12 September 2017

Petards Group plc
("Petards", "the Group" or "the Company")

Interim results for the six months ended 30 June 2017

Petards Group plc (AIM: PEG), the AIM quoted developer of advanced security and surveillance systems, is pleased to report its interim results for the six months to 30 June 2017.

Key Highlights:

- **Operational**
    - Another set of strong trading results for the Group
    - Order book at 30 June 2017 up by 20% to circa £24 million (31 Dec 2016: £20 million)
    - Order coverage for H2 2017 £8 million and nearly £11m scheduled for 2018
    - Addition of Stadler Bussnang AG to customer list that includes many of the world's leading train builders such as Bombardier, Hitachi and Siemens
    - Orders of over £8 million received in the period from Stadler, Bombardier and the MOD
    - Investment in new *eyeTrain* software functionality

- **Financial**
    - Total revenues increased 8% to £8.0 million (2016: £7.4 million)
    - Gross margins up to 38.6% (2016: 35.2%)
    - EBITDA increased 18% to £925,000 (2016: £786,000)
    - Pre-tax profit up 6% to £503,000 (2016: £475,000)
    - Cash balances £1.5 million (31 Dec 2016: £2.3 million) and no bank debt
    - Basic EPS increased 2% to 1.39p (2016: 1.36p)
    - Diluted EPS increased 3% to 0.98p (2016: 0.95p)

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

"The results for the first half of the year and a strong order book that includes almost £8 million of revenues scheduled for delivery in the second half of 2017 and nearly £11m for 2018 providing good support for the current year and a foundation for 2018.

That growth in product development and projects has been financed from its own resources without recourse to shareholders or debt demonstrates the strength of the Group.

Against this backdrop and on-going customer discussions for new projects, the Board continues to be confident about the Group's future prospects."

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Chairman's Statement

I am pleased to report that in the first six months of 2017 Petards continued to grow its profits and re-invest them with the objective of strengthening its market positions through the development of a broader product portfolio and customer base.

The majority of the Group's key financial indicators all showed improvements over those achieved for the corresponding period last year. In particular for the second six months in succession the Group's order book grew strongly. Order intake for the 12 months to 30 June 2017 totalled over £27 million, the highest for any 12 month period in the Group's recent history. At 30 June 2017 the order book had grown by 20% since the end of 2016 and stood at just under £24 million (Dec 2016: £20 million; June 2016: £12 million), with £8m scheduled for delivery in the second half of this year and nearly £11m for 2018.

Group pre-tax profits were up by 6% to £503,000 (June 2016: £475,000) on revenues of £8.0 million, an 8% increase over the first half of 2016 (June 2016: £7.4 million). The proportion of the Group's revenues generated from its *eyeTrain* products continued to grow and accounted for almost two thirds of Group revenues.

Business overview

The Group's operations continue to be focused upon the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedized electronic applications, the main markets for which are:

- Rail – software driven video and other sensing systems for on-train applications sold under the *eyeTrain* brand to global train builders, integrators and rail operators;
- Emergency Services – in-car speed enforcement and end-to-end Automatic Number Plate Recognition ("ANPR") systems sold under the *ProVida* and QRO brands primarily to UK and overseas law enforcement agencies; and
- Defence – electronic countermeasure protection systems, mobile radio systems and related engineering services sold predominantly to the UK Ministry of Defence ("MOD").

Operating review

With Stadler Bussnang AG ("Stadler") having placed a £4.3 million order at the end of March, Petards' customer list now includes six of the world's top ten rolling stock manufacturers, four of whom have current projects with the Group. The selection of *eyeTrain* systems for their new FLIRT UK rolling stock represented another milestone for Petards. The order was Stadler's first entry into the UK mainline passenger rolling stock market and by successfully delivering this project, further opportunities are expected to arise on the back of Stadler's own growth.

The FLIRT UK vehicles are part of the largest ever privately procured rolling stock programme in the UK. The balance of the new rolling stock is being supplied by Bombardier Transportation who placed a £3 million order with Petards for *eyeTrain* driver only operation (DOO) systems in May. This was an important strategic win for us as it was our second successive such order for fitment to Bombardier's new Aventra trains. The first order had been placed in August 2016 for use on London Overground and we made our first equipment deliveries on that contract during the first half of 2017. With the benefit of these projects over 75% of the Group's order book relates to *eyeTrain* with delivery schedules extending into 2018 and 2019.

