Annual Financial Report 2018

Petards Group plc

Registered number 02990100

Introduction

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").

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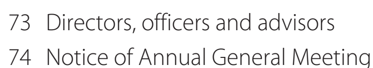

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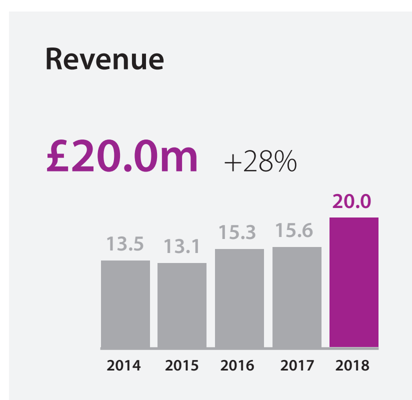
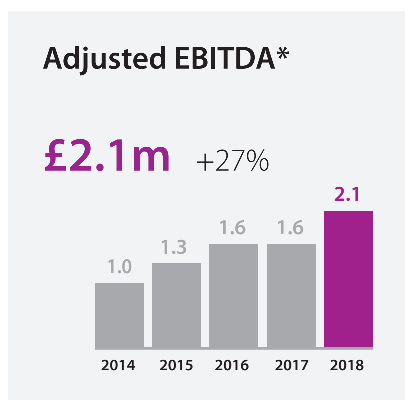
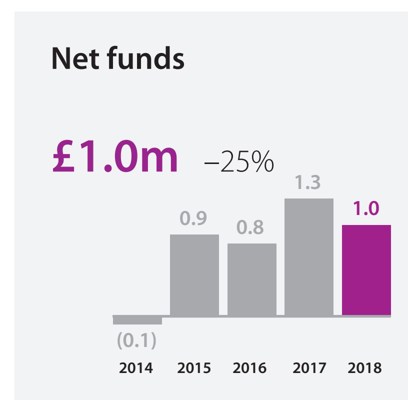
Financial and operational highlights







	2018 £000	2017 £000
Revenue	**19,973**	15,581
Adjusted EBITDA*	**2,057**	1,619
Operating profit	**1,156**	1,245
Profit before taxation	**1,126**	1,205
Cash from operating activities	**2,515**	539
Net funds (cash less debt)	**969**	1,286
Net assets	**8,091**	7,231

*Adjusted EBITDA comprises operating profit adjusted to remove the impact of depreciation, amortisation, exceptional items, acquisition costs and share based payments. See Alternative Performance Measures Glossary on page 72.

The Group has adopted IFRS 15 *Revenue from contracts with customers* using the cumulative effect method, under which the comparative information is not restated. The cumulative effect of adopting IFRS 15 is recognised in equity at the date of first adoption on 1 January 2018. The impact of this on the above results is set out at note 3 to the financial statements.

- **Total revenues increased to £20.0m (2017: £15.6m)**
- **Gross margins 34.5% (2017: 38.6%)**
- **Adjusted EBITDA £2.1m (2017: £1.6m)**
- **Operating profit £1.2m (2017: £1.2m including £0.4m exceptional income)**
- **Cash generated from operating activities of £2.5m (2017: £0.5m)**
- **Significant investment of £1.4m (2017: £1.3m) in our *eyeTrain* automated software applications has created new orders and opened up new business opportunities**
- **Order book at 31 December 2018 over £19m (2017: £18m)**
- **2019 revenue coverage of over £13m from 2018 closing order book**
- **Acquired RTS Solutions software business focused on UK rail infrastructure**
- **QRO generated over £1 million of revenues from two new UK police framework agreements**

Chairman’s statement

I am pleased to report on the Group’s annual results for 2018 together with the progress made in meeting our strategic growth objectives. While the development of our new *eyeTrain* software solutions presented some technical challenges, it is gratifying that Petards’ market position has been strengthened and that the Group is well positioned to continue to win significant new projects.

