31 March 2014

PETARDS GROUP PLC

PRELIMINARY RESULTS ANNOUNCEMENT

Petards Group plc ('Petards'), the AIM quoted developer of advanced security and surveillance systems, reports its audited result for the year ended 31 December 2013.

Key points:

- **Operational**
  - At £20 million strong opening order book for 2014 (2013: £9 million)
    - Over 50% scheduled for delivery in 2014
    - £11 million of major orders obtained in second half of 2013 comprising;
      - £4 million for Petards eyeTrain CCTV and passenger counting systems from major global train builders
      - £7 million for replacement of RAF's Secure Management Radio Equipment capability (SMRE) for use in RAF stations
- **Corporate**
  - Debt for equity swap with Water Hall Group plc resulted in a cash infusion of £2.1 million
  - £1.15 million placing with predominantly new shareholders
- **Financial**
  - Results for 2013
    - Revenues £6.3 million (2012: £9.0 million)
    - Gross margin 40% (2012: 43%)
    - EBITDA before exceptional costs £716,000 loss (2012: £574,000 profit)
    - Operating loss £1,330,000 (2012: £327,000 profit)
    - Water Hall debt for equity swap gave rise to a one off finance cost of £978,000
    - Loss after tax £2,293,000 (2012: £200,000 profit)
  - Finance
    - Cash at 31 December 2013 £1.4 million (31 Dec 2012: nil) and no bank debt
    - Convertible loan notes of £1.5 million maturing in September 2018 providing long term finance
    - Basic and diluted EPS of 15.9p loss per share (2012: 2.9p earnings per share)
- **Outlook**
  - Good start to 2014 with revenue and profitability in line with budget
  - Much improved balance sheet and strong visible order book positions Petards for an improved performance for 2014

Raschid Abdullah, Chairman of Petards, commented:

"Petards is no longer in retrenchment mode. The actions taken by management over the past year have served to place Petards in a strong financial position supported by an invigorated and committed management team well placed to rise to the challenges of 2014 and beyond.

The strong visible forward order book and the positive start to the year positions the Company well for an improved performance for 2014."

Contacts

Petards Group plc	www.petards.com
Raschid Abdullah, Chairman	Mb: 07768 905004
Andy Wonnacott, Finance Director	Tel: 0191 420 3000
WH Ireland Limited, Nomad and Joint Broker	www.wh-ireland.co.uk
Mike Coe	Tel: 0117 945 3470
Hybridan LLP, Joint Broker	www.hybridan.com
Claire Louise Noyce	Tel: 020 7947 4350
	claire.noyce@hybridan.com

Chairman's statement

Corporate Overview

As I reported in my interim statement on 30 September last year, the first half of 2013 proved a particularly challenging period for Petards Group plc ("Petards" or "the Group" or "the Company"). While second half trading proved every bit as difficult that period was also one of change. This has meant that the Company entered 2014 a significantly more robust entity.

I am pleased to report that the events of, and the actions taken during, the second half of the year have facilitated a sound financial footing, a much improved balance sheet and a strong opening order book.

The balance sheet has been considerably strengthened by the debt for equity swap with Water Hall Group plc ("Water Hall") whose own balance sheet comprised cash and an investment in Petards shares which was subsequently realised for cash. A share placing with predominantly new investors provided additional working capital. The net funds raised from these sources totalled £3.1 million. As a result at 31 December 2013 the Group had no bank debt and cash balances of £1.4 million.

The forward order book at the beginning of 2014 stood at £20 million (2013: £9 million), of which over 50% is scheduled for delivery in the current year. This provides visibility of revenues for 2014 and beyond and represents a significant improvement.

The Company's operating performance depends greatly on the strength and timing of its forward order book and so the increase gives confidence for an improved performance during 2014 whilst providing a solid platform for 2015.

Operating Review

The difficult trading conditions of the first half of the year continued into the second half with a paucity of new orders for delivery in the period. Additionally, a re-scheduling of the Thameslink contract resulted in a proportion of deliveries for 2013/14 being deferred. Rather than completing as previously expected in 2016, equipment deliveries are now expected to complete in 2017.

