20 September 2018

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

Interim results for the six months ended 30 June 2018

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 ended 30 June 2018.

Key Highlights:

- **Operational**
  - Order book at 30/06/2018 £20 million (31/12/2017- £18 million)
  - Current order coverage for H2/2018 in excess of £9.5 million and almost £8 million scheduled for 2019
  - Orders for *eyeTrain* of over £6.5 million received since 30/06/2018, adding to coverage for 2019 and beyond
  - Strong revenue performance arising from Defence related products
  - Acquisition of RTS Solutions ("RTS") successfully completed in May 2018
  - QRO secured two significant framework agreements generating new orders of over £1 million
  - Continued investment in *eyeTrain* software solutions

- **Financial**
  - Revenue increased 21% to £9.7 million (2017 - £8.0 million); 20% excluding RTS
  - Gross margins 34.6% (2017 - 38.6%) reflecting higher levels of Defence product revenues
  - Adjusted EBITDA up 17% to £1,085,000 (2017 - £925,000)
  - Adjusted pre-tax profit up 17% to £602,000 (2017 - £515,000)
  - Pre-tax profit up 2% to £514,000 (2017 - £503,000)
  - Cash generated from operating activities £966,000 (2017 - £218,000 outflow)
  - Cash balances of £2.3 million at 30/06/2018 (31/12/2017 - £1.3 million)
  - Net cash £1.0 million (post RTS acquisition) (31/12/2017 - £1.3 million)
  - Diluted EPS 0.88p (2017 - 0.98p)

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

"The Group continues to benefit from a good balance sheet and a strong forward order book of £20 million which has been further enhanced with the recently announced award of three contracts totalling over £6.5 million from Bombardier and Siemens."

"The Board is also pleased with the performance of its more recent acquisitions, QRO and RTS, and continues to review other acquisition opportunities."

"With the June 2018 order book containing revenues of approaching £10 million for the second half of 2018 and almost £8 million for 2019, the Board remains confident in the future prospects for the Group."

This announcement includes inside information as defined in Article 7 of the Market Abuse Regulation No. 596/2014 and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

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Chairman's statement

I am pleased to report that in the first six months of 2018 the Group recorded growth in revenues, profits and operating cash generation over the same period in 2017. The Group has continued to make good progress against its strategic objectives in the first half of 2018 achieving organic growth and adding to its software solution portfolio with the successful completion of the acquisition of RTS Solutions ("RTS").
Group pre-tax profits were up by 2% to £514,000 (June 2017 - £503,000) on revenues of £9.7 million, a 21% increase over the first half of 2017 (June 2017 - £8.0 million). While *eyeTrain* products continue to account for the largest proportion of the Group's revenues, Petards' Defence products performed strongly. Defence related revenues were up £2.5 million on the same period in 2017, but as these generally attract lower margins, the change in mix meant overall gross margin was 34.6%, compared with 36.8% in 2017.

Business overview

Petards' 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, and web-based real-time safety critical integrated software applications supporting the UK rail network infrastructure sold under the RTS brand to Network Rail and its Tier 1 contractors;
- Traffic – in-car speed enforcement and end-to-end Automatic Number Plate Recognition ("ANPR") systems sold under the *ProVida* and QRO brands to UK and overseas law enforcement agencies and UK based commercial customers; and
- Defence – electronic countermeasure protection systems, mobile radio systems and related engineering services sold predominantly to the UK Ministry of Defence ("MOD").

Operating review

During the six months ended 30 June 2018 the Group continued to perform well across all its chosen markets. The pick-up in activity in our defence markets reported in March has boosted revenues from this sector in the first half of 2018 and was the main driver behind the 21% increase in revenues over the comparable period in 2017. Deliveries of the Group's *eyeTrain* on-board train solutions remained strong although, as explained below, recorded revenues were less than 2017 following the adoption of the new revenue recognition accounting standard IFRS 15. Within the Traffic market, demand for QRO's products and services was very strong, although *ProVida* revenues were down on the first half of 2017.

