Final Results

PETARDS GROUP PLC

Released 07:00:06 18 June 2020

RNS Number : 2985Q
Petards Group PLC
18 June 2020

18 June 2020

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

Final results for the year ended 31 December 2019

Petards Group plc (AIM: PEG), the AIM quoted developer of advanced security and surveillance systems, is pleased to report its final results for the year ended 31 December 2019.

Key Highlights:

- **Operational**
  - Order book at 31 December 2019 £15 million (31 Dec 2018: £19 million)
  - 2019 year end order book coverage for 2020 in excess of £10 million
  - Continued to receive significant orders for *eyeTrain* systems
  - Good traction being gained from focus on *eyeTrain* through-life support activities with revenues up 9% and post year-end award of first software support contract
  - 2019 affected by customer re-scheduling *eyeTrain* system deliveries into 2020, and much lower than forecast profitability on two other rail projects
  - Growth in Traffic Technology customer base and product offering
  - Both QRO and RTS moved to new premises to support growth
  - Action taken to reduce the cost base has continued into 2020 in line with the *eyeTrain* development strategy

- **Financial**
  - Total revenues £15.7 million (2018: £20.0 million)
  - Gross margins 30.8% (2018 restated: 31.7%)
  - Adjusted EBITDA* £281,000 loss (2018 restated: £1,501,000 profit)
  - Operating loss £1,287,000 (2018 restated: £600,000 profit)
  - Loss after tax £193,000 (2018 restated: £693,000 profit)
  - Total net debt (debt less cash £525,000** (31 Dec 2018: £969,000 net funds)
  - Basic and diluted EPS 0.34p loss (2018: basic 1.22p profit; diluted 1.18p profit)
  - Group's Bankers renewed £0.75 million revolving credit facility to June 2022
  - £1 million post year-end cash receipts in respect of pre-2019 investment in R&D

*Adjusted EBITDA comprises operating profit adjusted to remove the impact of depreciation, amortisation, exceptional items, acquisition costs and share based payments. A reconciliation of Adjusted EBITDA to operating profit is included on the face of the consolidated income statement.

** Includes £426,000 debt relating to lease liabilities on adoption of IFRS 16 at 1 January 2019. Net funds of £969,000 at 31 December 2018 excluded these liabilities.

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

"While progress is being made throughout the Group and new business is being secured, the provision of forward guidance in the current circumstances remains extremely challenging. Following the initial effects of the Covid-19 lock-down on their businesses, customers have been adapting their operations and revising delivery schedules accordingly, which has obviously had an impact on the Group's recent trading. With the Department for Transport, the MOD and train operating companies focussing their efforts on dealing with Covid-19, the timing of contract awards previously anticipated for 2020 revenues are unlikely to become clearer until the pandemic within the UK has abated. The Board continues to keep this under close review and will provide further updates when appropriate."

"The UK Government has stated its commitment to further investment in the railways, law enforcement and security, areas in which the Group enjoys long-standing customer relationships. This together with the Group's order book at 31 May 2020 of over £13 million, provide the Board with confidence for the Group's future prospects."

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.

Contacts:

Petards Group plc	www.petards.com
Raschid Abdullah, Chairman	Mb: 07768 905004
WH Ireland Limited, Nomad and Joint Broker	www.whirelandcb.com
Mike Coe, Chris Savidge	Tel: 0117 945 3470
Hybridan LLP, Joint Broker	www.hybridan.com
Claire Louise Noyce	Tel: 020 3764 2341 claire.noyce@hybridan.com

Chairman's statement

In the 2019 Interim Report, I stated that the Group's 2019 financial performance was expected to be lower than previously anticipated. However, as reported in the market update of 4 February 2020, the final months of the year were disappointing.

The Group closed the year with revenues of £15.7 million (2018: £20.0 million), an adjusted EBITDA* loss of £281,000 (2018 restated: £1,501,000 profit) and a loss after tax of £193,000 (2018 restated: £693,000 profit). The order book at 31 December 2019 totalled £15 million of which over £10 million is scheduled for delivery in 2020. As set out at note 2, following the adoption of *IFRS 16: Leases* the Group's net debt at 31 December 2019 was £525,000, including £426,000 relating to leases liabilities previously classified off-balance sheet as 'operating leases'.

This outcome was primarily due to a major customer re-scheduling eyeTrain system deliveries in the last quarter into 2020, and much lower than forecast profitability on two other rail projects. While the re-scheduled deliveries have deferred revenues into 2020, the reduction in profitability for the two rail projects was of more concern. Both these projects remained profitable, but with substantially reduced margins for 2019. One project has now been fully installed and the second project is in final stages of completion.

These issues have no impact on any other projects in the current order book or future order pipeline. However, as the majority of revenues on these projects had already been recognised in 2018 and 2019, with the majority of project and engineering costs having been incurred, a material one-off provision was required at year-end to reduce profits previously recognised and related contract work-in-progress. As explained at note 3, these provisions included an adjustment to the prior year, reducing 2018 profit after tax from £1,143,000 to a profit of £693,000.

On a more positive note, I am pleased to say that the Group has continued to win major orders from train builders such as those from Bombardier Transportation worth £3 million announced during the year. The Board is confident that the Group will benefit from the significant investment made in the development of its eyeTrain systems. This encompasses Driver Controlled Operation and Automatic Selective Door Opening both of which are critical safety systems that are becoming increasingly important for train operating companies.

Revenues relating to eyeTrain through-life support activities such as the provision of spares and repairs continued to grow and were up 9% on the previous year. A key element of the Group's strategy for growing eyeTrain revenues is the expansion of customer and product support activities for its installed base. As this now includes a significantly higher content of safety critical software applications, this provides the opportunity for the Group to enter into long term customer agreements for system support. We are hopeful that the two-year Services Support Agreement recently entered into with Siemens Mobility for their Desiro City fleet will prove to be the first of several such agreements.

Since the acquisition of RTS in May 2018 its operations have been relocated to modern offices in Leeds city centre providing modern facilities to grow and develop the business. RTS is now fully embedded within the Group and has continued to enjoy high levels of recurring revenues for its track side software safety support systems. We are pleased with its progress during its first full year as a member of the Group, making an increased revenue and profits contribution. RTS had been in negotiations to renew one of its two largest long-term support contracts and I am pleased to say an extension for a further four years to June 2024 has now been secured.

