8 September 2015

PETARDS GROUP PLC

INTERIM RESULTS ANNOUNCEMENT

Petards Group plc ('Petards'), the AIM quoted developer of advanced security and surveillance systems, reports its interim results for the six months to 30 June 2015.

Key points:

- **Operational**
  - June order book remained strong at £19 million providing good revenue cover for the second half of 2015 and beyond
    - Circa 40% of order book currently scheduled for delivery in the second half of 2015
    - H1 2015 highlights included:
      - Over £2.5 million of orders for Petards' *eyeTrain* CCTV systems under the framework agreements held with Siemens and Hitachi, and a new project from Bombardier
      - Strong recurring revenue streams for *eyeTrain* spares and support
- **Financial**
  - Strong results for the six months to 30 June 2015
    - Higher margin revenues than 2014 totaled £6.1 million (2014: £7.2 million)
      - Gross margins of 36.4% (2014: 27.4%)
    - 39% increase in EBITDA to £609,000 (2014: £441,000)
    - Operating profit increased to £436,000 (2014: £346,000)
    - 30% increase in profit after tax to £356,000 (2014: £273,000)

  - Finance
    - Cash inflow from operating activities £558,000 (2014: £181,000)
    - Cash at 30 June 2015 £2.0 million (31 Dec 2014: £1.4 million) with no bank debt
    - Basic EPS up 30% to 1.03p per share (2014: 0.79p per share)
    - Diluted EPS up 23% to 0.76p per share (2014: 0.62p per share)

Commenting on the current outlook, Raschid Abdullah, Chairman, said:

"The continued strength of the order book at 30 June provides good support for revenues for the second half of 2015, with around 40% currently scheduled for delivery before the year end, giving the Board confidence for a satisfactory outcome for the year."

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Chairman's Statement

I am pleased to report that the results for the Group for the six months ended 30 June 2015 show continued improvement in the Company's trading performance. This reflects significant increases in margins, profitability and cash flows over the comparable period in 2014 resulting in greater Balance Sheet strength.

The Group serves three sectors, those of:

- Transport (Rail – software driven video systems mounted in-train and externally and automatic passenger counting (APC) systems sold under *eyeTrain* brand)
- Emergency Services (Mobile speed enforcement and ANPR systems predominantly to Law Enforcement Agencies sold under the *ProVida* brand)
- Defence (Electronic defensive countermeasures and mobile radio systems predominantly to the UK Ministry of Defence ("MOD"))

The overall order book at the end of June was just under £19 million with the level of the Group's *eyeTrain* products order book maintained following a number of repeat orders from train builders.

Operating review

During the period the Group secured a number of new orders for its *eyeTrain* systems. In addition to the previously announced order worth in excess of £1.5 million secured in March 2015 from Siemens Mobility Germany for Driver Only Operation (DOO) systems and saloon CCTV, the Group was also awarded further orders totalling £1 million by Bombardier Transportation and Hitachi. The Bombardier order is for further sets of equipment for fitment to Electrostar trains for delivery in 2016 and a second order by Hitachi under the framework agreement awarded in August 2013 for the supply of APC systems for its Class 800 trains for the Intercity Express Programme. These APC systems will be fitted to trains to be built at Hitachi's recently opened rail vehicle manufacturing facility in Newton Aycliffe for use on the East Coast Main Line with delivery scheduled for 2017/18.

The growing installed base of *eyeTrain* is leading to an increase in the levels of recurring revenues from spares and support as wear and tear take their effect on earlier installations, with revenues for the first half of 2015 exceeding expectations. It is anticipated that this trend will continue and increasingly become a significant contributor to the Group's revenues as the existing installed base becomes older, the current order book is delivered and as warranties progressively expire. To support this growth some additional investment in both personnel and systems was made during the period.

The Board and management remain conscious that the success of the business is dependent upon understanding and meeting its customers' requirements without compromising quality, in particular in the area of interfacing software. To this end, products continue to be reviewed for improvement from a cost, functionality and reliability perspective.

The largest contributor to defence revenues in the first half year was the modification programme for countermeasures equipment fitted to certain aircraft within the MOD's fleet. The £4.5 million project, which is now over 40% complete, is running to schedule and in line with budget with completion scheduled for the second half of 2016.

While performance from the defence business was satisfactory in the first half of the year, order intake to date has been slower than anticipated albeit there have been signs of improvement in recent weeks. In July the MOD awarded the Group a £0.3 million contract spread over three years for the provision of specialist engineering support services at certain MOD bases in Europe.

