16 March 2015

PETARDS GROUP PLC

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

Petards Group plc ('Petards'), the AIM quoted developer of advanced security and surveillance systems, reports its audited results for the year ended 31 December 2014.

Key points:

- **Operational**
  - Order book maintained to close at £20 million (2013: £20 million)
  - Secured five year framework agreement with Siemens Mobility Division for the supply of Petards train related products and services under which over £3 million of orders received to date
  - Other significant orders secured during the year included:
    - Over £5.5 million for electronic countermeasure related projects from the MOD
    - Re-awarded framework contract by MOD to supply to it private mobile radio equipment, ancillaries and engineering support
    - Further orders from other leading global train builders including Bombardier Transportation and Hitachi Europe
- **Financial**
  - Petards returns to profitability
  - Results for 2014
    - Revenues more than doubled to £13.5 million (2013: £6.3 million)
    - Gross margin 30% (2013: 40%) reflecting higher defence-related equipment revenues
    - EBITDA £1.0 million profit (2013: £0.7 million loss)
    - Operating profit £0.8 million (2013: £1.3 million loss)
    - Profit after tax £0.6 million (2013: £2.3 million loss)
  - Finance
    - Generated £0.8 million of operating cash inflows
    - Cash at 31 December 2014 £1.4 million (31 Dec 2013: £1.4 million) and no bank debt
    - Convertible loan notes of £1.5 million maturing in September 2018 providing long term finance (31 Dec 2013: £1.5 million)
    - Basic EPS of 1.8p earnings per share (2013: 15.9p loss per share)
    - Diluted EPS of 1.4p earnings per share (2013: 15.9p loss per share)
- **Outlook**
  - Over 50% of opening order book scheduled for delivery in 2015
  - Performance in 2015 to date in line with management's expectations

Raschid Abdullah, Chairman of Petards, commented:

"I am pleased to say for the year to date the Group has traded in line with expectations and that it remains well placed to add to the achievements of 2014. The visibility provided by the Group's current forward order book and its pipeline of order prospects provides the Board with confidence that further progress will be made in 2015."

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Chairman’s statement

Corporate Overview

I am pleased to report that for the year to 31 December 2014 Petards Group plc (“Petards” or “the Group” or “the Company”) recorded pre-tax profits of £620,000 building on the return to pre-tax profitability of £273,000 announced at the interim stage.

This has been achieved with no diminution of order book which stood at £20 million at the start of 2015 of which over 50% is scheduled to be delivered in the current year.

The Group’s strengthened financial position has also enabled investment to be made in both our people and products, which the Board have continued into 2015.

Operating Review

The Group serves three sectors, those of:

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

Having built a solid foundation for the future based on a strong order book and appropriate financing in the latter part of 2013, the challenges faced by the Group in 2014 were to continue to develop the Group’s potential while profitably delivering on the order book and at the same time maintaining its level. I am pleased to say that these challenges were met successfully.

The Board’s strategy to develop the Group’s presence in the new train build market continues to bear fruit. At the half year stage I reported on the five year framework agreement that the Group had entered into with Siemens’ rail business. To date, under the framework agreement two significant orders have been obtained. While under the framework agreement there can be no guarantee that future business will be obtained, it has provided Petards with the opportunity to develop its strategic relationship with Siemens, a leader in the global rail market.

In addition, during the year significant orders as well as day to day transactional business was obtained from other leading global new train builders including Bombardier Transportation and Hitachi Rail Europe.

While every new train builder has its own preferred way of operating with its suppliers, wherever possible it remains management’s objective to seek to work closer with its customers in the areas of product development and service within an established framework.

Defence products continue to form an important part of the Group’s revenues and profitability with several significant contracts being secured during the year, in particular a £4.5 million order from the MOD in June to modify electronic countermeasures equipment fitted to many of its aircraft was followed in December by an order from MOD for in excess of £1 million for electronic countermeasures equipment for helicopters in the Royal Navy’s Merlin fleet.

