**7 September 2016**

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

**Interim results for the six months ended 30 June 2016**

Petards Group plc (AIM: PEG), the AIM quoted developer of advanced security and surveillance systems, is pleased to report its interim results for the six months to 30 June 2016.

**Key Highlights:**

- **Operational**
  - Another set of strong trading results for the Group
  - Profits grow for fifth successive six-month period
  - Acquisition of QRO Solutions ("QRO") successfully completed in April 2016
  - Investment made in expanding the Group's software development capabilities
  - Order book at 30 June 2016: £12 million (31 Dec 2015: £16 million)
  - Order book increased post 30 June 2016 by receipt of over £4 million of orders including £3 million received from Bombardier Transportation and Hitachi Rail Europe
- **Financial**
  - Total revenues increased 22% to £7.4 million (2015: £6.1 million)
  - EBITDA from continuing operations increased 27% to £776,000 (2015: £609,000)
  - Pre-tax profit from continuing operations up 48% to £526,000 (2015: £356,000)
  - Cash balances £2.0m (31 Dec 2015: £2.5 million) and no bank debt after acquisition of QRO
  - Basic EPS increased 32% to 1.36p (2015: 1.03p)
  - Diluted EPS increased 25% to 0.95p (2015: 0.76p)

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

"With the strong results for the half year and the current orders scheduled for delivery in the second half year, the board is confident that the Group is well placed to deliver full year results in line with market expectations."

**Contacts:**

| | |
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## Chairman's Statement

The first six months of the current financial year have been very busy with the Group trading well, the acquisition of QRO Solutions ("QRO") having been successfully completed, investment made in the Group's software capabilities and a number of exciting order prospects being under negotiation.

With the Group's pre-tax profits up by one third to £475,000 over the corresponding period in 2015, this is the fifth successive six-month period in which the Group has recorded an increase in its profitability. Revenues from continuing operations increased by 17% on the back of increased deliveries of the Group's *eyeTrain* surveillance products and by over 22% including QRO.

### Business overview

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

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

The Group performed well during the six months ended 30 June 2016, delivering organic growth in addition to the acquisition of QRO, and that performance is a summarised below.

### Operating review

The growth in revenues during the period primarily resulted from a strong trading performance in respect of the Group's *eyeTrain* products with increased deliveries for the Siemens Mobility Thameslink project accounting for the majority of that increase. The project, which is now almost 50% complete, is for the supply of on-board monitoring systems that will provide 115 Siemens Desiro City Electrical Multiple Unit (EMU) trains with Driver Only Operation (DOO) capability as well as the ability to monitor the overhead pantograph, saloon interiors and the track to both the front and rear of the trains. The first of these trains have now entered service and once all have been commissioned the 115 trains, comprising 1,140 vehicles, will represent another substantial increase in Petards *eyeTrain* installed base.

Other *eyeTrain* projects contributing to revenues in the period included those for Siemens, Bombardier Transportation and Hitachi Rail Europe. Demand for *eyeTrain* spares, support and maintenance parts remained strong with revenues continuing at similar levels to those achieved in the corresponding period in 2015. Management's view is that as new trains fitted with Petards equipment enter service, these areas will grow and contribute significantly to recurring revenues and profitability.

Revenues from Defence and Emergency Services products in the period were lower than in the same period in last year. In Defence, the first half of 2015 benefitted from revenues from the £4.5 million contract to modify electronic countermeasures equipment fitted to certain of the MOD's aircraft fleet. With that programme substantially complete, its contribution to revenues in 2016 was much less significant. However, much of that decrease was offset by the £800,000 contract from the MOD for the supply and delivery of radio equipment and support services, which was delivered in full in the first half of 2016.

Emergency Services product revenues in the first half of 2015 included a substantial spares order from an overseas government. Once the effect of that order is removed, revenues (excluding QRO) for the first half of 2016 were up approximately 10%.

Operational improvements continue to be made and I am pleased to report that the investment made in strengthening the engineering capability within Petards Joyce-Loebl during 2015 has started to show the expected benefits. Since then, in order to accelerate the Group's development of new product offerings and to enable it to be more proactive in the market place, additional investment in its software development operations has been implemented. This included new software tools, improvements in software development processes and expanded test facilities, the benefits of which are now being felt in the delivery of current projects.

While the Group's trading performance has been strong, order intake during the period was slower than had been anticipated for both *eyeTrain* and *ProVida* products. This contrasted with a better than anticipated order intake for Defence products following receipt of the £800,000 MOD radio order referred to above.