Group revenues increased to £20.0 million (2017: £15.6 million) with Adjusted EBITDA* of £2,057,000 (2017: £1,619,000) and profits before tax of £1,126,000 (2017: £1,205,000 that included £491,000 of net exceptional profit). The Group closed 2018 with net funds of £969,000 (2017: £1,286,000). As I reported at the half year stage, the 2018 results reflect the adoption of IFRS 15, the new revenue recognition standard, details of which are set out in note 3 to the financial statements.

Rail products continued to provide the majority of the Group’s revenues with around 60% relating to *eyeTrain* in 2018. The majority of the Group’s overseas sales also derive from the rail sector with overall Group exports accounting for 23% of revenues. Over the past few years the Group has placed considerable emphasis on establishing a strong position in its home rail market, which is expected to provide good growth prospects over the coming years for train new build and retrofit applications as the train operators continue to increase network capacity. Significant investment was made in 2018 in developing Driver Controlled Operation (“DCO”) and Automatic Selective Door Opening (“ASDO”) safety critical software systems. ASDO forms a key part of the overall solution to help train operators increase passenger carrying capacity particularly on rail lines with shorter platforms.

QRO’s traffic products had an excellent 2018 in its second full year as part of the Group. Following its success in winning two long-term framework agreements with UK police forces, QRO is well positioned to achieve continued growth for its ANPR products and new service agreements. In April 2019 it is moving to larger nearby facilities in Northamptonshire to manage this new business, with plans to expand the product range.

Defence products had a mixed year. Following a strong first half year with a number of good contract wins and related revenues, the second half year proved to be more difficult. The MOD has not presently sought to re-tender the radio catalogue framework agreement previously held by the Group for the past 5 years, which expired in September 2018. While we understand that the MOD will re-tender in due course, this delay means that the large orders received in 2018 are not expected to be repeated in 2019.

RTS Solutions made a maiden contribution to Petards’ results following its acquisition in May 2018. I would like to welcome the team at RTS to the Group and look forward to supporting them in the future development of the business. The acquisition affirmed the Board’s strategy to pursue ownership of a broader portfolio of products and RTS provides the Group with its first exposure to rail infrastructure. Leeds based RTS supplies real-time software solutions and services that support the operational, maintenance and safety functions of the UK’s rail infrastructure. Since its acquisition we have created a business development function to market the software products on a wider basis while at the same time pursuing business with existing customers where we believe there is potential for the provision of additional services.

The importance and contribution that the staff within the Group make cannot be underestimated and 2018 was certainly a challenging year. On behalf of the Board and shareholders I would like to express thanks to all of our management and staff at all levels for their hard work and professionalism and their contribution to the success of the Group. We look forward to their continued support in 2019.

In line with its strategy the Board is reviewing opportunities to increase the Group’s market presence which will either be in the form of strategic alliances or the acquisition of complementary organisations, which is its preferred route.

The Group continues to enjoy a strong order book that provides the Board with good visibility to plan for the future. The order book at 31 December 2018 was over £19 million, of which over £13 million is scheduled for revenue during 2019, with customer delivery schedules weighted towards the second half of the year. The Group has a strong pipeline of new contracts under negotiation which it is anticipated will add to the orders for delivery in the second half of 2019 and for 2020. These together with the Group's strong market position provides the Board with confidence in its prospects for the year ahead.

Raschid Abdullah
Chairman

9 April 2019

*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. This 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 (see Alternative Performance Measures Glossary on page 72).

Strategic report

The directors present their strategic report for the year ended 31 December 2018.

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

2018 saw the Group continue to secure the majority of orders available for its products placed by new train builders for the UK market. Order intake for *eyeTrain* products was similar to the prior year with recurring revenues for spares and repairs continuing to grow. The acquisition of RTS during the year added to the Group's rail-related software solutions. The Group also secured year-on-year increases in both order intake and revenues for its Traffic and Defence products.

At an operational level the year presented a number of challenges, particularly in respect of the delivery of some complex *eyeTrain* projects. The Group addressed these head-on and it is pleasing that these have been overcome to the satisfaction of our customers, albeit at some higher than anticipated cost.