Revenues from QRO's Traffic products and support services were up 12% year-on-year and made a good profit contribution to the Group. In order to facilitate further growth, QRO relocated to larger and more suitable premises and has settled in well. Further police forces were added to the customer base and a new competitive ANPR camera entered trials with UK police forces and it is pleasing that both initiatives are resulting in new orders. This has helped QRO to get off to a strong start to 2020 which presently has a record order book.

The composition of Defence revenues has been changing over recent years with fewer large contracts being awarded and therefore revenues and profits for 2019 were lower than the previous year. However, the Group's core engineering services contracts with the MOD continue to provide a good profitable workload. Order intake improved during 2019 with the award of a £1.1 million contract for electronic countermeasures equipment supporting a MOD programme for delivery in the second half of 2020, which is expected to improve that year's profitability. Looking forward, several new tenders have recently been submitted that have yet to be awarded and further tenders are in preparation.

Petards' eyeCraft360 situational awareness system launched in September at DSEI 2019, attracted considerable interest from both the UK and overseas. Following the exhibition, the UK Army placed an order for two units which are presently being trialled and we have been working closely with them to support this process. The exposure from the launch of this new product has also demonstrated our Defence capabilities to both new and existing customers.

As always, I would like to take this opportunity on behalf of the Board and shareholders to thank all Petards staff for their hard work, dedication, and professionalism throughout what was a challenging year. Their contribution and commitment are key factors in the Group continuing the longstanding relationships it has with its customers. We look forward to their continued support in 2020, which has brought with it the added challenges of the measures to ensure a safe working environment for them and their colleagues during the present Covid-19 pandemic.

The Group continues to manage the impact of Covid-19 on its business. Petards is a critical supplier to many of its customers supporting the UK's police and armed forces as well as the safe running of the railways. The Group's facilities remain open for business and are operating with the benefit of a variety of measures that have been introduced to ensure a safe working environment. Since mid-March 2020 employees able to work effectively from home have been doing so, using conference facilities to communicate with their teams and customers. Following the Covid-19 lockdown, management conducted a full review of all operations and the effect it has had on customers' operations. This has led to some staff being furloughed under the Job Retention Scheme which is being kept under constant review.

The main risks to the Group from Covid-19 identified so far are firstly, that customers may delay or re-schedule deliveries for orders already in the Group's order book and secondly that, in the short term, contract awards that the Group was expecting to secure for revenue in 2020 may be delayed. By their nature these risks are difficult for the Group to directly influence or control, but by keeping in close contact with our customers we are seeking to ensure that we are well-informed about their plans and prepared to secure contracts awards as and when the opportunities arise. The Group is fortunate that its customer base comprises blue chip companies, the UK Government and its agencies and its exposure to credit risk is low.

Cash and cost management remains an embedded area of the Board's focus, particularly in the present business climate. Action was taken during 2019 to realign the Group's cost base in line with its strategic development programme, and planned cost reductions have continued in 2020. The Group's cash balances at 31 May 2020 were £1.4 million and included R&D tax credits, relating to development work carried out in 2017 and 2018, of £965,000 received since the year end. In addition, the Group's £0.75 million revolving credit facility, which is undrawn and was undrawn at the year end, has recently been renewed for a further two years to June 2022. The Group's bankers also confirmed that at 31 December 2019, £625,000 of the Group's RTS acquisition loan is a non-current liability that falls due beyond the end of 2020.

In the current circumstances the provision of forward guidance remains extremely challenging. Following the initial effects of the Covid-19 lock-down on their businesses, customers have been adapting their operations and revising delivery schedules accordingly, which has obviously had an impact on the Group's recent trading. With the Department for Transport, the MOD and train operating companies focussing their efforts on dealing with Covid-19, the timing of contract awards previously anticipated for 2020 revenues is unlikely to become clearer until the pandemic within the UK has abated. While the Board continues to keep this under close review it is pleasing that progress is being made throughout the Group, and new business is still being secured.

The UK Government has stated its commitment to further investment in the railways, law enforcement and security, areas in which the Group enjoys long-standing customer relationships. This together with the Group's order book at 31 May 2020 of over £13 million, provide the Board with confidence for the Group's future prospects.

Raschid Abdullah
Chairman

*See Alternative Performance Measures Glossary at the end of this document.

Strategic Report

Business review

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;
- Traffic - Automatic Number Plate Recognition ("ANPR") systems for lane and speed enforcement and other applications, and UK Home Office approved mobile speed enforcement systems, sold under the QRO and ProVida brands to UK and overseas law enforcement agencies and 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

The year under review was a challenging one for Petards, with eyeTrain products being particularly affected by customer driven re-scheduling of deliveries, delays in contract awards and under-performance on two projects in their final stages of delivery. This when coupled with a lower level of Defence revenues, combined to produce an outcome for 2019 that was below management's original expectations.

However, the year was also one of transition with action being taken to reduce the cost base, particularly that relating to eyeTrain, to one that reflects the much lower levels of software and hardware development required following the significant investment programme of recent years in next generation products.

The Group's eyeTrain products comprised two thirds of Group revenues with the majority relating to new systems and the balance from the support of in-service systems. Revenues from spares and repairs continued an upward trend, with 2019 showing growth of 9% and the vast majority of these have tended to derive from on-going customer requirements rather than from long-term support contracts. Management has long believed that such contracts would be beneficial to customers by increasing operational efficiency and better protection of their train asset values, while providing the Group with certainty of contracted recurring revenues. With a typical train life of 35 years and with eyeTrain systems presently installed in over 12,000 vehicles, the Group is hopeful that recent interest in long-term support contracts, such as that placed recently by Siemens Mobility, will lead to more users adopting this maintenance model.

The significantly lower profitability on the two eyeTrain contracts identified at the close of the year was particularly disappointing. Action has been taken to address the lapses that occurred in the Group's project review procedures that led to these issues not coming to light sooner. The Board also instigated a comprehensive review of all projects which confirmed that no other projects were similarly affected. While the two projects concerned required significant reductions in their reported profitability and provisions against contract work-in-progress held, importantly both remained profitable. They also differed in nature from those usually undertaken by the Group and management is now confident that these issues have not impacted upon any other projects in the order book or pipeline.