The board's strategy to pursue the new train build market continued to deliver new business during the second half of the year culminating in a number of significant orders being received for eyeTrain and passenger counting systems from Hitachi Rail Europe, Bombardier Transportation, Hyundai Rotem and for installation in Alstom's Coradia Nordic X60 trains.

During the last quarter of the year Petards Joyce-Loebl was successful in securing two major orders from the Ministry of Defence for its defence business. The first, a two year extension until December 2015 to an existing contract for the provision of engineering services related to countermeasures equipment; the second, the replacement of the Royal Air Force's Secure Management Radio Equipment ("SMRE") capability together with a ten year support programme which at over £7 million represents one of the largest single orders in Petards Joyce-Loebl's history.

Activity levels within the Emergency Services sector remained low as the UK law enforcement agencies continued to restrict purchases for new equipment and overseas markets tended to be slow in their decision making processes, albeit tendering levels were higher than for the UK.

The '**Fit 4 Growth'** programme introduced last August at Petards Joyce-Loebl included an evaluation of skills sets required, a reorganisation of the operating structure and of the key roles within to establish a more focussed and cost effective business going forward. With the programme and changes now in place management's focus is one of continuous development through improved practices, devolved responsibility and accountability, performance evaluation and the re-positioning of the businesses.

Amongst the benefits are enhanced direction and involvement for management and employees in the day to day business providing a clearer vision. Sustainable cost savings have resulted in a closer correlation of the operating costs of the business with those of revenue and gross margins. This is an area which is extremely important as pressure on margins continue to be a key element of the business, particularly with train builders where Petards Joyce-Loebl continues to break into new markets, as well as from the mix of business achieved in the defence industry where gross margins can vary considerably.

Overview of the Results

The results for the year were significantly affected by the lower level of revenues achieved for the year with the Group making an operating loss of £1.3 million (2012: £0.3 million profit) on revenues of £6.3 million (2012: £9.0 million).

While gross margins were down slightly at 40% (2012: 43%), as previously reported the prior year benefited from the receipt of proceeds from an insurance claim relating to a fire at a key supplier and higher than forecast margins on three large projects completed in 2012.

Administrative expenses for the year, before restructuring costs of £0.3 million, remained at similar levels to the prior year and include those of Water Hall from 29 August 2013.

Net financial expenses totalled £1.1 million and the results include the impact of a one off cost of £1.0 million in respect of the debt for equity swap completed on the transaction with Water Hall. This one off cost represents the difference between the value of the ordinary shares, convertible loan notes and share options issued as consideration to Water Hall shareholders and the value of the Petards working capital facility, Petards ordinary shares and other net assets owned by Water Hall, plus transaction costs.

After a tax credit of £0.1 million (2012: £nil), the Group recorded a loss after tax of £2.3 million (2012: £0.2 million profit).

Following the debt for equity swap with Water Hall and the share placing, the Group closed the year with its strongest balance sheet for many years with total equity of £1.7 million (2012: £1.5 million). Net debt now includes £1.5 million in respect of the convertible loan notes issued in connection with the Water Hall transaction but no bank debt. Therefore while net debt remains similar to the previous year at £0.1 million (2012: £0.1 million) its composition is much altered and comprised convertible loan notes, which mature in September 2018, net of the Group's cash resources, which totalled £1.4 million at 31 December 2013 (31 December 2012: £nil).

Corporate Activity

Following receipt of acceptances in excess of the requisite 90% threshold and the compulsory acquisition of the outstanding shares, the transaction with Water Hall was completed on 27 December 2013 making it a wholly owned subsidiary at the year end. In addition the share placing announced on 9 December 2013 was approved by shareholders later that month and the gross proceeds of £1.15 million were received by the year end.