Revenues from *eyeTrain* continue to be the largest element of overall Group revenues with deliveries in the six months to June 2018 being spread across multiple projects with the major global train builders such as Siemens, Bombardier, Hitachi and Stadler, mainly for new train build projects. While there were no major *eyeTrain* orders received in the period, shortly after 30 June three significant contracts totalling over £6.5 million that had been expected in the first half year were secured.

As I have commented on previously, in recent years the volume of new rolling stock ordered has driven demand for Petards' *eyeTrain* solutions. That continues to be the case and in addition more opportunities are arising for larger UK retrofit projects utilising the additional system functionality developed by Petards in recent times such as Driver Controlled Operation ("DCO") and Automatic Selective Door Opening ("ASDO"). We are hopeful that further retrofit orders will be forthcoming.

As previously anticipated, as the *eyeTrain* installed base has increased, so have revenues from service and spares and these totalled around £0.8 million for the first half year. This is an important area of the business and one that we continue to focus on continuing to grow.

The Group has continued to invest in the development of its core *eyeTrain* solutions and in customer specific functionality and that is expected to continue in the second half year. On completion of the current development phase we anticipate that the required level of ongoing investment will reduce.

As I have mentioned, revenues from Defence products were up significantly on the first six months of 2017. The main drivers of this were the receipt and delivery of £1.5 million in contracts for the provision of communications equipment and services under the framework agreement Petards presently operates for the MOD. While such orders are received on an ongoing basis, these were larger than usual. In addition, the Group successfully completed the delivery of the £1 million "Emulator" contract from the MOD. This tool will enable the MOD to use Petards ALE-47 Threat Adaptive Countermeasures Dispenser System (TACDS) more effectively and so better protect its large transport aircraft.

Engineering services performed by Petards, for the MOD in particular, represent an important contributor to the Group's profits. We were therefore very pleased that the MOD exercised its option to extend Petards' existing three year contract for a further two years to 31 December 2021 for the support of ALE 47 and M147 TACDS Systems which are fitted to Puma, Chinook, Merlin, and C130J aircraft. The contract extension is worth £1.1 million for which Petards will continue to perform core post design services. This should be further supplemented by additional engineering, repair, refurbishment and manufacturing orders that are expected to significantly enhance the value of the extended agreement.

QRO was acquired by Petards over two years ago and we are pleased with the progress it has made. As I reported in March, early in 2018 QRO secured two non-exclusive framework agreements to provide ANPR equipment and services. The first is a 4 year framework contract with Thames Valley Police and Hampshire Constabulary which can be extended at their option by a further 3 years. The second is a 3 year framework contract with Cheshire Police which again at their option may be extended by up to a further 3 years. Other UK forces may utilise these framework agreements to procure their own ANPR equipment and services and as a consequence QRO has recorded a strong order intake in the first half year, with over £1 million of orders being placed under these agreements.

QRO has always had strong relationships with UK police forces. However, as was hoped, these framework agreements are providing opportunities with other UK forces that were previously unavailable to it. As a result, QRO's overall order intake for the first six months of 2018 exceeded that achieved in the whole of 2017 by some margin. Revenues from the Group's other Traffic products under the *ProVida* brand were similar to those achieved in the second half of 2017 but were lower than achieved in the first half of 2017. QRO revenues were up on the first six months of 2017 and as the majority of the orders received by QRO in that period will be delivered in the second half of 2018, overall we expect Traffic products to achieve a strong performance for 2018.

Acquisition

On 11 May RTS was acquired by the Group for an initial consideration of £1.0 million, contingent consideration of up to £0.5 million plus a payment of £0.6 million made on a pound for pound basis for surplus cash in RTS's balance sheet on acquisition. In June £0.25 million of the contingent consideration was paid and the board considers at this stage that it is likely that the balance of £0.25 million will also be payable in 2019. The consideration was satisfied in cash from Petards' existing cash reserves and a new £1.25 million five year bank term loan.

RTS is a specialist transportation software engineering company delivering a suite of web-based, real-time safety critical applications, whose main customers are Network Rail and its Tier 1 contractors. It supplies end-to-end integrated solutions that support the UK rail network infrastructure by maximising effectiveness for operational, engineering and maintenance programmes. These solutions include incident and fault management, work site management, resource management, machine plant management and asset/inventory management applications.