The first project related to a supply and install contract, the Group's first in over ten years. The Group usually contracts on a system supply-only basis, and the installation costs in this instance proved to be significantly higher than anticipated. The second project experienced delays in train commissioning that fell outside of Petards' control. Consequently, additional project and engineering costs have been incurred by the Group and the overall forecast project outcome re-assessed.

A more satisfying feature of 2019 was the continued development of recent additions to the Group, with RTS completing its first full year under Petards ownership, and QRO recording another good performance with revenues up over 15%.

Strategic report *(continued)*

Operating review *(continued)*

RTS, which the Group acquired in May 2018, develops, and supports web-based real-time safety critical integrated software applications used on Network Rail's infrastructure. In 2019 it recorded a bigger contribution to the Group's results, continuing to enjoy the benefit of a strong base of recurring revenues generated from supporting these systems, supplemented by development projects to provide system enhancements for Network Rail and its first-tier contractors. The order book for these recurring revenues was boosted in May 2020 by the four-year extension of one of RTS's long held software support contracts. In September, Leeds based RTS relocated to new modern offices providing a more appropriate environment from which to deliver its solutions and generate future growth and is well placed to continue to increase its contribution to the Group going forward.

QRO is now the entity through which the Group delivers all its Traffic Technology solutions and it has consistently grown its revenues and profits since its acquisition in April 2016. It also benefits from a strong base of recurring revenues, providing ANPR software and hardware support to its customers. Having relocated to new premises in the early part of 2019 QRO is already undertaking further expansion at that site as a result of its strong sales performance. During the year management sought to further increase the value-added content of its revenues and took the opportunity to add two experienced hardware and software developers to its team. Both come with a strong ANPR pedigree and their addition will help QRO increase the proportion of its own product in its future projects.

The Group's heritage stems from defence sector and this area continued to make a valuable, albeit much reduced, contribution to revenues and profits in the year. The opportunity exists for this contribution to increase, and the Group retains the high regard of its customers for the specialist expertise and experience of its staff. In recent years, the Group's Defence revenues have primarily derived from value-added reselling of mobile radio systems and of electronic countermeasure systems. The MOD's delayed re-tendering of its radio catalogue, fewer upgrades to electronic countermeasure systems of the MOD's aircraft fleet, and UK armed forces not presently being engaged in significant active operations, all contributed to the lower revenues earned in the year. While the radio catalogue may be re-tendered and electronic countermeasure upgrade levels increased, management has been looking to other areas to which its expertise can be applied. During the year, a prototype 360-degree situational awareness system, eyeCraft360, was developed for use on military vehicles, which while at an early stage, has received a positive response from customers. The Group is also targeting to supply other vehicle systems like those designed and built in the past, for which opportunities in recent years have been limited. While working to take advantage of these, management is also structuring the business on the assumption that a significant proportion of Defence revenues will come from higher margin engineering services under core framework contracts held with the MOD.

It was pleasing that during 2019 the Group continued to secure important contract awards and orders including:

- Bombardier's award in April 2019 of a contract worth over £1.5 million for the supply of eyeTrain systems for fitment to new Aventra trains, with deliveries now scheduled to recommence in 2021;
- Framework agreements held by QRO with Thames Valley Police and Cheshire Police generated orders for ANPR systems and support from a number of UK police forces totalling £1.1 million;
- Network Rail awarded RTS a £0.3 million project in July 2019 to provide additional functionality to a software safety system which RTS already supports;
- In September 2019, a major UK defence systems contractor awarded Petards a £1.1 million contract to provide electronic countermeasures equipment to be delivered in the second half of 2020 that will form part of an integrated defensive aids suite for MOD aircraft; and
- Bombardier awarded a £1.3 million contract for eyeTrain systems in October 2019, to be retrofitted to Electrostar trains, owned by Porterbrook and operated by Govia Thameslink Railway, to enhance the trains' video and data collection capability with forward facing CCTV and track debris/third rail cameras systems. Equipment deliveries are scheduled from Q3 2020 and throughout 2021.

Following these awards, the Group closed the year with an order book of £15 million (2018: £19 million), providing forward revenue coverage of over £10 million scheduled for recognition during 2020 and a further £3 million for 2021.

Strategic report *(continued)*

Financial review

Operating performance

Revenues for the year were £15.7 million, against £20.0 million in 2018, although 2018 included the benefit of a one-off adjustment arising on the implementation of IFRS 15 "Revenue from contracts with customers". Two thirds of revenues related to the Group's Rail products, a slightly higher proportion than was the case in 2018. Exports continued to largely relate to shipments of eyeTrain systems to European train builders, predominantly in respect of trains for UK operation, and at £2.6 million (16% of revenues) were down on the previous year (2018: £4.7 million; 23%). Global train builders are increasingly opening facilities in the UK to manufacture trains built for the UK rail network and this will likely further reduce the proportion of Petards' future export revenues.

The gross margin for the year was 30.8%, down slightly on the restated 31.7% now reported for 2018. Both years margins were significantly affected by the increased eyeTrain project costs that came to light towards the end of 2019. Both projects continued to be profitable, but the provisions required to correct margins taken on revenues in prior years totalled £0.9 million. Of this £560,000 has been accounted for as a prior year adjustment and 2018's results restated accordingly, as it arose from a project costing error. The balance of £340,000 has been booked to 2019 cost of sales, reducing the year's margin from 33.0% to 30.8%.

Administrative expenses increased by 7% to £6,130,000, with 87% of the increase arising from RTS being a member of the Group for a full year, QRO's investment in new premises and development team, and higher amortisation charges. The implementation from 1 January 2019 of IFRS 16 "Leases" had little effect on overheads as the increased depreciation charges were offset by lower operating lease rentals.

Earnings before interest, tax, depreciation, amortisation, exceptional items, acquisition costs and share based payment charges ("adjusted EBITDA") were a loss of £281,000 (2018 restated: £1,501,000 profit).

Net financial expenses increased to £175,000 from £30,000 in 2018. Most of this increase related to a foreign exchange contract marked to market at the year end. The balance arose from a full year's charge on the Group's term loan that financed its acquisition of RTS and interest charges from the utilisation of working capital facilities during the year.

