested in the Billentis report.

With messaging centred around ease of use and greater visibility of the process, the collaborative approach meant both businesses achieved their end goal. Sam said: “Tungsten Network's e-invoicing platform enables suppliers to not only file their invoice digitally, saving time, but also to check on each invoice's payment status at the click of a button.”

For BT and Tungsten Network, positive buyer-supplier relationships are about trust. “Suppliers need to know that the buyer has accountability, which Tungsten's digital platform provides,” said Sam. “In the accounts processing team, we are always striving to do whatever we can to support the business, and maintaining good relationships with suppliers as well as finding more efficient ways of working is a central part of that. What's great about our partnership with Tungsten Network is we know they share our goals.”

# 189,616

e-invoices

processed by BT suppliers  
in the past year alone

## Strategic report

## Mondelez and Tungsten



## Tungsten has been with us every step of the way.”

Mark Boswell,  
Mondelez

Processing invoices is a huge task for a business the size of Mondelez, which as the world's largest snack producer has many thousands of suppliers across the globe.

Working with Tungsten Network, Mondelez overhauled its whole invoicing system to make it much more streamlined and virtually touch-free. This meant ensuring all parts of the business were aligned, as well as educating suppliers about e-invoicing and its benefits.

A major part of this was to explain why a fully digital invoice is much better than a PDF image. Many consider the two as equally digital solutions, but it is much more difficult to extract accurate data from an image than from a digital document. This inevitably requires manual intervention and drastically slows the whole process down.

Key to digitising the process was making sure electronic invoices were 100% accurate by creating a standard against which each invoice could be checked. This meant introducing key checks and measures relating to format and content. “Getting rid of paper is a good thing,” explained Mark Boswell, procurement business process manager at Mondelez, “as is helping our suppliers get their invoices to us faster.”

Creating a list of virtual tick boxes to check each invoice against has had a dramatic effect in enabling more invoices to be processed without any time-consuming intervention. It has also enabled invoices to be processed more intelligently, so any that need additional information can be returned to the supplier sooner for updating – reducing the processing time and helping them get paid more quickly.

Over the past three years, Mondelez has gone from processing 80,000 invoices digitally a year to 500,000. E-invoicing has enabled the Company to streamline its processes, increase efficiency and significantly reduce costs.

“Over time this has become a very powerful change,” said Mark. “We are seeing benefits in enhanced data, so we have better visibility of the whole process from procurement right through to payment. Tungsten has been with us every step of the way.”

## Targeting



..... painless processing

# London Borough of Bexley and Tungsten



**The time saved  
enables the team to  
focus on value-added  
tasks instead.”**

Bel Temel,  
London Borough of Bexley

Invoice fraud is not just confined to businesses, with public sector organisations also falling victim. Bel Temel, Payments Manager at Tungsten Network customer the London Borough of Bexley, has witnessed multiple attempts of invoice fraud:

“Our Borough has received fake invoices from anonymous professional fraudsters on more than one occasion. In most cases, the criminals have taken information from the internet to ensure the bogus invoice looks identical to the template of one of our suppliers. Generally the only way the naked eye can spot any difference is by cross referencing the bank details with those we have listed for our supplier.

“This means that the fake invoice can make it through every stage of the payment process before being picked up by us in the finance team. Unfortunately other local authorities

have lost money by not spotting this and paying the balance of a fake invoice into the fraudster’s bank account.”

For businesses that have adopted e-invoicing with their regular and trusted suppliers, paper invoices are immediately flagged as unusual and can be investigated.

“One way in which we’ve further protected ourselves against this threat is by introducing electronic invoicing from Tungsten Network,” said Bel. “The accounts payable team at Bexley process thousands of invoices every month and the volume of paper prior to e-invoicing was a real issue. Now that our suppliers submit invoices through the platform, we know that every invoice received is 100% legitimate. The technology ensures the secure transacting of invoices and this has significantly helped us combat invoice fraud.”

Since Bexley’s adoption of the technology, many other local authorities have followed suit, many using Bexley’s success as a template. “It’s a swifter, safer approach”, said Bel, adding: “The time saved enables the team to focus on value-added tasks instead.”

## Prevent invoice fraud



London Borough of  
**BEXLEY**

.....to protect business

## Strategic report

## Chief Financial Officer's review



**David Williams**  
Chief Financial Officer

**Group Overview**

After redefining our strategic objectives and putting in place the plans to achieve them, Tungsten made demonstrable progress in FY16 towards achieving its near-term target of monthly EBITDA breakeven.

A restructuring of Tungsten's finance and planning teams has provided the data and analysis that the business needs to put it on a path toward achieving profitable growth. This contributed to the standardisation of buyer pricing, serving to underpin average price increases of 64% across the 34 buyer customers that renewed contracts in FY16.

It has also helped to implement the cost disciplines required to reduce adjusted operating expenses (operating expenses excluding depreciation and amortisation, impairment and share-based payment expense) from £47.8 million in FY15 to £44.6 million in FY16.

A sale of Tungsten Bank was agreed in December 2015. On completion the disposal will help to reduce our operating expenditure by approximately £2.0 million per annum, being a £3.0 million gross reduction of Tungsten Bank's operating expenses offset by approximately £1.0 million of additional costs to provide our financing products through Tungsten Network Finance.

Group revenue was £26.1 million (FY15: £22.5 million<sup>1</sup>), representing an increase of 16%.

Revenue from buyers grew 17.3% to £10.1 million (FY15: £8.6 million<sup>1</sup>), reflecting price and volume increases of £2.0 million offset by a fall in setup and other one-off fees of £0.5 million. Revenue from suppliers grew 15% to £15.8 million (FY15: £13.8 million), reflecting a net increase of 22,000 Integrated and Web Form supplier customers and a change in the structure of supplier pricing.

Revenue from Tungsten Network Finance, including Tungsten Bank, was £0.2 million (FY15: £0.1 million<sup>1</sup>).

Group EBITDA loss was £18.7 million (FY15: £25.2 million<sup>1</sup>), reflecting a decrease in adjusted operating expenses by £3.2 million to £44.6 million (FY15: £47.8 million). There has been significant focus across the business on cost control, resulting in a reduction in one-off costs and in particular professional fees associated with the setup of Tungsten Network Early Payment, which totalled £6.6 million in FY15, cost and procurement savings of £1.9 million, and decreased bad debt expense of £0.7 million. These were offset by an increase in staff costs of £2.8 million, reflecting the annualisation of new employee hires over FY15 and the appointment of additional senior executives to the business, increased systems costs of £2.0 million being primarily the expense of repurposing operations, and marketing costs of £0.6 million.

Group EBITDA loss included £4.4 million of one-off costs which are not expected to recur (FY15: £11.3 million). This included £0.5 million of costs related to operational restructuring, and £3.2 million of professional fees, primarily legal and regulatory fees associated with Tungsten Network Finance.

The Group loss before tax was £28.6 million (FY15: £27.9 million<sup>1</sup>). This includes depreciation and amortisation of £2.5 million (FY15: £2.3 million), impairment in the carrying value of the investment in Tungsten Bank of £6.8 million (FY15: Nil), and £0.5 million of share based expenses (FY15: £0.2 million). It also includes other income of £0.3 million following the settlement in cash of deferred consideration owed on the acquisition of Image Integration Systems, Inc. which owned the DocuSphere business.

The Group loss after tax was £27.9 million (FY15: £27.6 million<sup>1</sup>) reflecting a tax credit of £0.7 million (FY15: £0.3 million), principally relating to non-cash movements on the unwinding of deferred tax recognised on acquired intangible assets. The Group has an unrecognised deferred tax asset of approximately £11.2 million that is available for offset against future tax expenses in the Companies in which losses arise.

## Segmental Performance

### Tungsten Network

Revenue from Tungsten Network was £25.9 million (FY15: £22.4 million<sup>1</sup>), a growth of 16%. Tungsten Network revenue can be split as follows:

#### Buyers

- Revenue from 175 buyer customers of £10.1 million (FY15: £8.6 million<sup>1</sup>), including £7.4 million from e-invoicing buyers (FY15: £7.2 million) and £2.7 million from buyers that take solely the Tungsten Network Workflow product (FY15: £1.4 million);
- Buyer setup and other one-off fees decreased by £1.1 million to £0.8 million (FY15: £1.9 million) reflecting the significant setup fees from buyers such as GE and Siemens that were recognised in the prior period;
- The impact on FY16 revenue of contractual price increases agreed with current buyers in the current period was £0.4 million; and,
- Revenue from Tungsten Network Analytics in the period was £33,000 (FY15: nil).

### Suppliers

- Revenue of £15.8 million (FY15: £13.1 million), split 80% Integrated Suppliers and 20% Web Form (FY15 split: 86%:14%).

Other revenue was negligible in FY16 (FY15: £0.7 million).

Tungsten Network adjusted operating expenses were £31.7 million (FY15: £28.3 million).

Tungsten Network EBITDA loss for the period was £5.8 million (FY15: £5.7 million).

### Tungsten Network Finance

Tungsten Network Finance includes the origination and operations of Tungsten's financing activities, excluding Tungsten Bank. Revenue from Tungsten Network Finance was £14,000 in FY16 (FY15: nil).

The revenue presented for Tungsten Network Finance is shown net of the share of Tungsten Network Early Payment fees due under the arrangement with Insight Investment. Total Tungsten Network Early Payment fees in FY16 were £611,000 (FY15: £153,000). These were split as follows:

Tungsten Network Finance: £14,000 (FY15: nil)

Insight Investment: £417,000 (FY15: £33,000)

Tungsten Bank: £180,000 (FY15: £120,000)

Tungsten Network Finance adjusted operating expenses were £3.8 million (FY15: £10.6 million). The decrease primarily reflects the reduction of one-off setup costs.

### Tungsten Bank

Tungsten Bank revenue in FY16 totalled £180,000 (FY15: £120,000).

Tungsten Bank's adjusted operating expenses were £2.8 million (FY15: £2.3 million). The increase primarily reflects increased compliance costs.

### Corporate

The Corporate EBITDA loss was £6.6 million (FY15: £6.8 million). Tungsten continues to look for opportunities to reduce its corporate costs.

### Cash flow

The cash outflow from operating activities was £21.6 million (FY15: £31.2 million<sup>1</sup>), compared to EBITDA of £18.7 million (FY15: £25.2 million<sup>1</sup>).

Trade and other receivables grew £0.9 million from 30 April 2015. The increase was primarily a result of operational issues with the introduction of a new credit control system. Process improvements made over H2-FY16 did not have the expected impact on debtor balances and subsequent to the year-end personnel changes were made to the credit control team which the Board expects to have an impact by the end of H1-FY17.

Trade and other payables decreased by £0.7 million from 30 April 2015, primarily reflecting a decrease in accruals for goods and services provided but not invoiced at the year-end.

Tungsten Network Early Payment invoice receivables held by the Group increased from £6.4 million at 30 April 2015 to £7.3 million resulting in a cash outflow of £0.9 million.

There was a cash inflow from the equity fundraising in May 2015 of £16.7 million, net of fees.

<sup>1</sup> Restatement of prior year revenue reduces it by £0.6m, as discussed at notes 2 and 3 to the accounts.

## Strategic report

## Chief Financial Officer's review continued

**Liquidity and Going Concern**

Cash and cash equivalents were £27.0 million at the end of FY16 (FY15: £32.6 million), an outflow of £5.6 million. Excluding the cash held by Tungsten Bank of £17.8 million (FY15: £19.5 million), Tungsten had cash available to the Group of £9.3 million (FY15: £13.1 million).

The Group expects to complete the sale of Tungsten Bank by the end of H1-FY17. On completion, the Group will receive the cash on hand and invoice receivables (respectively £17.8 million and £7.3 million as at 30 April 2016) and a goodwill payment of approximately £4.0 million.

Subsequent to the end of the financial year, in July 2016 the Group agreed a revolving capital facility of £10 million with its principal bank, HSBC. The facility would be utilised to contribute to the Company's working capital in the event that the sale of Tungsten Bank is not completed as expected.

**Loss Per Share**

The basic and diluted loss per share was 22.52p (FY15: 26.92p loss per share<sup>1</sup>). On an adjusted basis excluding share-based payments, other income, impairments and acquisition-related amortisation, basic and diluted loss per share was 16.85p compared to 16.73p in FY15.

**Post Balance Sheet Event – UK Referendum on European Union Members**

On 23 June 2016 the UK electorate voted to leave the European Union. This decision commences a process that is expected to take a minimum of two years to complete. The outcome of the process is unknown as regards the structure of the UK's trade relationships without European Union membership. There will be a resulting period of uncertainty for the UK economy, with increased volatility expected in financial markets. This event does not impact the fair value of assets and liabilities reported at the balance sheet date of 30 April 2016.



**David Williams**  
Chief Financial Officer

<sup>1</sup> Restatement of prior year revenue reduces it by £0.6m, as discussed at notes 2 and 3 to the accounts.

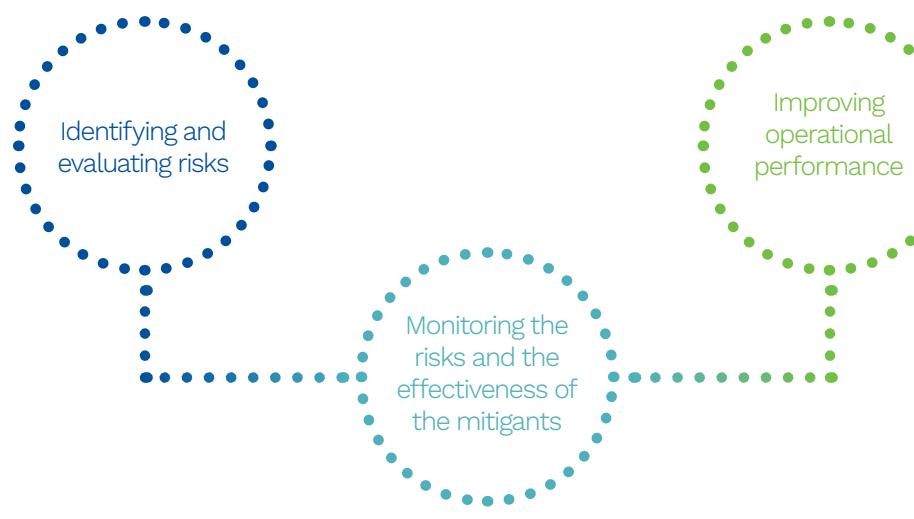
## Strategic report

# Principal risks and uncertainties

Risks can have an impact on both the successful running of Tungsten's operations and the wider achievement of business strategy. A key element in delivering Tungsten's strategy and maintaining services to customers is the management of these risks. Therefore, identifying, understanding and managing the financial, operational, legal and reputational risks across each of the businesses and operations is critical to Tungsten's success.

## OUR RISK MANAGEMENT PROCESSES

Tungsten's risk management processes include having employees dedicated to:



Tungsten's customers and other stakeholders expect the highest standards of risk management. To facilitate this and evidence assurance, the risks from the risk register are discussed, debated and challenged, firstly by the Executive Committee and then by the Audit

Committee before the principal risks are presented to the Board.

The disclosure of the key risks and uncertainties in the table below reflects the approach of the Company to also look for the opportunities presented when addressing significant

risks. This is not an exhaustive list of all the risks faced by the Company. Tungsten considers these risks in accordance with the governance procedures set out on page 32.

### HIGH

- Retention of key personnel
- Data protection and cyber security
- Change to business execution
- IT system enhancements



### STABLE

- Compliance with local tax, legal and regulatory regimes
- Political, with impact of EU referendum in the UK to be monitored
- Availability of sufficient liquidity to meet growth expectations
- Commercial failure of products
- Complexity of operational processes



### LOW

- Anti-fraud, bribery and corruption
- Concentration on major customers
- Failure of critical suppliers



## Strategic report

# Principal risks and uncertainties continued

## Strategic

### Direction of change

There have been changes to the execution of the business strategy and the senior management of the Company. As a consequence of these changes, the overall level of strategic risk facing Tungsten remains high.

Risk	Impact	Mitigation
The business model fails to meet its strategic objectives.	<p>Failure to meet our growth plans.</p> <p>Failure to achieve targets for revenue, profit and earnings.</p> <p>Damage to reputation.</p>	<p>The strategy is regularly reviewed and challenged by the Executive Committee and Board.</p> <p>The strategy forms the basis of the annual business planning process.</p> <p>Performance targets are aligned to strategy.</p> <p>Strategy is regularly and effectively communicated to all staff.</p>
In many global jurisdictions there is currently no regulation of supply chain finance. There is a risk that regulation is introduced and Tungsten fails to comply with the new requirements.	<p>Failure to meet our growth plans.</p> <p>Product prohibited as failed to achieve required standards.</p> <p>Damage to reputation.</p> <p>Large financial penalties.</p>	<p>Monitoring of legislative proposals in place.</p> <p>As part of the risk infrastructure, external advisors are retained and consulted to understand and address any newly introduced global regulation.</p> <p>Development and ongoing maintenance of policies and procedures to comply with the relevant legal and regulatory regimes.</p> <p>Maintain training programmes to ensure that the policies and requirements are fully understood.</p>
Tungsten works with some of the world's biggest companies. There is a risk that Tungsten may fail to win and/or retain contracts on satisfactory terms and conditions with the existing as well as new targeted customers and markets.	<p>Failure to meet our growth plans.</p> <p>Failure to achieve targets for revenue, profit and earnings.</p>	<p>Active management in place to spread revenues across all customers. No one customer accounts for significant revenue or concentration of revenue.</p> <p>Structured contracts approval process with clearly defined selection criteria to ensure contracts are taken on or renewed only where Tungsten can provide a good service and manage any risks involved.</p> <p>Continual review and development of the Client Relationship Management structure and function to improve services to the existing customer base.</p> <p>A process is in place to continuously listen and respond to customers to enhance their experience of using Tungsten's products and services.</p>
Failure to invest in enhancements to the infrastructure and operating systems leading to loss of advantage over our competitors and failure to meet the expectation of the customers.	<p>Failure to meet our growth plans.</p> <p>Failure to achieve targets for revenue, profit and earnings.</p> <p>Products and services become unavailable.</p> <p>Damage to reputation.</p>	<p>The governance frameworks are key to ensuring successful delivery of all aspects of the planned enhancements and changes.</p> <p>Detailed approval and planning process prior to project commencement.</p> <p>The Executive Committee and Board review and challenge the status/progress of key change programmes and projects.</p> <p>Experts in infrastructure projects and change programmes have been hired to drive successful implementation.</p> <p>Post-implementation reviews are undertaken once a project is completed so that learning can be captured.</p>

## Strategic continued

Risk	Impact	Mitigation
Failure to innovate and respond to opportunities in the market.	<p>Failure to meet our growth plans.</p> <p>Failure to achieve targets for revenue, profit and earnings.</p>	<p>Tungsten Network Finance focussing on leveraging the Tungsten Network and its data to deliver distinctive financing products.</p> <p>Corporate Development function set up to analyse opportunities for diversification into products and markets.</p> <p>Ongoing analysis of existing and target markets to ascertain opportunities available for growth and development.</p> <p>Further increase the value provided to customers by offering adjacent products and services as well as new opportunities.</p> <p>Risk appetite is reviewed by the Board.</p>

## Technological & Operational

### Direction of change

There are ongoing projects to upgrade the underlying systems and infrastructure as well as improve the operational processes. These projects are sensitive to changes to execution of strategy and external factors such as cyber risk. These changes are significant and core to the success of the business. Therefore, the overall level of technological and operational risk facing Tungsten remains high.