In addition, the Board and management were pleased to be awarded by the MOD in open tender an ‘enabling contract’ to supply it with private mobile radio equipment, ancillaries and engineering support. The contract, which has historically produced annual revenues of circa £500,000, is for two years with the MOD having the option to extend for a further two years and replaces the previous contract the Company had held for a number of years.

While Emergency Services forms the smallest of the three areas in which Petards operates it is a useful contributor of revenue working from a small operational cost base and provides a useful contribution when measured on returns on capital employed and Group resources utilised. Its *Provida 4000* in-car video evidence and speed enforcement system remains one of only two such systems that currently have UK Home Office Type Approval. During the year it received a steady flow of orders from UK Law Enforcement Agencies with trading in the second half year being broadly similar to that experienced in the first half. As well as the home market, Emergency Services products also have the potential for sales to overseas markets, an area of marketing activity management intends to selectively pursue in 2015.

Revenues for *eyeTrain* products were higher in the second half of the year with deliveries on projects for Bombardier, Hyundai Rotem and Siemens being the main contributors. The MOD's Secure Management Radio Equipment ("SMRE") project won in 2013 formed a significant proportion of Defence revenues in the first half year. However, as the majority of the related equipment had been delivered by June, deliveries in the second half were much less significant and by the year end almost 95% of the equipment had been delivered. The SMRE contract includes £1.7 million for the support of that equipment for 10 years, revenues for which will be recognised over the period that the support is provided.

As I reported in September, our **'Fit 4 Growth'** is now focussed on the continuous improvement and development of the Group.

Since the beginning of the second half of 2014, additional resources have been recruited to support both increased levels of activity and to enhance the Group's business and product development service offering to its customers. The Board recognises the importance of such costs remaining in step with revenues and profitability and as such they will continue to be closely monitored.

Overview of the Results

The results for 2014 benefitted significantly from a strong opening order book with revenues more than doubled to £13.5 million (2013: £6.3 million) on which the Group made an operating profit of £0.8 million (2013: £1.3 million loss). While revenues for Provida remained flat, those for eyeTrain and Defence products both saw increases well in excess of 100% over the previous year resulting from significant orders received from the MOD, Siemens, Bombardier and Hyundai Rotem.

Gross margin for the second half year was higher than that achieved in the first half year at 33.8% (H1 2014: 27.4%) and totalled 30.4% for the year (2013: 40.4%). The differing product mix was the principal reason for this improvement as the first half year, in line with management's forecasts, included the supply of a significant volume of lower margin third party equipment on the SMRE project whereas the second half revenues included a much greater proportion of Petards own *eyeTrain* related products and services.

Administrative expenses of £3.3 million for the year remained tightly controlled and were £0.5 million lower than the prior year when they totalled £3.8 million including £0.3 million of restructuring costs.

Net financial expenses were £0.1 million almost all of which related to cash and amortised interest on the 7% convertible loan notes issued in September 2013. The prior year net expense of £1.1 million included exceptional finance costs of £1.0 million relating to the debt for equity swap undertaken with Water Hall Group in 2013.

As a consequence of brought forward losses from previous years, there is no tax payable in respect of the Group's profit for the year (2013 - £0.1 million credit) resulting in a profit after tax of £0.6 million (2013: £2.3 million loss).

The profits generated in the year served to further strengthen the balance sheet and shareholders' funds increased to £2.4 million (2013: £1.7 million). While working capital increased slightly in the second half year the Group generated an operating cash inflow for the year of £0.8 million (2013: £1.3 million cash outflow). After investing activities, primarily related to product development, net debt remained at £0.1 million (2013: £0.1 million) and comprised convertible loan notes which mature in September 2018 of £1.5 million net of cash balances of £1.4 million.

Dividends

The Board is conscious of the value of dividends to investors. While the return to profitability is encouraging and the balance sheet is in good shape, the Board would wish to see further evidence of the Group's recovery before recommending joining the dividend list. In addition, the Company has a considerable deficiency on its distributable reserves which in any event presently prevents the payment of dividends.