The acquisition of RTS adds to Petards' existing capabilities in the rail sector providing the Group with an entry into the UK rail infrastructure market, strengthens the Group's portfolio of software solutions and adds a strong base of recurring revenues.

On revenues of £128,000, RTS made a contribution of £48,000 to the Group's profits in the 6 weeks following its acquisition (before acquisition costs and amortisation of acquisition related intangibles). In that period it also added significantly to its order book for recurring revenues by securing the renewal of a contract with Network Rail. The contract is for the provision of software licences, maintenance and third line support in respect of Network Rail's real time failure and incident management system that supports the UK's national rail infrastructure. The new contract will generate annual revenues in excess of £250,000 and runs until June 2023, the final two years of which are at Network Rail's option and will be added to the order book on the exercise of those options.

Financial review

Operating performance

Overall revenues for the six months ended 30 June 2018 increased by 21% to £9.7 million (30 June 2017 - £8.0 million) and by 20% excluding RTS. This is the first reporting period that the Group has reported under IFRS 15 "Revenue from contracts with customers" and its implementation has not altered the revenue recognition policy for the majority of the Group's revenue streams. The one area of the Group's business in which the adoption of IFRS 15 has resulted in a change, is that of the work performed relating to the delivery of customer specific development projects.

Prior to the adoption of IFRS 15, the Group recognised such revenue upon achievement of specific pre agreed, customer-set milestones (other than advance payments) and for which the Group could invoice the customer for payment. Under IFRS 15, work of this nature will result in later recognition of the related revenue and predominantly affects *eyeTrain* revenues. As a consequence, the adoption of IFRS 15 has reduced *eyeTrain* revenues in the period ended 30 June 2018. The Group has adopted IFRS 15 using the "cumulative effect" method under which comparative information is not restated. The cumulative effect of revising the revenue and profit previously recognised up to 31 December 2017 is shown as an adjustment to brought forward retained earnings, details of which are set out in Note 5 to the Interim Statement. The reduction in revenue and cost previously recorded has increased both contract assets and contract liabilities accordingly, details of which are set out on the Statement of Financial position.

Overall margins for the six months ended 30 June 2018 were 34.6% (June 2017 - 38.6%). The reduction over the comparable period in 2017 largely reflects the product mix with lower margin Defence products comprising a larger proportion of revenues in 2018.

Total charges for amortisation, depreciation and share based payments were £157,000 higher than the first six months of 2017 following the investment in product and infrastructure made during 2017. Costs of £77,000 were also incurred relating to the acquisition of RTS. Together these factors led to an increase in administrative expenses that totalled £2.8 million for the six months ended 30 June 2018 (June 2017 - £2.5 million).

Adjusted earnings before interest, tax, depreciation, amortisation, acquisition costs and share based payment charges ("Adjusted EBITDA") improved by 17% to £1,085,000 (June 2017 - £925,000). As a result of higher amortisation and depreciation charges, operating profits reduced by 13% to £517,000 (June 2017 - £591,000).

Net financial expenses totalled £3,000 (June 2017 - £88,000) with the reduction arising due to the conversion of the Group's 7% convertible loan notes in the latter part of 2017. With no tax charge, profits before and after tax on the Group's activities increased by 2% to £514,000 (June 2017 - £503,000). On an adjusted basis, pre-tax profits increased 17% to £602,000 (2017 - £515,000). While profits increased, diluted earnings per share were 10% lower at 0.88p (June 2017 - 0.98p) as in 2018 there is no add back of interest payable on convertible loan notes (June 2017 - £73,000 add back).

Cash and cash flow

The Group generated a net operating cash inflow for the period of £966,000 (June 2017 - £218,000 outflow) resulting in cash balances at 30 June 2018 increasing to £2.3 million (31 Dec 2017 - £1.3 million). The £1.25 million 5 year term loan that funded the majority of the RTS acquisition, repayable in equal quarterly instalments, resulting in a net cash position at 30 June 2018 of £1.0 million (31 December 2017 - net cash £1.3 million).

Outlook

The Group continues to benefit from a good balance sheet and a strong forward order book of £20 million which has been further enhanced with the recently announced awards of three contracts totalling over £6.5 million from Bombardier and Siemens.

