

3 September 2014

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 2014.

Key points:

- **Operational**
 - Order book remains in excess of £20 million giving strong position for the second half 2014 and future years.
 - Approximately one third of order book is scheduled for delivery in the second half of 2014
 - Orders secured in first half of 2014 included;
 - Over £1.5 million for Petards eyeTrain CCTV systems from Siemens for new super high-speed trains it is building for the Turkish State Railway. This was the first order placed under a framework agreement signed with Siemens in June 2014 for the supply of Petards train related products and services.
 - Over £4.5 million for modification programme relating to countermeasures equipment for the MOD.
- **Financial**
 - Results for the six months to 30 June 2014
 - Revenues up 101% to £7.2 million (2013: £3.6 million)
 - Gross margin 27% (2013: 40%), a reflection of higher defence equipment supplies
 - EBITDA £441,000 profit (2013: £158,000 loss before exceptionals)
 - Operating profit £346,000 (2013: £299,000 loss)
 - Profit after tax £273,000 (2013: £338,000 loss)
 - Finance
 - Cash inflow from operating activities £181,000 (2013: £1,029,000 outflow)
 - Cash at 30 June 2014 £1.5 million (31 Dec 2013: £1.4 million) and no bank debt
 - Basic EPS of 0.79p per share (2013: 3.11p loss per share)
 - Diluted EPS of 0.62p per share (2013: 3.11p loss per share)

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

“The second half of 2014 has started well and the Group continues to trade profitably. The Group’s overall order book is in excess of £20 million of which over one third is expected to be delivered before the end of the current year.

There continue to be opportunities for development and growth in all of our current product areas and we expect customers to be placing orders on a number of projects in the coming months which we believe we are well placed to secure.

The Board is confident about the Group’s prospects for the second half and beyond as whilst there is still work to be done this year in closing out new business, the present order book already provides a strong base going forward into 2015.”

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Chairman's Statement

Corporate Overview

I am pleased to report that having entered the year with a strong order book the Group has produced a much improved trading performance in the six months ended 30 June 2014. Revenues totalled £7.2 million and the pre-tax profit was £273,000. In addition the Group has secured a number of significant contracts within both the rail and defence industries and has a strong order book.

The financing transactions completed in the latter part of 2013 coupled with positive cash flows on the larger projects currently flowing through the business have put the Company in a much stronger position with no bank debt and cash balances of £1.5 million as at 30 June 2014.

Operating Review

The Group continued to make progress on a number of fronts with the award of some key projects during the period.

Petards' strategic position within the new train build market was strengthened with a five year framework agreement being entered into with Siemens' rail vehicle business to supply Petards train related products and services. The first order under that agreement was placed to supply Petards eyeTrain on-board digital CCTV systems for the new super high-speed Velaro type trains that Siemens are building for the Turkish State Railway. The project is currently worth in excess of £1.5 million and has the potential to increase in size over time providing that Siemens is successful in winning additional train orders from the Turkish State Railway which has announced plans to procure up to a further 90 high speed trains.

The UK rail market offers a number of near term order opportunities for Petards eyeTrain systems for fitment onto new build trains for rolling stock for which orders have been placed on train builders already and for rolling stock for which orders are expected to be placed soon. Also as previously anticipated, enquiry levels for retrofit applications are increasing as a result of the letting of new franchises to UK train operators.

The contract awarded at the end of June, worth over £4.5 million, by the Ministry of Defence ("MOD") to modify countermeasures equipment fitted to many of its aircraft will contribute to revenues in 2014 and the two following years. This programme will replace obsolete components within ALE-47 Threat Adaptive Countermeasure Dispensing System (TACDS) Programmers which form part of the integrated Defensive Aids Suite installed on a variety of aircraft. We are hopeful that some other smaller countermeasures projects will be approved in the second half of the year.