In anticipation that the Group's recovery will prove sustainable during 2015 and beyond, it is the intention of the Board to review how best to address this matter. Any solution to clear the way for dividend payments at the appropriate time is likely to require the consent of both shareholders and the Court.

Product Development

The Board recognises the importance of the Group investing to develop its portfolio of products and services to both maintain its competitive position and to grow revenues. Costs for product development for the year that totalled almost £0.75 million, were predominantly focussed on the development of the Petards *eyeTrain* product which the Board believes is an area of the Group's business that offers significant growth potential. While remaining a key area of focus for both *eyeTrain* and *Provida*, the level of development expenditure required in 2015 to achieve this is anticipated to be significantly lower.

Personnel

While directors formulate strategy and set capital allocation, performance objectives and key management rewards for the Group, delivery thereon is very much the result of the efforts and commitment of our people at operational level. Over the past 18 months, Petards Joyce-Loebl, the Company's operational unit located in Gateshead, has undergone considerable change in operating structure and personnel with approximately 35% either having moved on or been replaced and others taking broader roles and more responsibility coupled with accountability.

On behalf of the Board I welcome those who have joined the Company during 2014 and thank all our people for their valued contribution to the delivery of a significant improvement in the Group's operating performance. The Board looks forward to their continued support and contribution in 2015 which it believes has the ingredients to be an exciting period in the Group's development.

Strategy

The Board believes that Petards operates in growth areas and that it has the products and services plus available technical and technological skills to develop new products as well as the sales and marketing abilities to become a larger and more successful operator in each of the sectors in which it operates.

The Group's relationships with its predominantly international 'blue chip' and government agency customer base and their strength, often global, in the sectors which the Company serves gives rise to the opportunity to develop Petards business through the provision of good quality professional service in support of its existing and future product ranges.

While the Board is mindful of economic cycles and the impact they can have on businesses and business plans, and the risks associated with over expansion, it believes that in the short to medium term the current management structure coupled with the balance sheet and financial stability of the Group, is capable of continued implementation of the strategy in pursuit of the achievement of its strategic objectives.

Outlook

Investment in new rail transport rolling stock has continued to benefit from government initiatives around the world and there is no obvious sign that this is to likely change in the foreseeable future. The directors are confident that UK rail operating franchise renewals over the coming years will result in new opportunities for Petards' products and services.

Petards position as a long established specialist “value added” re-seller within the UK defence industry is expected to continue to provide a platform to develop this area of the Group’s business. While defence budgets remain under scrutiny the areas in which the Group operates are niche and are not expected to be materially affected. Further, the Board believes that with additional management attention and resource being devoted to it, the Emergency Services will make a larger contribution to Group sales and profits in 2015.

I am pleased to say for the year to date the Group has traded in line with expectations and that it remains well placed to add to the achievements of 2014. The visibility provided by the Group’s current forward order book and its pipeline of order prospects provides the Board with confidence that further progress will be made in 2015.

Raschid Abdullah
Chairman

Consolidated Income Statement

for year ended 31 December 2014

	Note	2014 £000	2013 £000
Revenue	2	**13,462**	6,259
Cost of sales		**(9,370)**	(3,733)
Gross profit		**4,092**	2,526
Administrative expenses		**(3,323)**	(3,856)
Operating profit/(loss)		**769**	(1,330)
Analysed as:			
Earnings before interest, tax, depreciation and amortisation (‘EBITDA’)		**1,015**	(716)
Depreciation and amortisation		**(246)**	(308)
Restructuring costs		**-**	(306)
		769	(1,330)
Financial income	3	**3**	20
Financial expenses	3	**(152)**	(1,078)
Profit/(loss) before tax		**620**	(2,388)
Income tax	4	**-**	95
Profit/(loss) for the year attributable to equity shareholders of the parent		**620**	(2,293)
Earnings per share (pence)			
Basic	7	**1.80**	(15.87)
Diluted	7	**1.37**	(15.87)

Consolidated Statement of Comprehensive Income

for year ended 31 December 2014

	2014 £000	2013 £000
Profit/(loss) for the year	**620**	(2,293)
Other comprehensive income		
Items that may be reclassified to profit:		
Currency translation on foreign currency net investments	**-**	(13)
Total comprehensive income for the year	**620**	(2,306)