The board believes the slower order intake was due to the timing of specific customer projects rather than any BREXIT effect. Since the start of the third quarter, orders totalling over £4 million have been received. These orders have included two previously announced orders from Bombardier Transportation totalling in excess £2.5 million for the supply of *eyeTrain* systems on two UK projects for fitment to ELECTROSTAR and the new AVENTRA EMU trains for delivery in 2017 and 2018. A further order of approximately £0.6 million has been received from Hitachi Rail Europe for *eyeTrain* automatic passenger counting (APC) systems for delivery over the next three years.

The Group's order book at 30 June 2016 was £12 million of which just under half is scheduled for delivery in the second half of 2016. The above orders grew the order book at 31 August 2016 to approximately £13.5 million, the majority of those new orders being in support of 2017 revenues.

**Acquisition**

In April, the board was pleased to welcome QRO into the Group following its acquisition for an initial consideration of £1,115,000 payable in cash from the Group's existing cash resources. At the time of acquisition QRO's balance sheet included net cash balances of £876,000. As the board considers at this stage that it unlikely that the contingent consideration of £140,000 will be payable, the resulting net cash consideration for the acquisition is expected to be £239,000.

QRO provides 'end-to-end' ANPR, security and speed enforcement solutions to UK police forces and to integrators serving the police and security markets. Its systems integration expertise enables it to offer fixed site, mobile, re-deployable and hand-held ANPR systems which can be integrated into its own back office management suite of software; Check-IT ANPR, Check-IT CSGS, Check-IT Handheld and Multimedia Vault. It comes to the Group with a strong service based operation, well established in its field, profitable, cash generative with recurring revenues and complements Petards existing Emergency Services *ProVida* brand.

QRO made a small contribution (before acquisition costs) to the Group's profits in the 2½ months following its acquisition but grew its order book over that same period with an order intake of approaching £400,000. Its contribution to profits would have been higher had it not been for revenues being deferred due to the late delivery of equipment by a key supplier, however, this issue has been resolved, the related shipments completed and I am pleased to say that QRO continues to trade profitably.

**Financial review**

*Operating performance*

Revenues from continuing operations for the six months ended 30 June 2016 increased by 17% to £7.1million (June 2015: £6.1 million) with a gross margin in line with that recorded for the 2015 full year. QRO contributed revenues of £0.3 million at a 40% gross margin taking Group revenues for the period to £7.4 million.

Administrative expenses from continuing operations grew to £1.9 million (June 2015: £1.8m) with much of this increase being payroll, training and recruitment costs relating to the investment in the software development capabilities of the Group. Administrative expenses relating to QRO totalled £119,000 which with acquisition costs of £57,000, took Group administrative expenses to £2.1 million.

Earnings before interest, tax, depreciation & amortisation (EBITDA) from continuing operations improved by 27% to £776,000 (June 2015: £609,000) and operating profits by 39% to £604,000 (June 2015: £436,000). A small contribution was made by QRO and after deducting acquisition costs the Group achieved an EBITDA of £786,000 and an operating profit of £553,000 for the half year.

Net financial expenses totalled £78,000, and with no tax charge, profits before and after tax on the Group's activities totalled £475,000, an increase of 33% (June 2015: £356,000) with diluted earnings per share increasing 25% to 0.95p (June 2015: 0.76p).

*Research & Development*

The Group continues to invest in its product offering and capitalised £265,000 during the period relating to development of its *eyeTrain* systems (June 2015: £27,000).

*Cash and cash flow*

The Group's financial position remains healthy with cash on its balance sheet and no bank debt. At 30 June 2016, cash balances totalled £2.0 million (December 2015: £2.5 million) and it has undrawn working capital facilities of £0.5 million.

The net operating cash inflow for the period was £122,000 (June 2015: inflow of £558,000) with working capital movements reducing the cash generated. The largest of these movements was a result of lower revenue volumes but much higher exports in the second quarter of 2016 compared with the last quarter of 2015, causing a significant reduction in output VAT payable. Total cash outflows after investing activities amounted to £488,000 which includes the £239,000 net cash flow arising from the acquisition of QRO.

**Outlook**

Since the half year the Group has continued to trade well with new orders totalling over £4 million secured and with further business under negotiation for 2017 and beyond.

With the strong results for the first half year and the current orders scheduled for delivery in the second half year, the board is confident that the Group is well placed to deliver full year results in line with market expectations.