Order intake for *eyeTrain* products was weighted towards the second half of the year with significant orders being received for delivery in 2019 and 2020 from Bombardier Transportation and Siemens Mobility worth in the region of £6.5 million. The Group's industry experience, the growing number of train types on which *eyeTrain* is installed, our willingness to innovate, and the strong customer relationships built over time, all play a significant role in continuing to secure such projects.

The Group has invested heavily in developing software that provides Automatic Selective Door Operation (ASDO), Driver Controlled Operation (DCO) and Automatic Passenger Counting (APC) systems that integrate with its other *eyeTrain* video systems. The programme required a significant scaling up of our software team with both permanent and contract staff. It has taken longer than originally envisaged, however, the core system is now operational and provides a further differentiator for Petards. It is well suited to retrofit applications and we have been presented with new sales opportunities, some of which we expect to be converted in the coming 12 months.

As more *eyeTrain* projects go into service, revenues from spares and service support are expected to continue to grow. This is a key long-term objective to enhance our customer and product support and we are seeking to reach agreement on service contracts as warranty periods expire.

The UK's demand for new and upgraded rolling stock remains strong and there are a number of major projects for which orders are scheduled to be placed by customers over the course of the next year. If Petards is selected then the majority of these are expected to utilise our existing proven *eyeTrain* software systems developed over the past two years. While the development of new on-board product applications for *eyeTrain* remains core to the Group's strategy, the quantum of spend is presently expected to be much lower in 2019.

Defence products had a strong first half year with the receipt and delivery of £1.5 million in radio equipment orders and the delivery of the £1 million emulator tool for the MOD's transport aircraft. The MOD also extended Petards post design services contract for another two years to the end of 2021, worth an additional £1.1 million. However, regretfully that level of performance was not carried through to the second

half of the year. While Petards continues to win some radio business, at the present time the MOD has not as yet re-tendered its radio catalogue framework agreement, previously held by the Group, which expired in September 2018. While we understand that the MOD will re-tender in due course, this delay means that the large orders received in 2018 are not expected to be repeated in 2019. Other than the provision of specialist engineering services, the Group's current defence activities are mainly as a value-added re-seller of radio communications and electronic countermeasures equipment.

The strong order and revenue performance of Traffic products continued into the second half buoyed by QRO's success in securing two framework agreements with UK police forces; one with the Cheshire force and a joint one with Thames Valley and Hampshire. While Cheshire has been a longstanding customer, the growth in revenues over the prior year can be attributed to the second agreement. This has been utilised by other forces in England with deliveries worth over £1 million being made during 2018. Commercial sales also increased and customer service support contracts continued to be an important aspect of the business. In April 2019 QRO will be relocating to new premises in Northamptonshire to support its anticipated future growth. The Board is very satisfied with the return on its investment in QRO over the past two years and looks forward to further growth.

The RTS acquisition in May 2018 was the first since QRO joined the Group back in April 2016. The initial and contingent consideration of £1.85 million was paid during the year, including £0.6 million paid on a pound for pound basis for surplus cash in RTS's acquired balance sheet. The consideration was satisfied in cash from the Group's existing cash reserves and a new £1.25 million five year bank term loan. No further consideration is expected to be payable.

RTS adds to Petards' existing capabilities in the rail sector providing the Group with an entry into the UK rail infrastructure market. It brings with it a portfolio of software solutions and recurring revenues. In June 2018 it added significantly to its recurring revenues order book with the renewal of a contract that related to software licences, maintenance and third line support in respect of Network Rail's real time failure and incident management system. The contract will generate annual revenues in excess of £250,000 and runs until June 2023. The final two years are at Network Rail's option which would add to the order book when exercised.