Tungsten has a highly developed and complex operational and IT infrastructure. A major incident as a result of an internal or external event could impact the ability of the Company to provide products and services to its customers.	<p>Products and services become unavailable.</p> <p>Customer claims for losses.</p> <p>Loss of customers.</p> <p>Damage to reputation.</p> <p>Failure to meet our growth plans.</p>	<p>Documented up-to-date business continuity plans which are regularly tested. Use of multiple hosting centres.</p> <p>IT recovery plans include website resilience and penetration tests.</p> <p>Ongoing, real-time technology defence mechanisms in place.</p> <p>Continuous monitoring of IT systems availability.</p> <p>Governance frameworks in place to ensure appropriate management of the risks and mitigants.</p> <p>Training and employee awareness programmes in place.</p>
The Tungsten Group has a highly developed and complex IT infrastructure. There is a risk of information security breach including cyber attacks leading to loss of confidentiality, integrity or availability of data.	<p>Products and services become unavailable.</p> <p>Customer claims for losses.</p> <p>Loss of customers.</p> <p>Damage to reputation.</p> <p>Failure to meet our growth plans.</p>	<p>Mitigating against cyber attacks is taken seriously by the Company to ensure customer confidence in the security and availability of our products and services.</p> <p>Well-defined IT security procedures in place.</p> <p>Documented up-to-date disaster recovery and business continuity plans, which are regularly tested. Use of multiple hosting centres.</p> <p>Comprehensive review of procedures and controls as part of the annual International Standards for Assurance Engagements (ISAE) 3402 Assurance Reports on Controls at a Service Organisation.</p> <p>Comprehensive review of procedures and controls as part of the annual independent ISO 27001 certification, the international standard describing best practice for an Information Security Management System.</p> <p>Training and employee awareness programmes in place.</p>

## Strategic report

## Principal risks and uncertainties continued

## Technological &amp; Operational continued

Risk	Impact	Mitigation
Tungsten has continued to rapidly change and develop over the past 12 months. As a result, there is a risk of significant failure or inefficiencies in its operations, systems and infrastructure.	Products and services become unavailable. Customer claims for losses. Loss of customers. Damage to reputation. Failure to meet our growth plans.	Processes in place to improve operational performance. Increasing use of end-to-end digital processes to ensure that people and processes deliver effectively. Detailed reviews undertaken of operational activities across all functions to improve workflows and operational efficiencies to provide an efficient and effective service and better increase capacity. Once complete, a programme will be put in place to undertake ongoing reviews of the operations and IT infrastructure and conduct regular testing of the systems. Continuing to enhance our technological and operational capabilities through investment in high quality staff and IT functionality. Oversight of satisfactory completion of improvements and enhancements by Executive Committee.
Tungsten Network processed over 16 million invoices in FY16 and holds a significant volume of customer data. There is a risk of a data protection breach.	Uninsured loss claims from customers. Loss of customers. Damage to reputation. Financial penalties.	Processes in place to ensure adherence to data protection and security awareness policies. Training and employee awareness programmes in place. No issues raised under the independent review of procedures and controls as part of the annual ISAE 3402 Reports.
Tungsten uses market-leading external IT suppliers to support its businesses including software upgrades. There is a risk of failure/closure of a supplier which could impact the ability of the Company to provide products and services to its customers.	Products and services become unavailable. Customer claims for losses. Loss of customers. Damage to reputation. Failure to meet our growth plans.	Prior to appointment, key suppliers are the subject of a due diligence check and assessed for financial viability. The relationship with and financial position of key suppliers are reviewed on a regular basis. Key suppliers required to have ISO 27001 certification. Only leading suppliers are engaged.
<b>Financial</b>		
<b>Direction of change</b>		
Although there have been changes to the execution of strategy and core business, the overall level of financial risk facing Tungsten has not materially changed and remains stable.		
Tungsten Network Finance is still a relatively new offering to the lending market. We could have insufficient financial resources to meet demand.	Liquidity constraints. Failure to meet our growth plans. Ability to invest or develop.	Since inception we have already signed up with one major funding provider partner to augment and diversify our capital base. There are other interested funding providers which will be progressed if required to meet liquidity requirements.

## Financial continued

Risk	Impact	Mitigation
Tungsten may be subject to non-payment by its customers.	Failure to meet our growth plans. Ability to invest or develop. Litigation costs.	Ongoing project to review whole credit management processes. New credit monitoring process in place to address aged debtors. Credit analytics reporting in place.
Inability to finance the Tungsten Group businesses as a result of losing access to essential financing facilities.	Failure to continue in business or meet liabilities. Failure to meet our growth plans.	All lending for the financing product is against invoices that have been approved for payment by buyers on Tungsten Network. Robust credit analytics procedures to assess the credit of both buyers and suppliers for the financing product.
Exposure to currencies that devalue, resulting in a material impact on profit or cash balances.	Failure to meet our growth plans. Failure to achieve targets for revenue, profits or earnings.	Risk appetite reviewed and challenged in the Credit Committee for the financing products. The Directors regularly stress test the business model to ensure the Group has adequate working capital. Robust procedures to monitor the effective management of cash and debt including cash reports and cash forecasting. Divestment of non-core business will result in a release of cash and reduction in liabilities.

## People

### Direction of change

The level of people risk remains high as a result of change in leadership across the businesses. There has been a high turnover of staff at all levels as a result of changes to the execution of the business strategy.

Inability to retain, develop and motivate the highly skilled and knowledgeable senior management team brought in to drive the business and its strategic imperatives forward.	Failure to deliver the strategy and business targets for growth. Over-reliance on key senior personnel to drive the business. Loss of knowledge/skills within the strategic business drivers.	Succession planning for all members of executive management is part of the Board agenda. Competitive remuneration packages with oversight by the Remuneration Committee, including equity based long-term incentives. Strategies for retention/development of talent to deliver strategic priorities.
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## Strategic report

# Principal risks and uncertainties continued

## People continued

Inability to attract, retain, develop and motivate the best people with the appropriate capabilities to create a high quality, diverse and flexible workforce.	Failure to maintain satisfactory performance and delivery of the customer contracts.	Training and development, customer relationship, leadership, social responsibility and communications programmes in place to actively engage and retain employees.
	Loss of knowledge/skills within the business.	Competitive remuneration packages with oversight by the Remuneration Committee.
	Over reliance on key personnel.	Focus on creation of a culture and values to attract and motivate our people.

## Regulatory/Political

### Direction of change

Although the markets and their legal and political environments are constantly evolving, the overall level of regulatory/political risk facing Tungsten has not materially changed and remains stable.

Risk	Impact	Mitigation
Tungsten has customers in 175 countries around the world. The business model and consequent services are impacted by legal, political or regulatory changes which restrict access to markets and customers.	<p>Financial loss as a result of fraud.</p> <p>Financial loss as a result of restricted access to the markets.</p> <p>Damage to reputation.</p> <p>Regulatory censure.</p>	<p>Comprehensive documented policies relating to business conduct, financial crime, bribery and corruption and whistleblowing in place.</p> <p>Robust 'Know Your Customer' and anti-money laundering checks being rolled out for all customers. However, anti-money laundering and financial crime identification processes in place to mitigate the risk of fraud, corruption and other unethical behaviour cannot guarantee this will not take place.</p> <p>Oversight and monitoring including reporting of any deviations and exceptions to the Executive Committee.</p> <p>Active dialogue with regulators, advisory bodies and industry bodies.</p> <p>Strategy to ensure that business model remains flexible and responsive to change and is regularly reviewed.</p> <p>Horizon scanning by the Executive Committee for upcoming potential changes including product / diversification strategy to reduce impact.</p>



**Richard Hurwitz**

Chief Executive

25 July 2016



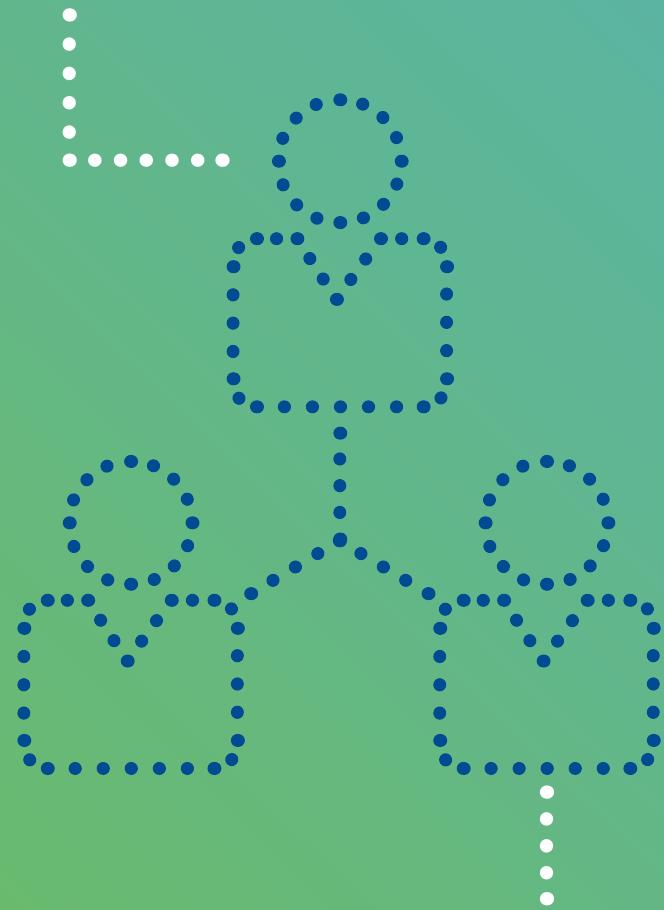
As Tungsten services over 200,000 customers across the globe, we use third party assurances such as the ISAE 3402 and ISO 27001 standards to help our customers understand our risks, the processes we use to manage those risks and the business and technology controls that operate to mitigate those risks.

**"Tungsten Network understands the need to demonstrate mature governance, processes and controls, and therefore invests heavily in these industry-standard certifications to help customers understand this too."**

Lucy Ashdown  
Head of Compliance, Tungsten Network

**Governance**

# Corporate



# Governance

Tungsten adheres to the highest standards of corporate governance.

## Governance

## Board of Directors

**NICK PARKER**

**Non-Executive Chairman,  
Tungsten Corporation plc**

Nick had more than 30 years of corporate finance advisory experience as a partner at PwC, where he led the Project Finance & Privatisation group, focusing on public sector strategy, before taking non-executive roles in developing companies. He currently serves as a Non-Executive Director and Chair of The Wastepack Group Limited and also of Cuvva Limited, Farmstar Polska (UK) Limited and the Chimney Group AB. He is also a Non-Executive Director of Tungsten Bank plc.

Nick was part-time Head of Performance & Innovation at the Scottish Executive from 2004–2007, which delivered aspects of public service reform and efficiency. He was Chairman and co-founder of Continental Farmers PLC, 2002–2013. He is a co-founder of Pension Insurance Corporation and was a Director from 2006–2015. He was a trustee of The College of Optometrists from 2002–2009; Project Scotland from 2005–2007, trustee and treasurer of the European Academy of Optometry and Optics from 2009–2012, and read history at St Catherine's College, Cambridge.

**PETER KIERNAN**

**Senior Independent  
Director**

Peter has over 30 years' experience in professional services and investment banking. He is currently a Non-Executive Director of London First and of Listrac Holdings Limited and is a Senior Advisor to Bell Pottinger. Peter is a Senior Advisor to Canaccord Genuity Limited and was previously Chairman of European Investment Banking, a Senior Adviser to the UK Board Practice at Heidrick & Struggles, a Managing Director at Lazard, where he was Head of UK Investment Banking, and a Managing Director at Goldman Sachs.

Peter started his investment banking career at S.G. Warburg & Co. Limited where he was a Director and he became a Managing Director of UBS Warburg. Peter qualified as a Chartered Accountant (FCA) with Peat, Marwick, Mitchell & Co. and read Natural Sciences (Chemistry) at Downing College, Cambridge.

**DANNY TRUELL**

**Non-Executive Director**

Danny Truell was a co-founder of Tungsten Corporation. He serves in a diverse range of roles in the investment and charitable community. He is the Chief Investment Officer and a member of the Board of the Wellcome Trust, a leading medical research charitable foundation based in London. He and his team are responsible for assets exceeding £30 billion, which are invested in a broad range of investments.

Danny is also a co-founder of Pension Insurance Corporation, an insurer with assets of over £18 billion, where he chairs the Asset/Liability Committee.

Danny has served as Chair of the World Economic Forum's Long-Term Investment Council and a co-Chair of the G20/B20 Investment Group. He is Chair of the charity Debate Mate. He is a member of the Investment Committees of the Wellington College Endowment and is a graduate of Balliol College, Oxford University.

**RICHARD HURWITZ**

**Chief Executive Officer**

Richard Hurwitz's proven track record of building and successfully exiting high growth companies spans 30 years and includes extensive experience in talent development, general management and capital raising with financial services and technology companies in the US and abroad. As Chief Executive of Pictometry International from 2010–2013, Richard led the strategic transformation of this category-defining company in the changing geospatial industry. Earlier, Richard was a Partner at Aegis Investment Partners, a private investment firm which focuses on buying and turning distressed assets, a Managing Partner with Bancorp Services, where he led the firm's subsidiary broker dealer and Chief Executive of Bridge Information Systems' European operations where he also ran all non-US institutional equity and derivatives trading. Richard has demonstrated his commitment to boardroom excellence by completing the National Association of Corporate Director's comprehensive programme of study for corporate directors to become a Board Leadership Fellow.

**DAVID BENELLO**

**Independent  
Non-Executive Director**

David is a Non-Executive Director of Telecom Italia and Telekom Malaysia. He is also a partner of Oxford Investment Consultants LLP, which advises the Oxford Technology and Innovations EIS Fund. In addition, David serves as Chairman of King's College London Mathematics School and as a Trustee of the American Air Museum in Britain. A Director Emeritus of McKinsey & Company, he led the firm's UK Industrial and High Tech/Telecom sectors and the European Strategy Practice. During his 30 years with McKinsey he served European, North American and Asian clients in telecom, high tech, insurance, and various industrial sectors.

**IAN WHEELER**

**Independent  
Non-Executive Director**

Ian has over 25 years' industry experience including 12 years at Amadeus, the leading transaction processor and network for the global travel industry, where he was most recently Group Vice President of Marketing and Distribution. He is currently Non-Executive Board Director of a number of travel technology firms and an Industry Advisor to Vitruvian Partners, the independent private equity firm that specialises in middle-market buyouts, growth buyouts and growth capital investment.

**DAVID WILLIAMS**

**Chief Financial Officer**

David has 18 years' financial experience working in professional practice and consultancy with public and private companies. After training as a Chartered Accountant with Arthur Andersen, David spent five years in the Corporate Finance division of Ernst & Young, followed by five years at FTI Consulting, advising both the public and private sector. He subsequently left to assume a variety of senior management roles. David has strong financial control and reporting disciplines and is a Fellow of the ICAEW.

## Governance

## Leadership team

**RICHARD HURWITZ****Chief Executive Officer**

As CEO of Tungsten Corporation, Rick leads the high-performance team directing Tungsten's growth. Rick is also a member of Tungsten's Board of Directors.

Rick has 30 years of experience transforming operations and developing growth strategies for financial services and technology companies. Prior to Tungsten, he was CEO of Pictometry International, where he led a strategic transformation that positioned the firm for success in the changing geospatial industry. Previously, he was a partner at Aegis Investment Partners, a private investment firm, a Managing Partner with Bancorp Services and the CEO of Bridge Information Systems' European operations.

**PATRICK CLARK****General Counsel**

Patrick leads the legal and compliance function and also serves as Company Secretary for Tungsten Corporation.

Prior to joining Tungsten, Patrick was a Partner and Head of the UK Telecoms Practice at the law firm Taylor Wessing, specialising in providing commercial and regulatory advice to clients in the technology, media and telecoms sector. He earlier worked at Alcatel-Lucent as Lead Corporate Counsel for North Europe and for the ALU Vodafone and BT Global Account Teams with responsibility for the provision of legal services to these organisations.

**DAVID WILLIAMS****Chief Financial Officer**

David joined Tungsten Corporation in 2013 and is now CFO. David is also a member of Tungsten's Board of Directors.

Prior to joining Tungsten, David served as a finance executive with multiple firms. He also spent five years at FTI Consulting, advising organisations in both the public and private sector on corporate finance and restructuring. Previously, he was with the Corporate Finance division of Ernst & Young. David received his training as a Chartered Accountant while at Arthur Andersen and is a Fellow of the ICAEW.

**ALEC HOLMES****Senior Vice President, Service Delivery**

Alec joined the firm in 2001 and leads Tungsten's Service Delivery Team which includes Service Delivery Management, Campaign Management, Supplier Onboarding, Implementation and Support.

Alec oversees teams in London, Atlanta, Kuala Lumpur and Sofia.

**CONNIE O'BRIEN****Chief Marketing Officer**

As CMO, Connie leads a Digital Command Centre and is responsible for the Tungsten brand and ensuring the firm is at the forefront of the digital transformation of the purchase-to-pay process, with a focus on how we delight our customers through automated, scalable, dynamic and personalised experiences.

Connie joined Tungsten from Affinion Group, an international membership and loyalty company where she was Chief Digital Officer. She has over 20 years' experience driving digital marketing strategies for businesses, and has delivered campaigns for brands including GlaxoSmithKline, P&G, Kraft Foods, AXA, John Hancock, AT&T, Vonage and Verizon.



## GUY MILLER

### Head of Corporate Development

Guy is responsible for building new products and services adjacent to our existing e-invoicing and invoice financing businesses. He is also responsible for other corporate development initiatives, and for M&A.

Guy has significant experience in strategy, corporate development and M&A. Most of his career has been spent in investment banking, including two years with a leading independent corporate finance advisory firm preceded by eight years at Royal Bank of Scotland in financial institutions, capital markets and M&A. Guy had previously spent nine years at Citigroup and Schroders, a predecessor business, in a range of investment banking roles working with financial institutions and fintech firms. Immediately prior to joining Tungsten he was an advisor to a major private equity fund.