The tax credit of £1,269,000 for the year, (2018 restated: £123,000 credit), includes R&D tax credits totalling £965,000, relating to prior years' R&D activities. The cash refunds for these credits have been received since the year end. The remainder relates mainly to the tax credit arising from the recognition of deferred tax assets in respect of losses incurred in the year.

This all culminated in the Group recording a loss after tax of £193,000 (2018 restated: £693,000 profit) and basic and diluted loss per share of 0.34p (2018 restated: 1.22p earnings basic; 1.18p earnings diluted).

Research and development

The Group continues to invest in developing its software and hardware products, albeit that the rate of capitalised investment in 2019 reduced on the prior year to pre-2017 levels. Overall investment totalled £1,386,000 (2018: £1,608,000) of which £696,000 was capitalised (2018: £1,444,000). The capitalised costs predominantly relate to the Group's next generation of *eyeTrain* software products that support future sales of all ASDO systems, retrofitted DCO systems and integrated APC systems. In addition to *eyeTrain*, the Group invested to support the development roadmaps of QRO, RTS and eyeCraft360.

Cash, cash flow and net debt

Net cash inflows from operating activities for the year were £142,000 (2018: £2,570,000).

Net cash outflows from investing activities were £1 million and arose from investment in capitalised product development and test equipment. This was significantly lower than the 2018 cash outflow of £3 million which included both the cost of the RTS acquisition and higher investment in product development. The majority of net financing outflows of £0.4 million related to repayments of the 5-year term loan taken out in 2018 to finance RTS's acquisition.

At 31 December 2019 the Group's cash and cash equivalents were £827,000 (2018: £2,117,000). The fact that the Group incurred a significant loss before tax in the year, as compared with a profit in 2018, accounts for £2.032,000 of the reduction in cash inflows over that achieved in 2018.

Strategic report *(continued)*

Financial review *(continued)*

***Operating performance** (continued)*

The Group also has available to it a £0.75 million revolving credit facility that was renewed post year-end for a further two years. Also, while at 31 December 2019 the Group's £875,000 term loan is classified in the balance sheet as all due within one year, subsequent to the year-end the Group's bankers confirmed that it is repayable in equal quarterly instalments of £62,500 and therefore £625,000 now falls due in after more than one year.

With effect from 1 January 2019 the Group adopted IFRS 16 'Leases' using the modified retrospective approach to transition, from which time leases which had previously been classified as 'operating leases' under IAS 17 were recognised on the balance sheet as lease liabilities. At 31 December 2019 the impact has been to increase both the Group's tangible fixed assets and net debt by £409,000 and £426,000, respectively. The comparative figures at 31 December 2018 exclude these assets and liabilities and therefore the 2018 and 2019 debt figures are not directly comparable.

The Group's net debt at 31 December 2019 including that relating to IFRS 16 was £525,000. Net debt excluding IFRS 16 liabilities was £99,000 (2018: £969,000 net cash).

Covid-19

Details of the Board's assessment of the impacts on the Group identified so far from Covid-19 are addressed in the Chairman's Statement.

Brexit

In common with most UK companies, Petards would not be immune to any potential adverse impact that a disorderly Brexit might have on the wider economy. However, the Board's current assessment is that the specific sectors in which the Group operates are not significantly exposed to particular Brexit risk, but it is keeping this under review as the political and economic situation develops and the potential impact of Brexit on the wider supply chain and the business environment generally becomes clearer.

Rail products are the main contributor to Group revenues and while 16% of the Group's revenues for 2019 were exported to the EU, the majority related to UK rail projects. The market sectors to which Petards supplies tend to be highly regulated and the Group does not anticipate Brexit to change existing regulations significantly. Like most businesses it is affected by any inflationary pressures in the supply chain but again these are not considered to be specific to the sectors in which the Group operates. Neither the Group's current order book nor the orders it expects to receive during 2020 contain significant foreign currency exposures. The Group is aware that its major suppliers take additional measures, such as stocking, to ensure continuity of supply.

Osman Abdullah
Group Chief Executive

Consolidated income statement

for year ended 31 December 2019

	Note	**2019**	2018
		£000	£000 Restated *
Revenue	*4*	**15,706**	19,973
Cost of sales		**(10,863)**	(13,645)
		———	———
Gross profit		**4,843**	6,328
Administrative expenses		**(6,130)**	(5,728)
		———	———

Adjusted EBITDA**		**(281)**	1,501
Amortisation of intangibles		**(639)**	(590)
Depreciation of property, plant and equipment		**(204)**	(209)
Amortisation of right-of-use assets		**(133)**	-
Acquisition costs		**-**	(77)
Share based payment charges		**(30)**	(25)
Operating (loss)/profit		**(1,287)**	600
Finance income	*5*	**1**	3
Finance expenses	*5*	**(176)**	(33)
(Loss)/profit before tax		**(1,462)**	570
Income tax	*6*	**1,269**	123
(Loss)/profit for the year attributable to equity shareholders of the parent		**(193)**	693
Other comprehensive income		**-**	-
Total comprehensive (expense)/income for the year		**(193)**	693

(Loss)/earnings per ordinary share (pence)			
Basic	*7*	**(0.34)**	1.22
Diluted	*7*	**(0.34)**	1.18

* Further details of the prior year restatement are provided at Note 3.

** Earnings before financial income and expenses, tax, depreciation, amortisation, exceptional items, acquisition costs and share based payment charges. See Alternative Performance Measures Glossary at the end of this document.

Statements of changes in equity

for year ended 31 December 2019

	Share capital	Share premium	Equity Reserve	Retained earnings	Total equity
	£000	**£000**	**£000**	**£000**	**£000**
At 1 January 2018	558	1,473	25	5,174	7,230
Adjustment on initial application of IFRS 15, net of tax *	-	-	-	(468)	(468)
Adjusted balance at 1 January 2018	558	1,473	25	4,706	6,762
Profit for the year as previously stated	-	-	-	1,143	1,143
Prior year adjustment, net of tax **	-	-	-	(450)	(450)

Total comprehensive income for the year as restated	-	-	-	693	693

Contributions by and distributions to owners					
Equity-settled share based payments	-	-	-	25	25
Exercise of share options	17	144	(11)	11	161
Total contributions by and distributions to owners	17	144	(11)	36	186
At 31 December 2018 as restated	**575**	**1,617**	**14**	**5,435**	**7,641**
At 1 January 2019 (as restated)	575	1,617	14	5,435	7,641
Loss for the year	-	-	-	(193)	(193)
Total comprehensive expense for the year	-	-	-	(193)	(193)
Contributions by and distributions to owners					
Equity-settled share based payments	-	-	-	30	30
Total contributions by and distributions to owners	-	-	-	30	30
At 31 December 2019	**575**	**1,617**	**14**	**5,272**	**7,478**