Since its acquisition RTS has made steady progress and contributed £0.2 million to Group profits in the period to 31 December 2018 on revenues of £0.5 million. Investment of £0.1 million was also made in developing a new core module for its software portfolio, the first revenues on which were realised in the period. While customer related project delays had an impact on its financial performance in 2018, those projects remain live and the revenues are expected to be realised during the course of 2019. The Board remains confident that RTS will prove to be a good contributor to Group profits going forward.

Following 2018's positive order intake performance, the Group closed the year with an order book of over £19 million (2017: over £18 million). This provides good coverage of the Group's forward revenues with over £13 million scheduled for recognition during 2019 and a further £5 million for 2020.

Financial review

Operating performance

The year ended 31 December 2018 is the first year that the Group has reported under IFRS 15 "Revenue from contracts with customers" and its implementation has not altered the revenue recognition policy for the majority of the Group's revenue streams. The one area of the Group's business in which the adoption of IFRS 15 has resulted in a change, is that of the work performed relating to the delivery of customer specific development projects.

Prior to the adoption of IFRS 15, the Group recognised such revenue upon achievement of specific pre-agreed, customer-set milestones (other than advance payments) and for which the Group could invoice the customer for payment. Under IFRS 15, work of this nature results in later recognition of the related revenue and predominantly affects *eyeTrain* revenues. The Group has adopted IFRS 15 using the "cumulative effect" method under which comparative information is not restated. The cumulative effect of revising the revenue and profit previously recognised up to 31 December 2017 is shown as an adjustment to brought forward retained earnings, details of which are set out in note 3 to the financial statements, as is the effect of the deferral of revenues that would have been recognised in 2018 IFRS 15 not been adopted.

Revenues for the year were £20.0 million (2017: £15.6 million) including exports of £4.7 million (2017: £5.3 million). The majority of exports related to shipments of *eyeTrain* system to customers in Germany, Switzerland and Poland, most of which are destined for rail vehicles that will be operated in the UK.

Strategic report (continued)

Business review (continued)

Gross margins for the year remained in line with those reported in the first half year at 34.5%, with the reduction over those achieved in 2017 (38.6%) reflecting both product mix and higher than anticipated project costs. With regards to mix, Defence products comprised almost a third of 2018 total revenues. The increase over the prior year related to additional bought-in lower margin product and this had a dilutive effect on the overall margin. In addition, higher non-recurring project costs were incurred in the implementation of *eyeTrain* projects on two new train platforms, and this work has been completed in the first quarter of 2019. While the benefits will be seen on future new orders, these costs had an effect on the gross margin in 2018. While those higher specific project costs are one-off in nature, the Group has embarked on a programme of margin improvement across its supply chain, which it is expected will drive better returns.

Overall administrative expenses were up to £5,728,000 (2017: £4,770,000). The main increases related to higher amortisation and depreciation charges, the effect of the RTS acquisition and exceptional income of £362,000 netted off against 2017 administrative expenses. Other administrative expenses increased by 4% over the prior year primarily due to higher indirect staff costs and one-off Defence product tendering costs.

Earnings before interest, tax, depreciation, amortisation, exceptional items, acquisition costs and share based payment charges ("Adjusted EBITDA") totalled £2,057,000 up from £1,619,000 in 2017. Operating profits were £1,156,000 against £1,245,000 in 2017 (2017 included £362,000 exceptional income).

Net financial expenses totalled £30,000 (2017: £40,000) albeit that its composition was very different than the prior year which included interest relating to loan notes converted in 2017 of £131,000, and net exceptional financial income of £129,000.

A tax credit of £17,000 for the year (2017: £32,000 credit) included the benefit of research and development tax credits relating to prior years.

Profit after tax was £1,143,000 (2017: £1,237,000) and basic earnings per share 2.01p (2017: 3.31p). The equity issued as a result of the conversion of loan notes in December 2017 had little effect on 2017's basic earnings per share as they were only in issue for two weeks but impacted that of 2018 as they were in issue for the whole year. Fully diluted earnings per share were not affected to the same extent and were 1.95p (2017: 2.32p).