## BRIAN PROFFITT

### Chief Technology Officer

As CTO, Brian is responsible for delivering a fast, efficient, digital, end-to-end experience for our customers.

Before joining Tungsten in 2015, Brian held Board-level technology roles in a variety of industries. Most recently, he was CTO in the UK Cabinet Office where he was responsible for creating the digital strategy for transforming procurement across the UK Government. He previously held CIO/CTO roles at BT, Corus, Marsh, Prudential and Cargill. In between, he spent four years at PA Consulting, a strategy firm, working in the CIO role at Corus and at BA, where he was Head of Technology Innovation.



## PRABHAT VIRA

### President, Tungsten Network Finance

Prabhat joined Tungsten in 2016 with responsibility for offering our clients game-changing and innovative supply chain financing alternatives that leverage our data and our technology.

Prabhat brings to Tungsten deep trade finance expertise and broad global business experience. He joined from HSBC, where he was Global Head of Strategic Transformation (Trade & Receivables Finance), and, earlier, Regional Head of Trade & Receivables Finance. Previously, he held leadership roles in structured finance, commodities finance and corporate banking for Royal Bank of Scotland and ABN AMRO.



## KEVIN WILBUR

### President, AP Automation

Kevin has more than 20 years' experience of inspiring teams within fast paced, high growth, global technology and financial services companies. He has strong insight into the power of electronic invoicing and procurement analytics to transform supply chains.

Kevin is leading the expansion of digital invoicing, workflow and analytics capabilities across Tungsten's global customer base, helping more finance and procurement departments to become automated and increasing connections on the network.

## Governance

# Corporate governance report

### Chairman's introduction to governance

**Dear Shareholder,**

#### The Board

A number of changes have been made to the composition of the Board during the year. Nick Parker was appointed in May 2015 as Non-Executive Director and was appointed Chairman at the AGM in September 2015. As previously reported, Richard Hurwitz was appointed as Chief Executive on 13 July 2015 reporting to the Board. David Benello and Ian Wheeler both joined the Board as Non-Executive Directors on 24 September 2015. Arnold Hoevenaars stepped down as Chairman and Non-Executive Director at the AGM in September. Lincoln Jopp also stepped down as an Executive Director at the AGM. Edmund Truell resigned from his position as Vice Chairman and as a Director of the Company in March 2016.

These Board changes during 2015 and the beginning of 2016 have refreshed the composition of the Board and provided a majority independent board with the skills and experience to deliver on the strategic goals set for FY17 and beyond. The Board now consists of a Non-Executive Chairman, two Executive Directors and four Non-Executive Directors. We continue to improve and refine our governance processes as the Group evolves.

#### Principles of corporate governance

As a Board we recognise the importance of high standards of corporate governance. The Company is listed on AIM and is therefore not required to comply with the UK Corporate Governance Code 2014 ('the Code'). The Company considers the Code as a basis for guiding its governance structures but also recognises that some aspects of the Code are not relevant for AIM companies such as Tungsten. We therefore also measure our governance policies and structure against the Quoted Companies Alliance corporate governance code for small and mid-sized companies 2013 (the QCA Code) as we consider that the QCA Code is more applicable for small and mid-sized companies. We believe we have achieved the 12 principles of corporate governance recommended by the QCA Code. The policies and procedures put in place at the time of admission to AIM in October 2013 gave us a firm foundation for our governance structures and we continue to build on these each year. We aim to work towards compliance with the Code in the medium term.

#### The role of the Board

The Board has in place a Schedule of Matters Reserved for the Board, which sets out the Board's responsibilities. The key tasks of the Board are:

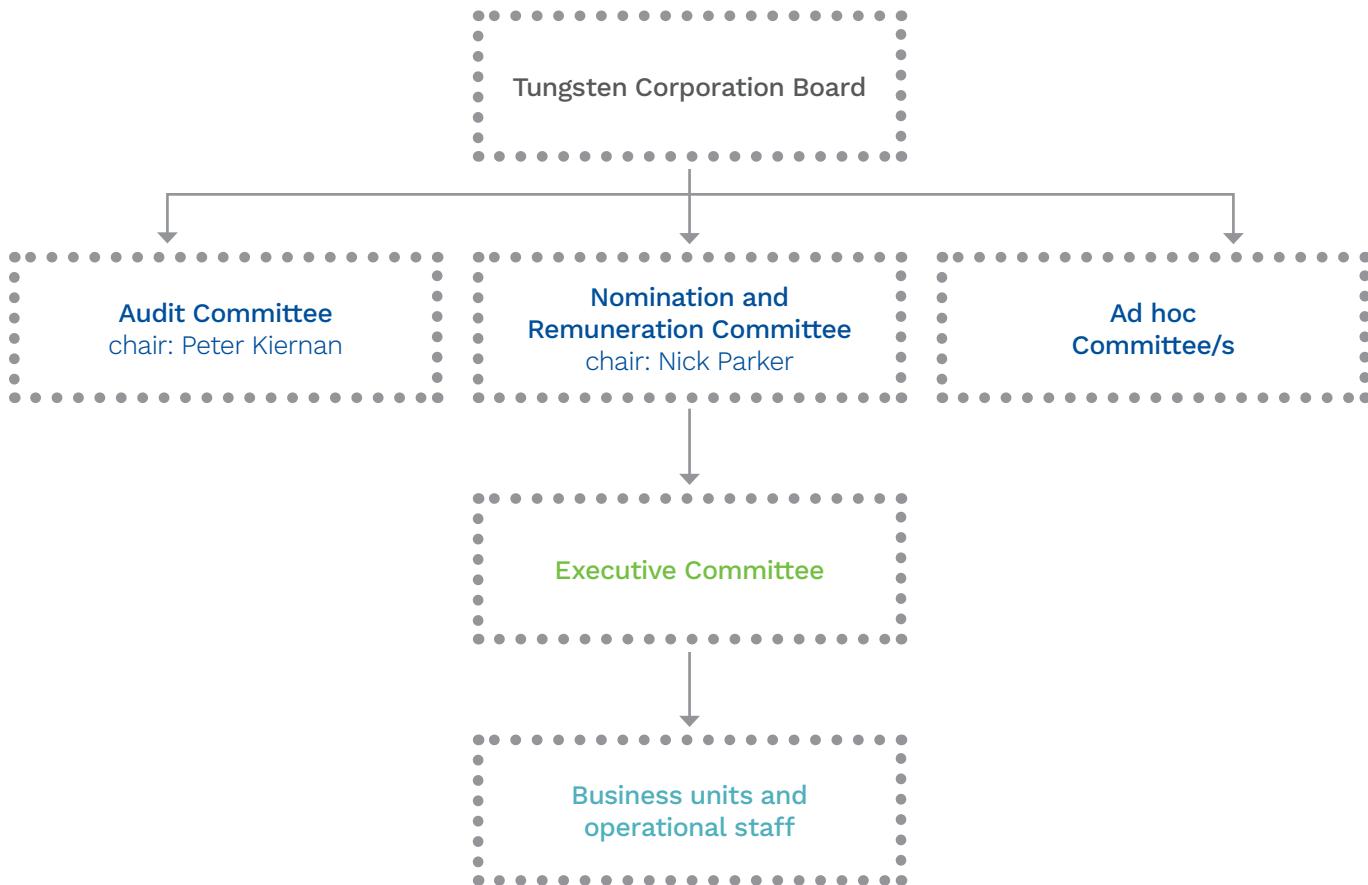
- Responsibility for the overall leadership of the Group and setting the Group's values and standards
- Approval of the Group's strategic aims and objectives
- Approvals of the annual operating and capital expenditure budgets and any material changes to them
- Oversight of the Group's operations ensuring competent and prudent management, sound planning, maintenance of sound management and internal control systems, adequate accounting and other records and compliance with statutory and regulatory obligations
- Review of performance in light of the Group's strategic aims, objectives and business plans and budgets and ensuring that any necessary corrective action is taken
- Extension of the Group's activities into new areas
- Decisions to cease to operate any material part of the Group's business
- Changes to the Group's capital structure
- Approval of the financial statements, Annual Report and Accounts, material contracts and major projects
- Approval of the dividend policy and dividend payments
- Approval of the Group's internal control and risk management systems and structures
- Approval of major capital projects, contracts and investments
- Approval of communications with shareholders and the market
- Approval of Board membership and other senior appointments and any changes



**Nick Parker**  
Non-Executive Chairman

25 July 2016

The Group's governance structures are shown below.



### Composition and independence of the Board

The composition of the Board has been structured to ensure that no one individual can dominate the decision-making processes of the Board. The Board consists of seven Directors: the Non-Executive Chairman, two Executive Directors, and four Non-Executive Directors. Three of the Non-Executive Directors are considered to be independent and one is considered to be non-independent. David Benello and Ian Wheeler are considered independent, assessed by reference to Provision B.1.1 of the Code and also the QCA Code. As a consequence of holding LTIP Securities Peter Kiernan is not considered independent under the Code or the QCA Code. However, the Board considers Peter Kiernan to be independent in character and judgement notwithstanding these LTIPs and he has accordingly been appointed as Senior Independent Director. Danny Truell is not considered independent under the Code or the QCA Code due to his holding of LTIP Securities and due to his historical interests in a major shareholder of the Company (i.e. Disruptive Capital Investments Limited which is controlled by former CEO and Vice Chairman, Edmund Truell). Notwithstanding such interests, Mr. Truell has also demonstrated himself to be independent in character and judgement from such major shareholder.

Details of each of the Directors' experience and background is given in their biographies on pages 28 and 29. The skill-set and experience of Board members is geared towards the current position of the Company and covers areas including finance, capital raising, financial services, banking, pension industry and general management. The addition of two new independent Non-Executive Directors in September 2015 also brought substantial experience in technology, financial services, marketing and network platforms.

### Appointments to the Board and re-election

The Board has delegated the tasks of reviewing Board composition, searching for appropriate candidates and making recommendations to the Board on candidates to be appointed as Directors to the Nomination and Remuneration Committee. Further details on the role of the Remuneration and Nomination Committee may be found on page 39.

With regard to re-election of Directors, the Company is governed by its Articles of Association ('Articles'). Under the Articles, the Board has the power to appoint a Director during the year but any person so appointed must stand for election at the next Annual General Meeting. At each Annual General Meeting, one-third (or the number nearest to one-third) of the Directors must retire from office and, if willing, may offer themselves for re-election. The appointments

## Governance

# Corporate governance report continued

of Richard Hurwitz, Nick Parker, David Williams, David Benello and Ian Wheeler were all confirmed at the 2015 AGM. In addition, Danny Truell stood for re-election at the 2015 AGM and was duly re-elected at such meeting. Arnold Hoevenaars retired at the 2015 AGM and did not seek re-election. The following directors will retire and stand for re-election at the next AGM: Nick Parker, Peter Kiernan and David Benello. The Board considers that each Director offering himself for election or re-election continues to make a valuable contribution to the deliberations and continues to demonstrate commitment.

### Division of responsibilities

#### Chairman and Chief Executive

The division of responsibilities between the Chairman and Chief Executive have been agreed and approved by the Board.

A summary of the main responsibilities of each role is given below:

#### Role of the Chairman

- Upholding the highest levels of integrity, probity and corporate governance throughout the Company, particularly at Board level
- Chairing the Board meetings, setting the Board agenda and ensuring the Directors receive accurate, timely, and clear information to enable the Board to make sound decisions, monitor effectively and promote the success of the Company
- Facilitating the effective contribution of and active engagement of all the Directors and ensuring constructive relationships between the Non-Executive Directors and the Executive Directors
- Considering succession planning and ensuring the composition of the Board meets the needs of the business
- Ensuring the appropriate balance is maintained between the interests of shareholders and other stakeholders
- Ensuring the developmental needs of the Directors are identified and that these needs are met to enable Directors to update their skills and knowledge of the Group in order to carry out their duties as Directors
- Ensuring the performance of the Board, Audit Committee and individual Directors are evaluated once a year and acting on the results of the evaluation
- Ensure effective communication with shareholders and other stakeholders and ensure the Board is aware of the views of the shareholders
- Chairing the AGM and other general meetings of the Company

#### Role of the Chief Executive

- Running of the business of the Group within the authorities delegated to him by the Board
- Ensuring implementation across the Group of the policies and strategy agreed by the Board
- Leading the development of the Group's future strategy, including identifying and assessing opportunities for the growth of its business, and putting in place the long-term capital to support such development

- Reviewing the performance of the businesses, managing and holding to account the Executive and senior management teams
- Ensuring the Chairman is kept appraised in a timely manner of the issues facing the Group and of any events and developments
- Ensuring the market and regulators are kept appraised in a timely manner of any material events and developments
- Ensuring that all major transactions are conducted with the commercial interests of the Group at the forefront of negotiations, commensurate with the need to always treat customers fairly

#### Senior Independent Director

Peter Kiernan has been confirmed as Senior Independent Director.

#### Non-Executive Directors

Each of the Non-Executive Directors has entered into a letter of appointment with the Company. The appointment of each of the Non-Executive Directors is stated to be for a fixed term, expiring after 12 months of the date of renewal or appointment (in the case of Peter Kiernan, David Benello and Ian Wheeler) or after 36 months of the date of Admission to AIM (in the case of Danny Truell). The Non-Executive Directors' letters of appointment set out the duties of the Director and commitment expected. They are expected to commit around 24 days per annum to their role. Key elements of the Non-Executive Director's role are to constructively challenge and help provide the Board with effective leadership in relation to the Company's strategy, performance, risk and people management, and ensuring high standards of financial probity and corporate governance.

#### Development, information and support

The Directors are encouraged to attend training and continuing professional development courses as required. Updates are given to the Board on developments in governance and regulations as appropriate. An induction programme is provided for any Directors joining during the year. Patrick Clark is the Company Secretary and supports the Chairman in ensuring that the Board receives the information and support it needs to carry out its roles.

#### Directors' induction

The Directors appointed during the year received an induction covering topics such as the operation of the Board, Directors' responsibilities, insider dealing, AIM Rules and governance documents. Each Director also receives an induction pack including all of the key company documents.

#### Conflicts of interest

Under the Articles, the Directors may authorise any actual or potential conflict of interest a Director may have and may impose any conditions on the Director that are felt to be appropriate. Directors are not able to vote in respect of any contract, arrangement or transaction in which they have a material interest and they are not counted in the quorum.

A process has been developed to identify any of the Directors' potential or actual conflicts of interest. This includes declaring any new conflicts before the start of each Board meeting.

## Performance evaluation

A formal performance evaluation has not been carried out during the year due to the changes to Board membership over the year. There needs to be a reasonable period of time over which the Board operates together before any meaningful assessment can be made. An evaluation exercise will therefore be considered by the Board and its committees during 2017. The Chairman considers the operation of the Board and performance of the Directors on an ongoing basis as part of his duties and will bring any areas of improvement he considers are needed to the attention of the Board.

## How the Board operates

The Board meets at regular intervals and met seven times during the period under review. Directors also have ongoing contact on a variety of issues between formal meetings. This year the Board moved to a new pattern of regular quarterly Board meetings, with a standing agenda focusing on key business and governance issues. Recent Board meetings have included presentations from the various parts of the Tungsten business, giving the Board greater visibility and understanding over the Company's business and the steps being taken to deliver on its strategy.

An agenda and accompanying detailed papers are circulated to the Board well in advance of each Board meeting. These include reports from the Executive Directors and other members of senior management, and all Directors have direct access to senior management should they require additional information on any of the items to be discussed. A calendar of matters to be discussed at each meeting is prepared to ensure that all key issues are captured.

All Directors are expected to attend all meetings of the Board and any committees of which they are members, and to devote sufficient time to the Company's affairs to fulfil their duties as Directors. Where Directors are unable to attend a meeting, they are encouraged to submit any comments on paper to be considered at the meeting to the Chairman in advance to ensure that their views are recorded and taken into account during the meeting.

Directors are encouraged to question and voice any concerns they may have on any topic put to the Board for debate. The Board is supported in its work by Board Committees, which are responsible for a variety of tasks delegated by the Board. There is also an Executive Committee composed of the CEO and CFO and representatives from senior management whose responsibilities are to implement the decisions of the Board and review the key business objectives and status of projects.

Attendance at Board and Committee meetings by the Directors is shown below. In addition, there were 12 ad hoc Board meetings to approve share awards and transactional issues called at short notice.

	Board meetings	Audit Committee	Nomination and Remuneration Committee
Arnold Hoevenaars <sup>1</sup>	4/4	2/2	1/1
Nick Parker	7/7	2/2	3/3
Edmund Truell <sup>2</sup>	5/6	–	–
Richard Hurwitz	7/7	–	–
David Benello <sup>3</sup>	3/3	2/2	–
Lincoln Jopp <sup>4</sup>	3/4	–	–
Peter Kiernan	7/7	4/4	3/3
Danny Truell	5/7	–	–
Ian Wheeler <sup>5</sup>	3/3	–	2/2
David Williams	7/7	–	–

1 Resigned from the Board on 24 September 2015.

2 Resigned from the Board on 20 March 2016.

3 Appointed to the Board on 24 September 2015.

4 Resigned from the Board on 24 September 2015.

5 Appointed to the Board on 24 September 2015.

## What were the main activities of the Board during the year?

There are a number of standing and routine items included for review on each Board agenda. These include the CEO's report and operations reports, financial reports, consideration of reports from the Board Committees and investor relations updates. In addition key areas put to the Board for consideration and review included:

- Strategy presentations
- Presentations from various parts of the business
- Consideration of financing structures
- Approval of annual report and financial statements
- Review of Budget
- Going concern and cash flow
- Briefing and review of conflicts of interest
- Approval of appointment of new Directors
- Review of AGM business
- Anti-Bribery and corruption policy

## The Board Committees

There are now two Board Committees. These are composed of the Chairman and two Non-Executive Directors. Each Board Committee has approved Terms of Reference setting out their responsibilities. The Terms of Reference were approved and updated by the Board during the year, where necessary, and are available on the Company's website [www.tungsten-network.com](http://www.tungsten-network.com). Details of the operation of the Board Committees are set out in their respective reports below. All of the Board Committees are authorised to obtain, at the Company's expense, professional advice on any matter within their Terms of Reference and to have access to sufficient resources in order to carry out their duties.

## Governance

# Corporate governance report continued

### Accountability

The Company has in place a system of internal financial controls commensurate with its current size and activities, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. These procedures include the preparation of management accounts, forecast variance analysis and other ad-hoc reports. There are clearly defined authority limits throughout the Group, including those matters that are reserved specifically for the Board. A Financial Procedures Manual sets out minimum reporting standards.

