15 March 2016

PETARDS GROUP PLC

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

Petards Group plc ('Petards'), the AIM quoted developer of advanced security and surveillance systems, reports its audited results for the year ended 31 December 2015.

Key points:

- **Financial**
  - Results for 2015
    - Revenues £13.1 million (2014: £13.5 million)
    - Gross margin up to 35.2% from 30.4% in 2014
    - EBITDA increased 24% to £1,260,000 (2014: £1,015,000)
    - Operating profit increased 22% to £935,000 (2014: £769,000 profit)
    - Profit after tax £765,000 (2014: £620,000 profit)
  - Finance
    - Generated £1.2 million of operating cash inflows (2014: £0.8 million)
    - Cash at 31 December 2015 £2.5 million (31 Dec 2014: £1.4 million) and no bank debt
    - Convertible loan notes of £1.5 million maturing in September 2018 providing long term finance (31 Dec 2014: £1.5 million)
    - Basic EPS increased 22% to 2.19p earnings per share (2014: 1.80p)
    - Diluted EPS increased 18% to 1.62p earnings per share (2014: 1.37p per share)
- **Operational**
  - Closing order book £16 million (2014: £20 million)
  - Order book for *eyeTrain* maintained with significant orders received from Siemens Mobility, Bombardier Transportation and Hitachi Rail Europe
  - *ProVida* revenues up 35% on 2014
  - Defence order intake disappointing but signs of improvement in Q1 2016
  - Recurring revenue orders for *eyeTrain* spares and support were 90% ahead of 2014
  - Export revenues increased by 25% and totalled 26% of Group revenues

- **Outlook**
  - Current order book contains £11 million scheduled for delivery in 2016

Raschid Abdullah, Chairman of Petards, commented:

“Our strong opening order book together with recently received orders provides £11 million of revenues that are presently scheduled for delivery in 2016. With new projects still under discussion, the board is confident that the Group is well positioned to achieve another good year’s performance in 2016.”

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Chairman's statement

I am pleased to report to our shareholders and stakeholders that the Company made considerable progress during the course of 2015 building on the foundations for growth that were laid down by the board in the previous year. You will also note that the board has decided to alter the layout of the annual report with the Chairman's Statement now focussing on the key drivers and business strategy with a separate in-depth operational business review section.

We achieved a healthy increase in pre-tax profits which totalled £762,000 for 2015 against the previous year's pre-tax profit of £620,000, being a 23% increase year on year. Basic earnings per share improved to 2.19p against 1.80p recorded for 2014 with fully diluted earnings per share registering an increase to 1.62p compared to 1.37p for 2014 representing increases of 21.7% and 18.2% respectively.

Although overall revenues at £13.1 million were broadly similar to the previous year's of £13.5 million, gross margins increased significantly to 35.2% against 30.4% for 2014. This was largely a reflection of the changed product mix during the course of the year with revenues being weighted towards our transport and emergency services products and reduced levels of revenue being recorded from lower margin defence products.

We entered 2016 with an overall order book of £16 million of which approaching £10 million is scheduled to be delivered during 2016. Whilst this is ahead of the same period last year, active negotiations continue to secure new projects in all of our product areas. I was delighted that earlier this month we were successful in winning a new MOD contract with a value in excess of £800,000 to be delivered during 2016 further strengthening our order book position.

The improved performance in profitability for 2015 generated excellent cash flow in the business during the course of the year with Group cash balances growing from £1.4 million at the close of 2014 to £2.5 million at the end of 2015, a £1.1 million increase. Although the Group negotiated and put in place a small bank overdraft facility, this was not required or utilised during the course of the year.

We continued our 'Fit for Growth' programme that was initiated at Petards Joyce-Loebl, the Group's principal trading subsidiary, over two years ago which included designing new products, recruitment and growing our software engineering skills to support our customers on future projects. I would like to express on behalf of the board, its sincere appreciation and thanks to all of our employees with a warm welcome to those who joined us during the course of the year, for their excellent contribution and valued support to the business during the year and going forward into 2016.