Although the Group's activities within the context of the UK defence sector are relatively small, management believes that with so much unrest in various parts of the world, in particular in the Middle East, demand for its defence related products and services, while unpredictable as to timing, will continue at acceptable levels.

The Emergency Services part of the Group's business, which has traditionally been the smallest revenue producer, reflecting the nature of its product range, has been a good contributor to the Group's operating profit and remains so. Revenue for the first half of the year was significantly ahead of the corresponding period last year following the delivery of a long awaited, substantial spares order from an overseas government.

While order intake to date for *ProVida* products has been slower than anticipated, there exist a good number of active prospects for the second half of 2015 into 2016. This represents a good area of business for the Group with interest from the UK market showing signs of improving and the potential to tackle export markets which have lapsed over recent years.

As indicated at the time of the publication of the results for 2014, following the heavy investment in product development in that year, in particular in the area of transport, investment will be substantially lower in 2015. However, the Group continues to work on developing and increasing the breadth and capability of its product range as part of its programme of seeking constant improvement.

Financial review

Revenues at £6.1 million for the six months ended 30 June 2015 were down on the corresponding period last year (2014: £7.2 million) as 2014 included £3 million of lower margin equipment deliveries for the MOD's SMRE project whereas the six month period to June 2015 benefitted from a larger proportion of higher margin *eyeTrain* and *ProVida* products and services, both of which showed growth over the corresponding period last year.

Revenues from *eyeTrain* products were ahead of expectations principally due to much stronger recurring revenues for spares and support which contributed to the achievement of higher margins. Similarly the spares order worth in the region of £0.4 million from an overseas government for their existing *ProVida* mobile ANPR systems provided a boost to revenues and margins for Emergency Services. The effect of the above was to substantially increase gross margins for the Group to 36% (June 2014: 27%).

While administrative expenses rose to £1.8 million (June 2014: £1.6 million) half of this increase was due to a higher charge for amortisation arising from product development costs capitalised in 2014. Earnings before interest, tax, depreciation and amortisation (EBITDA) improved by 38% to £609,000 (June 2014: £441,000) and operating profit by 26% to £436,000 (June 2014: £346,000).

After net financial expenses of £80,000 (June 2014: £73,000) and there being no tax charge, the Group recorded a profit after tax of £356,000 (June 2014: £273,000), an improvement of 30% on the corresponding period last year, resulting in a further strengthening of the balance sheet.

The Group also recorded strong cash generation during the period. Net cash inflow from operating activities was £558,000 (June 2014: £181,000) with working capital levels remaining comparable to those at both June and December 2014. Cash balances at 30 June 2015 increased to £2.0 million up from £1.4 million at 31 December 2014 and after providing for outstanding long term convertible loan notes that do not mature until 2018, free net cash totalled £0.4 million (December 2014: £0.1 million net debt).

The Board is conscious of the value of dividends to shareholders. However, at this juncture, the lack of distributable reserves prevents payments of dividends.

Shortly after the period end the Group increased its available funding by entering into a £1.1 million overdraft and trade finance facility with Santander UK plc. While it does not presently envisage utilising the overdraft element of this facility, having it provides the Board with added flexibility in the financing of the Group.

Outlook

The objective of the Board remains that of building a sustainable business built on solid foundations able to adapt to technological changes and the constantly changing business and operational environments while satisfying the requirements of its customers.

Profitability, strong operational cash flow and the strengthening of the Balance Sheet have enabled the Board to make investment decisions in support of this objective.

The Board believes that the Company and its management are well positioned to take on further challenges whether these are driven by organic growth through product and market development, acquisition of businesses and/or access to products which will enhance the existing business model or broaden the corporate identity of the Group; or a combination of all three.

The continued strength of the order book at 30 June provides good support for revenues for the second half of 2015, with around 40% currently scheduled for delivery before the year end, giving the Board confidence for a satisfactory outcome for the year.