Petards has been the long standing operator of an MOD enabling contract to supply it with private mobile radio equipment, ancillaries and engineering services and the Group's expertise in this field was recognised when it was awarded the £7 million Secure Management Radio Equipment ("SMRE") project in 2013. We were therefore extremely pleased to have learned yesterday that Petards has been awarded, subject to contract, the new enabling contract that commences later this month. Revenues from this new two year contract are estimated to be similar to those under the previous contract which were in excess of £0.5 million per annum and the MOD have the option to extend the contract by up to a further two years.

Trading in our Emergency Services products remained similar to that for the equivalent period in 2013 and continues to make a small but positive contribution to the Group's profitability. Consideration is presently being given to how the Group's business in this area could be enhanced through product development.

Our 'Fit 4 Growth' programme is on-going and is now focused on the continuous improvement and development of our businesses. To support this programme and our current business levels of activity, additional resources have been recruited but operating costs will continue to be closely monitored to ensure they remain in step with both revenues and margins.

Overview of the Results

Group revenues for the six months ended 30 June 2014 of £7.2 million were double the £3.6 million achieved in the equivalent period last year and were almost 15% higher than the total revenues for the prior year (2013: £6.3 million). Equipment deliveries for the SMRE project accounted for a substantial proportion of this growth, although revenues from both equipment and one-off engineering services provided to Bombardier, Siemens and Hyundai Rotem were also notable contributors.

In line with our expectations, gross margins were down to 27% (June 2013: 40%). While margins on our different product lines were generally maintained, the main cause of the reduction in the margin percentage was the mix of business compared with that of 2013. In particular, the SMRE project had a significant effect due to its high material cost content as did some of the one-off rail engineering services which were competitively priced in order to gain market position for potential future equipment orders from those customers.

Administrative expenses totalled £1.6 million (June 2013: £1.7 million) and after net financial expenses of £73,000 (June 2013: £39,000) and no tax charge, the Group recorded a profit after tax of £273,000 (June 2013: £338,000 loss).

Despite working capital increasing in the six months by approximately £0.2 million due to higher revenues, net cash inflow from operating activities was £0.2 million which compared favourably with a net cash outflow of £1.0 million in the same period last year. Cash balances at 30 June 2014 were £1.5 million and were similar to those at 31 December 2013 (£1.4 million).

Board changes

I am pleased to announce that Paul Negus was appointed as a director of the Company on 3 September 2014. Paul has responsibility for business development for the Group's rail products and brings considerable commercial experience having spent eight years as Managing Director of PIPS Technology Limited, a developer of automatic number plate recognition and CCTV systems first under private ownership and latterly under the ownership of Federal Signal Inc.

During the implementation of the '**Fit 4 Growth**' programme, Osman Abdullah assumed an interim role chairing the board of the Company's main operating subsidiary, Petards Joyce-Loebl. In recognition that this role is likely to continue for the foreseeable future the Board considers that the nature of his contribution will be as an executive director of the Company.

Outlook

The second half of 2014 has started well and the Group continues to trade profitably. The Board anticipates securing some additional business during the latter part of this year that is expected to make a contribution to revenues during the second half year. The Group's overall order book is in excess of £20 million of which over one third is expected to be delivered before the end of the current year.

There continue to be opportunities for development and growth in all of our current product areas and we expect customers to be placing orders on a number of projects in the coming months which we believe we are well placed to secure.

The Board is confident about the Group's prospects for the second half and beyond as whilst there is still work to be done this year in closing out new business, the present order book already provides a strong base going forward into 2015.

Raschid Abdullah
3 September 2014

Condensed Consolidated Income Statement

for the six months ended 30 June 2014

	Note	Unaudited 6 months ended 30 June 2014 £000	Unaudited 6 months ended 30 June 2013 £000	Audited year ended 31 December 2013 £000
Revenue		7,163	3,572	6,259
Cost of sales		(5,202)	(2,147)	(3,733)
Gross profit		1,961	1,425	2,526
Administrative expenses		(1,615)	(1,724)	(3,856)
Operating profit/(loss)		346	(299)	(1,330)
<i>Analysed as:</i>				
Earnings before interest, tax, depreciation and amortisation ('EBITDA')		441	(158)	(716)
Depreciation and amortisation		(95)	(69)	(308)
Share based payments		-	-	-
Restructuring costs		-	(72)	(306)
		346	(299)	(1,330)
Financial income		2	15	20
Financial expenses	2	(75)	(54)	(1,078)
Profit/(loss) before tax		273	(338)	(2,388)
Income tax	3	-	-	95
Profit/(loss) for the period attributable to equity shareholders of the company		273	(338)	(2,293)
Basic earnings per share (pence)	4	0.79	(3.11)	(15.87)
Diluted earnings per share (pence)	4	0.62	(3.11)	(15.87)