In my statement last year I referred to the considerable deficit that existed on distributable reserves within our balance sheet. The board took steps to resolve this issue and High Court approval was granted last December for a capital reduction. I am pleased to inform shareholders that we now have positive distributable reserves with a structured balance sheet to support the Group going forward. This places the board in a better position for the commencement of dividend payments at some future date. No dividend is being proposed in respect of 2015 as it is presently considered appropriate to retain our strong cash position to support investment in our growth plans and acquisition strategy.

As a result of the past two years positive trading, improved balance sheet and financial robustness following our initial turnaround, we are now well positioned to pursue an earnings enhancing acquisition strategy. We intend to expand the Group into a larger and more prosperous business. The board has under review a number of potential businesses to acquire and we will of course be keeping shareholders fully advised of our progress.

Our strong opening order book together with recently received orders provides £11 million of revenues that are presently scheduled for delivery in 2016. With new projects still under discussion, the board is confident that the Group is well positioned to achieve another good year's performance in 2016.

Raschid Abdullah
Chairman

Business review

The Group continues to have 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, the main markets for which are:

- Rail Transport – software driven video and other sensing systems for on-train applications (*eyeTrain* brand)
- Defence – electronic countermeasure protection systems, mobile radios and related engineering services
- Emergency Services – in-car speed enforcement and ANPR systems (*ProVida* brand)

During 2015 good progress was made from both an operational and financial perspective and the Group made significant improvements in the majority of its key performance measures.

Operating review

The Group closed the year with a strong order book that provides good visibility of earnings with 60% of the £16 million order book scheduled for delivery in 2016. While the overall order book is lower than that at the close of 2014, its composition remains very encouraging with the 2015 closing order book for *eyeTrain* products being maintained at the same level as that at 31 December 2014.

During the course of the year the Group secured a number of significant orders for *eyeTrain* systems from train builders that included Siemens Mobility Germany, Bombardier Transportation and Hitachi Rail Europe. In addition, the trend of increasing recurring revenues from spares and support reported at the half year continued. Orders for spares and support were 90% ahead of those received in 2014, supporting management's view that this will increasingly become a significant contributor to revenues as the *eyeTrain* installed base increases and the trains to which *eyeTrain* systems are fitted enter operational service.

Looking to the future we are working on a number of exciting opportunities for *eyeTrain* with both UK and overseas based train builders and we anticipate that some of these will come to fruition during the course of 2016.

The slower than anticipated order intake for our defence related products and services reported at the half year continued into the second half of 2015 which coupled with the delivery of substantial milestones for projects in the 2015 opening order book, led to the reduction in the Group's overall closing order book.

The £4.5 million software modification project for the MOD secured in 2014 progressed to schedule and was over 80% complete by the end of 2015. The project was a significant contributor to 2015 Group revenues and should be completed during the course of 2016. While there remains a small amount of equipment to supply on the RAF's Secure Management Radio Equipment (SMRE) contract, that project has entered its support phase for which Petards holds a 10 year contract.

Defence products remain an important element of Petards' business and the Group continues to provide equipment and support services to the MOD in the niche areas of its expertise which it has operated in for many years. The nature of larger projects for Petards' defence products, particularly those relating to electronic countermeasures, means that the order book for these products tends to follow a more variable trend than that for *eyeTrain* and *ProVida*. Nevertheless, the Group remains well placed to win defence business and has made some alterations to the way it addresses this market. It is therefore encouraging that 2016 has started well, an example of which was the recently announced £0.8 million order from the MOD for communication systems and related support.

Demand for our *ProVida* products strengthened in the second half of 2015 and revenues were up over 35% on the prior year. Historically *ProVida* has had a strong overseas customer following as well as within the UK, although the proportion of overseas revenues for these products had been reducing in recent years. It was pleasing that the growth in 2015 was driven by exports, although it is too early to say whether this will be maintained as 2015 revenues benefitted from a large spares order from an existing export customer.

Petards has operated within the speed enforcement and ANPR markets for over 15 years and while it is presently the smallest element of its business, management continues to consider this to be an interesting market with scope for the Group to grow its presence both in the UK and internationally.

Financial review

Operating performance

While revenues for the year ended 31 December 2015 were similar to those in 2014, the profitability and operating cash flows were significantly higher. Revenues for the year were £13.1 million (2014: £13.5 million) and the improvement in gross margins seen at the half-year stage over those achieved in 2014 was sustained. Export revenues grew by over 25% and accounted for over a quarter of Group revenues.