Several of the new orders for *eyeTrain* systems have embodied requirements for additional functionality such as automatic selective door opening (ASDO) and driver only operation (DOO) which materially increases the software content of our systems. This is becoming increasingly essential for train operating companies to increase capacity and efficiency within rail networks. Consequently, *eyeTrain* is establishing itself as a core system for train operators in addition to its role in security, surveillance and passenger and train safety.

The majority of *eyeTrain* revenues in the six months to 30 June 2017 related to Siemens, Bombardier, Hitachi and Great Western Railway across six key projects. Two of these were nearing the completion of their delivery phase and this resulted in the recording of higher margins than the comparable period last year. In the second half of 2017, projects earlier in their overall delivery cycle are expected to form a larger proportion of revenues. Therefore, taking the year as a whole, *eyeTrain* margins are anticipated to remain similar to those achieved in 2016.

Outside of our rail activities, revenues for Defence products were down on 2016 as expected. This was due to the first half of 2016 benefitting from the final deliveries on a large electronic countermeasures software upgrade ordered back in 2014 and from a £0.8 million order for radio equipment.

The past four years have seen a change in the revenue contribution, with the Rail business now accounting for an ever increasing proportion of the Group's revenues. The consequence of this is that the Group continues to forward invest in product development and projects to maintain and grow its position in the market.

While the market for the Group's Defence products and services is lower than when the UK's armed forces were deployed on active combat, the order intake for the six months to 30 June 2017 was the highest for three years. The Group secured a £1 million order at the end of June from the MOD for an emulator system under the frame of the three-year support contract awarded to Petards last December. In addition Leonardo MW awarded Petards a third order for electronic countermeasure systems as part of its contract to upgrade twenty five of The Royal Navy's Merlin Mk3 aircraft. That programme runs over the four years from 2017 to 2020 and this order for £0.5 million takes to thirteen the total number of aircraft systems ordered to date.

With the MOD also exercising its option to extend to September 2018 the enabling contract operated by Petards to supply it with private mobile radio equipment, ancillaries and engineering services, Defence products ended the half year on a strong note.

Revenues and order intake for Emergency Services products were both up on the same period last year and included a full six months' contribution from QRO. Tendering activity levels for new systems are encouraging and maintenance contracts continue to form a core element of recurring revenues having achieved good levels of renewals in the six months to 30 June 2017.

Financial review

Operating performance

Revenues for the six months ended 30 June 2017 increased by 8% to £8.0 million (June 2016: £7.4 million) with a gross margin of 38.6%, up on that for the corresponding period in 2016 (June 2016: 35.2%).

Total charges for amortisation, depreciation and share based payments were £158,000 higher than the first six months of 2016 following the investment in product and infrastructure made during 2016. In addition, overheads relating to QRO were £175,000 higher as the first half of 2016 only included the post-acquisition element of QRO's costs compared with the first half of 2017 which includes a full six months. Together these two factors account for the majority of the increase in administrative expenses that totalled £2.5 million for the six months ended 30 June 2017 (June 2016: £2.1 million).

Earnings before interest, tax, depreciation, amortisation, acquisition costs and share based payment charges (EBITDA) improved by 18% to £925,000 (June 2016: £786,000) and operating profits by 7% to £591,000 (June 2016: £553,000).

Net financial expenses totalled £88,000 (June 2016: £78,000), and with no tax charge, profits before and after tax on the Group's activities increased by 6% to £503,000 (June 2016: £475,000) with diluted earnings per share increasing 3% to 0.98p (June 2016: 0.95p).

Cash and cash flow

At 30 June 2017 cash balances, totalled £1.5 million (31 Dec 2016: £2.3 million).

The Group's balance sheet strength and healthy cash position has meant that the increased working capital requirements arising from financing the implementation of the significant growth in the order book during the period were met from the Group's own resources with the cash recovery from the investment in projects, weighted towards the end of the contracts. Accordingly, the Board anticipates positive cash flows from these contracts as they reach their latter phases in Q3 and Q4 2018.

Net operating cash outflow for the period was £218,000 (June 2016: £122,000 inflow) due mainly to an increase in working capital of £1.1 million reflecting the increase in rail business as a proportion of revenue. The working capital requirements of three major *eyeTrain* projects drove an increase in work-in-progress and accounted for the majority of the increase in inventories. In addition, the phasing of revenues weighted towards the end of the half year resulted in higher trade receivables and payables at 30 June 2017.

Investment in facilities and automated test equipment to support the increase in business was £291,000 (June 2016: £106,000) and capitalised new product development expenditure totalled £294,000 (2016: £265,000).

