Chairman and Chief Executive's review

Our reorganisation, which started in early 2015, continued into 2016 and has now been completed in a systematic and organised way.

SUMMARY

- Tasman's revenue was £4.5 million (2015: £10.5 million), a decline of 57.6%, and Crestchic's revenue was £19.3 million (2015: £22.8 million), a decline of 15.1%.
- Total net assets have increased by £5.9 million during the year to £41.8 million primarily due to the successful placing and open offer raising £5.3 million and a positive movement of £6.8 million in the foreign exchange reserve being offset by the loss after tax of £6.3 million.

We are pleased to present our review of the Group's trading performance for 2016.

Business review

We were encouraged by the first sustained recovery in the price of oil which became apparent in the last few weeks of 2016 as plans were announced by OPEC to manage supply and demand and reduce surplus oil stocks. However, the downturn in the oil and gas industries did impact the Group's revenues during 2016. Following the record low in the crude oil price in February 2016, the Group suffered its worst trading period in the second quarter but, since that point, the oil price has recovered and there was some modest stabilisation in the market. The second half of the year showed no further decline in performance and the Group continued to generate a positive operating cash flow.

The placing and open offer in April raised £5.3 million and was well supported by existing shareholders and additional new shareholders which include Gresham House and the Business Growth Fund. The proceeds of the equity raise were used to strengthen the balance sheet and support the business going forward. The net effect was to reduce bank debt, reduce the deferred consideration outstanding and make covenant compliance easier. Our banks, RBS and KBC, remain supportive of the Group and of our strategy.

The reduction in investment by the oil and gas majors over the last two years has particularly impacted drilling activities for both exploration and production. In addition, it also had a disruptive effect on marine engineering relating to the oil industry and therefore had a materially adverse effect on our business. Outside of Western Europe, much of our business is conducted with customers involved in some way with the oil, gas and extractive industries, usually marine or other power intensive industries, as well as oil tools. Northbridge, as part of its strategy, is fortunate to be diversified and to have other activities, mostly operating from Western Europe, which have been less impacted by the malaise of the oil industry, as they are more focused towards power

"Having retained all our operating bases during the downturn and maintained relationships with all our customers, we will be able to exploit the high operational gearing and additional revenue will support bottom line growth."

Peter Harris
Chairman

Eric Hook
Chief Executive

reliability and utilities. Some of these activities have been counter-cyclical and have benefited from the much lower fuel price, with numerous contracts having been extended as well as winning new ones.

Our reorganisation, which we initiated in early 2015, continued into 2016 and has now been completed in a systematic and organised way. This included freezing all expansion capital and other non-essential fleet replacements, exiting all non-core businesses and converting their assets into cash and closing non-performing locations. Further streamlining has focused on reducing debt and overhead costs throughout the Group. Overhead costs have been reduced by £4 million on an annualised basis.

Substantial savings have now been made in the core business and the significant reduction of rents in Australia have given us the confidence to maintain our presence and operating readiness in that location. By taking these actions in the overseas businesses we were able to share cash and management resources without recourse to Group funds in the UK. Average headcount was reduced by 18% to 167 and by the year end still further to 150, a reduction of 30% from the peak in 2014.

We have made a conscious effort to maintain good relations with our customer base and continued to improve our quality assurance regime and the availability of our hire fleet during this difficult period. Modest, targeted capital expenditure has enabled us to focus loadbank investment on growing markets in North America and China.

The Group is now streamlined into two distinct core business activities, Crestchic Loadbanks and Tasman Oil Tools, and management has been reorganised to reflect this new structure.

Crestchic Loadbanks, which manufactures in the UK, sells and rents electrical equipment throughout the world with depots in the UK, France, Germany, Belgium, Dubai and Singapore. It has satellite operations and agents/distributors in China, the USA, Australia and Brazil. It has a particularly strong position in the Western European rental market which is more focused towards power reliability. Outside of the western economies, business is generated from offshore activities in oil and gas and shipping and in industrial and remote locations using large amounts of power. The recent downturn in the industries relating to oil and gas adversely affected this part of Crestchic's rental business; however, the growing demand from data centres and for power reliability more than compensated and overall rental showed an improvement from 2015.