Risks throughout the Group are considered and reviewed on a regular basis. Risks are identified and mitigating actions put into place as appropriate. Principal risks identified are set out in the Strategic report on pages 21 to 26. Internal control and risk management procedures can only provide reasonable and not absolute assurance against material misstatement. The internal control procedures were in place throughout the financial year and to the date of approval of this report and have been reviewed by the Board in accordance with the Financial Reporting Council's guidance on internal control.

Improvements have been made to strengthen the internal control process with the appointment of an internal auditor who has put in place a more robust structure to identify risks and cascade ownership and management of risks to an operational level.

### Financial and business reporting

The Board seeks to present a fair, balanced and understandable assessment of the Group's position and prospects in all half-year, final and any other ad-hoc reports and other information as may be required from time to time. The Board receives a number of reports, including those from the Audit Committee, to enable it to monitor and clearly understand the Group's financial position. A Disclosure Policy is in place to ensure that price-sensitive information is identified effectively and all communications with the market are released in accordance with expected time scales. The Board considers that this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

### Anti-fraud, bribery and corruption

The anti-bribery policy was reviewed and updated during the year and an extensive programme put in place for training throughout the Group. The Group's anti-corruption procedures state that the Company and its subsidiaries intend to conduct business in an honest and ethical manner. A zero-tolerance approach is taken to bribery and corruption and the Company is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates and to implementing and enforcing effective systems to counter bribery and corruption.

### Whistleblowing

The Company has a whistleblowing procedure under which staff may report any suspicion of fraud, financial irregularity or other malpractice to any Executive Director.

### Shareholders

The Board is committed to maintaining regular and clear communication with its shareholders. The Board receives regular reports on investor relations matters. The Directors are keen to build a mutual understanding of objectives with its institutional shareholders and a regular dialogue with institutional investors has been maintained throughout the year. The Directors also encourage communications with private shareholders and encourage their participation in the Company's Annual General Meeting. The Chief Executive has met the majority of significant shareholders during the year. As part of this process, the Company hosted a Capital Markets Day presentation for its investors on 9 February 2016 at which further details about the Company's strategy was presented. The Company uses its corporate website ([www.tungsten-network.com](http://www.tungsten-network.com)) to communicate with institutional shareholders and private investors. It contains the latest announcements, press releases, published financial information, current projects and other information about the Company.

The Annual Report and Accounts is a key communication document and is also available on the Company's website. This year's Annual General Meeting of the Company will be held on 16 September 2016. The Notice of Annual General Meeting will be available on the Company's website at [www.tungsten-network.com](http://www.tungsten-network.com). The Notice of Annual General Meeting will be sent out at least 20 working days before the meeting. Separate resolutions are provided on each issue so that they can be given proper consideration.

# Audit Committee report

## Members of the Audit Committee

The Committee consists entirely of Non-Executive Directors. The Chairman, Peter Kiernan, has extensive financial experience and is a Chartered Accountant.

- Peter Kiernan (Chairman)
- David Benello
- Nick Parker

The Audit Committee meets as often as it deems necessary but in any case at least three times a year, with meetings scheduled at appropriate intervals in the reporting and audit cycle.

Only members of the Committee have the right to attend meetings, however standing invitations are extended to the Chief Financial Officer who attends meetings as a matter of practice. Other non-members may be invited to attend all or part of any meeting as and when appropriate. The external auditors attend a number of meetings and also have the opportunity to meet in private with the Committee on each occasion. In addition, the Chairman of the Audit Committee has regular contact with the external and internal auditors throughout the year.

## Duties

The main duties of the Audit Committee are set out in its Terms of Reference and include the following:

- To monitor the integrity of the financial statements of the Company, including its annual and half-year reports
- To review and challenge where necessary any changes to, and consistency of, accounting policies, whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor, the going concern assumption and all material information presented with the financial statements
- To keep under review the effectiveness of the Company's internal control systems (including financial, operational and compliance controls and risk management) and to review and approve the statements to be included in the Annual Report concerning internal controls and risk management
- To review the adequacy of the Company's compliance, whistleblowing and procedures for detecting fraud
- To review and approve the charter of the internal audit function, review and assess the annual internal audit work, review reports from the internal auditor and meet with the internal auditor at least annually without management present and also monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system
- To consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, reappointment and removal of the Company's external auditor

- To oversee the relationship with the external auditor including approval of their remuneration, approval of their terms of engagement, annual assessment of their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services
- To meet regularly with the external auditor and at least once a year, without any Executive Director or other member of management present to discuss any issues arising from the audit
- To review and approve the Audit Plan and review the findings of the audit

## What were the main activities of the Audit Committee during the year?

The principal areas of focus for the Committee included the following items:

- Review of the audit plan, process and scope
- Review of internal controls and risk and risk matrix process
- Review of significant issues from the audit report
- Going concern and impairment review
- Approval of management representation letter
- Review of the independence of the Auditor, review of Auditor fees and engagement letter
- Consideration of the internal audit plan
- Review of the Anti-Bribery Policy and Anti-Bribery programme
- Review of the Sanctions and embargoes policy and reporting
- Review of the Group's Insurance programme
- Review of the Audit Committee Terms of Reference

## Role of the external auditor

The Audit Committee monitors the relationship with the external auditor, PricewaterhouseCoopers LLP, to ensure that auditor independence and objectivity are maintained. As part of its review the committee monitors the provision of non-audit services. The engagement of the external audit firm to provide non-audit services to the Group can impact on the independence assessment, and the Group has a policy for the approval of any such non-audit services. The policy specifies services which cannot be carried out by the external auditor and sets the framework within which non-audit services may be provided. All requests to utilise the external auditors for non-audit services must be reviewed by the Finance Director and above a certain limit must be approved by the Audit Committee. The breakdown of fees between audit and non-audit services is provided in Note 7. The Committee also has a formal policy on its responsibilities in relation to the external auditors. This policy includes recommendations on appointment, tendering, scope and remuneration as well as the assessment of external auditor independence. The PricewaterhouseCoopers audit partner was rotated last year.

**Governance**

# Audit Committee report continued

The Committee assesses the independence of the external auditor and the effectiveness of the external audit process before making recommendations to the Board in respect of their appointment or reappointment.

In assessing independence and objectivity, the Committee considers the level and nature of services provided by the external auditor as well as the confirmation from the external auditor that it has remained independent within the meaning of the APB Ethical Standards of Auditors. The Committee's assessment of the external auditor's independence took into account the non-audit services provided during the year. The Committee concluded that the nature and extent of the non-audit fees did not compromise the independence of the auditor.

Having reviewed the auditor's independence and performance the Audit Committee is recommending that PricewaterhouseCoopers LLP be reappointed as the Company's auditors at the next Annual General Meeting.

**Internal audit**

Following a review by the Audit Committee of the need to establish an internal audit function in light of the expected development of the business the Group has employed an internal auditor.

**Audit process**

The external auditors prepare an Audit Plan for their review of the full year and half year financial statements. The Audit Plan sets out the scope of the audit, areas to be targeted and audit timetable. This plan is reviewed and agreed in advance by the Audit Committee. Following their review the auditors presented their findings to the Audit Committee for discussion. No major areas of concern were highlighted by the auditors during the year. Significant issues considered by the Audit Committee from the audit process were going concern and impairment. Liquidity risks are discussed in more detail in the review of principal risks and uncertainties on pages 21 and 26 and further information is also given in the Chief Financial Officer's review on pages 18 to 20.


**Peter Kiernan**

Chairman of the Audit Committee

25 July 2016

# Nomination and Remuneration Committee report

## Members of the Nomination and Remuneration Committee

The Committee consists of Non-Executive Directors as follows:

- Nick Parker (Chairman)
- Peter Kiernan
- Ian Wheeler

The Committee meets at least three times a year and at such other times during the year as is necessary to discharge its duties. Only members of the Committee have the right to attend meetings, however other individuals, such as the Chief Executive and external advisers, may be invited to attend for all or part of any meeting.

## Duties

The main duties of the Nomination and Remuneration Committee are set out in its Terms of Reference and include the following:

### Remuneration:

- Setting the remuneration policy for the Executive Directors and the Company's Chairman, including pension rights and compensation payments
- In determining such policy, to take into account relevant legal and regulatory requirements, and the provisions and recommendations of the QCA Code, the QCA's Remuneration Committee Guide and associated guidance
- Recommending and monitoring the level and structure of remuneration for senior management
- When setting the remuneration policy for Executive Directors, to review and have regard to pay and employment conditions across the Group
- To review the ongoing appropriateness and relevance of the remuneration policy
- To appoint and determine the terms of reference for any remuneration consultants who advise the committee
- To approve the design of and determine the targets for any schemes of performance related remuneration and approve the total remuneration paid under such schemes
- To review the design of all share incentive plans for approval by the Board
- To determine the policy and scope of pension arrangements for Executive Directors and other designated senior executives
- To oversee any major changes in employee benefits structure throughout the Group
- To agree the policy for authorising claims for expenses from the Executive Directors and Chairman
- To regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board compared to its current position and make recommendations to the Board with regard to any changes
- To give full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future

### Nominations:

- To keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace

- To keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates
- To be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise
- To formulate plans for succession for both Executive and Non-Executive Directors and in particular for the key roles of Chairman and Chief Executive
- To assess 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 light of the knowledge, skills and experience required
- To assess the re-election by shareholders of any Director having due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required and the need for progressive refreshing of the Board

## What were the main activities of the Nomination and Remuneration Committee during the year?

- Consideration of Executive Directors' bonuses and criteria for the year
- Review of Executive Directors' salaries
- Review of the share option plans and plan rules
- Approval of award of shares under the Company share option plans schemes
- Preparation for review of total remuneration packages of the Executive Directors
- Succession planning
- Consideration of continuing training needs for Directors and induction course for new directors
- Recommendation for approval of new Directors to be appointed to the Board
- Board balance
- Process for search for the new Non-Executive Directors
- Re-election of Directors at the AGM
- Review of Terms of Reference
- Review of Board composition for Group companies

## Diversity

The Group has in place anti-discrimination policies and encourages the promotion of women into senior management positions. This will widen the pool of talent in future years from which to make senior executive appointments. The Board believes that appointments to the Board should be made relative to a number of criteria, including diversity of gender, background and personal attributes, alongside the appropriate skill set, experience and expertise. All appointments take these criteria into account.



**Nick Parker**

Chairman of the Nomination and Remuneration Committee

25 July 2016

## Governance

# Directors' remuneration report

The following disclosures are made to support the Board's goals of working towards best practice governance standards as an AIM company and to promote transparency about how our Directors are rewarded.

### The Nomination and Remuneration Committee

The Board has delegated certain responsibilities for executive remuneration to the Nomination and Remuneration Committee. Details of the Nomination and Remuneration Committee, its remit and activities are set out on page 39.

The Nomination and Remuneration Committee is, among other things, responsible for setting the remuneration policy for Executive Directors and the Chairman and recommending and monitoring the level and structure of remuneration for senior management.

### Remuneration policy

In formulating remuneration policy for the Executive Directors the Nomination and Remuneration Committee considers a number of factors designed to:

- have regard to the Director's experience and the nature and complexity of their work in order to pay a competitive salary, in line with comparable companies, that attracts and retains Directors of the highest quality;
- reflect the Director's personal performance; and
- link individual remuneration packages to the Group's long-term performance and continued success of the Group through the award of annual bonuses and share-based incentive schemes.

The objective of the remuneration policy is to promote the long-term success of the Company, having regard to the views of shareholders and stakeholders.

### Executive Directors

Current components of the Executive Directors remuneration are base salary, annual bonus and share-based incentive schemes.

#### Base salary

Base salary is reviewed annually by the Remuneration Committee. There was no increase in salary for 2015 or 2016.

#### Annual bonus

The Remuneration Committee has agreed performance conditions for the annual bonuses of the Executive Directors based on certain KPIs.

#### Service agreements and termination payments

Details of the Executive Directors' service agreements are set out below.

Director	Date of contract	Unexpired term	Notice period by Company	Notice period by Director
Richard Hurwitz	1 January 2016	Rolling contract	12 months	6 months
David Williams	17 March 2015	Rolling contract	12 months	6 months

The Executive Directors may be put on gardening leave during their notice period, and the Company can elect to terminate their employment by making a payment in lieu of notice of up to the applicable notice period.

#### Employees' pay

Employees' pay and conditions across the Group are considered when reviewing remuneration policy for Executive Directors. The Remuneration Committee has focused on considering and developing a new structure for Group compensation that is designed to achieve staff alignment, engagement and collaboration.

#### Non-Executive Directors

The remuneration payable to Non-Executive Directors (other than the Chairman) is decided by the Chairman and Executive Directors.

Fees are designed to ensure the Company attracts and retains high calibre individuals. They are reviewed on an annual basis and account is taken of the level of fees paid by other companies of a similar size and complexity. Non-Executive Directors do not participate in any annual bonus, share options or pension arrangements. The Company repays the reasonable expenses that Non-Executive Directors incur in carrying out their duties as Directors.

## Terms of appointment

The terms of appointment for the Non-Executive Directors are shown below.

Director	Date of letter of appointment	Term	Notice
David Benello	24 September 2015	12 months	N/A
Peter Kiernan	16 October 2014	12 months	3 months by either side
Nick Parker	13 May 2015	12 months	N/A
Danny Truell	16 October 2013	36 months from date of admission	3 months by either side
Ian Wheeler	24 September 2015	12 months	N/A

## Annual remuneration report

The annual remuneration report sets out details of Directors' remuneration payments during the year and information in respect of share awards and Directors' shareholdings.

### Directors' remuneration table

Director	Base salary £'000	Benefits in kind £'000	Pensions £'000	Annual performance bonus £'000	Total FY16 £'000	Total FY15 £'000
<b>Executive Directors</b>						
Edmund Truell <sup>1</sup>	254	–	–	–	<b>254</b>	360
Philip Ashdown <sup>2</sup>	–	–	–	–		210
Jeffrey Belkin <sup>3</sup>	–	–	–	–		199
Richard Hurwitz <sup>4</sup>	351	99	31	167	<b>648</b>	180
Lincoln Jopp <sup>5</sup>	70	1	4	10	<b>85</b>	181
David Williams <sup>6</sup>	210	2	48	30	<b>290</b>	30
<b>Non-Executive Directors</b>						
David Benello <sup>7</sup>	30	–	–	–	<b>30</b>	–
Arnold Hoevenaars <sup>8</sup>	50	–	–	–	<b>50</b>	125
Peter Kiernan	90	–	–	–	<b>90</b>	100
Michael Spencer <sup>9</sup>	–	–	–	–	<b>–</b>	67
Danny Truell	80	–	–	–	<b>80</b>	100
Nick Parker <sup>10</sup>	190	–	–	17	<b>207</b>	0
Ian Wheeler <sup>11</sup>	30	–	–	–	<b>30</b>	–

Notes:

1 Resigned as a Director 20 March 2016. Services provided to the Company in FY16 through a consultancy agreement – see Note 23.

2 Resigned as a Director 24 April 2015.

3 Resigned as a Director 13 January 2015. Jeff Belkin also received a settlement amount of £257,500.00 paid on 21 April 2015.

4 Appointed as a Director 22 October 2014.

5 Resigned as a Director 24 September 2015.

6 Appointed as a Director 17 March 2015.

7 Appointed as a Director 24 September 2015.

8 Resigned as a Director 24 September 2015.

9 Resigned as a Director 31 December 2014.

10 Appointed as a Director 13 May 2015. Nick Parker served as a Non-Executive Director of the Company until 25 September 2015 and as Chairman thereafter. His fees for these roles were £103,000. Mr. Parker also served as Chairman of Tungsten Bank until 30 September 2015 and subsequently as a Non-Executive Director. His fees for these roles were £87,000. Mr. Parker was paid a one-off sum of £17,000 in the year to reflect his additional time commitments, notably in support of the sale of Tungsten Bank. With effect from 1 May 2016, Mr. Parker will be paid an annual salary of £100,000 as Chairman of Tungsten Corporation and £60,000 as Non-Executive Director of Tungsten Bank.

11 Appointed as a Director 24 September 2015.

## Governance

## Directors' remuneration report continued

## Operation of LTIP

Pursuant to the LTIP, in FY2013 Directors acquired interests in the B ordinary shares (the 'LTIP Shares') and C ordinary shares (the 'LTIP Securities') of Tungsten Corporation Guernsey Limited, a subsidiary of the Company. The LTIP Shares were all exchanged into ordinary shares of the Company as part of the admission process. The LTIP Securities are exchangeable into ordinary shares of the Company once the price per ordinary share of the Company has reached (for any 20 trading days out of 30 successive trading days, the last of such days falling not less than five and not more than 10 years following admission) a closing price equal to the price resulting from applying an equivalent of a compound rate of return from the date of the admission to the adjusted issue price equal to 8.25% per annum accrued daily and compounded quarterly.

The LTIP Securities exchange into ordinary shares of the Company worth 15% of the increase in the share price (adjusted for any capital reorganisations or issues).

Director	Held as at 1 May 2015	Acquired/ (disposed) during the year	Held as at 30 April 2015
David Benello	—	—	—
Richard Hurwitz	—	—	—
Peter Kiernan	72,915	—	72,915
Nick Parker	—	—	—
Danny Truell	526,400	—	526,400
Ian Wheeler	—	—	—
David Williams	—	—	—

## Share option schemes

Director	Awards held as at 1 May 2015	Awards granted during the year	Date of grant	Option price	Awards exercised during the year	Balance as at 30 April 2016	Vesting and exercise period
Rick Hurwitz	440,000 <sup>1</sup>	95,000	23 July 2015	67.5p	Nil	535,000	Vest in 4 tranches over 4 years from date of grant. Exercisable for 10 years from date of grant
David Williams	8,000 <sup>2</sup>	100,000	23 July 2015	67.5p	Nil	100,000	As above

1 Granted under the Company's US Stock Option Plan.

2 Granted under the Save As You Earn (SAYE) share option plan.

## Directors' interests in the share capital of the Company

Director	Number of ordinary shares held on 1 May 2015*	Acquired/disposed during the year	Number of ordinary shares held on 30 April 2016	Percentage of issued share capital in issue on 30 April 2016
<b>Executive Directors</b>				
Richard Hurwitz	—	664,000	664,000	0.52%
David Williams <sup>1</sup>	—	3,200	3,200	0.003%
<b>Non-Executive Directors</b>				
David Benello <sup>2</sup>	—	—	—	—
Nick Parker <sup>3</sup>	40,000	210,000	350,000	0.3%
Peter Kiernan	182,199	12,500	194,699	0.15%
Danny Truell	430,000	817,802	1,247,802	0.99%
Ian Wheeler <sup>4</sup>	—	—	—	—

\*or date of joining if later.

1 Represents shares held by his son

2 David Benello was appointed on 24 September 2015, his shareholdings are shown from the date of appointment.

3 Nick Parker was appointed on 13 May 2015, his shareholdings are shown from the date of appointment and include shares held in his SIPP.