The transaction with Water Hall resulted in Petards acquiring 3,259,933 Petards ordinary shares owned by Water Hall representing 29.99% of Petards issued ordinary equity prior to the transaction and 14.94% post the transaction. I am pleased to report that on 13 November 2013 the shares were sold for £0.6 million net of costs representing an increase over the Petards price at the time of the purchase.

Thanks are due to WH Ireland, Petards NOMAD and joint broker along with Hybridan as joint broker for their support with this corporate activity and in anticipation of their ongoing support for Petards and its businesses.

Personnel

The Board would like to record its thanks to the Group's employees who have served the Company so well through their dedication and commitment, particularly through what has been a period of significant change.

The Board and Senior Management

As previously reported, in September 2013 Paul Negus joined Petards Joyce-Loebl as Business Development Director. Paul, whose impact has already been felt, brings to Petards considerable commercial experience and sector knowledge having spent eight years as Managing Director of PIPS Technology Limited ("PIPS"), a manufacturer of Automatic Number Plate Recognition (ANPR) and CCTV systems.

Subsequent to the year-end Bill Conn stepped down as a director having served as Chief Executive and latterly as a non-executive director. On behalf of the board I would like to thank Bill for his contribution during his period with the Company and wish him well for the future.

The Board keeps its composition and that of senior management under regular review with the objective of ensuring balance and effectiveness and will make appointments as and when it is felt appropriate to do so.

Strategy

Petards is a niche player in the sectors in which it operates and retains good relationships with its customers who predominantly comprise international ‘blue chip’ companies and government agencies. This provides an excellent platform on which to promote and market the Group’s existing products and strengthen its position in the market place. In support of this, management continues to review the Group’s existing products with the objective of developing technologies, enhanced products, software and services.

The directors consider there to be opportunities for growth in all of Petards businesses. The move of governments both at home and overseas to make major investment in rail transport infrastructure and rolling stock is particularly encouraging. Additionally, the award of UK rail operating franchise renewals over the coming years is expected to result in new opportunities for Petards’ products and services.

The board recognises the value of acquisitions to enhance and accelerate growth and therefore also plans to review potential product and earnings enhancing acquisitions both within the Group’s existing sectors or as standalone businesses capable of developing along their own paths.

Outlook

The benefit of a strong visible forward order book at the outset of the year has enabled a good start to 2014 with revenues and profitability in line with budget. The Group is significantly better positioned than has been the case in recent years, with both management and personnel invigorated for the challenges and opportunities that lie ahead.

Each of the Group’s current product areas has opportunities for development and growth. This includes raising the Group’s level of activity within the defence industry, aggressively pursuing markets for Emergency Services products and strengthening its position with existing and new customers in the new train build and train retrofit and refurbishment markets.

While it is too early to make full year predictions or forecasts, the Group is well positioned to achieve an improved performance in 2014 and I look forward to providing further information on the Company’s progress during the course of the year.

Raschid Abdullah
Chairman

Consolidated Income Statement
for year ended 31 December 2013

	Note	2013 £000	2012 £000
Revenue	2	**6,259**	9,013
Cost of sales		**(3,733)**	(5,125)
Gross profit		**2,526**	3,888
Administrative expenses		**(3,856)**	(3,561)
Operating (loss)/profit		**(1,330)**	327
Analysed as:			
Earnings before interest, tax, depreciation and amortisation ('EBITDA')		**(716)**	574
Depreciation and amortisation		**(308)**	(280)
Share based payments		**-**	33
Restructuring costs		**(306)**	-
		(1,330)	327
Financial income	3	**20**	-
Financial expenses (including exceptional financing costs of £978,000)	3	**(1,078)**	(121)
(Loss)/profit before tax		**(2,388)**	206
Income tax	4	**95**	(6)
(Loss)/profit for the year attributable to equity shareholders of the parent		**(2,293)**	200
Basic and diluted earnings per share (pence)	9	**(15.87)**	2.92