Outlook

It is encouraging that we are continuing to see a flow of new opportunities across all of the Group's target markets with a particular emphasis on the UK rail market which continues to generate a good level of potential new business.

The results for the first half of the year and a strong order book that includes almost £8 million of revenues scheduled for delivery in the second half of 2017 and nearly £11m for 2018 providing good support for the current year and a foundation for 2018.

Against this backdrop and on-going customer discussions for new projects, the Board continues to be confident about the Group's future prospects.

Raschid Abdullah
12 September 2017

Condensed Consolidated Income Statement
for the six months ended 30 June 2017

	Note	**Unaudited 6 months ended 30 June 2017 £000**	Unaudited 6 months ended 30 June 2016 £000	Audited year ended 31 December 2016 £000
Revenue		**7,972**	7,411	15,311
Cost of sales		**(4,896)**	(4,805)	(9,748)
Gross profit		**3,076**	2,606	5,563
Administrative expenses		**(2,485)**	(2,053)	(4,468)
EBITDA*		**925**	786	1,621
Amortisation of intangibles		**(242)**	(120)	(335)
Depreciation		**(80)**	(43)	(107)
Exceptional acquisition costs		**-**	(57)	(57)
Share based payment charges		**(12)**	(13)	(27)
Operating profit		**591**	553	1,095
Financial income		**-**	2	4
Financial expenses	*3*	**(88)**	(80)	(174)
Profit before tax		**503**	475	925
Income tax	*4*	**-**	-	(15)
Profit for the period attributable to equity shareholders of the company		**503**	475	910
Basic earnings per share (pence)	*5*	**1.39**	1.36	2.59
Diluted earnings per share (pence)	*5*	**0.98**	0.95	1.86

** Earnings before financial income and expense, tax, depreciation, amortisation, acquisition costs and share based payment charges*

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2017

	Unaudited 6 months ended 30 June 2017 £000	Unaudited 6 months ended 30 June 2016 £000	Audited year ended 31 December 2016 £000
Profit for period	**503**	475	910
Total comprehensive income for the period	**503**	475	910

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2017

	Share capital £000	**Share premium £000**	**Equity reserve £000**	**Special reserve £000**	**Retained earnings £000**	**Currency translation reserve £000**	**Total equity £000**
Balance at 1 January 2016 (audited)	349	14	203	8	2,823	(211)	3,186
Profit for the period	-	-	-	-	475	-	475
Total comprehensive income for the period	-	-	-	-	475	-	475
Conversion of convertible loan notes	2	11	(1)	-	-	-	12
Equity-settled share based payments	-	-	-	-	13	-	13
Settlement of non-consenting creditors	-	-	-	(8)	8	-	-
Balance at 30 June 2016 (unaudited)	351	25	202	-	3,319	(211)	3,686
Balance at 1 January 2016 (audited)	349	14	203	8	2,823	(211)	3,186
Profit for the year	-	-	-	-	910	-	910
Total comprehensive income for the year	-	-	-	-	910	-	910
Conversion of convertible loan notes	8	54	(3)	-	-	-	59
Equity-settled share based payments	-	-	-	-	27	-	27
Settlement of non-consenting creditors	-	-	-	(8)	8	-	-
Balance at 31 December 2016 (audited)	357	68	200	-	3,768	(211)	4,182
Balance at 1 January 2017 (audited)	357	68	200	-	3,768	(211)	4,182
Profit for the period	-	-	-	-	503	-	503
Total comprehensive income for the period	-	-	-	-	503	-	503
Conversion of convertible loan notes	7	51	(2)	-	-	-	56
Exercise of share options	3	22	-	-	-	-	25
Equity-settled share based payments	-	-	-	-	12	-	12
Balance at 30 June 2017 (unaudited)	**367**	**141**	**198**	**-**	**4,283**	**(211)**	**4,778**