The above results are derived from continuing operations.

Condensed Consolidated Statement of Comprehensive Income

for the six month period ended 30 June 2014

	Unaudited 6 months ended 30 June 2014 £000	Unaudited 6 months ended 30 June 2013 £000	Audited year ended 31 December 2013 £000
Profit/(loss) for period	273	(338)	(2,293)
Other comprehensive income			
Currency translation on foreign currency net investments	-	(13)	(13)
Total comprehensive income for the period	273	(351)	(2,306)

Condensed Consolidated Statement of Changes in Equity

for the six month period ended 30 June 2014

	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 (audited)	6,412	24,152	-	-	(28,849)	(198)	1,517
Loss for the period	-	-	-	-	(338)	-	(338)
Other comprehensive income	-	-	-	-	-	(13)	(13)
Total comprehensive income for the period	-	-	-	-	(338)	(13)	(351)
Balance at 30 June 2013 (unaudited)	6,412	24,152	-	-	(29,187)	(211)	1,166
Balance at 1 January 2013 (audited)	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 2)	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 (audited)	6,645	25,153	1,075	206	(31,132)	(211)	1,736
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

Condensed Consolidated Balance Sheet at 30 June 2014

	Unaudited 30 June 2014 £000	Unaudited 30 June 2013 £000	Audited 31 December 2013 £000
ASSETS			
Non-current assets			
Property, plant and equipment	170	182	165
Goodwill	401	401	401
Development costs	618	488	640
Deferred tax assets	647	587	653
	<hr/> 1,836	<hr/> 1,658	<hr/> 1,859
Current assets			
Inventories	1,900	1,924	1,779
Trade and other receivables	2,283	1,311	983
Cash and cash equivalents – escrow deposits	35	-	-
Cash and cash equivalents	1,508	256	1,440
	<hr/> 5,726	<hr/> 3,491	<hr/> 4,202
Total assets	<hr/> 7,562	<hr/> 5,149	<hr/> 6,061
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	6,648	6,412	6,645
Share premium	25,170	24,152	25,153
Equity reserve	205	-	206
Merger reserve	1,075	-	1,075
Currency translation reserve	(211)	(211)	(211)
Retained earnings deficit	(30,858)	(29,187)	(31,132)
	<hr/> 2,029	<hr/> 1,166	<hr/> 1,736
Total equity	<hr/> 2,029	<hr/> 1,166	<hr/> 1,736
Non-current liabilities			
Interest-bearing loans and borrowings	1,515	-	1,518
Deferred tax liabilities	124	122	128
	<hr/> 1,639	<hr/> 122	<hr/> 1,646
Current liabilities			
Interest-bearing loans and borrowings	-	1,334	-
Trade and other payables	3,894	2,527	2,679
	<hr/> 3,894	<hr/> 3,861	<hr/> 2,679
Total liabilities	<hr/> 5,533	<hr/> 3,983	<hr/> 4,325
Total equity and liabilities	<hr/> 7,562	<hr/> 5,149	<hr/> 6,061