The Board is also pleased with the performance of its more recent acquisitions, QRO and RTS, and continues to review opportunities for other acquisitions.

With the June 2018 order book containing revenues of approaching £10 million for the second half of 2018 and almost £8 million for 2019, the Board remains confident in the future prospects for the Group.

Raschid Abdullah
20 September 2018

Condensed Consolidated Income Statement
for the six months ended 30 June 2018

	Note	**Unaudited 6 months ended 30 June 2018 £000**	Unaudited 6 months ended 30 June 2017 £000	Audited Year ended 31 December 2017 £000
Revenue		**9,672**	7,972	15,581
Cost of sales		**(6,326)**	(4,896)	(9,566)
Gross profit		**3,346**	3,076	6,015
Administrative expenses	6	**(2,829)**	(2,485)	(4,770)
Adjusted EBITDA*		**1,085**	925	1,619
Amortisation of intangibles		**(364)**	(242)	(547)
Depreciation		**(116)**	(80)	(162)
Exceptional income	8	**-**	-	362
Exceptional acquisition costs		**(77)**	-	-
Share based payment charges		**(11)**	(12)	(27)
Operating profit		**517**	591	1,245
Financial income *(including exceptional financial income of £nil (2017 £340,000)*	7,8	**4**	-	340
Financial expenses *(including exceptional financial expense of £nil, (2017 £211,000)*	7,8	**(7)**	(88)	(380)
Profit before tax		**514**	503	1,205
Income tax	9	**-**	-	32
Profit for the period attributable to equity shareholders of the company		**514**	503	1,237
Basic earnings per share (pence)	12	0.92	1.39	3.31
Diluted earnings per share (pence)	12	0.88	0.98	2.32

The Group has adopted IFRS 15 using the cumulative effect method, under which the comparative information is not restated (Note 5). The cumulative effect of adopting IFRS 15 is recognised in equity at the date of first adoption on 1 January 2018.

** Earnings before financial income and expense, depreciation, amortisation, exceptional items, share based payment charges and tax.*

Condensed Consolidated Statement of Comprehensive Income
for the six months ended 30 June 2018

	Notes	**Unaudited 6 months ended 30 June 2018 £000**	Unaudited 6 months ended 30 June 2017 £000	Audited Year ended 31 December 2017 £000
Profit for period		**514**	503	1,237
Other comprehensive income				
Items that may be reclassified to profit:				
Release of foreign currency reserve on abandonment of US subsidiary (included in financial expenses)	7,8	**-**	-	211
Total comprehensive income for the period		**514**	**503**	**1,448**

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2018

	Share capital £000	Share premium £000	Equity Reserve £000	Retained earnings £000	Currency Translation reserve £000	Total Equity £000
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**
Balance at 1 January 2017 (audited)	357	68	200	3,768	(211)	4,182
Profit for the year	-	-	-	1,237	-	1,237
Other comprehensive income	-	-	-	-	211	211
Total comprehensive income for the Year	-	-	-	1,237	211	1,448
Conversion of convertible loan Notes	198	1,383	(169)	142	-	1,554
Exercise of share options	3	22	(6)	-	-	19
Equity-settled share based payments	-	-	-	27	-	27
Balance at 31 December 2017 (audited)	558	1,473	25	5,174	-	7,230
Balance at 1 January 2018 (audited)	**558**	**1,473**	**25**	**5,174**	**-**	**7,230**
Impact of change in accounting policy *	-	-	-	(564)	-	(564)
Adjusted balance at 1 January 2018	**558**	**1,473**	**25**	**4,610**	**-**	**6,666**
Profit for the period	-	-	-	514	-	514
Total comprehensive income for the period	-	-	-	514	-	514
Exercise of share options	17	144	(11)	11	-	161
Equity-settled share based payments	-	-	-	11	-	11
Balance at 30 June 2018 (unaudited)	**575**	**1,617**	**14**	**5,146**	**-**	**7,352**

* The Group has adopted IFRS 15 using the cumulative effect method, under which the comparative information is not restated (Note 5). The cumulative effect of adopting IFRS 15 is recognised in equity at the date of first adoption on 1 January 2018.