Condensed Consolidated Balance Sheet
at 30 June 2017

	Unaudited 30 June 2017 £000	Unaudited 30 June 2016 £000	Audited 31 December 2016 £000
ASSETS			
Non-current assets			
Property, plant and equipment	**667**	360	456
Intangible assets	**2,044**	1,875	1,992
Deferred tax assets	**364**	429	364
	3,075	2,664	2,812
Current assets			
Inventories	**2,828**	2,075	1,953
Trade and other receivables	**3,392**	2,332	2,398
Cash and cash equivalents	**1,543**	1,990	2,322
	7,763	6,397	6,673
Total assets	**10,838**	9,061	9,485
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	**367**	351	357
Share premium	**141**	25	68
Equity reserve	**198**	202	200
Currency translation reserve	**(211)**	(211)	(211)
Retained earnings	**4,283**	3,319	3,768
Total equity	**4,778**	3,686	4,182
Non-current liabilities			
Interest-bearing loans and borrowings	**1,503**	1,550	1,540
Deferred tax liabilities	**-**	9	-
	1,503	1,559	1,540
Current liabilities			
Interest-bearing loans and borrowings	**7**	-	7
Trade and other payables	**4,550**	3,816	3,756
	4,557	3,816	3,763
Total liabilities	**6,060**	5,375	5,303
Total equity and liabilities	**10,838**	9,061	9,485

Condensed Consolidated Statement of Cash Flows

for the six months ended 30 June 2017

	Unaudited 6 months ended 30 June 2017 £000	Unaudited 6 months ended 30 June 2016 £000	Audited year ended 31 December 2016 £000
Cash flows from operating activities			
Profit for the period	**503**	475	910
Adjustments for:			
Depreciation	**80**	43	107
Amortisation of intangible assets	**242**	120	335
Equity settled share-based payment expenses	**12**	13	27
Financial income	**-**	(2)	(4)
Financial expense	**88**	80	174
Income tax credit	**-**	-	15
Operating cash flows before movement in working capital	**925**	729	1,564
Change in trade and other receivables	**(992)**	(129)	(224)
Change in inventories	**(875)**	118	241
Change in trade and other payables	**793**	(536)	(660)
Cash generated (absorbed by)/from operations	**(149)**	182	921
Interest received	**-**	2	4
Interest paid	**(69)**	(62)	(137)
Income tax received	**-**	-	210
Net cash (absorbed by)/from operating activities	**(218)**	122	998
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	**-**	(239)	(239)
Acquisition of property, plant and equipment	**(291)**	(106)	(266)
Capitalised development expenditure	**(294)**	(265)	(645)
Net cash outflow from investing activities	**(585)**	(610)	(1,150)
Cash flows from financing activities			
Finance lease repayments	**(1)**	-	(4)
Proceeds from exercise of share options	**25**	-	-
Net cash inflow/(outflow) from financing activities	**24**	-	(4)
Net decrease in cash and cash equivalents	**(779)**	(488)	(156)
Cash and cash equivalents at start of period	**2,322**	2,478	2,478
Cash and cash equivalents at end of period	**1,543**	1,990	2,322
Cash and cash equivalents comprise:			
Cash and cash equivalents per balance sheet	**1,543**	1,990	2,322

Notes

1 Basis of preparation

The interim financial information set out in this statement for the six months ended 30 June 2017 and the comparative figures for the six months ended 30 June 2016 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 2016 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 2016. 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 2016, as described in those financial statements. The Board approved these interim financial statements on 11 September 2017.

Copies of this interim statement will be available on the Company's website (www.petards.com) and from the Company's registered office at Parallel House, 32 London Road, Guildford, GU1 2AB.

2 Administrative expenses

Legal, professional and stamp duty costs incurred in connection with the acquisition of QRO Solutions Limited in 2016 totalled £57,000 and were charged to the Condensed Consolidated Income Statement within administrative expenses.

3 Financial expenses

	Unaudited 6 months ended 30 June 2017 £000	**Unaudited 6 months ended** 30 June 2016 £000	Audited year ended 31 December 2016 £000
Interest expense on financial liabilities at amortised cost:			
- Convertible loan notes at 7% p.a. (cash)	54	57	113
- Convertible loan notes amortisation (non-cash)	19	18	37
- Finance leases (cash)	1	-	4
- Other (cash)	1	5	5
Net foreign exchange loss	**13**	-	15
Financial expenses	**88**	80	174

4 Taxation

No provision for taxation has been made in the Condensed Consolidated Income Statement for the six months to 30 June 2017 based on the estimated tax provision required for the year ending 31 December 2017. No provision was required in the six months to 30 June 2016.

5 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 2017	Unaudited 6 months ended 30 June 2016	Audited year ended 31 December 2016
Earnings			
Profit for the period (£000)	**503**	475	910
Number of shares			
Weighted average number of ordinary shares ('000)	**36,149**	34,998	35,199

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 2017	Unaudited 6 months ended 30 June 2016	Audited year ended 31 December 2016
Adjusted earnings			
Profit for the period (£000)	**576**	550	1,060
Number of shares			
Weighted average number of ordinary shares ('000)	**58,607**	57,966	56,881