Our start-up rental operation in North America had a solid start and the future is encouraging; however, this market operates with different frequencies and voltages to most of the rest of the world and will require further capital expenditure before it can be more broadly exploited. Our operation in China also had an encouraging start and now has a local presence with some permanently imported hire fleet. Marine construction tends to migrate to the most efficient yards and, with an increasing migration to China, we have needed to follow this trend.

On the lower margin sales side our two biggest markets, the US and South Korea, showed very little demand and volumes have been much lower than in previous periods. However, new markets involved in the UK Grid's balancing reserve and in renewables have begun to open up to us and we see a good future in this sector, not just in the UK, but across the developed world.

Tasman Oil Tools continued to suffer from a decline in rental revenue as investment in exploration and production continue to be cut by the national oil companies and the oil majors. Following the record low in oil prices in February 2016, our rental revenues also reached a record low, but stabilised in the second half. Since this time, the market seems to have bottomed out and sentiment is beginning to improve. Despite the "lower for longer" mantra, it is now expected, and there is evidence to support, that there will be a gradual improvement in investment over the next three years.

Net debt

£9.5m

2015: £14.3m

Hire fleet cost

£49.7m

2015: £41.8m

Cash generated from operations

£1.8m

2015: £6.9m

> New markets involved in the Grid's balancing reserve and in renewable have begun to open up to us and we see a good future in this additional sector, not just in the UK, but across the developed world."

Peter Harris
Chairman

Eric Hook
Chief Executive

Business review continued

Over the last few years, the industry has focused on cost cutting, reducing capital spending and maximising cash flow to lower its "break-even" point and it is now in a position where, to ensure future production and profitability, operators need to engage in exploration as new recoverable discoveries are at a 70-year low.

Current supply and demand approached equilibrium following OPEC's decision at its November 2016 meeting to agree a production cut from 1 January 2017. This is the first such agreement for 14 years and other non-OPEC producers have joined in. Early analysis appears to show that the policy is working; the price of oil has stabilised, and the current surplus will be eradicated in the next six to nine months. The planned IPO of Saudi Aramco within the next two years is also likely to lend support to a more orderly market for oil in the immediate future.

During this period Tasman concentrated on cutting costs, maintaining quality systems and the readiness and availability of the hire fleet. As well as keeping customer relationships in good order, we have been developing partnerships and agency agreements to open up new markets for our existing equipment and expand our services where we already operate.

Historically, all of Northbridge's overseas businesses have been managed as a single entity and, during the downturn, this enabled management resources to be directed to the areas of most need. Importantly, they were also able to share their cash resources, and this enabled us to support the loss-making but otherwise core activities of oil tool rental without recourse to Group funds in the UK. The very robust cash flows from the UK hire business was used to service the current debt and make the scheduled bank repayments on time as well as some modest capital investment.

Looking to the future, and with the belief that a recovery is near, the change in the organisation of the management structure between the two business activities of Crestchic and Tasman will give additional clarity and focus, enabling each business to better allocate resources and maximise future growth opportunities from the platform of the Group's substantial net assets of £41.8 million (2015: £35.9 million).

Financial performance

The impact of all these factors on the Group resulted in total revenue reducing by 30.2% to £23.8 million (2015: £34.1 million). Included in this figure, Tasman's revenue was £4.5 million (2015: £10.5 million), a decline of 57.6%, and Crestchic's revenue was £19.3 million (2015: £22.8 million), a decline of 15.1%. However, a strong performance from Crestchic's European rental business, with revenues up 16.8%, helped improve the revenue mix towards the more profitable hire activity. Hire revenue was 66.5% (2015: 55.6%) of the total revenue compared with sales revenue of 33.5% (2015: 44.4%). The decline in volumes for Tasman and the Crestchic sales businesses was almost all due to the downturn in the oil and gas industry.