4 Ian Wheeler was appointed on 24 September 2015, his shareholdings are shown from the date of appointment.

This report was approved by the Board of Directors and signed on its behalf by:



**Nick Parker**

Chairman of the Nomination and Remuneration Committees

25 July 2016

## Governance

# Directors' report

The Directors of Tungsten Corporation plc present their report for the year ended 30 April 2016. Particulars of important events effecting the Company and its subsidiaries and likely future developments may be found in the strategic report on pages 2 to 26.

### Directors

Biographical details of the Directors currently serving on the Board and their dates of appointment are set out on pages 28 and 29.

The Directors who served throughout the year are as follows:

Executive Directors	Non-Executive Directors
Richard Hurwitz	David Benello <sup>3</sup>
Lincoln Jopp <sup>1</sup>	Arnold Hoevenaars <sup>4</sup>
Edmund Truell <sup>2</sup>	Peter Kiernan
David Williams	Nick Parker <sup>5</sup>
	Danny Truell
	Ian Wheeler <sup>6</sup>

1 Resigned from the Board 24 September 2015.

2 Resigned from the Board 20 March 2016.

3 Appointed to the Board 24 September 2015.

4 Resigned from the Board 24 September 2015.

5 Appointed to the Board 13 May 2015.

6 Appointed to the Board 24 September 2015.

The Company's approach to the appointment and replacement of Directors is governed by its Articles of Association (together with relevant legislation) and takes into consideration any recommendations of the UK Code.

Subject to any restrictions in its Articles of Association and the Companies Act 2006, the Directors may exercise any powers which are not reserved for exercise by the shareholders.

### Results and Dividend

Results for the year ended 30 April 2016 are set out in the consolidated income statement on page 49.

The Board is not recommending the payment of a dividend for the year ended 30 April 2016.

### Change of Control/Significant Agreements

Should the Company be subject to a change of control, the following represents the likely effect on significant agreements:

- The LTIP Securities will become exchangeable into ordinary shares in Tungsten, with a value equal to 15% of the increase in the actual market capitalisation of Tungsten since admission, subject to:

- The value of Tungsten having risen by over 8.25% per annum since admission (the 'Threshold Price'); and
- Where the change of control results from, or triggers, an offer to holders of the ordinary shares of the Company, that offer being at an equivalent price per ordinary share of the Company equal to (or greater than) the Threshold Price; or

2b. Where the change of control results from, or in, the removal of either of Danny Truell or Edmund Truell (the Founders) from the Board of the Company, and the Threshold Price having been previously reached for any 20 trading days out of 30 successive trading days

- Control of a UK financial services institution requires the approval of the PRA and, accordingly, any proposed bid for Tungsten Corporation plc would require the approval from the PRA with regard to its holding in its subsidiary Tungsten Bank plc. Accordingly, any potential bidder would have to take this consideration into account in its strategy for gaining control of Tungsten Corporation plc
- Richard Hurwitz's executive service agreement provides that in the event that he resigns within 6 months of a change of control he will be entitled to receive 18 months salary and bonus

Other than the above the Company does not have any agreements with any Non-Executive Director, Executive Director or employee requiring compensation for loss of office resulting from a change of control.

### Articles of Association

Any amendments to the Articles of Association of the Company may be made by Special Resolution of the shareholders.

### Share capital

Details of the Company's share capital are set out in Note 17 to the consolidated financial statements. The Company's share capital consists of one class of ordinary shares that do not carry rights to fixed income. As at 30 April 2016, there were 126,069,397 ordinary shares of £0.00438p each in issue. Ordinary shareholders are entitled to receive notice and to attend and speak at general meetings. Each shareholder present in person or by proxy (or by duly authorised corporate representatives) has, on a show of hands, one vote. On a poll, each shareholder present in person or by proxy has one vote for each share held.

Other than the general provisions of the Articles (and prevailing legislation) there are no specific restrictions of the size of a holding or on the transfer of the ordinary shares.

The Directors are not aware of any agreements between holders of the Company's shares that may result in the restriction of the transfer of securities or on voting rights. No shareholder holds securities carrying any special rights or control over the Company's share capital.

### Authority to purchase own shares

The Company was authorised by shareholder resolution at the 2015 Annual General Meeting to purchase up to 10% of its issued share capital. A resolution will be proposed at the forthcoming Annual General Meeting and authority sought to purchase up to 10% of its issued share capital. Under this authority, any shares purchased must be held as treasury shares or, otherwise, cancelled resulting in a reduction of the Company's issued share capital.

No shares were purchased by the Company during the year.

## Directors' Interests

The number of ordinary shares of the Company in which the Directors are beneficially interested at 1 May 2015 or date of appointment if later is set out in the Directors' Remuneration Report on pages 40 to 43.

## Director Indemnities and Insurance

In accordance with the Companies Act 2006 and the Company's Articles of Association, the Company has purchased Directors' and Officers' Liability Insurance which remains in place at the date of this report. The Company reviews its insurance policies on an annual basis in order to satisfy itself that its level of cover remains adequate. The Directors are also indemnified under the Articles of Association of the Company.

## Vendor payment policies

The Company values its vendors and acknowledges the importance of paying invoices in a timely manner. We have a standard payment terms policy of 45 days from invoice date with vendors. We might agree other payment terms with vendors on an individual basis in accordance with the vendor requirements and procurement needs. The Company ensures that vendors are aware of those terms and our obligations are met accordingly.

## Significant shareholders

As at 13 July 2016, the latest practicable date prior to publication, Tungsten is aware of the following holdings of significant shareholders in the Company (as defined in the AIM Rules). These figures are based on its most recent analysis of shareholders as at 13 July 2016, and other notifications to the Company. For clarity, shareholdings are shown separately from holdings in financial instruments, where disclosed.

## Financial risk management

The Company's objectives and policies on financial risk management including information on the exposure of the Company to credit risks, liquidity risks and capital management risks are set out in Note 20 to the accounts

and in the managing Group Principal risks and uncertainties Section on pages 21 to 26.

## Political donations

The Company has made no political donations during the year.

## Going concern statement

The Audit Committee reviewed financial forecasts provided by management, including sensitivity analysis, to assess downside risk and its reasonable possible impact on committed liquidity. In addition, the Committee reviewed detailed reporting from the external auditor. The Committee concluded, taking into account reasonable possible changes in trading performance and possible mitigating actions, that the Group has sufficient committed liquidity to fund its committed expenditure.

## Audit

PricewaterhouseCoopers LLP has expressed their willingness to continue in office as auditors and a resolution seeking to reappoint them will be proposed at the forthcoming Annual General Meeting.

## Annual General Meeting

The Company's Annual General Meeting will be held at 2pm on 16 September 2016 at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA. Details of the venue and the resolutions to be proposed are set out in a separate Notice of Meeting which accompanies this report.

This report was approved by the Board of Directors of Tungsten Corporation PLC and signed on its behalf by:



**Patrick Clark**

General Counsel and Company Secretary

25 July 2016

	Shareholdings as at 13 July 2016	Financial instruments notified since 1 Jan 2016			Total		
		Shares	%	Number <sup>2</sup>	%	Holdings	%
Odey Asset Management	18,510,599	14.68		4,683,677 <sup>3</sup>	3.72	23,194,276	18.40
Mr. Edmund Truell <sup>1</sup>	18,566,388	14.73		100,000 <sup>4</sup>	0.08	18,666,388	14.81
Indus Capital Partners	11,018,467	8.74		1,366,446 <sup>5</sup>	1.08	12,384,913	9.82
Sanlam FOUR Investments UK	5,915,882	4.69			–	5,915,882	4.69
Hargreaves Lansdown Asset Management	5,682,848	4.51			–	5,682,848	4.51
Hadron Capital	5,390,599	4.28		360,700 <sup>6</sup>	0.29	5,751,299	4.56
Artemis Investment Mgt	5,095,000	4.04			–	5,095,000	4.04
UBS Securities	4,668,958	3.70			–	4,668,958	3.70
Commerzbank Securities	4,453,269	3.53			–	4,453,269	3.53

<sup>1</sup> Edmund Truell's holdings disclosed above represent both his direct and indirect holdings including investments via Disruptive Capital Investments Limited

<sup>2</sup> Total voting rights, or share equivalent

<sup>3</sup> Contract for difference (CFD) Notified on 21 Jan 2016

<sup>4</sup> CFD notified on 13 Jan 2016

<sup>5</sup> Swap notified on 6 April 2016

<sup>6</sup> Notification of Major Interests on 11 July 2016

## Governance

# Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the U.K. governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the group; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

In accordance with Section 418, each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.



**Patrick Clark**

General Counsel and Company Secretary

25 July 2016

# Independent auditors' report to the members of Tungsten Corporation plc

## Report on the Group financial statements

### Our opinion

In our opinion, Tungsten Corporation plc's Group financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's affairs as at 30 April 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

The financial statements included within the Annual report and financial statement 2016 (the "Annual Report"), comprise:

- the consolidated statement of financial position as at 30 April 2016;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### Opinion on other matter prescribed by the Companies Act 2006

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.

### Other matters on which we are required to report by exception

#### Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

#### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 46, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (U.K. and Ireland) ('ISAs (U.K. & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Financial statements

# Independent auditors' report to the members of Tungsten Corporation plc

## continued

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (U.K. & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Other matter

We have reported separately on the parent company financial statements of Tungsten Corporation plc for the year ended 30 April 2016.



### Brian Henderson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

25 July 2016

## Consolidated income statement

	Note	Year Ended 30 April 2016 £'000	Year Ended 30 April 2015 (restated) £'000
Revenue	4	<b>26,083</b>	22,549
Operating expenses	5	<b>(54,358)</b>	(50,237)
<b>Operating loss</b>		<b>(28,275)</b>	(27,688)
 <b>EBITDA</b>		 <b>(18,748)</b>	 (25,228)
Depreciation and amortisation	5	<b>(2,520)</b>	(2,263)
Impairment	5	<b>(6,810)</b>	–
Share-based payment expense	22	<b>(478)</b>	(197)
Other income	5	<b>281</b>	–
<b>Operating loss</b>		<b>(28,275)</b>	(27,688)
 Finance income	8	 <b>83</b>	 108
Finance costs	8	<b>(371)</b>	(332)
Net finance costs		<b>(288)</b>	(224)
 <b>Loss before taxation</b>		 <b>(28,563)</b>	 (27,912)
Taxation	9	<b>705</b>	302
<b>Loss for the year</b>		<b>(27,858)</b>	(27,610)
 <b>Loss per share (expressed in pence per share):</b>			
Basic and diluted loss per share	10	<b>(22.52)</b>	(26.92)

The notes on page 54 to 73 are an integral part of these consolidated financial statements.

## Financial statements

## Consolidated statement of comprehensive income

	Note	Year Ended 30 April 2016 £'000	Year Ended 30 April 2015 (restated) £'000
Loss for the year	4	(27,858)	(27,610)
Other comprehensive income:			
Currency translation differences		320	1,033
<b>Total comprehensive loss for the year</b>		<b>(27,538)</b>	<b>(26,577)</b>

Items in the statement above are disclosed net of tax.

The notes on pages 54 to 73 are an integral part of these consolidated financial statements.

## Consolidated statement of financial position

Registered number: 07934335

	Note	As at 30 April 2016 £'000	As at 30 April 2015 (restated) £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	11	<b>116,770</b>	128,126
Property, plant and equipment	12	<b>1,924</b>	2,211
Trade and other receivables	13	<b>539</b>	624
<b>Total non-current assets</b>		<b>119,233</b>	130,961
<b>Current assets</b>			
Trade and other receivables	13	<b>8,726</b>	7,783
Invoice receivables		–	6,392
Cash and cash equivalents	14	<b>9,268</b>	32,603
Assets held for sale	15	<b>28,737</b>	–
<b>Total current assets</b>		<b>46,731</b>	46,778
<b>Total assets</b>	4	<b>165,964</b>	177,739
<b>Capital and reserves attributable to the equity owners of the parent</b>			
Share capital	16	<b>553</b>	454
Share premium	16	<b>188,794</b>	171,875
Shares to be issued	19	<b>3,760</b>	3,760
Merger reserve		<b>28,035</b>	28,035
Share-based payment reserve		<b>5,419</b>	5,237
Other reserve		<b>(4,019)</b>	(4,339)
Accumulated losses		<b>(76,408)</b>	(48,550)
<b>Total equity</b>		<b>146,134</b>	156,472
<b>Non-current liabilities</b>			
Deferred taxation	9	<b>3,010</b>	4,006
<b>Total non-current liabilities</b>		<b>3,010</b>	4,006
<b>Current liabilities</b>			
Trade and other payables	17	<b>7,490</b>	8,628
Deferred income	18	<b>8,318</b>	8,633
Liabilities directly associated with assets held for sale	15	<b>1,012</b>	–
<b>Total current liabilities</b>		<b>16,820</b>	17,261
<b>Total liabilities</b>	4	<b>19,830</b>	21,267
<b>Total equity and liabilities</b>		<b>165,964</b>	177,739

The notes on pages 54 to 73 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 49 to 73 were authorised for issue by the Board of Directors on 25 July 2016 and were signed on its behalf by:



**Richard Hurwitz**  
Chief Executive Officer



**David Williams**  
Chief Financial Officer

## Financial statements

## Consolidated statement of changes in equity

## Year ended 30 April 2016

	Share capital £'000	Share premium £'000	Merger reserve £'000	Shares to be issued £'000	Share-based payment reserve £'000	Other reserve £'000	Accumulated losses £'000	Total equity £'000
<b>Balance as at 1 May 2015</b>	454	171,875	28,035	3,760	5,237	(4,339)	(48,550)	156,472
Currency translation differences <sup>1</sup>	–	–	–	–	–	320	–	320
Loss for the year	–	–	–	–	–	–	(27,858)	(27,858)
<b>Balance as at 30 April 2016</b>	<b>454</b>	<b>171,875</b>	<b>28,035</b>	<b>3,760</b>	<b>5,237</b>	<b>(4,019)</b>	<b>(76,408)</b>	<b>128,934</b>

## Transactions with owners

Shares issued during the year	99	16,919	–	–	–	–	–	17,018
Share-based payment expense	–	–	–	–	182	–	–	182
<b>Balance as at 30 April 2016</b>	<b>553</b>	<b>188,794</b>	<b>28,035</b>	<b>3,760</b>	<b>5,419</b>	<b>(4,019)</b>	<b>(76,408)</b>	<b>146,134</b>

1 Agreed to Consolidated statement of comprehensive Income.

## Year ended 30 April 2015 (restated)

	Share capital £'000	Share premium £'000	Merger reserve £'000	Shares to be issued £'000	Share-based payment reserve £'000	Other reserve £'000	Accumulated losses £'000	Total equity £'000
<b>Balance as at 1 May 2014</b>	438	160,127	28,035	3,760	5,040	(5,372)	(20,940)	171,088
Currency translation differences	–	–	–	–	–	1,033	–	1,033
Loss for the year	–	–	–	–	–	–	(27,610)	(27,610)
<b>Balance as at 30 April 2015</b>	<b>438</b>	<b>160,127</b>	<b>28,035</b>	<b>3,760</b>	<b>5,040</b>	<b>(4,339)</b>	<b>(48,550)</b>	<b>144,511</b>

## Transactions with owners

Shares issued during the year	16	11,748	–	–	–	–	–	11,764
Share-based payment expense	–	–	–	–	197	–	–	197
<b>Balance as at 30 April 2015</b>	<b>454</b>	<b>171,875</b>	<b>28,035</b>	<b>3,760</b>	<b>5,237</b>	<b>(4,339)</b>	<b>(48,550)</b>	<b>156,472</b>

The notes on pages 54 to 73 are an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

	Note	Year Ended 30 April 2016 £'000	Year Ended 30 April 2015 (restated) £'000
<b>Cash flows from operating activities</b>			
Loss before taxation		<b>(28,563)</b>	(27,912)
Adjustments for:			
Depreciation and amortisation	4	<b>2,520</b>	2,263
Impairment charge	4	<b>6,810</b>	–
Finance costs	4	<b>371</b>	332
Finance income	4	<b>(83)</b>	(108)
Share-based payment expense	4	<b>478</b>	197
Other Income	4	<b>(281)</b>	–
<b>Cash generated from operations</b>		<b>(18,748)</b>	(25,228)
Changes in working capital:			
Increase in trade and other receivables		<b>(882)</b>	(1,681)
Increase in invoice receivables		<b>(937)</b>	(6,392)
Increase/(decrease) in trade and other payables		<b>(732)</b>	1,639
Net interest received/(paid)		<b>(307)</b>	108
<b>Net cash outflow from operating activities</b>		<b>(21,606)</b>	(31,554)
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		<b>(255)</b>	(825)
Purchases of intangibles		<b>(912)</b>	(271)
Acquisition of subsidiary, net of cash acquired		<b>–</b>	(9,573)
<b>Net cash outflow from investing activities</b>		<b>(1,167)</b>	(10,669)
<b>Cash flows from financing activities</b>			
Proceeds of share issue		<b>16,721</b>	11,765
<b>Net cash inflow from financing activities</b>		<b>16,721</b>	11,765
Net decrease in cash and cash equivalents		<b>(6,052)</b>	(30,458)
Cash and cash equivalents at start of year		<b>32,603</b>	62,646
Exchange adjustments		<b>472</b>	415
<b>Cash and cash equivalents at end of year</b>	14, 15, 20	<b>27,023</b>	32,603

Cash and cash equivalents includes cash held across the entities within Tungsten Group in addition to cash held by Tungsten Bank which has been reclassified as Assets Held for Sale Note 15.

The notes on pages 54 to 73 are an integral part of these consolidated financial statements.

## Financial statements

# Notes to the consolidated financial statements

## 1. General information

Tungsten Corporation plc (the Company) and its subsidiaries (together, the Group) is a global e-invoicing network that offers supply chain financing and spend analytics.

The Company is a public limited company, which is incorporated and domiciled in the U.K. The address of its registered office is Pountney Hill House, 6 Laurence Pountney Hill, London EC4R 0BL, U.K.

## 2. Accounting policies

### (a) Basis of preparation

The consolidated financial statements of Tungsten Corporation plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), the Companies Act 2006 that applies to companies reporting under IFRS, and IFRS Interpretations Committee (IFRS IC). The principal accounting policies have been applied consistently throughout the year, other than as noted in the Prior Year Adjustment section below. The consolidated financial statements have been prepared under the historical cost convention. The consolidated financial statements have been prepared on a going concern basis. Further detail is included within the Report of the Directors.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

### Prior Period Adjustment

The Group provides services to its buyer customers pursuant to contracts that are typically three years in length. Where a buyer is out of contract at a year end and negotiations for a new contract are ongoing the Group will accrue the revenue up to the year end on the same terms as the expired contract. This accrued revenue is then unwound in the subsequent year as a new contract is agreed and the accrued amounts are invoiced.