**Raschid Abdullah**
**7 September 2016**

## Condensed Consolidated Income Statement
***for the six months ended 30 June 2016***

| | Note | Continuing Operations 30 June 2016 £000 | Acquisition 30 June 2016 £000 | **Unaudited 6 months ended 30 June 2016 £000** | Unaudited 6 months ended 30 June 2015 £000 | Audited year ended 31 December 2015 £000 |
|---|---|---|---|---|---|---|
| **Revenue** | | 7,096 | 315 | **7,411** | 6,067 | 13,072 |
| Cost of sales | | (4,615) | (190) | **(4,805)** | (3,860) | (8,473) |
| **Gross profit** | | 2,481 | 125 | **2,606** | 2,207 | 4,599 |
| Administrative expenses | *2* | (1,877) | (176) | **(2,053)** | (1,771) | (3,664) |
| **Operating profit/(loss)** | | 604 | (51) | **553** | 436 | 935 |
| *Analysed as:* | | | | | | |
| Earnings before interest, tax, depreciation and amortisation ('EBITDA') | | 776 | 10 | **786** | 609 | 1,260 |
| Depreciation and amortisation | | (159) | (4) | **(163)** | (172) | (325) |
| Exceptional item: Acquisition costs | | - | (57) | **(57)** | - | - |
| Share based payments | | (13) | - | **(13)** | (1) | - |
| | | 604 | (51) | **553** | 436 | 935 |
| Financial income | | 2 | - | **2** | 1 | 3 |
| Financial expenses | *3* | (80) | - | **(80)** | (81) | (176) |
| **Profit before tax** | | 526 | (51) | **475** | 356 | 762 |
| Income tax | *4* | - | - | **-** | - | 3 |
| **Profit for the period attributable to equity shareholders of the company** | | 526 | (51) | **475** | 356 | 765 |
| **Basic earnings per share (pence)** | *6* | | | **1.36** | 1.03 | **2.19** |
| **Diluted earnings per share (pence)** | *6* | | | **0.95** | 0.76 | **1.62** |

## Condensed Consolidated Statement of Comprehensive Income
***for the six months ended 30 June 2016***

| | **Unaudited 6 months ended 30 June 2016 £000** | Unaudited 6 months ended 30 June 2015 £000 | Audited year ended 31 December 2015 £000 |
|---|---|---|---|
| **Profit for period** | **475** | 356 | 765 |
| **Total comprehensive income for the period** | **475** | 356 | 765 |

## Condensed Consolidated Statement of Changes in Equity
***for the six months ended 30 June 2016***

| | **Share capital £000** | **Share premium £000** | **Merger reserve £000** | **Equity reserve £000** | **Special reserve £000** | **Retained earnings £000** | **Currency translation differences £000** | **Total equity £000** |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2015 (audited) | 6,651 | 25,192 | 1,075 | 204 | - | (30,510) | (211) | 2,401 |
| Profit for the period | - | - | - | - | - | 356 | - | 356 |
| Total comprehensive income for the period | - | - | - | - | - | 356 | - | 356 |
| Conversion of convertible loan Notes | 1 | 11 | - | (1) | - | 1 | - | 12 |
| Equity-settled share based payments | - | - | - | - | - | 1 | - | 1 |
| Balance at 30 June 2015 (unaudited) | 6,652 | 25,203 | 1,075 | 203 | - | (30,152) | (211) | 2,770 |
| Balance at 1 January 2015 (audited) | 6,651 | 25,192 | 1,075 | 204 | - | (30,510) | (211) | 2,401 |
| Profit for the year | - | - | - | - | - | 765 | - | 765 |
| Total comprehensive income for the year | - | - | - | - | - | 765 | - | 765 |
| Conversion of convertible loan notes | 1 | 14 | - | (1) | - | - | - | 14 |
| Equity-settled share based payments | - | - | - | - | - | 6 | - | 6 |
| Capital Reduction | (6,303) | (25,192) | (1,075) | - | 8 | 32,562 | - | - |
| Balance at 31 December 2015 (audited) | 349 | 14 | - | 203 | 8 | 2,823 | (211) | 3,186 |
| Balance at 1 January 2016 (audited) | 349 | 14 | - | 203 | 8 | 2,823 | (211) | 3,186 |
| Profit for the period | - | - | - | - | - | 475 | - | 475 |
| Total comprehensive income for the period | - | - | - | - | - | 475 | - | 475 |
| Conversion of convertible loan notes | 2 | 11 | - | (1) | - | - | - | 12 |
| Equity-settled share based payments | - | - | - | - | - | 13 | - | 13 |
| Settlement of non-consenting creditors | - | - | - | - | (8) | 8 | - | - |
| **Balance at 30 June 2016 (unaudited)** | **351** | **25** | **-** | **202** | **-** | **3,319** | **(211)** | **3,686** |