Research and development

The Group continues to invest in its product offering and during 2018 made a significant investment in its rail products. This investment totalled £1,608,000 (2017: £1,290,000) of which £1,444,000 was capitalised (2017: £1,043,000). The capitalised costs relate predominantly to the Group's next generation of *eyeTrain* software products which will sit alongside its existing software portfolio. These new products will support future sales to the Group's most recent new customers as well as those for all ASDO systems, retrofitted DCO systems and integrated APC systems. In addition to *eyeTrain*, the Group invested to support RTS's software development roadmap.

Cash and cash flow

Net cash flows from operating activities for the year were £2,515,000 (2017: £539,000).

Net cash outflows from investing activities were £3 million comprising the acquisition of RTS, investment in new product development and equipment. Net financing inflows were £1.3 million of which a net £1.1 million concerned the term loan financing of the RTS acquisition.

At 31 December 2018 the Group's net cash and cash equivalents were £2,117,000 up by £793,000 over the year (2017: £1,324,000). The Group also has available to it a £0.75 million 2-year revolving credit facility secured in June 2018.

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, although some impact may be felt in the days immediately following any disorderly Brexit.

Rail products are the main contributor to Group revenues and while almost a quarter of the Group's revenues for 2018 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 will change existing regulations significantly. Like most businesses it can be 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 2019 contain significant foreign currency exposures. The Group has also been monitoring its major suppliers within its supply chain and they have indicated that they have taken additional measures, such as stocking, to ensure continuity of supply.

The UK Long Term Passenger Rolling Stock Strategy for the Rail Industry published in 2018 continued to express the view that while Brexit impacts remain unknown, the scenarios covered by the "worst case" industry modelling already cater for impacts much worse than the Office of Budgetary Responsibility predictions for Brexit. The overall long term rolling stock outlook remained unchanged from the prior year's report and forecasts a national rail fleet increase of between 40% (5,500 vehicles) and 85% (12,000 vehicles) over the next 30 years. The investment decisions for new rolling stock require long term planning and those relating to orders which Petards expects to receive in the coming year were completed some time ago.

The Group's other sector exposure, defence and traffic, is also largely dependent upon UK government expenditure but those for Petards' products and services are generally subject to shorter planning cycles. The current indications are that the Group's forecast revenues take into account any likely adverse impact that Brexit might have, although Petards may possibly be a beneficiary of any boost in government spending that may follow Brexit.

Strategic report (continued)

Our business, business model and strategy

Petards Group plc was listed on AIM in 1997 and the Group supplies advanced security and surveillance systems to three markets:

Rail – Software driven on-board digital video and sensor systems for fitment to new build or retrofitted to existing rolling stock. Applications include Driver Controlled Operation (DCO), condition monitoring, saloon car CCTV, drivers view cameras and automatic passenger counting systems, as well as software solutions and services that support the UK rail network including incident and fault management, work site and resource management, resource management, machine plant and asset/inventory management.

Traffic – 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.

Defence – Electronic defensive countermeasure systems for fitment to rotary and fixed wing aircraft, threat simulation systems and mobile radios predominantly for the UK Ministry of Defence.

The Group's customer base mainly comprises international 'blue chip' and government agencies and their strength, often global, gives rise to the opportunity to develop Petards business through the provision of good quality professional service in support of its existing and future product ranges.

The Group develops its own products and services for sale to the Rail and Traffic markets whereas within the Defence market, in which it has a heritage of nearly 70 years, it is a specialist "value added" re-seller and supplier of related engineering services.

The Board believes that the Group operates in growth areas and that it has the products and services plus available technical and technological skills to develop new products as well as the sales and marketing abilities to become a larger and more successful operator in each of the sectors in which it operates.

The Group's overriding objective is to achieve attractive and sustainable rates of growth and returns for shareholders and its strategy to achieve this objective is:

- to focus upon the Group's core products which are used in the rail, defence and traffic industries;
- to continue to invest in developing technologies to enhance its product portfolio;
- to increase revenues both organically by exploiting the synergies within the Group and by acquisition;
- to expand revenues globally into the Group's target markets; and
- to improve operating margins through cost management.