Condensed Consolidated Statement of Financial Position

at 30 June 2018

	Note	**Unaudited 30 June 2018**	Unaudited 30 June 2017	Audited 31 December 2017
ASSETS		**£000**	£000	£000
Non-current assets				
Property, plant and equipment		**756**	667	825
Intangible assets	10	**3,819**	2,044	2,488
Deferred tax assets		**344**	364	344
		4,919	3,075	3,657
Current assets				
Inventories		**2,254**	1,060	1,192
Contract assets **		**3,873**	-	-
Due from construction contract customers *		**-**	1,768	2,211
Trade and other receivables		**3,886**	3,392	3,743
Cash and cash equivalents		**2,272**	1,543	1,324
		12,285	7,763	8,470
Total assets		**17,204**	10,838	12,127
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital		**575**	367	558
Share premium		**1,617**	141	1,473
Equity reserve		**14**	198	25
Currency translation reserve		**-**	(211)	-
Retained earnings *		**5,146**	4,283	5,174
Total equity		**7,352**	4,778	7,230
Non-current liabilities				
Interest-bearing loans and borrowings	11	**1,016**	1,503	23
		1,016	1,503	23
Current liabilities				
Interest-bearing loans and borrowings	11	**265**	7	15
Contract liabilities ***		**2,938**	-	-
Due from construction contract customers *		**-**	-	382
Trade and other payables		**5,633**	4,550	4,477
		8,836	4,557	4,874
Total liabilities		**9,852**	6,060	4,897
Total equity and liabilities		**17,204**	10,838	12,127

* The Group has adopted IFRS 15 using the cumulative effect method, under which the comparative information is not restated (Note 5). The cumulative effect of adopting IFRS 15 is recognised in equity at the date of first adoption on 1 January 2018.

** The balance at 30 June 2018 includes £2,151,000 representing the impact of the adoption of IFRS 15.

*** The balance at 30 June 2018 includes £2,748,000 representing the impact of the adoption of IFRS 15.

Condensed Consolidated Statement of Cash Flows

for the six months ended 30 June 2018

	Note	**Unaudited 6 months ended 30 June 2018 £000**	Unaudited 6 months ended 30 June 2017 £000	Audited Year ended 31 December 2017 £000
Cash flows from operating activities				
Profit for the period		**514**	503	1,237
Adjustments for:				
Depreciation		**116**	80	162
Amortisation of intangible assets		**364**	242	547
Equity settled share-based payment expenses		**11**	12	27
Financial income		**(4)**	-	(340)
Financial expense		**7**	88	380
Income tax (credit)/charge		**-**	-	(32)
Operating cash flows before movement in working capital		**1,008**	925	1,981
Change in inventories		**(1,062)**	(875)	(1,450)
Change in contract assets		**(3,873)**	-	-
Change in amounts due from construction contract customers		**2,211**	-	-
Change in trade and other receivables		**(61)**	(992)	(1,003)
Change in contract liabilities		**2,938**	-	-
Change in amounts due to construction contract customers		**(382)**	-	-
Change in trade and other payables		**169**	793	1,057
Cash generated from operations		**948**	(149)	585
Interest received		**4**	-	-
Interest paid		**(40)**	(69)	(107)
Income tax received		**54**	-	61
Net cash from operating activities		**966**	(218)	539
Cash flows from investing activities				
Acquisition of subsidiary, net of cash acquired	10	**(1,169)**	-	-
Acquisition of property, plant and equipment		**(47)**	(291)	(509)
Capitalised development expenditure		**(206)**	(294)	(1,043)
Net cash outflow from investing activities		**(1,422)**	(585)	(1,552)
Cash flows from financing activities				
Bank loan received	11	**1,250**	-	-
Finance lease repayments		**(7)**	(1)	(10)
Proceeds from exercise of share options		**161**	25	25
Net cash inflow from financing activities		**1,404**	24	15
Net increase/(decrease) in cash and cash equivalents		**948**	(779)	(998)
Cash and cash equivalents at start of period		**1,324**	2,322	2,322
Cash and cash equivalents at end of period		**2,272**	1,543	1,324
Cash and cash equivalents comprise:				
Cash and cash equivalents per balance sheet		**2,272**	1,543	1,324

* The Group has adopted IFRS 15 using the cumulative effect method, under which the comparative information is not restated (Note 5). The cumulative effect of adopting IFRS 15 is recognised in equity at the date of first adoption on 1 January 2018.