## Condensed Consolidated Balance Sheet

***at 30 June 2016***

| | | **Unaudited 30 June 2016 £000** | Unaudited 30 June 2015 £000 | Audited 31 December 2015 £000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | **360** | 212 | 247 |
| Goodwill | *5* | **703** | 401 | 401 |
| Development costs | | **1,172** | 983 | 902 |
| Deferred tax assets | | **429** | 514 | 429 |
| | | **2,664** | 2,110 | 1,979 |
| **Current assets** | | | | |
| Inventories | | **2,075** | 1,864 | 2,168 |
| Trade and other receivables | | **2,332** | 2,382 | 1,861 |
| Cash and cash equivalents | | **1,990** | 1,968 | 2,478 |
| | | **6,397** | 6,214 | 6,507 |
| **Total assets** | | **9,061** | 8,324 | 8,486 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity attributable to equity holders of the parent** | | | | |
| Share capital | | **351** | 6,652 | 349 |
| Share premium | | **25** | 25,203 | 14 |
| Equity reserve | | **202** | 203 | 203 |
| Merger reserve | | **-** | 1,075 | - |
| Special reserve | | **-** | - | 8 |
| Currency translation reserve | | **(211)** | (211) | (211) |
| Retained earnings / (deficit) | | **3,319** | (30,152) | 2,823 |
| **Total equity** | | **3,686** | 2,770 | 3,186 |
| **Non-current liabilities** | | | | |
| Interest-bearing loans and borrowings | | **1,550** | 1,528 | 1,543 |
| Deferred tax liabilities | | **9** | 100 | - |
| | | **1,559** | 1,628 | 1,543 |
| **Current liabilities** | | | | |
| Trade and other payables | | **3,816** | 3,926 | 3,757 |
| | | **3,816** | 3,926 | 3,757 |
| **Total liabilities** | | **5,375** | 5,554 | 5,300 |
| **Total equity and liabilities** | | **9,061** | 8,324 | 8,486 |

# Condensed Consolidated Statement of Cash Flows

***for the six months ended 30 June 2016***

| | Note | **Unaudited 6 months ended 30 June 2016 £000** | Unaudited 6 months ended 30 June 2015 £000 | Audited year ended 31 December 2015 £000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit for the period | | **475** | 356 | 765 |
| *Adjustments for:* | | | | |
| Depreciation | | **43** | 26 | 58 |
| Amortisation of intangible assets | | **119** | 147 | 267 |
| Equity settled share-based payment expenses | | **13** | 1 | 6 |
| Financial income | | **(2)** | (1) | (3) |
| Financial expense | | **81** | 81 | 176 |
| Income tax credit | | **-** | - | (3) |
| **Operating cash flows before movement in working capital** | | **729** | 610 | 1,266 |
| Change in trade and other receivables | | **(129)** | 600 | 1,138 |
| Change in inventories | | **118** | (425) | (729) |
| Change in trade and other payables | | **(536)** | (160) | (195) |
| **Cash generated from operations** | | **182** | 625 | 1,480 |
| Interest received | | **2** | 1 | 3 |
| Interest paid | | **(62)** | (68) | (146) |
| Income tax paid | | **-** | - | (163) |
| **Net cash generated from operating activities** | | **122** | 558 | 1,174 |
| **Cash flows from investing activities** | | | | |
| Acquisition of subsidiary, net of cash acquired | *5* | **(239)** | - | - |
| Acquisition of property, plant and equipment | | **(106)** | (51) | (118) |
| Capitalised development expenditure | | **(265)** | (27) | (66) |
| Cash deposits held in escrow | | **-** | 54 | 54 |
| **Net cash used in investing activities** | | **(610)** | (24) | (130) |
| Net (decrease)/increase in cash and cash equivalents | | **(488)** | 534 | 1,044 |
| Cash and cash equivalents at start of period | | **2,478** | 1,434 | 1,434 |
| **Cash and cash equivalents at end of period** | | **1,990** | 1,968 | 2,478 |
| **Cash and cash equivalents comprise:** | | | | |
| Cash and cash equivalents per balance sheet | | **1,990** | 1,968 | 2,478 |

# Notes

## 1 Basis of preparation

The interim financial information set out in this statement for the six months ended 30 June 2016 and the comparative figures for the six months ended 30 June 2015 are unaudited. This financial information does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006.