Consolidated Statement of Comprehensive Income

for year ended 31 December 2013

	2013 **£000**	2012 £000
(Loss)/profit for the year	**(2,293)**	200
Other comprehensive income		
Items that may be reclassified to profit:		
Currency translation on foreign currency net investments	**(13)**	16
Total comprehensive income for the year	**(2,306)**	216

Statements of Changes in Equity

for year ended 31 December 2013

Group	**Share capital £000**	**Share premium £000**	**Merger reserve £000**	**Equity reserve £000**	**Retained earnings £000**	**Currency translation differences £000**	**Total equity £000**
Balance at 1 January 2012	6,367	23,223	-	-	(29,016)	(214)	360
Profit for the year	-	-	-	-	200	-	200
Other comprehensive income	-	-	-	-	-	16	16
Total comprehensive income for the year	-	-	-	-	200	16	216
Equity-settled share based payments	-	-	-	-	(33)	-	(33)
Share issue: open offer and placing	45	1,080	-	-	-	-	1,125
Expenses of share issue	-	(151)	-	-	-	-	(151)
Balance at 31 December 2012	6,412	24,152	-	-	(28,849)	(198)	1,517
Balance at 1 January 2013	6,412	24,152	-	-	(28,849)	(198)	1,517
Loss for the year	-	-	-	-	(2,293)	-	(2,293)
Other comprehensive income	-	-	-	-	-	(13)	(13)
Total comprehensive income for the year	-	-	-	-	(2,293)	(13)	(2,306)
Purchase of own shares	(592)	-	-	-	-	-	(592)
Sale of own shares	592	-	-	-	3	-	595
Water Hall transaction (note 3)	110	-	1,112	213	-	-	1,435
Share issue: placing	115	1,035	-	-	-	-	1,150
Expenses of share issue	-	(87)	(37)	-	-	-	(124)
Conversion of convertible loan notes	8	53	-	(7)	7	-	61
Balance at 31 December 2013	**6,645**	**25,153**	**1,075**	**206**	**(31,132)**	**(211)**	**1,736**

Consolidated Balance Sheet
at 31 December 2013

	Note	**2013**	2012
		£000	£000
ASSETS			
Non-current assets			
Property, plant and equipment		**165**	172
Goodwill		**401**	401
Development costs		**640**	530
Deferred tax assets		**653**	587
		1,859	1,690
Current assets			
Inventories		**1,779**	1,211
Trade and other receivables		**983**	1,528
Cash and cash equivalents – escrow deposits		**-**	77
Cash and cash equivalents		**1,440**	5
		4,202	2,821
Total assets		**6,061**	4,511
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	*6*	**6,645**	6,412
Share premium		**25,153**	24,152
Equity reserve	*8*	**206**	-
Merger reserve	*7*	**1,075**	-
Currency translation reserve		**(211)**	(198)
Retained earnings deficit		**(31,132)**	(28,849)
Total equity		**1,736**	1,517
Non-current liabilities			
Interest-bearing loans and borrowings	*5*	**1,518**	-
Deferred tax liabilities		**128**	122
		1,646	122
Current liabilities			
Interest-bearing loans and borrowings		**-**	94
Other trade and other payables		**2,679**	2,778
		2,679	2,872
Total liabilities		**4,325**	2,994
Total equity and liabilities		**6,061**	4,511