The overall gross margin was 38.4% (2015: 43.4%). The decline in margin was due to lower utilisation in oil tools where we continue to charge a full depreciation on the whole hire fleet. Operating expenses were £12.7 million for the full year (2015: £15.5 million) and are now running at around £1.0 million a month, which is around £400,000 lower than the peak cost in the last quarter of 2014 when Tasman New Zealand was acquired. This current run rate also includes the additional costs of the Crestchic start-ups in China and the US.

Pre-exceptional losses for the year were £4.1 million (2015: £1.4 million). Exceptional costs relating to the ongoing rationalisation and restructuring programme, which has now drawn to a close, amounted to £1.4 million (2015: £7.2 million). The 2015 figure included an impairment charge to intangible assets of £4.9 million. The Directors have reviewed the carrying value of both tangible and intangible assets and have concluded that no further impairment charge is necessary. Pre-exceptional EBITDA was £3.4 million (2015: £6.0 million).

Crestchic Loadbanks and Northbridge Transformers (Crestchic)

Crestchic designs, manufactures, sells and hires loadbank equipment, which is primarily used for the commissioning and maintenance of independent power sources such as diesel generators and gas turbines. The need to test and maintain standby and independent power systems, together with the associated switchgear and controls, is an increasingly important element within the power critical technology used by the banking, medical, marine and defence industries. This has resulted in continued strong demand for Crestchic's range of equipment and services throughout the world. Additionally, Crestchic continues to benefit from a background of an increasingly unreliable global power infrastructure and an increase in the size and remoteness of certain projects. All our loadbank activities are now branded as "Crestchic" and we are able to promote that service in an integrated way throughout the world.

Northbridge Transformers ("NT"), which is based in Belgium, offers specialist transformers for rental throughout the world. NT is also able to use Crestchic's depots in the Middle East and in Singapore as a conduit for its activities. Substantial investment in this activity over the last few years means we have been able to grow this business from its original base in Belgium to a worldwide audience.

Crestchic has been impacted by the ongoing oil and gas downturn and sales of manufactured units were £6.8 million (2015: £11.9 million). Particularly affected were the two main markets of South Korea and the US. However, our rental activities enjoyed another record year and turnover was up 14.9% to £12.5 million (2015: £10.9 million), with this revenue more directed towards power reliability, utilities and data centres as well

CONTINUED STRONG DEMAND FOR CRESTCHIC'S PRODUCTS AND SERVICES

- UK manufacturing facility performing well
- Development of multi-voltage containerised product for the US

as marine engineering. Within the Crestchic rental figure, Northbridge Transformers had another record year, despite the absence of the COP21 climate change conference contract, and revenue was £1.8 million (2015: £1.6 million).

Overall gross margin was 47.2% (2015: 44.1%). The movement in mix towards the higher margin rental activity helped support an increase in overall margin, and, even on the lower volumes, equipment sales margins improved to 35.6% (2015: 32.1%).

Tasman Oil Tools (Tasman)
Tasman now operates from a single corporate platform, with an integrated website and management quality systems, with depots in Australia, Dubai and New Zealand. It offers a full range of downhole oil tools to the oil, gas and geothermal industries throughout the Middle East, the Far East and Australasia. This is predominantly a rental business and revenue has suffered as a result of the downturn in drilling activities in the regions it serves. Total turnover was £4.5 million, down from £10.5 million in 2015.

Gross margin fell to 10.2% (2015: 44.1%) due to lower utilisation of the rental fleet during the year and the fact that a full depreciation charge against the fleet is taken irrespective of the hire status. Lower rental volumes also lead to lower services charges to the customer, which also impacts both turnover and gross profits. Pre-exceptional losses were £3.6 million compared with a loss in 2015 of £0.7 million.