Condensed Consolidated Statement of Cash Flows

for the six month period ended 30 June 2014

	Unaudited 6 months ended 30 June 2014 £000	Unaudited 6 months ended 30 June 2013 £000	Audited year ended 31 December 2013 £000
Cash flows from operating activities			
Profit/(loss) for the period	273	(338)	(2,293)
<i>Adjustments for:</i>			
Depreciation	24	24	47
Amortisation of intangible assets	71	45	261
Financial income	(2)	(15)	(20)
Financial expense	75	54	1,078
Income tax charge	-	-	(95)
Exchange differences	-	(13)	(13)
Operating cash flows before movement in working capital	441	(243)	(1,035)
Change in trade and other receivables	(1,336)	217	647
Change in inventories	(121)	(713)	(568)
Change in trade and other payables	1,206	(251)	(267)
Cash generated from operations	190	(990)	(1,223)
Interest received	2	-	20
Interest paid	(49)	(39)	(60)
Income tax received	38	-	-
Net cash from operating activities	181	(1,029)	(1,263)
Cash flows from investing activities			
Acquisition of property, plant and equipment	(29)	(34)	(40)
Capitalised development expenditure	(49)	(3)	(371)
Cash deposits held in escrow	(35)	77	77
Net cash (outflow)/inflow from investing activities	(113)	40	(334)
Cash flows from financing activities			
Proceeds from share issue	-	-	1,150
Expenses of share issue	-	-	(87)
Water Hall transaction (note 2)	-	-	(83)
Proceeds from sale of own shares	-	-	595
New short term borrowings	-	1,334	-
Repayment of bank borrowings	-	(42)	(42)
Net cash inflow from financing activities	-	1,292	1,533
Net increase/(decrease) in cash and cash equivalents	68	303	(64)
Water Hall transaction: Settlement of working capital facility (note 2)	-	-	1,551
Total movement in cash and cash equivalents in the period	68	303	1,487
Cash and cash equivalents at start of period	1,440	(47)	(47)
Cash and cash equivalents at end of period	1,508	256	1,440
Cash and cash equivalents comprise:			
Cash and cash equivalents per balance sheet	1,508	256	1,440

Notes

1 Basis of preparation

The interim financial information set out in this statement for the six months ended 30 June 2014 and the comparative figures for the six months ended 30 June 2013 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 2013 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 Adopted IFRSs. 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 2013. It does not comply with IAS 34 'Interim Financial Reporting' as is permissible under the rules of the AIM Market ("AIM").

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 2013, as described in those financial statements other than standards, amendments and interpretations which became effective after 1 January 2014 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 2 September 2014.

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 2014 £000	Unaudited 6 months ended 30 June 2013 £000	Audited year ended 31 December 2013 £000
Interest expense on financial liabilities at amortised cost:			
- Convertible loan notes at 7% p.a. (cash)	59	-	34
- Convertible loan notes amortisation (non-cash)	15	-	9
- Bank finance (cash)	-	52	54
- Other (cash)	1	2	3
Net foreign exchange loss	-	-	-
Water Hall transaction (see below)	-	-	978
	<hr/>	<hr/>	<hr/>
Financial expenses	75	54	1,078
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 ended 31 December 2013 of £978,000; the balance included transaction expenses of £118,000. The net cash effect of this 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.

3 Taxation

No provision for taxation has been made in the Condensed Consolidated Income Statement for the six months to 30 June 2014 based on the estimated tax provision required for the year ending 31 December 2014. No provision was required in the six months to 30 June 2013.

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.

The calculation of earnings per share is based on the profit for the period and on the weighted average number of ordinary shares outstanding in the period.

	Unaudited 6 months ended 30 June 2014	Unaudited 6 months ended 30 June 2013	Audited year ended 31 December 2013
Earnings			
Profit/(loss) for the period (£000)	273	(338)	(2,293)
	=====	=====	=====
Number of shares			
Weighted average number of ordinary shares ('000)	34,347	10,866	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 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 2014	Unaudited 6 months ended 30 June 2013	Audited year ended 31 December 2013
Adjusted earnings			
Profit/(loss) for the period (£000)	347	(338)	(2,293)
	=====	=====	=====
Number of shares			
Weighted average number of ordinary shares ('000)	55,983	10,866	14,456
	=====	=====	=====

At 30 June 2013 and 31 December 2013 diluted earnings per share was identical to the basic earnings per share as the Group was loss making.