Margins increased to 35.2% (2014: 30.4%) driving earnings before interest, tax, depreciation and amortisation (EBITDA) to £1,260,000, an increase over 2014 of over 24% (2014: £1,015,000). Operating profits increased by over 21% to £935,000 (2014: £769,000).

The increase in margins arose from the revenue mix comprising a larger proportion of higher margin *eyeTrain* and *ProVida* revenues and due to the prior year containing £4.5 million of lower margin equipment deliveries on the SMRE project.

Administrative expenses grew by 10% to £3.7 million (2014: £3.3 million) primarily due to increases in the amortisation of development costs capitalised in 2014 and payroll costs following the strengthening of the team at Petards Joyce-Loebl.

Net financial expenses totalled £173,000 (2014: £149,000), the increase being due to net foreign exchange losses of £25,000 and after a £3,000 tax credit (2014: £nil), profit after tax totalled £765,000 (2014: £620,000).

Research and development

While product development costs incurred during the year were much lower than in 2014, this was in line with our expectations following two years of heavy investment. The Group remains committed to developing its products and services to maintain and grow its market position and service its customers. Capitalised development expenditure for the year was £66,000 (2014: £661,000), while development expenditure expensed in the year increased to £217,000 (2014: £80,000).

Cash and cash flow

The Group's financial position continued to strengthen and at 31 December 2015 it held cash balances of £2.5 million, no bank debt and had convertible loan notes maturing in September 2018 of £1.5 million (2014: £1.4 million cash, no bank debt and loan notes of £1.5 million).

Cash flows from operating activities were up 54% to £1,174,000 (2014: £761,000) reflecting both the strong operating performance in the year and a reduction in working capital.

Balance sheet

On 16 December 2015, following the approval of the High Court, the Company completed the reduction of share capital (Capital Reduction) approved by shareholders on 11 November 2015. The Capital Reduction eliminated the deficit in the Company's retained earnings that previously existed and consequently puts it in a position to pay dividends to shareholders as and when the Board deems it appropriate.

Taxation

Due to the availability of brought forward tax losses and research and development tax credits, the Group did not incur a corporation tax charge in respect of 2015 (2014: £nil). In 2014 the Group surrendered tax losses to receive cash payments of £208,000 in respect of research and development tax credits. In 2015 it repaid £169,000 of those research and development tax credits and instead utilised the related tax losses against taxable profits making a net tax saving of over £140,000.

Osman Abdullah
Group Chief Executive

Consolidated Income Statement

for year ended 31 December 2015

	Note	**2015**	2014
		£000	£000
Revenue	*2*	**13,072**	13,462
Cost of sales		**(8,473)**	(9,370)
Gross profit		**4,599**	4,092
Administrative expenses		**(3,664)**	(3,323)
Operating profit		**935**	769
Analysed as:			
Earnings before interest, tax, depreciation and amortisation (‘EBITDA’)		**1,260**	1,015
Depreciation and amortisation		**(325)**	(246)
		935	769
Financial income	*3*	**3**	3
Financial expenses	*3*	**(176)**	(152)
Profit before tax		**762**	620
Income tax	*4*	**3**	-
Profit for the year attributable to equity shareholders of the parent		**765**	620
Earnings per share (pence)			
Basic	*8*	**2.19**	1.80
Diluted	*8*	**1.62**	1.37

Consolidated Statement of Comprehensive Income
for year ended 31 December 2015

	2015	2014
	£000	£000
Profit for the year	**765**	620
Other comprehensive income		
Items that may be reclassified to profit:		
Currency translation on foreign currency net investments	**-**	-
Total comprehensive income for the year	**765**	620

Statement of Changes in Equity
for year ended 31 December 2015

	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**
At 1 January 2014	6,645	25,153	1,075	206	-	(31,132)	(211)	1,736
Profit for the year	-	-	-	-	-	620	-	620
Total comprehensive income	-	-	-	-	-	620	-	620
Conversion of convertible loan notes	4	23	-	(2)	-	2	-	27
Exercise of share options	2	16	-	-	-	-	-	18
At 31 December 2014	6,651	25,192	1,075	204	-	(30,510)	(211)	2,401
At 1 January 2015	6,651	25,192	1,075	204	-	(30,510)	(211)	2,401
Profit for the year	-	-	-	-	-	765	-	765
Total comprehensive income	-	-	-	-	-	765	-	765
Equity-settled share based payments	-	-	-	-	-	6	-	6
Conversion of convertible loan notes	1	14	-	(1)	-	-	-	14
Capital reduction (note 6)	(6,303)	(25,192)	(1,075)	-	8	32,562	-	-
At 31 December 2015	**349**	**14**	**-**	**203**	**8**	**2,823**	**(211)**	**3,186**