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

** Further details of the prior year restatement are provided at Note 3.

Consolidated balance sheet

at 31 December 2019

	Note		
		2019	2018
		£000	£000
			Restated *
ASSETS			
Non-current assets			
Property, plant and equipment		**973**	943
Right of use assets	*8*	**466**	-
Intangible assets		**4,733**	4,676
Investments in subsidiary undertakings		**-**	-
Deferred tax assets	*9*	**528**	390
		6,700	6,009
Current assets			
Inventories		**2,430**	3,548
Trade and other receivables		**3,798**	2,553

Cash and cash equivalents		**827**	2,117
		7,055	8,218
Total assets		**13,755**	14,227
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	*11*	**575**	575
Share premium		**1,617**	1,617
Equity reserve		**14**	14
Retained earnings		**5,272**	5,435
Total equity		**7,478**	7,641
Non-current liabilities			
Interest-bearing loans and borrowings	*10*	**338**	883
Trade and other payables		**-**	-
		338	883
Current liabilities			

Interest-bearing loans and borrowings	*10*	**1,014**	273
Trade and other payables		**4,925**	5,430
		5,939	5,703
Total liabilities		**6,277**	6,586
Total equity and liabilities		**13,755**	14,227

* Further details of the prior year restatement are provided at Note 3.

Consolidated statement of cash flows

for year ended 31 December 2019

	Note	**2019**	2018
		£000	£000
			Restated *
Cash flows from operating activities			
(Loss)/profit for the year		**(193)**	693
Adjustments for:			
Depreciation of property, plant and equipment		**204**	209
Amortisation of right of use assets	*8*	**133**	-
Amortisation of intangible assets		**639**	590

Financial income	*5*	**(1)**	(3)
Financial expenses	*5*	**176**	33
Equity settled share-based payment expenses		**30**	25
Income tax (credit)/charge	*6*	**(1,269)**	(123)
		———	———
Operating cash flows before movement in working capital		**(281)**	1,424
Change in inventories		**1,118**	1,580
Change in trade and other receivables		**(379)**	1,344
Change in trade and other payables		**(425)**	(1,834)
		———	———
Cash generated from operations		**33**	2,514
Tax received		**109**	56
		———	———
Net cash from operating activities		**142**	2,570
		———	———
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(263)**	(325)
Acquisition of right-of-use assets	*8*	**(5)**	-
Capitalised development expenditure		**(696)**	(1,444)
Acquisition of subsidiary		**-**	(1,224)
Interest received		**1**	3
		———	———

Net cash outflow from investing activities		**(963)**	(2,990)

Cash flows from financing activities			
Bank loan received	*10*	**-**	1,250
Bank loan repaid	*10*	**(250)**	(125)
Interest paid on lease liabilities (2018: interest paid on finance leases)	*10*	**(25)**	(1)
Interest paid on loans and borrowings	*10*	**(53)**	(23)
Principal paid on lease liabilities (2018: principal paid on finance leases)	*10*	**(117)**	(15)
Other interest and foreign exchange		**(24)**	(34)
Proceeds from exercise of share options		**-**	161
Net cash (outflow)/inflow from financing activities		**(469)**	1,213
Net (decrease)/increase in cash and cash equivalents		**(1,290)**	793
Total movement in cash and cash equivalents in the year		**(1,290)**	793
Cash and cash equivalents at 1 January		**2,117**	1,324
Cash and cash equivalents at 31 December		**827**	2,117

* Further details of the prior year restatement are provided at Note 3.

Notes

1 Basis of preparation

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 2019 or 31 December 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered in due course. The Auditor has reported on those accounts; his reports (i) were 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.

Going concern

The Group continues to manage the impact of Covid-19 on its business. Petards is a critical supplier to many of its customers supporting the UK's police and armed forces as well as the safe running of the railways. The Group's facilities remain open for business and are operating, through a variety of measures that have been introduced to ensure a safe working environment. The main risks to the Group from Covid-19 identified so far are firstly, that customers may delay or re-schedule deliveries for orders already in the Group's order book and secondly that, in the short term, contract awards that the Group was expecting to secure for revenue in 2020 may be delayed. By their nature these risks are difficult for the Group to directly influence or control, but by keeping in close contact with our customers we are seeking to ensure that we are well-informed about their plans and prepared to secure contracts awards as and when the opportunities arise. The Group is fortunate that its customer base comprises blue chip companies, the UK Government and its agencies and its exposure to credit risk is low.

The Group currently meets its day to day working capital requirements through its own cash resources and has available a revolving credit facility of £0.75 million which is available until 21 June 2022. Interest bearing loans and borrowings total £1.35 million at the year-end.

Due to the uncertainty created by COVID-19, the Group created a working capital model focused on the potential impacts of COVID-19 and the actions that the Board has taken and can take to mitigate those impacts. This uses as its basis the budget for 2020 updated for known changes since it was prepared, and 2020 management accounts to 30 April 2020. The time period reviewed is from 1 May 2020 to 30 June 2021. At 31 May 2020 the Group had cash balances of £1.4 million.

Cash and cost management is always a key area of focus for the Board and is particularly so in the present environment. Management have reviewed the budgeted cost base in detail considering the impact of COVID-19 and other factors and identified savings in both cost of sales and general administrative expenses. It is estimated that, with the support of our employees and by reshaping the focus of the business during this period, that significant savings can be achieved. The model also assumes that all discretionary capital expenditure is suspended for the period under review. Any such expenditure will only be made if it is clear it can be afforded.

The model assumes that all payments due to HMRC will be made as they fall due, with the exception of the VAT payments due in the period 1 April 2020 to 30 June 2020, which under the Covid-19 VAT deferral scheme will be deferred to 31 March 2021. Forecast R&D tax credit receipts are also included, claims for which are anticipated to be submitted early in the third quarter of 2020. The model also considers the potential impact of rail contract awards that the Group was expecting to secure for revenue during the period that may be delayed or cancelled.