Following significant change to people and control processes in the Group's finance team £0.6 million of accrued revenue from FY14 has been identified as not having been unwound in FY15. In order to aid comparability of revenue and profitability between FY15 and FY16, revenue in the comparative year has been reduced by £0.6 million. Accordingly, the EBITDA loss, the retained loss for the year and equity have been reduced by £0.6 million, with a consequential impact on earnings per share.

### (b) New standards, amendments and interpretations adopted:

These financial statements have been prepared in accordance with the EU-adopted International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations and with those parts of the Companies Act 2006 which are applicable to companies reporting under IFRS. They have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of derivative instruments at fair value through the statement of comprehensive income.

There were no other new IFRSs or interpretations issued by the IFRS Interpretation Committee (IFRS IC) that had to be implemented during the year that significantly affects these financial statements.

### New standards, amendments and interpretations issued but not yet effective in 2016 and not early adopted:

As at the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective (and in some cases had not yet been adopted by the EU). The group has not applied these standards and interpretations in the preparation of these financial statements.

- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' on depreciation and amortisation;
- Amendment to IAS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures';
- IFRS 15 'Revenue from contracts with customers';
- IFRS 9 'Financial instruments';
- Amendments to IFRS 9, 'Financial instruments', regarding general hedge accounting;
- Amendments to IAS 1, 'Presentation of financial statements' on the disclosure initiative;
- IFRS 16 'Leases';

The impact on the group's financial statements of the future adoption of these and other new standards and interpretation is still under review. The group does not expect, with the exception of IFRS 15 'Revenue from contracts with customers', that any of these changes will have a material effect on the results or net assets of the group.

There were no other new IFRSs or IFRS IC interpretations that are not yet effective that would be expected to have a material impact on the group.

## 2. Accounting policies continued

### Interpretations and amendments to standards that are not yet effective and not relevant for the Group's operations:

The following interpretations to existing standards have been published that are mandatory for the Group's future accounting periods but which are not relevant to the Group's operations: IFRS 14, 'Regulatory deferral accounts'.

None of the above standards and interpretations are expected to have a significant impact on the financial reporting of the Group.

#### (c) Basis of consolidation

Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies generally accompanying an interest of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Company (acquisition date) and are de-consolidated from the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### (d) Revenue services rendered

Revenue is the total amount receivable by the Group for services provided less VAT and trade discounts.

Revenue is recognised as follows:

- Transaction fees in the period in which the customer transacts unless there is evidence that transactions sold will never be utilised.
- Initial fees, annual subscriptions and other e-invoicing delivery related services over the period that the service is delivered.

Deferred revenue is recognised to the extent that revenue has been invoiced to customers but not recognised in accordance with the above. Deferred revenue is discounted where the time value of money is material.

#### (e) Employee benefits defined contribution plans

The Group pays contributions to publicly or privately administered pension plans. The Group has no further payment obligations once the contributions have been paid. Contributions are recognised in the income statement as an employee benefit expense in the period when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### Share-based payments

The Group issues equity-settled share-based awards to certain employees. The fair value of share-based awards is determined based on the Black-Scholes model at the date of grant and expensed based on the Group's estimate of the shares that will eventually vest, on a straight-line basis over the vesting period with a corresponding increase in equity. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest based on service and other non-market performance conditions. The amount expensed is adjusted over the vesting period for changes in the estimate of the number of shares that will eventually vest, save for changes resulting from any market-related performance conditions.

#### (f) Foreign currency translation

The functional currency of the Company is pounds sterling as that is the currency of the primary economic environment in which the Company operates. The Group's presentation currency is pounds sterling.

#### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within finance income or costs. All other foreign exchange gains and losses are presented in the consolidated income statement within 'operating expenses'.

## Financial statements

# Notes to the consolidated financial statements continued

## 2. Accounting policies continued

### Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each income statement presented are translated at average exchange rates unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions.

All resulting exchange differences are recognised in other comprehensive income.

The following exchange rates were applied for £1:

	As at 30 April 2016	As at 30 April 2015
United States Dollar	<b>1.4611</b>	1.5333
Euro	<b>1.2865</b>	1.3980
Mexican Peso	<b>25.2181</b>	23.4077
Bulgarian Lev	<b>2.5167</b>	2.7341
Malaysian Ringgit	<b>5.6747</b>	5.4172
Swiss Franc	<b>1.4120</b>	1.4664

### (g) Finance income and costs

Finance costs comprise interest payable on borrowings, interest expense on unwinding of discount on deferred income, direct issue costs and foreign exchange losses. Finance income comprises interest receivable on funds invested, and foreign exchange gains. Interest income and expenses are recognised on a time apportioned basis, using the effective interest method.

### (h) Current and deferred income tax

Income tax for the years presented comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of other assets or liabilities that affect neither accounting nor taxable profit; nor differences relating to investments in subsidiaries to the extent that they are unlikely to reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

## 2. Accounting policies continued

### (i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in the income statement. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

### (j) Property, plant and equipment

#### Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

#### Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership of an asset are classified as finance leases. Property, plant and equipment acquired under finance leases are recorded at fair value or, if lower, the present value of minimum lease payments at inception of the lease, less depreciation and any impairment.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in the other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

#### Depreciation

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. The estimated useful lives are as follows:

- Leasehold improvements: depreciated over term of lease
- Fixture and fittings: 25% on cost
- Computer equipment: 20% to 50% on cost

The residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

### (k) Intangible assets

#### Goodwill

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately in profit or loss.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount of the cash generating unit to which the goodwill has been allocated, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

## Financial statements

# Notes to the consolidated financial statements continued

## 2. Accounting policies continued

### Non-financial assets purchased or acquired in a business combination

Customer relationships and the IT platform purchased or acquired in a business combination are recognised at fair value at the acquisition date. The customer relationships and IT platform have finite useful lives and are carried at cost less accumulated amortisation.

Amortisation on the assets is calculated using the straight-line method over their estimated useful lives as follows:

	Estimated useful lives (years)
Customer relationships	20
IT platform	7

### Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use
- Management intends to complete the software product and use or sell it
- There is an ability to use or sell the software product
- It can be demonstrated how the software product will generate probable future economic benefits
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available
- The expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed seven years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Computer software costs are amortised over their estimated useful lives, which does not exceed five years.

### (l) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### (m) Prepaid consideration

Deposits paid for acquisitions are held as prepayments until such time as the acquisition is completed (i.e. meets the definition of an acquisition under IFRS 3, Business Combinations) or a decision is reached by the Board not to proceed with the acquisition, at which time the deposit is either refunded or charged to the income statement if not refundable.

### (n) Trade and other receivables

Trade and other receivables are stated initially at fair value and subsequently at their amortised cost less provision for impairment. A provision for impairment of receivables is recognised when there is evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The movement in the provision from the previous reporting period is recognised in the income statement. Subsequent recoveries of amounts previously written off are credited against 'general and administrative expenses' in the consolidated income statement.

### (o) Trade and other payables

Trade and other payables are initially stated at fair value and subsequently measured at amortised cost.

## 2. Accounting policies continued

### (p) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

### (q) Leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

### (r) Share capital

Ordinary shares are classified as equity.

## 3. Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements and estimates that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant impact on the financial statements are highlighted below.

### Revenue recognition

The Group recognises revenue in respect of e-invoicing related services over the period the services are delivered. Where buyer transactions are paid for but not processed, such revenue is deferred according to contractual terms representing the anticipated period for transactions being processed. Management reviews the historical record of transactions used under each contract and relevant estimates to determine whether the deferral period for the revenue recognition is appropriate or any changes to the existing deferral period are required. In relation to transaction fees for which no revenue is received, management assesses the expected usage of any unutilised transactions to determine the amount of deferred revenue to be recorded.

### Impairment of assets

The Group assesses the carrying value of its intangible assets at the end of each reporting period to determine whether there is an indication of impairment. The recoverable amount of those assets is measured at the higher of their fair value less costs to sell or value in use. Management applies judgement in estimating the probability, timing and value of underlying cash flows and in selecting appropriate discount rates and useful economic lives to be used in value in use calculation. Refer to Note 11, Intangible assets, for further information.

### Going concern

The Group going concern assessment is based on forecasts and projections of anticipated trading performance. The assumptions applied are subjective and management applies judgement in estimating the probability, timing and value of underlying cash flows.

### Deferred taxation

The determination of the Group's deferred tax assets involves judgements for determining the extent of its recoverability at each balance sheet date. The Group assesses recoverability with reference to Board approved forecasts of future taxable profits. These forecasts require use of assumptions and estimates.

## Financial statements

# Notes to the consolidated financial statements continued

### 4. Segment report

Management have determined the operating segments based on the operating reports reviewed by the Board of Directors that are used to assess both performance and strategic decisions. Management has identified that the Board of Directors is the Chief Operating Decision Maker (CODM).

During the year the operations and management of Tungsten Network Finance and Tungsten Bank were separated. Each now have clearly separate management teams and decision making bodies. As a result, Tungsten Bank is shown as a separate segment in these accounts.

The Board of Directors reviews financial information for four segments: Tungsten Network (which includes the e-invoicing and spend analytics business of Tungsten Network), Tungsten Network Finance (which includes the supply chain finance business), Tungsten Bank and Corporate (which includes overheads and general corporate costs). Intersegment revenue from management fees and other intersegment charges are eliminated below.

#### Year ended 30 April 2016

	Note	Tungsten Network £'000	Tungsten Network Finance £'000	Tungsten Bank £'000	Corporate £'000	Total £'000
Revenue		<b>25,889</b>	<b>14</b>	<b>180</b>	—	<b>26,083</b>
Segment revenue		<b>25,889</b>	<b>14</b>	<b>180</b>	—	<b>26,083</b>
EBITDA <sup>1</sup> – excluding non-cash share-based payments		(5,768)	(3,779)	(2,594)	(6,607)	(18,748)
EBITDA – including non-cash share-based payments		(5,770)	(3,779)	(2,594)	(7,083)	(19,226)
Share-based payment	22	(2)	—	—	(476)	(478)
Depreciation, amortisation and impairment	5	(2,259)	(89)	(6,810)	(172)	(9,330)
Finance income	8	25	—	—	58	83
Finance cost	8	(151)	(182)	(35)	(3)	(371)
Other income		281	—	—	—	281
Loss before taxation		(7,874)	(4,050)	(9,439)	(7,200)	(28,563)
Income tax credit						705
Loss for the year						(27,858)
Capital expenditure		900	31	170	66	1,167
Total assets		<b>127,488</b>	<b>292</b>	<b>28,737</b>	<b>9,447</b>	<b>165,964</b>
Total liabilities		<b>15,853</b>	<b>580</b>	<b>1,021</b>	<b>2,376</b>	<b>19,830</b>

1 EBITDA is calculated as earnings before other income, interest, tax, depreciation and amortisation.

#### 4. Segment report continued

Year ended 30 April 2015 (restated)

	Note	Tungsten Network £'000	Tungsten Network Finance £'000	Tungsten Bank £'000	Corporate £'000	Total £'000
Revenue		22,429	–	120	–	22,549
Segment revenue		22,429	–	120	–	22,549
EBITDA <sup>1</sup> – excluding non-cash share-based payments		(5,732)	(10,578)	(2,115)	(6,803)	(25,228)
Share-based payments	22	–	–	–	(197)	(197)
Depreciation and amortisation	5	(1,747)	(370)	–	(146)	(2,263)
Finance income	8	(449)	(7)	–	564	108
Finance cost	8	5	–	–	(337)	(332)
Loss before taxation		(7,923)	(10,955)	(2,115)	(6,919)	(27,912)
Income tax credit						302
Loss for the year		–	–	–	–	(27,610)
Capital expenditure		15,844	5	–	518	16,367
Total assets		125,572	548	35,780	15,839	177,739
Total liabilities		15,786	2,680	925	1,876	21,267

#### Geographical information

The Group's revenue from external customers and non-current assets by geographical location is detailed below.

Revenue by geographical location is allocated based on the location in which the sale originated.

	Revenue from external customers	
	Year ended 30 April 2016 £'000	Year ended 30 April 2015 (restated) £'000
United Kingdom	12,894	11,496
United States of America	11,463	9,507
Rest of Europe	1,093	1,018
Malaysia	633	528
<b>Total</b>	<b>26,083</b>	22,549

Non-current assets are allocated based on the geographical location of those assets and exclude other financial assets, loans receivables and deferred tax.

	Non-current assets	
	Year ended 30 April 2016 £'000	Year ended 30 April 2015 £'000
United Kingdom	117,429	126,403
United States of America	1,760	4,517
Malaysia	44	41
<b>Total</b>	<b>119,233</b>	130,961

## Financial statements

### Notes to the consolidated financial statements continued

#### 5. Operating expenses

	Year ended 30 April 2016 £'000	Year ended 30 April 2015 £'000
Staff costs	22,004	19,171
Professional support	4,313	3,470
Office accommodation and services	2,812	4,266
Transaction costs	–	506
IT costs	6,577	4,502
Irrecoverable VAT	16	592
Amortisation and Impairment	8,827	1,798
Depreciation	503	465
Other administrative expenses	7,641	9,255
Setup fees	1,946	6,212
Other income	(281)	–
<b>Total operating expenses</b>	<b>54,358</b>	50,237

#### 6. Employee benefit expenses

	Year ended 30 April 2016 £'000	Year ended 30 April 2015 £'000
Note		
Wages and salaries	18,692	16,483
Social security costs	1,750	1,568
Other pension costs	1,084	923
Share-based payments	22	478
<b>Total employee benefit expenses</b>	<b>5</b>	<b>22,004</b>
		19,171

#### Number of employees

The average monthly number of people employed:

Tungsten Network	313	257
Tungsten Network Finance	10	14
Tungsten Bank	13	15
Corporate	17	12
<b>Total average headcount</b>	<b>353</b>	298

Refer to Note 22 for details of remuneration in respect of key management.

#### 7. Auditors' remuneration

During the year the Group (including overseas subsidiaries) obtained the following services from its auditor and their associates:

	Year ended 30 April 2016 £'000	Year ended 30 April 2015 £'000
Audit of the Parent Company and the consolidated financial statements	219	222
Audit-related assurance services	33	75
Taxation compliance services	37	365
Taxation advisory services	123	250
Services relating to corporate finance transactions	16	–
All other non-audit services	282	803
<b>Total auditors' remuneration</b>	<b>710</b>	1,715

## 8. Finance income and costs

	Year ended 30 April 2016 £'000	Year ended 30 April 2015 £'000
Finance income		
Interest income on short-term deposits	83	108
<b>Total finance income</b>	<b>83</b>	<b>108</b>
Finance costs		
Unwinding of discount on deferred revenue	–	(171)
Foreign exchange losses	(371)	(161)
Total finance cost	(371)	(332)
<b>Net finance cost</b>	<b>(288)</b>	<b>(224)</b>

## 9. Taxation

Income tax comprises the following:

	Year ended 30 April 2016 £'000	Year ended 30 April 2015 (restated) £'000
<b>Current tax</b>		
Research & Development tax credits	(369)	–
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(336)	(302)
<b>Total income tax credit for tax year</b>	<b>(705)</b>	<b>(302)</b>

### Tax charge reconciliation

Loss before tax	(28,563)	(27,912)
Loss before tax multiplied by the rate of corporation tax in the UK 20% (2015: 21%)	(5,713)	(5,834)
Items not deductible for tax purposes	2,291	769
Gains in Guernsey subject to 0% corporation tax	(322)	(293)
Research & Development tax credits	(369)	–
Origination and reversal of temporary differences	(336)	–
Tax losses for which no deferred income tax asset was recognised	3,744	5,056
<b>Income tax credit</b>	<b>(705)</b>	<b>(302)</b>

The standard rate of Corporation Tax in the U.K. changed from 21% to 20% with effect from 1 April 2015. Further reductions to the tax rate have been announced which will reduce the rate to 19% by 1 April 2017. This will be further reduced to 17% effective 1 April 2020. These changes are expected to be enacted separately each year. As a consequence, they had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

### Deferred tax

Deferred tax liability movement for the year

	Year ended 30 April 2016 £'000	Note
As at 1 May 2015	4,006	
On acquisition of subsidiaries	–	
Credited to income statement	(336)	
Assets held for sale	(660)	15
<b>As at 30 April 2016</b>	<b>3,010</b>	

## Financial statements

### Notes to the consolidated financial statements continued

#### 9. Taxation continued

Year ended 2015

	Year ended 30 April 2015 £'000
As at 1 May 2014	2,935
On acquisition of subsidiaries	1,373
Credited to income statement	(302)
Assets held for sale	—
<b>As at 30 April 2015</b>	<b>4,006</b>

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is considered more likely than not. The Group has unrecognised deferred tax assets of £11.4 million (2015: £7.7 million) in respect of losses that can be carried forward against future taxable income for the period between one-year and an indefinite period of time.

Deferred tax liabilities were acquired on acquisition and will be unwound against deferred tax assets in the future.

No deferred tax related to components of Other Comprehensive Income.

#### 10. Loss per share

Basic loss per share is calculated by dividing the loss attributable to the ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

	30 April 2016			30 April 2015 (restated)		
	Loss £'000	Shares	EPS p	Loss £'000	Shares	EPS p
<b>Basic and diluted</b>	<b>(27,858)</b>	<b>123,715</b>	<b>(22.52)</b>	(27,610)	102,582	(26.92)

EPS may be subject to future dilution as a result of the issue of shares pursuant to the LTIP Securities and SAYE scheme.