Consolidated Statement of Cash Flows

for year ended 31 December 2013

	Note	**2013**	2012
		£000	£000
Cash flows from operating activities			
Profit for the year		**(2,293)**	200
Adjustments for:			
Depreciation		**47**	57
Amortisation of intangible assets		**261**	223
Financial income		**(20)**	-
Financial expense	*3*	**1,078**	121
Equity settled share-based payment expenses		**-**	(33)
Income tax charge/(credit)		**(95)**	6
Exchange differences		**(13)**	16
Operating cash flows before movement in working capital		**(1,035)**	590
Change in trade and other receivables		**647**	1,559
Change in inventories		**(568)**	26
Change in trade and other payables		**(267)**	(1,581)
Cash generated from operations		**(1,223)**	594
Interest received		**20**	-
Interest paid		**(60)**	(123)
Tax received		**-**	196
Net cash from operating activities		**(1,263)**	667
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(40)**	(74)
Capitalised development expenditure		**(371)**	(176)
Cash deposits held in escrow		**77**	-
Net cash outflow from investing activities		**(334)**	(250)
Cash flows from financing activities			
Proceeds from share issue	*6*	**1,150**	1,125
Expenses of share issue	*6*	**(87)**	(151)
Water Hall transaction	*3*	**(83)**	-
Proceeds from sale of own shares		**595**	-
Repayment of bank borrowings		**(42)**	(505)
Net cash outflow from financing activities		**1,533**	469
Net (decrease)/increase in cash and cash equivalents		**(64)**	886
Water Hall transaction: Settlement of working capital facility	*3*	**1,551**	-
Total movement in cash and cash equivalents in the year		**1,487**	886
Cash and cash equivalents at 1 January		**(47)**	(933)
Cash and cash equivalents at 31 December		**1,440**	(47)

1 Basis of preparation and status of financial information

The preliminary announcement has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. It does not include all the information required for full annual accounts.

The financial information set out below does not constitute the Company's statutory accounts for the years ended 31 December 2013 or 31 December 2012 but is derived from those accounts. Statutory accounts for 2012 have been delivered to the registrar of companies, and those for 2013 will be delivered in due course. The auditor has reported on those accounts; his reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying his report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2 Segmental information

The analysis by geographic segment below is presented in accordance with IFRS 8 on the basis of those segments whose operating results are regularly reviewed by the Board of Directors (the Chief Operating Decision Maker as defined by IFRS 8) to make strategic decisions.

The directors consider the Group to have only one segment in terms of products and services, being the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedized electronic applications.

As the Board of Directors receives revenue, EBITDA and operating profit/(loss) on the same basis as set out in the consolidated Income Statement no further reconciliation is considered to be necessary.

As in 2012 the Group's operations continue to comprise one segment.

Revenue by geographical destination can be analysed as follows:

	2013	**2012**
	£000	**£000**
United Kingdom	**5,482**	8,008
Continental Europe	**488**	479
Rest of World	**289**	526
	6,259	9,013

Included in the above amounts are revenues of £862,000 (2012: £2,859,000) in respect of construction contracts. The balance comprises revenue from sales of goods and services.

3 Financial income and expense

	2013	2012
	£000	£000
Recognised in profit or loss		
Net foreign exchange gain	**20**	-

	£000	£000
Interest expense on financial liabilities at amortised cost	**100**	112
Net foreign exchange loss	**-**	9
Water Hall transaction (see below)	**978**	-
Financial expenses	**1,078**	121

On 29 August 2013 the Group completed a debt for equity swap with Water Hall Group plc ('the Water Hall transaction'). Under the terms of the arrangement, the Group issued equity (see note 6), share options, and convertible loan notes (see note 5) with a combined fair value of £2,975,000 to:

(i) settle its working capital facility of £1,551,000

(ii) purchase its own shares to the value of £592,000 and

(iii) acquire the remaining net assets of Water Hall Group plc which comprised cash of £72,000 and net liabilities of £68,000 relating to trade and other payables net of VAT receivables.

The loss on this transaction of £860,000 is included in total exceptional finance costs for the year of £978,000; the balance includes transaction expenses of £118,000 (transaction expenses totalled £155,000 of which £37,000 has been allocated to merger reserve). The net cash effect of this transaction is an outflow of £83,000. In addition the Group's overdraft of £1,551,000 was settled. The debt for equity swap resulted in the Group obtaining control of the Water Hall Group plc legal entity with the result that, from 29 August 2013, Water Hall Group plc has been consolidated into the accounts.