The Board has concluded, after reviewing the work performed and detailed above that there is a reasonable expectation that the Group has adequate resources to continue in operation until at least 30 June 2021. Accordingly, they have adopted the going concern basis in preparing these financial statements.

2 Changes in significant accounting policies

IFRS 16 *Leases*

The Group adopted IFRS 16 'Leases' with effect from 1 January 2019 using the modified retrospective approach to transition. The new standard requires that the Group's leased assets are recorded as right-of-use assets together with their corresponding lease liabilities. Adoption of the new standard has had a material impact on the Group's financial statements, with right-of-use assets of £381,000 recognised on transition together with a corresponding lease liability. As at 31 December 2019 right-of-use assets were £466,000 and lease liabilities were £471,000.

Notes *(continued)*

2 Changes in significant accounting policies *(continued)*

Included in lease liabilities are liabilities of £426,000 which would previously been classified off-balance sheet as operating leases and a lease of £45,000, in respect of an asset acquired during the year, which would previously have been classified as a finance lease.

There was no impact on the application of IFRS 16 on opening reserves on 1 January 2019.

Under IFRS 16, the operating lease expense previously recorded in operating costs of £119,000 has been replaced by an additional depreciation charge of £112,000, which is lower than the operating lease expense recognised under IAS 17, the previous accounting standard for leases, and a separate additional interest expense of £23,000 has been recorded in finance expense. Reported EBITDA is therefore £119,000 higher than would otherwise have been reported and profit before tax is £16,000 lower than would have otherwise been reported.

On transition the lease liabilities have been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate on the date of transition. The incremental borrowing rate applied to the Group's lease portfolio on 1 January 2019 was 4.25%.

In addition, the Group applied the following available practical expedients permitted by the standard:

- the exclusion of leases relating to low-value assets (less than £5,000 when new);
- the exclusion of short-term leases, being those with a lease term of 12 months or less;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- reliance on its assessment of whether leases are onerous immediately prior to the date of transition.

The following table presents the impact of adopting IFRS 16 on the consolidated balance sheet position as at 1 January 2019:

	Adjustments	**31 December 2018 as originally presented**	**IFRS 16**	**1 January 2019**
		£000	**£000**	**£000**
Assets				
Property, plant & equipment - motor vehicles	(a)	32	(28)	3
Right-of-use assets	(b)	-	410	410
Liabilities				
Loans and borrowings	(c)	23	(23)	-
Lease liabilities	(d)		404	404
Equity				
Retained earnings	(e)	5,435	-	5,435

Adjustments:

(a) Property, plant and equipment was adjusted to reclassify assets previously acquired under finance lease as right-of-use assets. The adjustment reduced the cost of property, plant and equipment by £57,000 and accumulated depreciation by £28,000 resulting in a net adjustment of £29,000.

(b) The adjustment to right-of-use assets is as follows:

	£000
Adjustment noted at (a) - finance type leases	29
Operating type leases	381
Right-of-use assets	410

(c) Loans and borrowings were adjusted to reclassify leases previously classified as finance leases to lease liabilities.

Notes *(continued)*

2 **Changes in significant accounting policies** *(continued)*

(d) The following table reconciles the minimum lease commitments disclosed in the Group's 31 December 2018 annual financial statements with the amount of lease liabilities recognised on 1 January 2019.

	£000
Minimum operating lease commitment at 31 December 2018	472
Less: short-term leases not recognised under IFRS 16	(33)
Less: low value leases not recognised under IFRS 16	(12)
Undiscounted lease payments	427
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(46)
Lease liabilities for leases classified as operating type under IAS 17	381
Plus: leases previously classified as finance type under IAS 17	23
Lease liability as at 1 January 2019	404

(e) There was no impact on opening retained earnings from the adoption of IFRS 16.

The impact of the adoption of IFRS 16 on the consolidated income statement, EBITDA and the consolidated cash flow statement is shown in the table below.

	Reason for change	**Year ended 31 December 2019 under IAS 17 £000**	**Reversal of IAS 17 entries £000**	**IFRS 16 £000**	**Year ended 31 December 2019 as reported £000**
Operating loss	Removal of IAS 17 lease costs and recording of depreciation of right-of-use assets	(1,294)	119	(112)	(1,287)
Finance expense	Recording on interest on lease liability	(153)	2	(25)	(176)
Loss before tax	Net of above changes	(1,446)	121	(137)	(1,462)

Adjusted EBITDA	Removal of IAS 17 lease costs from operating expenses	(162)	(119)	-	(281)

Net cash inflow from operating activities	Lease cost payments recorded within financing activities	284	142	-	142
Net cash used in financing activities	Recognition of lease payments	(344)	17	(142)	(469)

3 Prior year adjustment

During the 2019 year-end accounts close process, a costing error was identified in respect of the installation element of a project that had been on-going since the latter part of 2016. While the overall project remained profitable, as substantial revenues and profits were recognised in prior years in respect of this project, this error led to the profits taken at 31 December 2018 to be overstated. The impact has been to reduce the prior year's previously reported gross profit by £556,000 with a corresponding reduction to work in progress. The related income tax credit was £106,000 with a corresponding increase to the deferred tax asset. The overall effect of this prior year adjustment is to reduce 2018 profits by £450,000 to £693,000, and to reduce equity by the same amount.

Notes *(continued)*

4 Segmental information

The analysis by geographical 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 allocate resources.

The Board regularly reviews the Group's performance and balance sheet position for its entire operations as a whole. The Board receives financial information, assesses performance and makes resource allocation decisions for its UK based business as a whole, therefore 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 ruggedized electronic applications.

As the Board of Directors receives revenue, Adjusted EBITDA and operating profit on the same basis as set out in the consolidated income statement no further reconciliation or disclosure is considered necessary.

Revenue by geographical destination can be analysed as follows:

	2019	2018
	£000	£000
United Kingdom	**13,145**	15,285
Continental Europe	**2,493**	4,250
Rest of World	**68**	438
	15,706	19,973

The timing of revenue recognition can be analysed as follows:

	2019	2018
	£000	£000
Products and services transferred at a point in time	**14,075**	19,058
Products and services transferred over time	**1,631**	915
	15,706	19,973

5 Finance income and expenses

	2019	2018
	£000	£000
Recognised in profit or loss		
Interest on bank deposits	**1**	1
Other exchange gain	**-**	2
Financial income	**1**	3

	2019	2018
	£000	£000
Interest expense on financial liabilities at amortised cost	**51**	31
Interest expense on lease liabilities (2018: finance leases)	**25**	1
Other interest payable	**14**	1
Other exchange loss *	**86**	-
Financial expenses	**176**	33

* Includes £76,000 in respect of two USD forward currency contracts maturing in 2020.