#### 11. Intangible assets

Year ended 30 April 2016

Cost	Goodwill £'000	Customer relationships £'000	IT platform £'000	Software licences £'000	Software development £'000	Total £'000
Balance at 1 May 2015	108,338	11,098	6,712	4,304	331	130,783
Reclassified as held for sale	(10,280)	—	—	—	—	(10,280)
Additions:	—	—	—	557	355	912
Disposals:	—	—	—	(131)	—	(131)
Exchange differences	140	5	244	(15)	(23)	351
<b>Balance at 30 April 2016</b>	<b>98,198</b>	<b>11,103</b>	<b>6,956</b>	<b>4,715</b>	<b>663</b>	<b>121,635</b>

#### Accumulated amortisation

Balance at 1 May 2015	—	859	1,244	223	331	2,657
Amortisation charge	—	569	987	208	253	2,017
Impairment charge	6,810	—	—	—	—	6,810
Impairment reclassified as held for sale	(6,810)	—	—	—	—	(6,810)
Exchange differences	—	3	183	(2)	7	191
<b>Balance at 30 April 2016</b>	<b>—</b>	<b>1,431</b>	<b>2,414</b>	<b>429</b>	<b>591</b>	<b>4,865</b>

Net asset value 30 April 2015	108,338	10,239	5,468	4,081	—	128,126
<b>Net asset value 30 April 2016</b>	<b>98,198</b>	<b>9,672</b>	<b>4,542</b>	<b>4,286</b>	<b>72</b>	<b>116,770</b>

## 11. Intangible assets continued

Year ended 30 April 2015

Cost	Goodwill £'000	Customer relationships £'000	IT platform £'000	Software licences £'000	Software development £'000	Total £'000
Balance at 1 May 2014	98,695	11,000	4,300	717	331	115,043
On acquisition of subsidiaries						
Docusphere	2,697	93	2,371	–	–	5,161
FIBI Bank	6,810	–	–	3,300	–	10,110
Additions:	–	–	–	271	–	271
Exchange differences	136	5	41	16	–	198
<b>Balance at 30 April 2015</b>	<b>108,338</b>	<b>11,098</b>	<b>6,712</b>	<b>4,304</b>	<b>331</b>	<b>130,783</b>

### Accumulated amortisation

Balance at 1 May 2014	–	297	330	217	–	844
On acquisition of subsidiaries	–	–	–	–	–	–
Amortisation charge	–	561	900	6	331	1,798
Exchange differences	–	1	14	–	–	15
<b>Balance at 30 April 2015</b>	<b>–</b>	<b>859</b>	<b>1,244</b>	<b>223</b>	<b>331</b>	<b>2,657</b>

Net asset value 30 April 2014	98,695	10,703	3,970	500	331	114,199
<b>Net asset value 30 April 2015</b>	<b>108,338</b>	<b>10,239</b>	<b>5,468</b>	<b>4,081</b>	<b>–</b>	<b>128,126</b>

Impairment testing is carried out at cash generating unit (CGU) level on an annual basis. The following is a summary of the goodwill allocation for each reporting segment:

	30 April 2016 £'000	30 April 2015 £'000
Tungsten Network	101,668	101,528
Tungsten Bank	–	6,810
<b>Total goodwill</b>	<b>101,668</b>	<b>108,338</b>

### Tungsten Network

The Group has estimated the recoverable amount of the Tungsten Network CGU using a value-in-use model by projecting cash flows for the next five years together with a terminal value using a growth rate. The five-year plan used in the impairment models are based on Board approved budgets and management's past experience and future expectations of performance. The cash flow projections are based on the following key assumptions:

- Revenue growth from buyers and suppliers using the Tungsten Network, including Tungsten Workflow and Tungsten Analytics at a compound annual growth rate of 15%
- Pre-tax discount rate of 14.4% (2015: 9.7%), being based on the Group's weighted average cost of capital (WACC)
- Growth rate used in the annuity of 2.0% (2015: 2.0%). This does not exceed the long-term expected economic average growth of the territories in which the Group operates in.

Based on the above assumptions, Tungsten Network exceeded the carrying value of the CGU by £21.3 million (2015: £143.7 million). Had the 2015 pre-tax discount rate of 9.7% been applied then the carrying value would have exceeded the CGU by £131.5 million. The recoverable amount of the Tungsten Network CGU was particularly sensitive to changes in the compound annual revenue growth rate. Assuming that there is a reduction in the compound annual growth rate to 13.1% the recoverable amount would equal the carrying value of the CGU.

### Tungsten Bank

The Group has estimated the recoverable amount of the Tungsten Bank CGU using a fair value less costs to sell methodology. The recoverable amount of the Tungsten Bank CGU has been calculated based on management's best estimate of consideration receivable for the proposed sale of Tungsten Bank less directly attributable costs of sale. Accordingly, the Group has recognised an impairment of £6.8 million in the value of Tungsten Bank.

## Financial statements

### Notes to the consolidated financial statements continued

#### 12. Property, plant and equipment

Year ended 30 April 2016

	Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
<b>Cost</b>				
Balance at 1 May 2015	2,384	383	2,086	4,853
Additions	18	113	124	255
Disposals	–	(25)	(9)	(34)
Exchange differences	(36)	92	331	387
<b>Balance at 30 April 2016</b>	<b>2,366</b>	<b>563</b>	<b>2,532</b>	<b>5,461</b>

#### Accumulated depreciation

Balance at 1 May 2015	568	312	1,762	2,642
Charge for the year	188	35	280	503
Exchange	12	82	298	392
<b>At 30 April 2016</b>	<b>768</b>	<b>429</b>	<b>2,340</b>	<b>3,537</b>

#### Net Book Value

<b>At 30 April 2016</b>	<b>1,598</b>	<b>134</b>	<b>192</b>	<b>1,924</b>
At 30 April 2015	1,816	71	324	2,211

Year ended 30 April 2015

	Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
<b>Cost</b>				
Balance at 1 May 2014	1,867	300	1,625	3,792
Additions	463	70	292	825
Exchange differences	54	13	169	236
<b>Balance at 30 April 2015</b>	<b>2,384</b>	<b>383</b>	<b>2,086</b>	<b>4,853</b>

#### Accumulated depreciation

Balance at 1 May 2014	385	288	1,385	2,058
Charge for the year	180	12	273	465
Exchange	3	12	104	119
<b>At 30 April 2015</b>	<b>568</b>	<b>312</b>	<b>1,762</b>	<b>2,642</b>

#### Net Book Value

<b>At 30 April 2015</b>	<b>1,816</b>	<b>71</b>	<b>324</b>	<b>2,211</b>
At 30 April 2014	1,482	12	240	1,734

### 13. Trade and other receivables

	As at 30 April 2016 £'000	As at 30 April 2015 (restated) £'000
Non-current assets		
Loans to employees under EMSS scheme	538	624
Trade and other receivables	538	624
Current assets		
Trade receivables	7,522	5,285
Less: impairment loss provision	(1,454)	(743)
Prepayments	1,402	1,171
VAT	–	78
Other receivables	1,256	1,992
Trade and other receivables	8,726	7,783

### 14. Cash and cash equivalents

	As at 30 April 2016 £'000	As at 30 April 2015 £'000
Cash at bank	9,268	31,604
Short-term deposits	–	999
Cash and cash equivalents	9,268	32,603

Cash and cash equivalents excludes £17.8 million of cash and cash equivalents reclassified as Assets Held for Sale Note 15.

### 15. Assets Held for Sale

Assets Held for Sale relate to Tungsten Bank. The assets held for sale and liabilities directly associated with assets held for sale are:

	As at 30 April 2016 £'000	As at 30 April 2015 £'000
Assets classified as held for sale		
Intangible assets – balance as at 1 May 2015	10,280	–
Impairment	(6,810)	–
Trade and other receivables	183	–
Invoice receivables	7,329	–
Cash and cash equivalents	17,755	–
Total assets of the disposal group	28,737	–
Liabilities directly associated with assets held for sale		
Trade and other payables	352	–
Deferred taxation	660	–
Total liabilities of the disposal group	1,012	–
Total net assets of the disposal group	27,725	–

## Financial statements

### Notes to the consolidated financial statements continued

#### 16. Share capital and share premium

issued and fully paid	Ordinary shares Number	Nominal value	Share capital £'000	Share premium £'000
Balance as at 1 May 2014	100,000,000	£0.004384	438	160,127
Shares issued during the year	3,529,412	£0.004384	16	11,748
Balance as at 30 April 2015	103,529,412		454	171,875
Shares issued during the year	22,539,985	£0.004384	99	16,919
<b>Balance as at 30 April 2016</b>	<b>126,069,397</b>		<b>553</b>	<b>188,794</b>

On 28 May 2015, the Company issued 21,875,985 shares for total proceeds of £17.5 million. Transaction costs of £0.8 million associated with the raising of the share capital have been recognised against the share premium account.

On 7 January 2016, 664,000 shares of 0.438p were awarded to Richard Hurwitz pursuant to the terms of his service agreement put in place following his appointment as the Company's Chief Executive Officer in July 2015.

#### 17. Trade and other payables

	As at 30 April 2016 £'000	As at 30 April 2015 £'000
Trade payables	2,535	1,529
Social security and other taxes	618	760
Accrued expenses	4,188	6,253
Provision for lease obligations	42	32
Other payables	107	54
<b>Total trade and other payables</b>	<b>7,490</b>	<b>8,628</b>

#### 18. Deferred income

	As at 30 April 2016 £'000	As at 30 April 2015 £'000
As at 1 May 2015	8,633	7,797
On acquisition of subsidiaries	—	523
Invoiced during the year	26,230	23,120
Released to revenue	(26,083)	(23,138)
Impairment provision	(468)	—
Exchange differences	6	160
Unwinding of discount	—	171
<b>As at 30 April 2016</b>	<b>8,318</b>	<b>8,633</b>

#### 19. Share-based payments

In August 2014, the Group established an Employee Matched Share Scheme (EMSS) and a Save As You Earn (SAYE) share option scheme for the employees of the Company.

##### Employee Matched Share Scheme

The Employee Matched Share scheme is part of Tungsten's plans to encourage share ownership among its employees, and incentivise and align their interests with existing shareholders. Rockhopper Investments Limited ('RIL'), the family vehicle of Edmund Truell, former Director of Tungsten, has offered to make available to the Tungsten Corporation plc Employee Benefit Trust a call option over 251,487 (2015: 439,992) ordinary shares of the Company at an option price of 336p per share. The option is exercisable at any time between 8 February 2019 and 8 August 2019.

The Tungsten board formally approved these options on 7 August 2014 and the options were granted on 8 August 2014.

As part of the scheme's terms, any participating employee is required to acquire Tungsten shares in the market at an arm's length price and hold them for the same period as the life of the option. As a result, 412,436 shares have been acquired on behalf of participating employees.

## 19. Share-based payments continued

### Save As You Earn scheme

The Save As You Earn scheme was offered to eligible employees participating in the scheme who have committed to contribute between £5 and £500 per month over a three-year period. At the end of that contracted period, their accumulated funds can then be withdrawn from the scheme as cash or used to exercise the options at the contracted price.

The Tungsten board formally approved these options on 4 August 2014 and the Company has granted 65,920 (2015: 261,344) options at an exercise price of £2.25. The SAYE scheme comprises equity-settled share-based payment transactions with options vesting on the third anniversary of the grant date.

The fair value of the EMSS and SAYE awards were determined using a Black-Scholes option pricing model using the following assumptions:

	Employee Matched Share Scheme	Save As You Earn
Risk-free interest rate	2.15%	2.15%
Expected dividend yield	–	–
Expected volatility	43.3%	43.3%
Vesting period	4.5 years	3 years
Market value of underlying shares	£0.61	£0.61

The risk-free interest rate was based on the U.K. Gilt rates on date of grant of each of the share schemes. No dividends were expected. The expected equity volatility for the EMSS and SAYE schemes and other employee share options has been based on the historic volatility data since the Company's admission to AIM in October 2013.

A share-based payment expense of £0.5 million has been recognised in the consolidated income statement for the year ended 30 April 2016 (30 April 2015: £0.2 million). The table below sets out the movement in shares granted under the Company share schemes:

Number	Founder Securities	Employee Matched Shares	Save As You Earn Shares	Share-based payments	Employee Share Options	Total
As at 30 April 2014	3,760,000	–	–	–	–	3,760,000
Granted during the year	–	454,026	261,344	450,515	–	1,165,885
Lapsed during the year	–	(33,068)	(4,000)	–	–	(37,068)
<b>As at 30 April 2015</b>	<b>3,760,000</b>	<b>420,958</b>	<b>257,344</b>	<b>450,515</b>	<b>–</b>	<b>4,888,817</b>
Granted during the year	–	–	–	115,000	1,064,000	1,179,000
Lapsed during the year	–	(169,471)	(191,424)	(25,515)	(153,375)	(539,785)
<b>As at 30 April 2016</b>	<b>3,760,000</b>	<b>251,487</b>	<b>65,920</b>	<b>540,000</b>	<b>910,625</b>	<b>5,528,032</b>

## 20. Financial instruments, risk management and exposure

The Group's activities expose it to a variety of financial risks, predominantly credit, liquidity and foreign currency risk. Risk management is carried out by the Board of Directors. The Group uses financial instruments to provide flexibility regarding its working capital requirements and to enable it to manage specific financial risks to which it is exposed.

Transactions are only undertaken if they relate to actual underlying exposures and hence cannot be viewed as speculative.

### (a) Credit risk

The Group considers credit risk as the risk of financial loss, impacting earnings and capital, arising from the failure of a counterparty to meet their contractual obligations as and when due. Credit risk is a significant risk that the Group faces and as such it is central to the successful long-term development of the business.

The credit risk the Group is exposed to relates principally to the management of credit risk in respect of the portfolio of Tungsten Bank, arising from interaction with counterparties including:

- Entities to which the Tungsten Bank has provided a credit facility;
- Entities of which Tungsten Bank has purchased an invoice receivable;
- Issuers of Money Market Instruments with which the Bank has entered into a financial contract; and
- Issuers of off-balance sheet instruments, including derivatives.

## Financial statements

### Notes to the consolidated financial statements continued

#### 20. Financial instruments, risk management and exposure continued

##### (a) Credit risk continued

These transactions give rise to the following credit risks which are defined below:

- Counterparty risk – the risk of loss from the failure of customers or other counterparties, including individuals, corporate entities, banks or other institutions, to meet their obligations. This risk is incurred in the context of the existing products of the Tungsten bank and will include a range of counterparties;
- Default risk – the risk of loss from a customer failing to settle outstanding amounts in accordance with contractual obligations agreed with the Tungsten Bank as a result of a specified credit event or bankruptcy. This generally means that a facility is more than 90 days in arrears and an impairment process has been initiated;
- Asset quality risk – the risk that assets held by Tungsten Bank are of an inferior quality relative to expectations, leading to potential financial losses as adverse effects materialise; and
- Concentration risk – the risk of loss due to the concentration of credit risk within a specific customer or other counterparty, industry sector, region and product. In the context of Tungsten Bank's business, such concentration leads to a failure to realise the diversification benefits across its portfolio. In order to mitigate any concentration risk, i.e. the risk where all of Tungsten Bank's assets are invested with/exposed to a specific buyer, industry or region, it is critical for Tungsten Bank to achieve a portfolio which is widely diversified.

Cash and cash equivalents maintain relationships with reputable financial institutions. It is policy to invest surplus funds with good quality banks.

The fair value of trade and other receivables and invoice receivables (financial assets) approximates their carrying value. As at 30 April 2016, total trade and other receivables and invoice receivables of £4.5 million (2015: £2.1 million) were past due but not impaired. With respect to these receivables that are neither impaired nor past due, there are no indications as at the reporting date that the counter-parties will not meet their payment obligations. The overdue analysis of these receivables is as follows:

	As at 30 April 2016 £'000	As at 30 April 2015 (restated) £'000
Current and not impaired	4,226	12,034
Less than 1 month overdue	1,363	694
Between 2 and 3 months overdue	882	707
Over 3 months overdue	2,255	740
<b>Total past due but not impaired</b>	<b>4,500</b>	<b>2,141</b>
Individually determined to be impaired	1,454	743
<b>Total trade and other receivables</b>	<b>10,180</b>	<b>14,918</b>
Less impairment loss provision	(1,454)	(743)
<b>Total trade and other receivables</b>	<b>8,726</b>	<b>14,175</b>

The following represents the Group's maximum exposure to credit risk related to uncollateralised balances:

	Note	As at 30 April 2016 £'000	As at 30 April 2015 (restated) £'000
Cash and cash equivalents	14	9,268	32,603
Trade and other receivables	13	8,726	7,783
Invoice receivables		–	6,392
<b>Total</b>		<b>17,994</b>	<b>46,778</b>

#### Non-derivative financial assets and liabilities

As at 30 April 2016	Note	Carrying amount £'000	Total contractual cash flows £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000
Cash and cash equivalents	14	9,268	9,268	9,268	–	–	–
Trade and other receivables <sup>1</sup>	13	7,324	7,324	5,481	1,843	–	–
Trade and other payables	17	(7,490)	(7,490)	(7,490)	–	–	–
<b>Net position</b>		<b>9,102</b>	<b>9,102</b>	<b>7,259</b>	<b>1,843</b>	<b>–</b>	<b>–</b>

<sup>1</sup> Excludes prepayments.

## 20. Financial instruments, risk management and exposure continued

### (b) Liquidity risk

As at 30 April 2015 (restated)	Note	Carrying amount £'000	Total contractual cash flows £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 months £'000	Over 5 years £'000
Cash and cash equivalents	14	32,603	32,603	32,603	–	–	–
Trade and other receivables	13	6,612	6,612	5,603	1,009	–	–
Invoice receivables		6,392	6,392	6,392	–	–	–
Trade and other payables	17	(8,628)	(8,628)	(8,557)	(71)	–	–
Net position		36,979	36,979	36,041	938	–	–

The Group aims to mitigate liquidity risk by carefully selecting acquisitions and creditors. This is managed via authorisation limits operating up to Group Board level. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.

Tungsten Bank's liquidity is managed by management within guidelines laid down by the Board of Tungsten Bank and within the framework set by the regulatory authorities.

The fundamental business strategy for Tungsten Bank is that the invoice financing operates on a match funded basis. This removes liquidity risk to the extent that there are only funding liabilities to the extent there are assets to be financed, whether these are financed from deposits or committed secured facilities and that the maturity profile of the liabilities is such that the stressed repayment profile of the invoices can fund the redemption of the liabilities.

It is not expected that the build out of the deposit book will give rise to the situation that deposits exceed the amount of financeable assets. The liquidity risk that remains is the risk of an absence or a reduction in available sources of funds.

The Treasurer of Tungsten Bank, operating to the guidelines provided by the Board of Tungsten Bank, will ensure that the bank's funding requirements can be met at all times and that a stock of high quality liquid assets is maintained in a form and at a level which reflects prudent banking practice and meets supervisory requirements. Liquid bonds are currently comprised entirely of U.K. Government instruments.

The following table summarises the maturity of the Group's non-derivative financial assets and liabilities based on contractual undiscounted cash flows.

### (c) Foreign currency risk

The Group operates in a number of territories in the world but principally in the US and Europe and is exposed to foreign exchange risk for movements between the US Dollar the Euro and Sterling. The Group's subsidiaries conduct the majority of their business in their respective functional currencies; therefore there is limited transaction risk. Foreign exchange risk arises mainly from net investments in foreign operations. This exposure is reduced by funding the investments as far as possible with borrowings in the same currency. The Group applies hedge accounting principles to net investments in foreign operations and the related borrowings.

### Capital risk management

The aim of the Group is to maintain sufficient funds to enable it to meet working capital requirements, make suitable investments and incremental acquisitions while minimising recourse to external funders and/or shareholders.

Capital managed by the Group at April 2016 consists of cash and cash equivalents and equity attributable to equity holders of the parent. The capital structure is reviewed by management through regular internal financial reporting and forecasting.