4 Taxation

Recognised in the income statement

	2013		2012	
	£000	**£000**	£000	£000
Current tax credit				
Adjustment in respect of prior years	**(36)**		(227)	
Total current tax		**(36)**		(227)
Deferred tax expense/(credit)				
Origination and reversal of temporary differences	**4**		**(14)**	
Recognition of previously unrecognised tax losses	**(161)**		**(31)**	
Utilisation of recognised tax losses	**23**		**37**	
Adjustment in respect of prior years	**75**		**241**	
Total deferred tax		**(59)**		233
Total tax (credit)/charge in income statement		**(95)**		6

The deferred tax charge of £75,000 in respect of prior years arose from the surrender of tax losses for R&D credits relating to 2012. The associated R&D credits of £36,000 are included in the current tax credit.

Reconciliation of effective tax rate

	2013	2012
	£000	£000
(Loss)/profit before tax	**(2,388)**	206
Tax using the UK corporation tax rate of 23.25% (*2012: 24.5%)*	**(555)**	**50**
Non-deductible expenses	**256**	**8**
Non-taxable income	**(7)**	**(8)**
Utilisation of tax losses	**(23)**	**(39)**
Effect of tax losses generated in year not provided for in deferred tax	**133**	**18**
Change in unrecognised temporary differences	**1**	**(13)**
Adjustments in respect of prior years	**39**	**14**
Enhanced deduction in respect of R&D	**-**	**(80)**
Effect of rate change	**61**	**56**
Total tax (credit)/charge	**(95)**	6

5 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's non-current interest-bearing loans and borrowings, which are measured at amortised cost.

	2013	2012
	£000	£000
Non-current liabilities		
Convertible loan notes	**1,518**	-

During the year the Company issued £1,752,775 convertible loan notes of £1 each in connection with its purchase of the entire share capital of Water Hall Group plc. The loan notes carry a fixed interest rate of 7% per annum and are convertible into ordinary shares of 1 pence each at any time prior to maturity. Interest is paid quarterly and the loan notes mature on 10 September 2018.

At 31 December 2013 £68,055 convertible loan notes had been converted into ordinary shares.

6 Share capital

	At 31 December 2013	At 31 December 2012
	No	No
Number of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**34,171,975**	10,866,445
Deferred shares of 1p each	**630,342,900**	630,342,900
	664,514,875	641,209,345

	£000	£000
Value of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**342**	109
Deferred shares of 1p each	**6,303**	6,303
	6,645	6,412

The Company's issued share capital comprises 34,171,975 ordinary shares of 1p each and 630,342,900 deferred shares of 1p each. The ordinary shares have equal voting rights. The deferred shares have no voting rights and are not entitled to any dividends or repayment and have no other right or participation in the profits of the Company.

During the year the Company issued 10,954,844 ordinary shares of 1p each in connection with its purchase of the entire share capital of Water Hall Group plc.

On 27 December 2013, 11,500,000 ordinary shares of 1p each were issued at a price of 10p each by way of a Placing. Costs of £87,000 were incurred in connection with that Placing.

In addition the Company issued 850,686 ordinary 1p shares following the conversion of £68,055 convertible loan notes at a conversion price of 8p each.

7 Merger reserve

The Merger reserve arose in the year on the issue of 10,954,844 ordinary shares of 1p as part of the Water Hall transaction (see note 3) whereby Water Hall Group plc became a wholly owned subsidiary of the Group. The premium on the shares issued of £1,075,000 (after deduction of share issue expenses of £37,000) has been credited to a merger reserve in accordance with section 612 of the Companies Act 2006.

8 Equity reserve

The Equity reserve arose in the year on the issue of convertible loan notes and share options as part of the Water Hall transaction (see note 3). The Equity reserve relates to the equity 'component' of the convertible loan notes of £182,000 and the fair value of the share options issued of £31,000.

9 Earnings per share

The calculation of basic earnings per share for 2013 was based on the loss attributable to ordinary shareholders of £2,293,000 (*2012: £200,000 profit*) divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2013 of 14,455,511 (*2012: 6,846,538)*.

Diluted earnings per share is identical to the basic earnings per share, as in 2012 none of the share options were dilutive as the exercise prices were higher than the average market price of the shares, and in 2013 the Group was in loss.