Statements of Changes in Equity

for year ended 31 December 2014

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 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
Balance at 1 January 2014	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	**6,651**	**25,192**	**1,075**	**204**	**(30,510)**	**(211)**	**2,401**

Consolidated Balance Sheet
at 31 December 2014

	Note	2014	2013
		£000	£000
ASSETS			
Non-current assets			
Property, plant and equipment		**187**	165
Goodwill		**401**	401
Development costs		**1,103**	640
Deferred tax assets		**516**	653
		2,207	1,859
Current assets			
Inventories		**1,439**	1,779
Trade and other receivables		**2,982**	983
Cash and cash equivalents – escrow deposits		**54**	-
Cash and cash equivalents		**1,434**	1,440
		5,909	4,202
Total assets		**8,116**	6,061
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	*6*	**6,651**	6,645
Share premium		**25,192**	25,153
Equity reserve		**204**	206
Merger reserve		**1,075**	1,075
Currency translation reserve		**(211)**	(211)
Retained earnings deficit		**(30,510)**	(31,132)
Total equity		**2,401**	1,736
Non-current liabilities			
Interest-bearing loans and borrowings	*5*	**1,524**	1,518
Deferred tax liabilities		**100**	128
		1,624	1,646
Current liabilities			
Interest-bearing loans and borrowings		**-**	-
Other trade and other payables		**4,091**	2,679
		4,091	2,679
Total liabilities		**5,715**	4,325
Total equity and liabilities		**8,116**	6,061

Consolidated Statement of Cash Flows
for year ended 31 December 2014

	Note	2014	2013
		£000	£000
Cash flows from operating activities			
Profit/(loss) for the year		**620**	(2,293)
Adjustments for:			
Depreciation		**48**	47
Amortisation of intangible assets		**198**	261
Financial income	*3*	**(3)**	(20)
Financial expense	*3*	**152**	1,078
Income tax credit		**-**	(95)
Exchange differences		**-**	(13)
Operating cash flows before movement in working capital		**1,015**	(1,035)
Change in trade and other receivables		**(2,035)**	647
Change in inventories		**340**	(568)
Change in trade and other payables		**1,340**	(267)
Cash generated from operations		**660**	(1,223)
Interest received		**3**	20
Interest paid		**(110)**	(60)
Tax received		**208**	-
Net cash from operating activities		**761**	(1,263)
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(70)**	(40)
Capitalised development expenditure		**(661)**	(371)
Cash deposits held in escrow		**(54)**	77
Net cash outflow from investing activities		**(785)**	(334)
Cash flows from financing activities			
Proceeds from exercise of share options	*6*	**18**	-
Proceeds from share issue		**-**	1,150
Expenses of share issue		**-**	(87)
Water Hall transaction	*3*	**-**	(83)
Proceeds from sale of own shares		**-**	595
Repayment of bank borrowings		**-**	(42)
Net cash inflow from financing activities		**18**	1,533
Net decrease in cash and cash equivalents		**(6)**	(64)
Water Hall transaction: Settlement of working capital facility	*3*	**-**	1,551
Total movement in cash and cash equivalents in the year		**(6)**	1,487
Cash and cash equivalents at 1 January		**1,440**	(47)
Cash and cash equivalents at 31 December		**1,434**	1,440

1 Basis of preparation and status of financial information

The financial information set out in this statement 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 does not constitute the Company's statutory accounts for the years ended 31 December 2014 or 31 December 2013 but is derived from those accounts. Statutory accounts for 2013 have been delivered to the registrar of companies, and those for 2014 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, to monitor performance and to allocate resources.

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 ruggedised 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 2013 the Group's operations continue to comprise one segment.

Revenue by geographical destination can be analysed as follows:

	2014	2013
	£000	£000
United Kingdom	**10,773**	5,482
Continental Europe	**1,724**	488
Rest of World	**965**	289
	13,462	6,259

Included in the above amounts are revenues of £9,793,000 (2013: £862,000) in respect of construction contracts. The balance comprises revenue from sales of goods and services.