The Group considers the following balances as a part of its capital management:

	Note	As at 30 April 2016 £'000	As at 30 April 2015 (restated) £'000
Share capital and premium	16	189,347	172,329
Reserves <sup>1</sup> /(Accumulated reserves)		(43,213)	(15,857)
<b>Total</b>		<b>146,134</b>	<b>156,472</b>

In addition, the Group considers the availability of cash balances of the Group as part of its assessment of capital.

<sup>1</sup> Reserves include shares to be issued, merger reserve, share-based payments reserve, other reserves and accumulated losses.

## Financial statements

# Notes to the consolidated financial statements continued

## 21. Commitments

### Operating leases

The table below sets out the future minimum lease commitments:

	As at 30 April 2016 £'000	As at 30 April 2015 £'000
Less than 1 year	1,016	891
Between 1 and 2 years	979	811
Between 3 and 5 years	2,503	2,040
After 5 years	5,374	5,579
<b>Total operating leases</b>	<b>9,872</b>	9,321

### Capital commitments

	As at 30 April 2016 £'000	As at 30 April 2015 £'000
PPE	—	37
<b>Total capital commitments</b>	<b>—</b>	37

## 22. Related-party transactions

The Group entered into the following transactions with related parties in the ordinary course of business:

	For the year ended 30 April 2016 £'000	For the year ended 30 April 2015 £'000
Purchase of services	1,094	427

Canaccord was broker to the Group and acted as the sole book runner on the placing that took place during the year. Peter Kiernan held the position of Chairman of European Investment Banking at Canaccord until June 2015 and subsequently became a senior advisor to the firm and, as a consequence of this role, Canaccord is considered a related party of the Tungsten Group. Mr. Kiernan took no part in the negotiation of the terms of Canaccord's engagement or the terms of the Placing Agreement for the share placing. The Group received services from Canaccord totalling £0.7 million (2015: £0.3 million).

Ice Floe Limited (Ice Floe) is a Guernsey registered financial advisory company controlled by Edmund Truell. During the year, Ice Floe provided services to the Group totalling £0.3 million (2015: £0.1 million) for the purposes of furthering the management and strategic development of the Group, all of which were paid in the year. These services were provided pursuant to the terms of a consultancy agreement entered into between Ice Floe and the Company, under which the services of Mr. Truell were made available to the Company. Tungsten terminated its agreement with Ice Floe on 10 November 2015. Based upon legal advice received, the Board does not believe that any termination payments are likely to be due to Ice Floe and accordingly no provision for them has been made.

Disruptive Capital Finance LLP (Disruptive) is an investment partnership controlled by Edmund Truell. During the year, Disruptive provided consultancy services to the Group totalling £0.2 million (2015: £nil) to perform the function of Chief Technology Officer.

Transactions between Group entities principally relate to intercompany financing arrangements which are eliminated on consolidation.

## 22. Related-party transactions continued

### Key management personnel

Key management includes Directors – Executive and Non-Executive – who are responsible for controlling and directing the activities of the Group. The compensation paid or payable to key management for employee services is shown below:

	For the year ended 30 April 2016 £'000	For the year ended 30 April 2015 £'000
Short-term employee benefits	1,763	1,552
Share-based payments	478	197
<b>Total</b>	<b>2,241</b>	<b>1,749</b>

Further details of the Directors' remuneration can be found in the table on page 41 of the Annual Report and financial statements 2016.

## 23. Subsidiary undertakings of the Group

The full listing of subsidiary companies in the Group is shown below.

Subsidiary	Nature of business	Country of incorporation	Proportion of ordinary shares held by the Group %
Tungsten Corporation Guernsey Limited	Intermediate holding company	Guernsey	100
Tungsten Network Limited	Electronic invoice delivery	U.K.	100
Tungsten Network Inc (US Inc)	Electronic invoice delivery	USA	100
Tungsten Network Sdn Bhd	Electronic invoice delivery Shared services office	Malaysia	100
Tungsten Network GmbH	Electronic invoice delivery	Germany	100
Tungsten Network (Schweiz) GmbH	Shared services office	Switzerland	100
Tungsten Network S.A.P.I de CV	Electronic invoice delivery	Mexico	100
Tungsten Network EOOD	Shared services office	Bulgaria	100
Image Integration Systems, Inc	Software	USA	100
Tungsten Bank plc	Banking	U.K.	100
Tungsten Network Finance Limited	Intermediate holding company	U.K.	100
Tungsten Purchaser U.K. Limited	Invoice acquisition	U.K.	100
Tungsten Account Trustee Limited	Trustee services	U.K.	100
Tungsten Investment Management Limited	Investment management	U.K.	100
Tungsten Purchaser (US), Inc	Invoice acquisition	USA	100
Tungsten Purchaser (Canada) Ltd	Invoice acquisition	Canada	100

## 24. Events after balance sheet date

Post Balance Sheet Event – EU Referendum

On 23 June 2016, the U.K. electorate voted to leave the European Union. This decision commences a process that is likely to take a minimum of two years to complete, and during this time the U.K. remains a member of the European Union. There will be a resulting period of uncertainty for the U.K. economy and our markets, with increased volatility expected in financial markets. This event does not impact the fair value of assets and liabilities as at the balance sheet date of 30 April 2016.

## Financial statements

# Independent auditors' report to the members of Tungsten Corporation plc

## Report on the Parent Company financial statements

### Our opinion

In our opinion, Tungsten Corporation plc's parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the parent company's affairs as at 30 April 2016 and of its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

The financial statements, included within the Annual report and financial statements 2016 (the "Annual Report"), comprise:

- the Parent Company balance sheet as at 30 April 2016;
- the Parent Company statement of cash flows for the year then ended;
- the Parent Company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law, and as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### Opinion on other matter prescribed by the Companies Act 2006

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.

### Other matters on which we are required to report by exception

#### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the Directors

As explained more fully in the Statement of directors' responsibilities set out on page 46, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (U.K. and Ireland) ("ISAs (U.K. & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Responsibilities for the financial statements and the audit continued

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (U.K. & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Other matter

We have reported separately on the group financial statements of Tungsten Corporation plc for the year ended 30 April 2016.



**Brian Henderson (Senior Statutory Auditor)**  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

25 July 2016

## Financial statements

## Parent Company balance sheet

Registered number: 07934335

	Note	As at 30 April 2016 £'000	As at 30 April 2015 £'000
<b>Fixed Assets</b>			
Investments	5	<b>189,756</b>	199,096
Property, plant and equipment	6	<b>1,628</b>	1,736
Intangible assets		—	—
Trade and other receivables	7	<b>538</b>	624
Total non-current assets		<b>191,922</b>	201,456
<b>Current assets</b>			
Trade and other receivables	7	<b>41,932</b>	23,267
Cash and cash equivalents		<b>195</b>	984
Total current assets		<b>42,127</b>	24,251
<b>Total assets</b>		<b>234,049</b>	225,707
<b>Capital and reserves attributable to the equity shareholders</b>			
Called up share capital		<b>553</b>	454
Share premium		<b>188,794</b>	171,875
Shares to be issued		<b>3,760</b>	3,760
Other reserves		<b>(5,453)</b>	(5,450)
Share-based payment reserve		<b>379</b>	197
Profit and loss account		<b>(30,075)</b>	(15,788)
<b>Total equity</b>		<b>157,958</b>	155,048
<b>Current liabilities</b>			
Trade and other payables	8	<b>76,091</b>	70,659
Total current liabilities		<b>76,091</b>	70,659
<b>Total equity and liabilities</b>		<b>234,049</b>	225,707

The notes on pages 79 to 83 are an integral part of these financial statements.

The financial statements on pages 76 to 83 were authorised for issue by the Board of Directors on 25 July 2016 and were signed on its behalf by:



**Richard Hurwitz**  
Chief Executive Officer



**David Williams**  
Chief Financial Officer

## Parent Company statement of changes in equity

### Year ended 30 April 2016

	Share capital £'000	Share premium £'000	Shares to be issued £'000	Share-based payment reserve £'000	Other reserve £'000	Accumulated losses £'000	Total equity £'000
<b>Balance as at 1 May 2015</b>	454	171,875	3,760	197	(5,450)	(15,788)	155,048
Loss for the period	–	–	–	–	–	(14,287)	(14,287)
Shares issued during the year	99	16,919	–	–	–	–	17,018
Share-based payment expense	–	–	–	182	–	–	182
Currency translation differences	–	–	–	–	(3)	–	(3)
<b>Balance as at 30 April 2016</b>	<b>553</b>	<b>188,794</b>	<b>3,760</b>	<b>379</b>	<b>(5,453)</b>	<b>(30,075)</b>	<b>157,958</b>

### Year ended 30 April 2015

	Share capital £'000	Share premium £'000	Shares to be issued £'000	Share-based payment reserve £'000	Other reserve £'000	Accumulated losses £'000	Total equity £'000
<b>Balance as at 1 May 2014</b>	438	160,127	3,760	–	(5,450)	(10,516)	148,359
Loss for the period	–	–	–	–	–	(5,272)	(5,272)
Shares issued during the year	16	11,748	–	–	–	–	11,764
Share-based payment expense	–	–	–	197	–	–	197
<b>Balance as at 30 April 2015</b>	<b>454</b>	<b>171,875</b>	<b>3,760</b>	<b>197</b>	<b>(5,450)</b>	<b>(15,788)</b>	<b>155,048</b>

The notes on pages 79 to 83 are an integral part of these consolidated financial statements.

## Financial statements

## Parent Company statement of cash flows

	Note	Year Ended 30 April 2016 £'000	Year Ended 30 April 2015 £'000
<b>Cash flows from operating activities</b>			
Loss before taxation		(14,287)	(5,272)
Adjustments for:			
Depreciation	6	160	146
Impairment	5	11,640	–
Finance income		(41)	(37)
Finance costs		1,291	1,187
Share-based payment expense	4	476	197
Cash generated from operations		(761)	(3,779)
Changes in working capital:			
(Increase)/decrease in trade and other receivables		(1,159)	(45,974)
Increase/(decrease) in trade and other payables		(14,288)	39,984
Net interest paid		(1,250)	(1,150)
<b>Net cash outflow from operating activities</b>		(17,458)	(10,919)
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(53)	(519)
Gain on Disposals		1	3
Transfer of Intangibles to other group company		–	355
<b>Net cash outflow from investing activities</b>		(52)	(161)
<b>Cash flows from financing activities</b>			
Proceeds of share issue		16,724	11,765
<b>Net cash inflow from financing activities</b>		16,724	11,765
Net (decrease)/increase in cash and cash equivalents		(786)	685
Cash and cash equivalents at start of year		984	301
Exchange adjustments		(3)	(2)
<b>Cash and cash equivalents at end of year</b>		195	984

The notes on pages 79 to 83 are an integral part of these consolidated financial statements.

# Notes to the Parent Company financial statements

for the year ended 30 April 2016

## 1. General Information

Tungsten Corporation plc (the Company) and its subsidiaries (together, the Group) is a global e-invoicing network that offers supply chain financing and spend analytics.

The Company is a public limited company, which is incorporated and domiciled in the U.K. The address of its registered office is Pountney Hill House, 6 Laurence Pountney Hill, London EC4R 0BL, U.K.

## 2. Accounting policies

### Accounting basis

In the year ended 30 April 2016 the Company has changed its accounting framework from U.K. GAAP to IFRS as adopted by the EU.

Adoption of IFRS this year has meant that the prior year financial statements prepared under old U.K. GAAP have had to be restated. The date of transition to IFRS is deemed to be 1 May 2014.

There has been no change in the results or financial position of the Company for the year ended 30 April 2016 as a result of the adoption of IFRS and hence no reconciliation of equity has been prepared.

The financial statements are prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the U.K. The financial statements are presented in Sterling.

### Going concern

The Group going concern assessment is based on forecasts and projections of anticipated trading performance.

The assumptions applied are subjective and management applies judgement in estimating the probability, timing and value of underlying cash flows.

### Significant Accounting Policies

#### Share-based payments

The Company issues equity-settled share-based awards to certain employees. The fair value of share-based awards is determined at the date of grant and expensed based on the Company's estimate of the shares that will eventually vest, on a straight-line basis over the vesting period with a corresponding increase in equity. At each balance sheet date the Company revises its estimates of the number of options that are expected to vest based on service and non-market performance conditions. The amount expensed is adjusted over the vesting period for changes in the estimate of the number of shares that will eventually vest, save for changes resulting from any market-related performance conditions.

Further details on the share-based payments can be found in Note 19 to the consolidated financial statements of this Annual Report and financial statements.

#### Tangible assets

Tangible assets are stated at cost less accumulated depreciation. Depreciation is charged to profit or loss on a straight-line basis of the estimated useful lives of each item of tangible asset. Depreciation commences when an asset is brought into use over the following estimated useful lives:

- Leasehold improvement: depreciated over the term of lease.
- Computer equipment: 50% on cost.

## Financial statements

# Notes to the Parent Company financial statements continued

## 2. Accounting policies continued

### Trade and other receivables

Trade and other debtors are stated initially at fair value and subsequently at their amortised cost less impairment losses.

### Trade and other payables

Trade and other payables are initially stated at fair value and subsequently measured at amortised cost.

### Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

### Employee benefits defined contribution plans

The Company pays contributions to publicly or privately administered pension plans. The Company has no further payment obligations once the contributions have been paid. Contributions are recognised in the income statement as an employee benefit expense in the period when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### Share-based payments

The Company issues equity-settled share-based awards to certain employees. The fair value of share-based awards is determined at the date of grant and expensed based on the Company's estimate of the shares that will eventually vest, on a straight-line basis over the vesting period with a corresponding increase in equity. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest based on service and other non-market performance conditions. The amount expensed is adjusted over the vesting period for changes in the estimate of the number of shares that will eventually vest, save for changes resulting from any market-related performance conditions.

### Share capital

Ordinary shares are classified as equity.

### Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less provisions for impairment. Investments are reviewed for impairment if there are indicators that the carrying value may not be recoverable.

### Foreign currency translation

The accounting policy for foreign currency translation is the same as that for the Group and is set out on page 55.

## 3. Profit for the year

As permitted by the exemption in Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The loss attributable to shareholders dealt with in the financial statements of the Company was £14.3m (2015: £5.3m).

#### 4. Employee benefit expenses

	Year ended 30 April 2016 £'000	Year ended 30 April 2015 £'000
Wages and salaries	2,130	4,537
Social security costs	230	352
Other pension costs	113	84
Share-based payments	476	197
<b>Total employee benefit expenses</b>	<b>2,949</b>	<b>5,170</b>

#### Number of employees

The average number of people (including Executive Directors) employed:

Administration	17	12
<b>Total average headcount</b>	<b>17</b>	<b>12</b>

Refer to Note 22 in the consolidated financial statements for details of remuneration in respect of key management.

#### 5. Investments

	As at 30 April 2016 £'000	As at 30 April 2015 £'000
Balance at 1 May	199,096	150,223
Additions	2,300	48,873
Impairment	(11,640)	–
<b>Balance at 30 April</b>	<b>189,756</b>	<b>199,096</b>

The Company has the following subsidiaries:

Name	% ownership in ordinary shares	Country of incorporation	Principal activity
Tungsten Corporation Guernsey Limited	100	Guernsey	Intermediate holding company
Tungsten Bank Plc	100	U.K.	Holding company

The directors have reviewed the carrying value of the investments and have impaired £11.6m of the carrying value so that the remaining investments can be supported by the underlying net assets of the subsidiaries.

## Financial statements

### Notes to the Parent Company financial statements continued

#### 6. Property, plant and equipment

	Computer equipment £'000	Leasehold improvements £'000	Office equipment £'000	Total £'000
<b>Cost</b>				
Balance at 1 May 2015	43	1,785	54	1,882
Additions	1	15	37	53
Disposals	(1)	–	–	(1)
<b>Balance at 30 April 2016</b>	<b>43</b>	<b>1,800</b>	<b>91</b>	<b>1,934</b>
<b>Accumulated depreciation</b>				
Balance at 1 May 2015	24	117	5	146
Depreciation	18	123	19	160
Disposals	–	–	–	–
<b>Balance at 30 April 2016</b>	<b>42</b>	<b>240</b>	<b>24</b>	<b>306</b>
Net asset value as at 30 April 2015	19	1,668	49	1,736
<b>Net asset value as at 30 April 2016</b>	<b>1</b>	<b>1,560</b>	<b>67</b>	<b>1,628</b>

#### 7. Trade and other receivables

	As at 30 April 2016 £'000	As at 30 April 2015 £'000
Amounts owed by Group Undertakings	<b>41,422</b>	21,701
VAT	<b>81</b>	136
Other receivables	<b>621</b>	1,217
Invoice receivables	–	490
Prepayments and accrued income	<b>346</b>	347
<b>Total trade and other receivables</b>	<b>42,470</b>	23,891

The amounts owed by Group Undertakings are due from Tungsten Network Limited and Tungsten Network Finance Limited as at 30 April 2016 are non-interest bearing and are repayable on demand. Other receivables includes an amount due after more than one year in respect of loans issued to employees under the EMSS scheme of £0.5 million (2015: £0.6 million).

#### 8. Trade and other payables

	As at 30 April 2016 £'000	As at 30 April 2015 £'000
Trade payables	<b>312</b>	296
Taxation and social security	<b>159</b>	–
Accrued expenses	<b>1,861</b>	3,102
Amounts owed to Group Undertakings	<b>73,759</b>	67,261
<b>Total trade and other payables</b>	<b>76,091</b>	70,659

The amounts owed to Group Undertakings are due to Tungsten Corporation Guernsey Limited as at 30 April 2016 are non-interest bearing and are repayable on demand.

## 9. Commitments

### Operating leases

The table below sets out the future minimum lease commitments:

	As at 30 April 2016 £'000	As at 30 April 2015 £'000
Less than 1 year	745	655
Between 1 and 2 years	723	655
Between 3 and 5 years	1,968	1,950
After 5 years	4,929	5,579
<b>Total operating leases</b>	<b>8,365</b>	<b>8,839</b>

### Capital commitments

	As at 30 April 2016 £'000	As at 30 April 2015 £'000
PPE	—	37
<b>Total capital commitments</b>	<b>—</b>	<b>37</b>

## 10. Related-party transactions

### Key management personnel

Key management includes Directors – Executive and Non-Executive. There were no key management personnel in the Company apart from the Directors. The compensation paid or payable to key management for employee services is set out in Note 22 to the consolidated financial statements.

## Financial statements

## Shareholder information

### Nominated adviser

Panmure Gordon & Co  
One New Change  
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EC4 9AF  
U.K.

### Broker

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88 Wood Street  
London  
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U.K.

### Registrar

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### Registered office

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Tungsten Corporation plc is a public limited company incorporated and domiciled in the U.K., with registered number 07934335.