Notes *(continued)*

6 Taxation

Recognised in the income statement

	2019	2019	2018	2018
	£000	£000	£000 Restated *	£000 Restated *
Current tax (credit)/expense				
Current tax charge	36		(72)	
Adjustments in respect of prior years	(1,167)		(113)	
Total current tax		(1,131)		(185)
Deferred tax (credit)/expense				
Origination and reversal of temporary differences	(429)		105	
Derecognition of previously recognised tax losses	-		73	
Recognition of previously unrecognised tax losses	84		(56)	
Utilisation of recognised tax losses	16		75	
Adjustment in respect of prior years	166		(145)	
Effect of differential tax rate for deferred tax	25		10	
Total deferred tax		(138)		62
Total tax credit in income statement		(1,269)		(123)

The £1,167,000 credit to current tax in respect of prior years related to enhanced tax deductions for R&D tax claims and losses surrendered for R&D

tax credits in respect of prior years. These claims are recognised when receipt is determined to be probable.

Factors that may affect future current and total tax charges

The main rate of UK corporation tax changed from 20% to 19% with effect from 1 April 2017.

These tax changes were substantively enacted on 26 October 2016 and therefore the effect of this rate reduction has been applied to the deferred tax balances as at 31 December 2019 and 31 December 2018. Following an announcement in the Budget on 11 March 2020, which was substantively enacted on 17 March 2020, the UK corporation tax rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%. If this tax rate was applied to the closing deferred tax balances at the 31 December 2019, the impact would be an increase in the deferred tax asset and liability of £110,000 and £48,000, respectively.

Reconciliation of effective tax rate

	2019	2018
	£000	£000 Restated *
(Loss)/profit before tax	**(1,462)**	570
Tax using the UK corporation tax rate of 19% (*2018: 19%)*	**(278)**	108
Non-deductible expenses	**44**	42
Non-taxable income	**-**	(21)
Derecognition of previously recognised tax losses	**-**	73
Recognition of previously unrecognised tax losses	**(59)**	(56)
Adjustments in respect of prior years	**(1,001)**	(258)
Effect of differential tax rate for deferred tax	**25**	10
Other reconciling items	**-**	(21)
Total tax credit	**(1,269)**	(123)

* Further details of the prior year restatement are provided at Note 3.

Notes *(continued)*

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.

	2019	2018 Restated *
Earnings		
(Loss)/profit for the year (£000)	**(193)**	693
Number of shares		
Weighted average number of ordinary shares ('000)	**57,468**	56,752
Basic (loss)/earnings per share (pence)	**(0.34)**	1.22

Diluted earnings per share

Diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, which arise from share options that would decrease earnings per share or increase loss per share from continuing operations, 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. Due to the loss for the year, the share options in issue in 2019 had an anti-dilutive effect.

	2019	2018 Restated *
Adjusted earnings		
(Loss)/profit for the year (£000)	**(193)**	693
Number of shares		
Weighted average number of ordinary shares ('000)	**57,468**	58,627
Diluted (loss)/earnings per share (pence)	**(0.34)**	1.18

* Further details of the prior year restatement are provided at Note 3.

Notes *(continued)*

8 Right of use assets

	Land and buildings	Motor Vehicles *	Total
	£'000	£'000	£'000
Cost			
Balance at 1 January 2019 *	381	29	410
Acquisitions	129	60	189
Balance at 31 December 2019	510	89	599
Balance as 1 January 2019	-	-	-
Amortisation charge for the year	110	23	133
Balance at 31 December 2019	110	23	133
Net book value			
At 1 January 2019	381	29	410
At 31 December 2019	**400**	**66**	**466**

* Reclassification from property, plant and equipment due to the adoption of IFRS 16. Motor vehicle acquisitions include a cash deposit of £5,000.

Lease liabilities	Land and buildings	Motor Vehicles	Total
	£'000	£'000	£'000
Balance at 1 January 2019	381	23	404
Acquisitions	129	55	184
Interest expense	23	2	25
Lease payments	(116)	(26)	(142)
Balance at 31 December 2019	**417**	**54**	**471**

Payable within one year	113	20	133
Payable after more than one year	304	34	338
Balance at 31 December 2019	**417**	**54**	**471**

Notes *(continued)*

9 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2019	2018	**2019**	2018	**2019**	2018
	£000	£000 Restated *	**£000**	£000	**£000**	£000 Restated *
Property, plant and equipment	**-**	-	**(80)**	(46)	**(80)**	(46)
Provisions	**5**	5	**-**	-	**5**	5
Tax value of loss carry-forwards	**919**	524	**-**	-	**919**	524
Intangible fixed assets	**-**	-	**(328)**	(103)	**(328)**	(103)
Initial application of IFRS 15	**12**	10	**-**	-	**12**	10
Tax assets/(liabilities)	**936**	539	**(408)**	(149)	**528**	390
Offset of tax	**(408)**	(149)	**408**	149	**-**	-
Net tax assets	**528**	390	**-**	-	**528**	390

Unrecognised deferred tax assets are attributable to the following:

	Assets	Assets
	2019	2018
	£000	£000
Property, plant and equipment	**248**	209

Provisions	**2**	3
Tax value of loss carry-forwards	**1,356**	1,424
	______	______
Tax assets	**1,606**	1,636
	______	______

* Further details of the prior year adjustment are provided at Note 3.

There is no expiry date on the above unrecognised deferred tax assets.

Following an announcement in the Budget on 11 March 2020, which was substantively enacted on 17 March 2020, the UK corporation tax rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%. If this tax rate was applied to the closing deferred tax balances at the 31 December 2019, the impact would be an increase in the deferred tax assets and liability of £110,000 and £48,000, respectively.