Consolidated Balance Sheet
at 31 December 2015

	Note	**2015**	2014
		£000	£000
ASSETS			
Non-current assets			
Property, plant and equipment		**247**	187
Goodwill		**401**	401
Development costs		**902**	1,103
Deferred tax assets		**429**	516
		1,979	2,207
Current assets			
Inventories		**2,168**	1,439
Trade and other receivables		**1,861**	2,982
Cash and cash equivalents – escrow deposits		**-**	54
Cash and cash equivalents		**2,478**	1,434
		6,507	5,909
Total assets		**8,486**	8,116
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	*7*	**349**	6,651
Share premium		**14**	25,192
Equity reserve		**203**	204
Merger reserve		**-**	1,075
Special reserve		**8**	-
Currency translation reserve		**(211)**	(211)
Retained earnings		**2,823**	(30,510)
Total equity		**3,186**	2,401
Non-current liabilities			
Interest-bearing loans and borrowings	*5*	**1,543**	1,524
Deferred tax liabilities		**-**	100
		1,543	1,624
Current liabilities			
Other trade and other payables		**3,757**	4,091
		3,757	4,091
Total liabilities		**5,300**	5,715
Total equity and liabilities		**8,486**	8,116

Consolidated Statement of Cash Flows

for year ended 31 December 2015

	Note	**2015**	2014
		£000	£000
Cash flows from operating activities			
Profit for the year		**765**	620
Adjustments for:			
Depreciation		**58**	48
Amortisation of intangible assets		**267**	198
Financial income	*3*	**(3)**	(3)
Financial expense	*3*	**176**	152
Equity settled share-based payment expenses		**6**	-
Income tax credit		**(3)**	-
Operating cash flows before movement in working capital		**1,266**	1,015
Change in trade and other receivables		**1,138**	(2,035)
Change in inventories		**(729)**	340
Change in trade and other payables		**(195)**	1,340
Cash generated from operations		**1,480**	660
Interest received		**3**	3
Interest paid		**(146)**	(110)
Tax (paid)/received		**(163)**	208
Net cash from operating activities		**1,174**	761
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(118)**	(70)
Capitalised development expenditure		**(66)**	(661)
Cash deposits held in escrow		**54**	(54)
Net cash outflow from investing activities		**(130)**	(785)
Cash flows from financing activities			
Proceeds from exercise of share options		**-**	18
Net cash inflow from financing activities		**-**	18
Net increase/(decrease) in cash and cash equivalents in the year		**1,044**	(6)
Cash and cash equivalents at 1 January		**1,434**	1,440
Cash and cash equivalents at 31 December		**2,478**	1,434

1 Basis of preparation and status of financial information

The financial information set out in this statement has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. It does not include all the information required for full annual accounts.

The financial information does not constitute the Company's statutory accounts for the years ended 31 December 2015 or 31 December 2014 but is derived from those accounts. Statutory accounts for 2014 have been delivered to the registrar of companies, and those for 2015 will be delivered in due course. The auditor has reported on those accounts; his reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying his report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2 Segmental information

The analysis by geographic segment below is presented in accordance with IFRS 8 on the basis of those segments whose operating results are regularly reviewed by the Board of Directors (the Chief Operating Decision Maker as defined by IFRS 8) to make strategic decisions, to monitor performance and to allocate resources.

The Board of Directors 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 and 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 ruggedised electronic applications.

As the Board receives revenue, EBITDA and operating profit on the same basis as set out in the Consolidated Income Statement no further reconciliation is considered to be necessary.

Revenue by geographical destination can be analysed as follows:

	2015	2014
	£000	£000
United Kingdom	**9,684**	10,773
Continental Europe	**2,552**	1,724
Rest of World	**836**	965
	13,072	13,462

Included in the above amounts are revenues of £8,192,000 (2014: £9,793,000) in respect of construction contracts. The balance comprises revenue from sales of goods and services.