Raschid Abdullah
8 September 2015

Condensed Consolidated Income Statement
for the six months ended 30 June 2015

	Note	**Unaudited 6 months ended 30 June 2015 £000**	Unaudited 6 months ended 30 June 2014 £000	Audited year ended 31 December 2014 £000
Revenue		**6,067**	7,163	13,462
Cost of sales		**(3,860)**	(5,202)	(9,370)
Gross profit		**2,207**	1,961	4,092
Administrative expenses		**(1,771)**	(1,615)	(3,323)
Operating profit		**436**	346	769
Analysed as:				
Earnings before interest, tax, depreciation and amortisation ('EBITDA')		**609**	441	1,015
Depreciation and amortisation		**(172)**	(95)	(246)
Share based payments		**(1)**	-	-
		436	346	769
Financial income		**1**	2	3
Financial expenses	*2*	**(81)**	(75)	(152)
Profit before tax		**356**	273	620
Income tax	*3*	**-**	-	-
Profit for the period attributable to equity shareholders of the company		**356**	273	620
Basic earnings per share (pence)	*4*	**1.03**	0.79	1.80
Diluted earnings per share (pence)	*4*	**0.76**	0.62	1.37

The above results are derived from continuing operations.

Condensed Consolidated Statement of Comprehensive Income
for the six months ended 30 June 2015

	Unaudited 6 months ended 30 June 2015 £000	Unaudited 6 months ended 30 June 2014 £000	Audited year ended 31 December 2014 £000
Profit for period	**356**	273	620
Other comprehensive income			
Currency translation on foreign currency net investments	**-**	-	-
Total comprehensive income for the period	**356**	273	620

Condensed Consolidated Statement of Changes in Equity
for the six months ended 30 June 2015

	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 2014 (audited)	6,645	25,153	1,075	206	(31,132)	(211)	1,736
Profit for the period	-	-	-	-	273	-	273
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	273	-	273
Conversion of convertible loan notes	3	17	-	(1)	1	-	20
Balance at 30 June 2014 (unaudited)	6,648	25,170	1,075	205	(30,858)	(211)	2,029
Balance at 1 January 2014 (audited)	6,645	25,153	1,075	206	(31,132)	(211)	1,736
Profit for the year	-	-	-	-	620	-	620
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	620	-	620
Conversion of convertible loan notes	4	23	-	(2)	2	-	27
Exercise of share options	2	16	-	-	-	-	18
Balance at 31 December 2014 (audited)	6,651	25,192	1,075	204	(30,510)	(211)	2,401
Balance at 1 January 2015 (audited)	6,651	25,192	1,075	204	(30,510)	(211)	2,401
Profit for the period	-	-	-	-	356	-	356
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	356	-	356
Equity-settled share based payments	-	-	-	-	1	-	1
Conversion of convertible loan notes	1	11	-	(1)	1	-	12
Balance at 30 June 2015 (unaudited)	**6,652**	**25,203**	**1,075**	**203**	**(30,152)**	**(211)**	**2,770**

Condensed Consolidated Balance Sheet

at 30 June 2015

	Unaudited 30 June 2015	Unaudited 30 June 2014	Audited 31 December 2014
ASSETS	**£000**	£000	£000
Non-current assets			
Property, plant and equipment	**212**	170	187
Goodwill	**401**	401	401
Development costs	**983**	618	1,103
Deferred tax assets	**514**	647	516
	2,110	1,836	2,207
Current assets			
Inventories	**1,864**	1,900	1,439
Trade and other receivables	**2,382**	2,283	2,982
Cash and cash equivalents – escrow deposits	**-**	35	54
Cash and cash equivalents	**1,968**	1,508	1,434
	6,214	5,726	5,909
Total assets	**8,324**	7,562	8,116
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	**6,652**	6,648	6,651
Share premium	**25,203**	25,170	25,192
Equity reserve	**203**	205	204
Merger reserve	**1,075**	1,075	1,075
Currency translation reserve	**(211)**	(211)	(211)
Retained earnings deficit	**(30,152)**	(30,858)	(30,510)
Total equity	**2,770**	2,029	2,401
Non-current liabilities			
Interest-bearing loans and borrowings	**1,528**	1,515	1,524
Deferred tax liabilities	**100**	124	100
	1,628	1,639	1,624
Current liabilities			
Trade and other payables	**3,926**	3,894	4,091
	3,926	3,894	4,091
Total liabilities	**5,554**	5,533	5,715
Total equity and liabilities	**8,324**	7,562	8,116