Movement in deferred tax during the year

	31 December 2018	Prior year adjustment	1 January 2019	Recognised in income	31 December 2019
	As previously stated		As restated		
	£000	£000	£000	£000	£000
Property, plant and equipment	(46)	-	(46)	(34)	(80)
Provisions	5	-	5	-	5
Tax value of loss carry-forwards	418	106	524	395	919
Intangible fixed assets	(103)	-	(103)	(225)	(328)
Initial application of IFRS 15	10	-	10	2	12
	______	______	______	______	______
	284	106	390	138	528
	______	______	______	______	______

Notes *(continued)*

9 Deferred tax assets and liabilities *(continued)*

Movement in deferred tax during the prior year

	31 December 2017	Initial application of IFRS 15	1 January 2018	Arising on acquisitions	Recognised in income	31 December 2018
	£000	£000	£000	£000	£000	£000
Property, plant and equipment	(45)	-	(45)	-	(1)	(46)
Provisions	5	-	5	-	-	5
Tax value of loss carry-forwards	401	-	401	-	17	418
Intangible fixed assets	(17)	-	(17)	(94)	8	(103)
Initial application of IFRS 15	-	96	96	-	(86)	10
	344	96	440	(94)	(62)	284

10 Interest-bearing loans and borrowings

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

	2019	2018
	£000	£000
Non-current liabilities		
Bank loan	-	875
Lease liabilities	**338**	8

	338	883

Current liabilities		
Bank loan	**881**	258
Current portion of lease liabilities	**133**	15
	1,014	273

Subsequent to 31 December 2019, the Group's bankers confirmed that the bank loan is repayable by equal quarterly instalments of £62,500 and that £625,000 falls due after more than one year. 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 Group has available a revolving credit facility of up to £750,000 which was undrawn at both 31 December 2019 and 31 December 2018, and which has been renewed subsequent to the year end and now expires in June 2022. The interest rate on amounts drawn is set at LIBOR plus 3.19%.

Lease liabilities include non-current liabilities of £29,000 and current liabilities of £16,000 which would previously have been classified as finance leases.

Notes *(continued)*

10 Interest-bearing loans and borrowings *(continued)*

Changes in liabilities from financing activities

	Non-current loans and borrowings	Current loans and borrowings	Lease liabilities
	£000	£000	£000
Balance at 1 January 2019	875	258	404
New lease liabilities (Note 8)	-	-	184
Interest expense	-	51	25
Repayment of bank loan	-	(303)	-
Payment of lease liabilities	-	-	(142)
Classified as non-current at 31 December 2018 becoming current at 31 December 2019	(875)	875	-
Total changes from financing cash flows	(875)	623	(67)
Balance at 31 December 2019	**-**	**881**	**471**

	Non-current loans and borrowings	Current loans and borrowings	Lease liabilities
	£000	£000	£000
Balance at 1 January 2018	-	-	38
New bank loan	875	375	-
Interest expense	-	31	1
Repayment of bank loan	-	(148)	-
Payment of lease liabilities	-	-	(16)
Total changes from financing cash flows	875	258	(15)
Balance at 31 December 2018	875	258	23

11 Share capital

	At 31 December 2019 Number	At 31 December 2018 Number
Number of shares in issue - allotted, called up and fully paid		
Ordinary shares of 1p each	**57,468,229**	57,468,229
	£000	£000
Value of shares in issue - allotted, called up and fully paid		

Ordinary shares of 1p each	**575**	575

The Company's issued share capital comprises 57,468,229 ordinary shares of 1p each, all of which have equal voting rights.

Notes *(continued)*

12 Post balance sheet events

Covid 19

The Group continues to manage the impact of Covid-19 on its business. Petards is a critical supplier to many of its customers supporting the UK's police and armed forces as well as the safe running of the railways. The Group's facilities remain open for business and are operating, through a variety of measures that have been introduced to ensure a safe working environment. Since mid-March 2020 employees able to work effectively from home have been doing so, using conference facilities to communicate with their teams and customers. Following the Covid-19 lockdown, management conducted a full review of all operations and the effect it has had on customers' operations. This has led to some staff being furloughed under the Job Retention Scheme which is being kept under constant review.

The main risks to the Group from Covid-19 identified so far are firstly, that customers may delay or re-schedule deliveries for orders already in the Group's order book and secondly that, in the short term, contract awards that the Group was expecting to secure for revenue in 2020 may be delayed. By their nature these risks are difficult for the Group to directly influence or control, but by keeping in close contact with our customers we are seeking to ensure that we are well-informed about their plans and prepared to secure contracts awards as and when the opportunities arise. The Group is fortunate that its customer base comprises blue chip companies, the UK Government and its agencies and its exposure to credit risk is low.

In the current circumstances of Covid-19 the provision of forward guidance remains extremely challenging. With the Department for Transport, the MOD and train operating companies focussing their efforts on dealing with Covid-19, the timing of contract awards previously anticipated for 2020 revenues are unlikely to become clearer until the pandemic within the UK has abated. As referred to in Note 1 *Going Concern*, the Board continues to keep this under close review.

13 Annual Report and Accounts

The Annual Report and Accounts will be sent to shareholders shortly and will be available to download on the Company's website www.petards.com.

Alternative Performance Measures Glossary

This report provides alternative performance measures ("APMs"), which are not defined or specified under the requirements of International Financial Reporting Standards. The Board believes that these APMs provide management with useful performance measurement indicators and readers with important additional information on the business.

Adjusted EBITDA

Adjusted EBITDA is earnings before financial income and expenses, tax, depreciation, amortisation, exceptional items, acquisition costs and share based payment charges. Adjusted EBITDA is considered useful by the Board since by removing exceptional items, acquisition costs and share based payments, the year on year operational performance comparison is more comparable.

Order intake

The value of contractual orders received from customers during any period for the delivery of performance obligations. This allows management to monitor the performance of the business.

Order book

The value of contractual orders received from customers yet to be recognised as revenue. This allows management to monitor the performance of the business and provides forward visibility of potential earnings.

Net funds

Total net funds comprise cash and cash equivalents less interest bearing loans and borrowings. This allows management to monitor the indebtedness of the Group.

Current net funds

Current net funds comprise cash and cash equivalents less current liabilities in respect of interest bearing loans and borrowings, excluding liabilities recognised on the adoption of IFRS 16 'Leases'. This allows management to monitor the short term indebtedness of the Group.

END

FR FRMLTMTIBBIM