Notes

1 Reporting entity

Petards Group plc (the 'Company') is incorporated and domiciled in England and its shares are publicly traded on the Alternative Investment Market ('AIM') of the London Stock Exchange. These condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is primarily involved as a developer of advanced security and surveillance systems.

Copies of these interim statements 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 Basis of preparation

As permitted, these interim financial statements have been prepared in accordance with AIM Rules for Companies and are not required to comply with IAS 34 'Interim Financial Reporting' to maintain compliance with IFRS. They should be read in conjunction with the Group's last annual consolidated financial statements as at and for the financial year ended 31 December 2017 ('last annual financial statements'). They do not include all of the financial information required for a complete set of IFRS financial statements, however selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in the Group's financial position and performance since the last annual financial statements. This financial information does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006.

The comparative amounts for the financial year ended 31 December 2017 in these interim statements are not the Group'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 is the first set of Group financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described at Note 4.

3 Use of judgements and estimates

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual amounts may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgements and the key sources of estimation uncertainty related to the application of IFRS 9 and IFRS 15, which are described at Note 4.

4 Changes in significant accounting policies

In preparing these interim financial statements, the Board have considered the impact of new standards which will be applied in the 2018 annual financial statements. Other than the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, which are both effective for accounting periods starting on or after 1 January 2018, there are not expected to be any changes in the accounting policies compared with those applied for the financial year ended 31 December 2017. A full description of these accounting policies is contained in the Group's 2017 Annual Report and Accounts, which is available on the Company's website.

These interim financial statements have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards issued by the International Accounting Standards Board, as adopted by the European Union as effective for periods beginning on or after 1 January 2018.

IFRS 9 Financial instruments (effective 1 January 2018)

IFRS 9 addresses the classification and measurement of financial assets and liabilities and replaces IAS 39. Among other things, the standard introduces a forward- looking credit loss impairment model whereby entities need to consider and recognise impairment triggers that might occur in the future (an ‘expected loss’ model). The Board has considered the potential impact of the introduction of IFRS9 and determined that it does not have a significant impact on the numbers reported in these interim financial statements or as previously presented.

IFRS 15 Revenue from contracts with customers (effective 1 January 2018)

IFRS 15 sets out a single and comprehensive framework for revenue recognition. The guidance in IFRS 15 is considerably more detailed than previous IFRSs for revenue recognition (IAS 11 Construction Contracts and IAS 18 Revenue and associated interpretations).

The Group has adopted IFRS 15 from 1 January 2018. The Group has adopted IFRS 15 retrospectively and has chosen to apply the cumulative effect approach. As a result, the Group has restated its opening equity position as at 1 January 2018 to reflect the impact of transitioning to IFRS 15. A summary of the effect of the impact of the adoption of IFRS 15 is set out at Note 5. This adjustment primarily reflects the impact of unbundling a handful of contracts according to what the Group has assessed to be the performance obligations to be delivered to the customer.

In line with the requirements of the standard with regards to the transition option adopted, the Group has not restated its comparative information which continues to be reported under previous revenue standards, IAS 11 and IAS 18.

IFRS 16 Leases

The Group currently plans to adopt IFRS 16 initially on 1 January 2019. The Group has not yet determined which transition approach to apply.

5 Impact of the adoption of IFRS 15

An assessment of the impact of IFRS 15 has been completed, including a comprehensive review of the contracts that were not completed contracts at the date of initial application, across the Group's revenue streams.

This review has ascertained that £564,000 of profit taken in the previous periods to 31 December 2017 is now deferred to future periods. The effect on these interim financial statements of the adoption of IFRS 15 is to reduce profit by £33,000 with profits of £597,000 to be recognised after 30 June 2018.

In addition to the impact on equity following transition to IFRS 15 at 1 January 2018, the Group’s consolidated balance sheet is also impacted as a result of moving away from IAS 11 balance sheet captions to those prescribed by IFRS 15. The main reclassification adjustment is in relation to reclassifying amounts due to/from Construction Contract Customers to Contract Assets or Contract Liabilities.