Condensed Consolidated Statement of Cash Flows

for the six months ended 30 June 2015

	Unaudited 6 months ended 30 June 2015 £000	Unaudited 6 months ended 30 June 2014 £000	Audited year ended 31 December 2014 £000
Cash flows from operating activities			
Profit for the period	**356**	273	620
Adjustments for:			
Depreciation	**26**	24	48
Amortisation of intangible assets	**147**	71	198
Equity settled share-based payment expenses	**1**	-	-
Financial income	**(1)**	(2)	(3)
Financial expense	**81**	75	152
Income tax charge	**-**	-	-
Operating cash flows before movement in working capital	**610**	441	1,015
Change in trade and other receivables	**600**	(1,336)	(2,035)
Change in inventories	**(425)**	(121)	340
Change in trade and other payables	**(160)**	1,206	1,340
Cash generated from operations	**625**	190	660
Interest received	**1**	2	3
Interest paid	**(68)**	(49)	(110)
Income tax received	**-**	38	208
Net cash generated from operating activities	**558**	181	761
Cash flows from investing activities			
Acquisition of property, plant and equipment	**(51)**	(29)	(70)
Capitalised development expenditure	**(27)**	(49)	(661)
Cash deposits held in escrow	**54**	(35)	(54)
Net cash used in investing activities	**(24)**	(113)	(785)
Cash flows from financing activities			
Proceeds from exercise of share options	**-**	-	18
Net cash generated from financing activities	**-**	-	18
Net increase/(decrease) in cash and cash equivalents	**534**	68	(6)
Cash and cash equivalents at start of period	**1,434**	1,440	1,440
Cash and cash equivalents at end of period	**1,968**	1,508	1,434
Cash and cash equivalents comprise:			
Cash and cash equivalents per balance sheet	**1,968**	1,508	1,434

Notes

1 Basis of preparation

The interim financial information set out in this statement for the six months ended 30 June 2015 and the comparative figures for the six months ended 30 June 2014 are unaudited. This financial information does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006.

The comparative figures for the financial year ended 31 December 2014 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

This interim statement, which is neither audited nor reviewed, has been prepared in accordance with the measurement and recognition criteria of International Financial Reporting Standards (IFRS) as adopted by the EU. It does not include all the information required for the full annual financial statements, and should be read in conjunction with the financial statements of the Group as at and for the year ended 31 December 2014. As permitted, this interim statement has been prepared in accordance with AIM Rules for Companies and is not required to comply with IAS 34 'Interim Financial Reporting' to maintain compliance with IFRS.

The accounting policies applied in preparing these interim financial statements are the same as those applied in the preparation of the annual financial statements for the year ended 31 December 2014, as described in those financial statements other than standards, amendments and interpretations which became effective after 1 January 2015 and were adopted by the Group. These have had no significant impact on the Group's profit for the period or equity. The Board approved these interim financial statements on 7 September 2015.

Copies of this interim statement will be available on the Company's website (www.petards.com) and from the Company's registered office at 390 Princesway, Team Valley, Gateshead, Tyne and Wear, NE11 0TU.

2 Financial expenses

	Unaudited 6 months ended 30 June 2015 £000	Unaudited 6 months ended 30 June 2014 £000	Audited year ended 31 December 2014 £000
Interest expense on financial liabilities at amortised cost:			
- Convertible loan notes at 7% p.a. (cash)	**56**	59	116
- Convertible loan notes amortisation (non-cash)	**16**	15	31
- Other (cash)	**1**	1	3
Net foreign exchange loss	**8**	-	2
Financial expenses	**81**	75	152

3 Taxation

No provision for taxation has been made in the Condensed Consolidated Income Statement for the six months to 30 June 2015 based on the estimated tax provision required for the year ending 31 December 2015. No provision was required in the six months to 30 June 2014.

4 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to the shareholders by the weighted average number of shares in issue.

	Unaudited 6 months ended 30 June 2015	Unaudited 6 months ended 30 June 2014	Audited year ended 31 December 2014
Earnings			
Profit for the period (£000)	**356**	273	620
Number of shares			
Weighted average number of ordinary shares ('000)	**34,629**	34,347	34,514

Diluted earnings per share

Diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, which arise from both convertible loan notes and share options, and is calculated by dividing the adjusted profit for the period attributable to the shareholders by the assumed weighted average number of shares in issue. The adjusted profit for the period comprises the profit for the period attributable to the shareholders after adding back the interest on convertible loan notes for the period.

	Unaudited 6 months ended 30 June 2015	Unaudited 6 months ended 30 June 2014	Audited year ended 31 December 2014
Adjusted earnings			
Profit for the period (£000)	**425**	347	769
Number of shares			
Weighted average number of ordinary shares ('000)	**55,879**	55,983	55,931