3 Financial income and expense

	2015	2014
	£000	£000
Recognised in profit or loss		
Interest on bank deposits	**3**	3
Financial income	**3**	3

	£000	£000
Interest expense on financial liabilities at amortised cost	**151**	150
Net foreign exchange loss	**25**	2
Financial expenses	**176**	152

4 Taxation

Recognised in the income statement

		2015		2014
	£000	**£000**	£000	£000
Current tax expense/(credit)				
Adjustments in respect of prior years	**10**		(109)	
Total current tax		**10**		(109)
Deferred tax (credit)/expense				
Origination and reversal of temporary differences	**(1)**		(15)	
Recognition of previously unrecognised tax losses	**(43)**		(72)	
Utilisation of recognised tax losses	**170**		169	
Tax rate change	**40**		-	
Adjustment in respect of prior years	**(179)**		27	
Total deferred tax		**(13)**		109
Total tax (credit)/charge in income statement		**(3)**		-

Reconciliation of effective tax rate

	2015	2014
	£000	£000
Profit before tax	**762**	620
Tax using the UK corporation tax rate of 20.25% (*2014: 21.5%)*	**154**	133
Non-deductible expenses	**46**	36
Non-taxable income	**(25)**	-
Utilisation of tax losses	**15**	(87)
Effect of tax losses generated in year not provided for in deferred tax	**(21)**	-
Change in unrecognised temporary differences	**(43)**	7
Adjustments in respect of prior years	**(169)**	(82)
Effect of rate change	**40**	(7)
Total tax credit	**(3)**	-

5 Interest-bearing loans and borrowings

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

	2015	2014
	£000	£000
Non-current liabilities		
Convertible loan notes	**1,543**	1,524

The convertible loan notes of £1 each, carry a fixed interest rate of 7% per annum and are convertible into ordinary shares of 1p each at any time prior to maturity. The conversion price is 8p as compared to the market price at 31 December 2015 of 12.25p. Interest is paid quarterly and the loan notes mature on 10 September 2018.

At 31 December 2015 the nominal value of the outstanding loan notes was £1,641,711 (2014: £1,657,928).

6 Capital reduction

On 16 December 2015, following the approval of the High Court, the Company completed the reduction of share capital approved by shareholders on 11 November 2015. This resulted in the following transactions.

	Share capital £000	Share premium £000	Merger reserve £000	Special reserve £000	Retained earnings £000
Movements due to capital reduction					
Bonus issue of 34,903,730 B shares	1,075	-	(1,075)	-	-
Cancellation of B shares	(1,075)	-	-	1,075	-
Cancellation of deferred shares	(6,303)	-	-	6,303	-
Cancellation of share premium account balance from 31 December 2014	-	(25,192)	-	25,192	-
Reduction in special reserve	-	-	-	(32,498)	32,498
Settlement of non-consenting creditors	-	-	-	(64)	64
	(6,303)	(25,192)	(1,075)	8	32,562

7 Share capital

	At 31 December 2015 No.	At 31 December 2014 No.
Number of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**34,934,579**	34,731,871
Deferred shares of 1p each	**-**	630,342,900
	34,934,579	665,074,771

	£000	£000
Value of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**349**	348
Deferred shares of 1p each	**-**	6,303
	349	6,651

Following the reduction in share capital that took place on 16 December 2015, the Company's issued share capital comprises 34,934,579 ordinary shares of 1p each all of which have equal voting rights.

During the year the Company issued 202,708 ordinary 1p shares following conversion of £16,217 convertible loan notes at a conversion price of 8p each.

8 Earnings per share

Basic earnings per share

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

	2015	2014
	£000	£000
Earnings		
Profit for the year	**765**	620
	'000	'000
Number of shares		
Weighted average number of ordinary shares	**34,858**	34,514
Basic earnings per share (pence)	**2.19**	1.80

Diluted earnings per share

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

	2015	2014
	£000	£000
Adjusted earnings		
Profit for the year	**914**	769
	'000	'000
Number of shares		
Weighted average number of ordinary shares	**56,268**	55,931
Diluted earnings per share (pence)	**1.62**	1.37