The Group recognises revenue when it transfers control over a product or service to its customer. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

Where a modification to an existing contract occurs, the Group assesses the nature of the modification and whether it represents a separate performance obligation required to be satisfied by the Group or whether it is a modification to the existing performance obligation.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust its transaction price for the time value of money.

A summary of the new accounting policies and the nature of the changes to previous accounting policies in relation to the Group’s various goods and services are set out below.

Type of product or service	Nature, timing and satisfaction of performance obligations and significant payment terms	Nature of change in accounting policy
Revenue from the sale of goods and equipment	Revenue from sales of goods and equipment is recognised on despatch unless the customer specifically requests deferred delivery. For deliveries deferred at the customer's request, revenues are recognised when the customer takes title to the goods provided that it is probable that delivery will be made, the goods are identified and ready for delivery and usual payment terms apply.	No material impact on the adoption of IFRS 15.
Revenue from service contracts	Revenue from service contracts, where services are performed by an indeterminate number of acts over a specified period of time, is recognised on a straight line basis over the period of the contract.	No material impact on the adoption of IFRS 15.
Revenue from construction contracts	Construction contracts comprise contracts specifically negotiated for the construction and delivery of a combination of electronic services and/or electronic assets. A typical contract identifies the consideration applicable to each and milestones are usually specified for the provision of electronic services. Each contract is reviewed to identify and assess distinct performance obligations, and the consideration applying to each. An expected loss on a contract is recognised immediately in the income statement.	
	Revenue deriving from the provision of electronic assets is recognised at the point in time that the assets are provided.	There is no material impact on the adoption of IFRS 15.
	Revenue deriving from the provision of electronic services, which is normally classified as non-recurring development expenditure, is recognised at the point that each development service obligation has been completed. If at the end of a reporting period the provision of this service is incomplete, costs incurred are included in the balance sheet as Contract Assets. Costs include all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. If at the end of a reporting period the provision of this service is incomplete, payments received from customers on the achievement of milestones are included in the Balance Sheet as Contract Liabilities until the provision of the service is complete.	The impact of IFRS 15 on this element of contract revenue is to defer revenue and profit until the completion of each development service obligation. Under IAS 11 revenue was recognised in proportion to the stage of completion of the contract, which was assessed by reference to the completion of each agreed milestone. Previously, contract work in progress represented the gross unbilled amount expected to be collected from customers for contract work performed to date. It was measured at cost plus any appropriate profit recognised to date less progress billing and recognised losses. Payments from customers, to the extent that they exceed income recognised, were included as payments on account within trade and other payables.

6 Administrative expenses

Legal and professional fees incurred in connection with the acquisition of RTS Solutions (Holdings) Limited and RTS Solutions (UK) Limited in 2018 totalled £77,000 and were charged to the Condensed Consolidated Income Statement within administrative expenses. The audited results as at and for the year ended 31 December 2017 include within administrative expenses, an exceptional credit of £362,000 (Note 8).

7 Financial income and expenses

	Unaudited 6 months ended 30 June 2018	Unaudited 6 months ended 30 June 2017	Audited Year ended 31 December 2017
Recognised in profit or loss			
Exceptional interest income (Note 8)	**-**	-	340
Other exchange gains	**4**	-	-
Financial income	**4**	-	340
Interest expense on financial liabilities at amortised cost	**7**	75	133
Exceptional foreign exchange loss (Note 8)	**-**	-	211
Other exchange losses	**-**	13	36
Financial expenses	**7**	88	380

8 Exceptional items

The 2017 audited results included two exceptional items. Firstly, the Group accepted an offer to settle a historic matter, which was unrelated to the current trading activities of the Group and which arose over ten years ago. Under the settlement, the Group received a total of £702,000 in cash comprising an amount of £362,000, plus compensatory interest of £340,000.

The second exceptional item was also unrelated to the current trading activities of the Group. During 2017 the Board decided that the US subsidiary that had been dormant for several years should be abandoned, and any future activities that the Group may undertake in the US would not be conducted through the subsidiary. The £211,000 deficit on the Group's currency translation reserve was reclassified from equity to income and shown as an expense.