The downturn in the oil and gas industry affected this part of Northbridge's activities severely due to its very high operational gearing. Australia in particular, which operates from leasehold premises, was loss making at a cash level. Substantial reductions in rents were agreed during 2016 for the two depots we operate from in Australia and these will last until the leases end in 2020. The property in Darwin has been vacated and a new tenant is being actively sought. Every effort has been made to reduce all other costs in these businesses to avoid recourse to Group funds. The fact that this strategy has been successful so far gives us confidence that we can remain at an operating readiness to ensure we benefit from a cyclical upturn.

Additionally, we continued to maintain our QHSE systems to the highest level, maintained an ongoing relationship with our customer base and continued to seek other markets for our equipment. We particularly focused on agency agreements, partnerships and joint ventures in adjacent territories where we had no presence as well as master service agreements with the oil service majors. Tasman has a large, modern, unencumbered hire fleet which is well maintained and ready for rental. Any recovery will enable this operational gearing to start working in our favour as rental revenue builds.

Financial review

Foreign exchange
The weakening of Sterling during the year impacted the Group's losses and balance sheet. On a constant currency basis revenue would have been £1.4 million lower than reported at £22.4 million and the pre-exceptional loss before tax would have been £0.3 million lower at £3.8 million. A significant factor in the higher reported loss is due to depreciation being £6.2 million, which is £0.5 million higher than on a constant currency basis of £5.7 million. Reported pre-exceptional operating costs were £0.7 million higher at £12.7 million than the constant currency figure of £12.0 million.

As shown in note 2, the Group holds substantial assets overseas and this, coupled with the majority of the debt being in Sterling, has resulted in the value of the Group's balance sheet increasing by £6.8 million due to currency movements.

Revenue and profit before tax
The Group's revenues are derived principally by the rental of its hire fleet and also by the sale of manufactured and new equipment. The split of these revenues between the various reportable segments and activities compared with 2015 is shown in note 2.

As many of the Group's costs are largely of a fixed nature in the short to medium term (with significant movements in the cost base being attributable to acquisitions and divestments) any revenue movement, however small, will be highlighted at the operating profit level. This impact is often referred to as operational gearing. Gross profit for the year decreased to £9.1 million from £14.8 million, following the reduction of overall revenue.

Net finance costs for the year decreased slightly to £0.6 million (2015: £0.7 million), due to a decrease in the level of average net debt across the period following the placing and open offer in the first half of 2016.

The Group incurred exceptional costs during the year totalling £1.4 million (2015: £7.2 million). This was mainly due to the costs of exiting non-core businesses and the cost reduction exercise mentioned above.

Losses before tax (pre-exceptional) totalled £4.1 million (2015: £1.4 million). Total losses before tax totalled £5.5 million (2015: £8.6 million).

Earnings per share
The basic and diluted LPS of 26.2 pence (2015: 42.8 pence) have been arrived at in accordance with the calculations contained in note 10.

Balance sheet and debt
Total net assets have increased by £5.9 million during the year to £41.8 million primarily due to the successful placing and open offer raising £5.3 million and a positive movement of £6.8 million in the foreign exchange reserve being offset by the loss after tax of £6.3 million.

Net assets per share at the year end are 160 pence (2015: 192 pence).

The continued reorganisation programme has led to £0.8 million (2015: £2.5 million) being generated from the disposal of hire fleet assets. Hire fleet additions have been cut back to £0.8 million (2015: £4.8 million) during the year and have been concentrated on the Crestchic business.

Financial review continued

Balance sheet and debt continued

Trade receivables have reduced to £7.1 million (2015: £8.1 million), impacted by the decrease in revenue during the year. Cash and cash equivalents decreased marginally to £3.7 million (2015: £3.9 million) with the opportunity for good cash generation remaining in the current financial year.