The comparative figures for the financial year ended 31 December 2015 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

This interim statement, which is neither audited nor reviewed, has been prepared in accordance with the measurement and recognition criteria of International Financial Reporting Standards (IFRS) as adopted by the EU. It does not include all the information required for the full annual financial statements, and should be read in conjunction with the financial statements of the Group as at and for the year ended 31 December 2015. As permitted, this interim statement has been prepared in accordance with AIM Rules for Companies and is not required to comply with IAS 34 'Interim Financial Reporting' to maintain compliance with IFRS.

The accounting policies applied in preparing these interim financial statements are the same as those applied in the preparation of the annual financial statements for the year ended 31 December 2015, as described in those financial statements other than standards, amendments and interpretations which became effective after 1 January 2016 and were adopted by the Group. These have had no significant impact on the Group's profit for the period or equity. The Board approved these interim financial statements on 6 September 2016.

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

## 2 Administrative expenses

Legal, professional and stamp duty costs incurred in connection with the acquisition of QRO Solutions Limited totalled £57,000 and have been charged to the Condensed Consolidated Income Statement within administrative expenses (see also note 5).

## 3 Financial expenses

| | **Unaudited 6 months ended 30 June 2016 £000** | **Unaudited 6 months ended** 30 June 2015 £000 | Audited year ended 31 December 2015 £000 |
|---|---|---|---|
| Interest expense on financial liabilities at amortised cost: | | | |
| - Convertible loan notes at 7% p.a. (cash) | **57** | 56 | 115 |
| - Convertible loan notes amortisation (non-cash) | **17** | 16 | 34 |
| - Other (cash) | **5** | 1 | 2 |
| Net foreign exchange loss | **1** | 8 | 25 |
| Financial expenses | **80** | 81 | 176 |

## 4 Taxation

No provision for taxation has been made in the Condensed Consolidated Income Statement for the six months to 30 June 2016 based on the estimated tax provision required for the year ending 31 December 2016. No provision was required in the six months to 30 June 2015.

## 5 Acquisition of QRO Solutions Limited

On 13 April 2016, the Group acquired the entire issued share capital of QRO Solutions Limited ("QRO") for a cash consideration of £1,115,000, funded by internal cash resources. A further deferred consideration payment of £140,000 is subject to QRO achieving revenues of at least £1,750,000 and profits before tax of at least £240,000 for their financial year ending 30 November 2016. The Group currently assesses the probability of this payment being made at zero.

The provisional fair value 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 | - | 124 | 124 |
| Property, plant & equipment | 50 | - | 50 |
| Inventory | 26 | - | 26 |
| Trade and other receivables | 333 | - | 333 |
| Cash and cash equivalents | 876 | - | 876 |
| Trade and other payables | (596) | - | (596) |
| | 689 | 124 | 813 |
| Goodwill | | | 302 |
| Total consideration, satisfied by Cash | | | 1,115 |
| **Cash flow:** | | | |
| Total consideration | | | 1,115 |
| Cash included in undertaking acquired | | | (876) |
| Net cash consideration in cash flow statement | | | 239 |

## 6 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 2016** | Unaudited 6 months ended 30 June 2015 | Audited year ended 31 December 2015 |
|---|---|---|---|
| **Earnings** | | | |
| Profit for the period (£000) | **475** | 356 | 765 |
| **Number of shares** | | | |
| Weighted average number of ordinary shares ('000) | **34,998** | 34,629 | 34,858 |

### *Diluted earnings per share*

Diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, which arise from both convertible loan notes and share options, and is calculated by dividing the adjusted profit for the period attributable to the shareholders by the assumed weighted average number of shares in issue. The adjusted profit for the period comprises the profit for the period attributable to the shareholders after adding back the interest on convertible loan notes for the period.

| | **Unaudited 6 months ended 30 June 2016** | Unaudited 6 months ended 30 June 2015 | Audited year ended 31 December 2015 |
|---|---|---|---|
| **Adjusted earnings** | | | |
| Profit for the period (£000) | **551** | 425 | 914 |
| **Number of shares** | | | |
| Weighted average number of ordinary shares ('000) | **57.966** | 55,879 | 56,268 |