3 Financial income and expense

	2014	2013
	£000	£000
Recognised in profit or loss		
Interest on bank deposits	**3**	-
Net foreign exchange gain	**-**	20
Financial expenses	**3**	20

	£000	£000
Interest expense on financial liabilities at amortised cost	**150**	100
Net foreign exchange loss	**2**	-
Water Hall transaction (see below)	**-**	978
Financial expenses	**152**	1,078

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 share options, and convertible loan notes 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 was included in total exceptional finance costs for the year of £978,000; the balance included transaction expenses of £118,000 (transaction expenses totalled £155,000 of which £37,000 was allocated to merger reserve). The net cash effect of the transaction was 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

	2014		2013	
	£000	**£000**	£000	£000
Current tax credit				
Adjustment in respect of prior years	**(109)**		(36)	
Total current tax		**(109)**		(36)
Deferred tax (credit)/expense				
Origination and reversal of temporary differences	**(15)**		4	
Recognition of previously unrecognised tax losses	**(72)**		(161)	
Utilisation of recognised tax losses	**169**		23	
Adjustment in respect of prior years	**27**		75	
Total deferred tax		**109**		(59)
Total tax (credit)/charge in income statement		**-**		(95)

The deferred tax charge of £27,000 in respect of prior years arose from the surrender of tax losses for R&D credits relating to 2013. The associated R&D credits of £109,000 are included in the current tax credit.

Reconciliation of effective tax rate

	2014	2013
	£000	£000
Profit/(loss) before tax	**620**	(2,388)
Tax using the UK corporation tax rate of 21.5% (*2013: 23.25%)*	**133**	(555)
Non-deductible expenses	**36**	256
Non-taxable income	**-**	(7)
Utilisation of tax losses	**(87)**	(23)
Effect of tax losses generated in year not provided for in deferred tax	**-**	133
Change in unrecognised temporary differences	**6**	1
Adjustments in respect of prior years	**(81)**	39
Effect of rate change	**(7)**	61
Total tax credit	**-**	(95)

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.

	2014 £000	2013 £000
Non-current liabilities		
Convertible loan notes	**1,524**	1,518

The convertible £1 loan notes, which were issued in 2013 in connection with its purchase of the entire share capital of Water Hall Group plc, carry a fixed interest rate of 7% per annum and are convertible at a conversion price of 8p into ordinary shares of 1p each at any time prior to maturity. Interest is paid quarterly and the loan notes mature on 10 September 2018.

At 31 December 2014 the nominal value of the outstanding loan notes was £1,657,928.

6 Share capital

	At 31 December 2014 No	At 31 December 2013 No
Number of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**34,731,871**	34,171,975
Deferred shares of 1p each	**630,342,900**	630,342,900
	665,074,771	664,514,875

	£000	£000
Value of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**348**	342
Deferred shares of 1p each	**6,303**	6,303
	6,651	6,645

The Company's issued share capital comprises 34,731,871 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 rights or participation in the profits of the Company.

During the year the Company issued 334,896 ordinary 1p shares following conversion of £26,792 convertible loan notes at a conversion price of 8p each and 225,000 ordinary 1p shares following the exercise of share options at an exercise price of 8p each.

7 Earnings per share

Basic earnings per share

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

	2014 £000	2013 £000
Earnings		
Profit/(loss) for the year	**620**	(2,293)
	'000	'000
Number of shares		
Weighted average number of ordinary shares	**34,514**	14,456

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 year attributable to the shareholders by the assumed weighted average number of shares in issue. The adjusted profit for the year comprises the profit for the year attributable to the shareholders after adding back the interest on convertible loan notes.

	2014	2013
	£000	£000
Adjusted earnings		
Profit/(loss) for the year	**769**	(2,293)
	'000	'000
Number of shares		
Weighted average number of ordinary shares	**55,931**	14,456

At 31 December 2013 diluted earnings per share was identical to the basic earnings per share as the Group was loss making.