9 Taxation

No provision for taxation has been made in the Condensed Consolidated Income Statement for the six months to 30 June 2018 based on the estimated tax provision required for the year ending 31 December 2018. No provision was required in the six months to 30 June 2017.

10 Acquisition of RTS Solutions (Holdings) Limited and RTS Solutions (UK) Limited

On 11 May 2018, the Group acquired the entire issued share capital of RTS Solutions (Holdings) Limited which was the sole shareholder of RTS Solutions (UK) Limited ("RTS") for £2.1 million, comprising £1.5 million for the business and £0.6 million for surplus cash. This consideration was settled by an initial cash consideration of £1 million, funded by a 5 year bank loan and £547,000 paid from internal cash reserves. Further deferred consideration of £250,000 was paid in June 2018, funded by an additional drawdown on the 5 year bank loan and a further £55,000 was paid in July, funded from cash reserves. A final payment of £250,000 is subject to RTS achieving certain financial targets during the 12 months ending 31 March 2019. The Group currently assesses the probability of this payment being made as high.

During the period from acquisition to 30 June 2018, RTS contributed £128,000 of revenue and £48,000 of profit to the Group.

The provisional fair values of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Book value £000	Provisional fair value adjustments £000	Provisional fair values £000
Net assets acquired:			
Intangible assets	-	601	601
Property, plant & equipment	2	-	2
Inventory	18	-	18
Trade and other receivables	131	-	131
Cash and cash equivalents	628	-	628
Trade and other payables	(166)	-	(166)
	613	601	1,214
Goodwill			888
Total consideration			**2,102**
Cash flow:			
Total consideration			2,102
Less deferred consideration			(305)
Total consideration paid in the period			1,797
Cash included in undertaking acquired			(628)
Net cash consideration in cash flow statement			**1,169**

The above intangible assets and goodwill amounting to £1,489,000 are included within Intangible Assets on the Condensed Consolidated Statement of Financial Position. The Group also capitalised development expenditure of £206,000 during the period. Total amortisation of Group intangibles amounting to £364,000 has been expensed during the period.

11 Interest-bearing loans and borrowings

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

Current liabilities

	Unaudited 6 months ended 30 June 2018	Unaudited 6 months ended 30 June 2017	Audited Year ended 31 December 2017
	£000	£000	£000
Bank loan	**250**	-	-
Finance lease liabilities	**15**	7	15
	265	7	15

Non-current liabilities

	Unaudited 6 months ended 30 June 2018	Unaudited 6 months ended 30 June 2017	Audited Year ended 31 December 2017
	£000	£000	£000
Convertible loan notes	**-**	1,485	-
Bank loan	**1,000**	-	-
Finance lease liabilities	**16**	18	23
	1,016	1,503	23

On 11 May 2018 Santander UK plc provided the Company with a loan facility of £1.25 million repayable by equal quarterly instalments over 60 months. The interest rate is set at LIBOR plus 3.19% and the loan is secured by a fixed and floating charge over the assets of the Group.

The convertible loan notes of £1 each, carried a fixed interest rate of 7% per annum and were convertible into ordinary shares of 1p each at any time prior to maturity on 10 September 2018. The conversion price was 8p. Following a general meeting of the loan note holders, all outstanding loan notes were converted on 15 December 2017. Therefore, at 30 June 2018 and 31 December 2017 there were no outstanding loan notes (30 June 2017: £1,484,804).

12 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 2018	Unaudited 6 months ended 30 June 2017	Audited Year ended 31 December 2017
Earnings			
Profit for the year (£000)	**514**	503	1,237
Number of shares			
Weighted average number of ordinary shares ('000)	**56,047**	36,149	37,418

Diluted earnings per share

Diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, which arise from share options (and in June 2017 convertible loan notes), 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 any interest on convertible loan notes for the period.

	Unaudited 6 months ended 30 June 2018	Unaudited 6 months ended 30 June 2017	Audited Year ended 31 December 2017
Adjusted earnings			
Profit for the year (£000)	**514**	576	1,368
Number of shares			
Weighted average number of ordinary shares ('000)	**58,598**	58,607	58,844