Notwithstanding the trading losses seen during the year, the cost reductions and the proceeds from the placing and open offer have led to net debt (financial liabilities less cash and cash equivalents) decreasing to £9.5 million (2015: £14.3 million). Net gearing, calculated as net debt divided by total equity, decreased from 39.8% to 22.7%. A further reduction in net debt is targeted for 2017.

Cash flow

The Group continued to generate cash from operations totalling £1.8 million (2015: £6.9 million) during the year. From this, £0.8 million (2015: £4.1 million) was used to purchase new hire fleet equipment while £0.8 million (2015: £2.5 million) was generated from the sale of surplus assets.

The Group closely monitors cash management and prioritises the repatriation of cash to the UK from its overseas subsidiaries.

The cash inflow from financing activities of £0.1 million (2015: £3.6 million outflow) included proceeds from the placing and open offer of £5.3 million and bank and hire purchase repayments of £5.1 million. The bank covenants were revised due to the continued lower EBITDA generated by the Group and all covenant tests were passed during the period up to the approval date of these financial statements.

The Group paid out £1.3 million (2015: £0.9 million) of deferred consideration.

Income tax expense

The overall income tax charge for the year totalled £0.8 million (2015: £0.4 million credit). If unutilised tax losses of £1.6 million had been recognised as a deferred tax asset the overall tax would have been a credit of £0.8 million. These losses relate to the Group's Australian entities and a deferred tax asset has prudently not been recognised at this balance sheet date, but the losses are available to be utilised against future profits. Any future recognition of a deferred tax asset will be dependent on these future profits by jurisdiction becoming more certain.

The Group manages taxes such that it pays the correct amount of tax in each country that it operates in, utilising available reliefs and engaging with local tax authorities and advisors as appropriate.

Strategy

The Northbridge strategy is to consolidate and build its specialist industrial equipment businesses by:

- driving growth organically through investing in the hire fleet and improving quality systems and customer service; and
- using partnerships to increase geographical exposure.

When considering further acquisitions, the main criteria will be:

- involvement in specialist electrical services or in drilling tools;
- active in the oil and gas or power related industry; and
- capable of supplying a worldwide customer base.

In achieving this strategy, we will be able to capitalise on the market opportunity to become a significant industrial services business serving an international market. The Board reviews this strategy periodically and believes it is still the correct one for the Group.

Outlook

There can be no doubt as to the severity of the downturn affecting the oil and gas industry over the last two years and, like others, this has had an impact on our current trading. It has also conditioned us to look more sceptically at the pace of the future recovery and "lower for longer" remains the oil and gas industry's mantra. However, we do believe that there is a better trading environment on the way, supported by a more stable oil price as a result of more co-ordination by producer nations and a reducing surplus. In addition, the Initial Public Offering of Saudi Aramco scheduled for 2018/19 will also assist in the maintenance of an orderly market for the immediate future. The combination of cost reductions implemented by the international oil companies and the oil service majors has reduced the break-even level for new oil production. This means that more drilling activity by the E&P sector is likely over the next few years, as reserves, which are currently at a 70-year low, are replenished. Activity in the shipyards, where we provide power testing equipment, will take a bit longer to recover as our involvement comes more towards the end of the investment in new and recommissioned oil rigs, FPSOs, etc.

Northbridge is very well placed to benefit from a future recovery. While remaining cash generative, we have completed our restructuring and now have a much lower cost base with a large, well maintained and modern hire fleet and manageable gearing. We have also made further modest investment in the US and Chinese loadbank markets laying the foundation for future growth. The separation of the two trading subsidiaries into activity-based management will enable better focus going forward which will ensure all opportunities can be fully exploited. Having retained all our operating bases during the downturn and maintained relationships with all our customers, additional revenue coupled with our high operational gearing will support bottom line growth.

Peter Harris
Chairman
25 April 2017

Eric Hook
Chief Executive
25 April 2017