Key performance indicators

The Group uses a number of key performance indicators (KPI's) to monitor its progress against its objectives. In addition to on time delivery and quality standards, the main KPI's are:

	2018 £000	2017 £000
Revenue	**19,973**	15,581
Adjusted EBITDA[1]	**2,057**	1,619
Net cash from operating activities	**2,515**	539
Net funds[2]	**969**	1,286
Current net funds[3]	**1,852**	1,309

1 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.

An Adjusted EBITDA KPI is considered useful to the Board since by removing exceptional items, acquisition costs and share based payments, the year on year operational performance comparison is more transparent.

2 Net funds comprises cash and cash equivalents (note 20) less interest bearing loans and borrowings (note 21).

3 Current net funds comprises cash and cash equivalents (note 20) less current liabilities in respect of interest bearing loans and borrowings (note 21).

See Alternative Performance Measures Glossary on page 72.

Strategic report (continued)

Principal risks and uncertainties

The management of the business and the execution of the Group's strategy is subject to a number of risks. The main business risks affecting the Group are outlined below. Potential risks relating to Brexit and the assessment of the impact of Brexit have been addressed separately above.

The Group may face increased competition – the Group may face greater competition including that from competitors with greater capital resources than those of the Group.

The Group may need future access to capital – the Group's capital requirements depend on numerous factors. In order to make future acquisitions and to fund growth, the Group may require further financing. This may not be able to take place if financing is not available.

The financial results of the Group can be materially affected by the timing of large contracts – the Group's revenue is generated from a mix of longer and shorter lead time orders. The timing of order placement and delivery of the larger orders is inherently difficult to predict potentially causing material fluctuations in actual results compared with expectations or plans.

Government expenditure – many of the industries that utilise the Group's products receive funding from central and local governments. The levels of funding for those industries may impact on demand for the Group's products. The Group has sought to mitigate this potential exposure by increasing its geographic customer base and by supplying a range of products and services.

Dependence on key personnel – the Group's performance depends to a significant extent upon a limited number of key employees. The loss of one or more of these key employees and the inability to recruit people with the appropriate experience and skills could have a material adverse effect on the Group. The Group has endeavoured to ensure that these key employees are incentivised but their retention cannot be guaranteed.

Technological changes – the Group's product offerings may be under threat should technologies be developed by competitors that render those products either redundant or uncompetitive. This could potentially result in a reduction in revenues generated by the products affected. The Group also incurs expenditure in developing new products and services. Should such development projects not be successfully completed or result in offerings that are not attractive to customers, the costs incurred may not be fully recoverable.

Currency risk – the Group buys from suppliers and sells to customers based outside of the UK and consequently these dealings may be in foreign currencies that are subject to exchange rate fluctuations. The Group actively manages these exposures with foreign currency instruments, unless there is a natural hedge between purchases and sales. The principal currencies involved are US dollars and Euros.

Further details regarding the key accounting estimates and judgements are included in note 1.

Signed on behalf of the Board

Osman Abdullah
Group Chief Executive

Parallel House
32 London Road
Guildford
Surrey
GU1 2AB

9 April 2019

Directors' report

The directors present their report and financial statements for the year ended 31 December 2018.

Board of Directors and Directors' interests

The Board currently comprises an executive Chairman, two executive directors and one non-executive director as follows:

Raschid Abdullah – Executive Chairman

Raschid was appointed executive Chairman in January 2013 and until its purchase by Petards was also executive Chairman of Water Hall Group plc, which was listed on AIM.

He was previously executive Chairman of Evered Holding plc, a fully listed public company specialising in industrial and quarry related products, from 1982 to 1989. Raschid started his commercial life within the construction industry in the areas of building product supplies and the provision of specialist subcontracting services starting his first business in 1971 which he sold to a competitor in 1976.

He then joined the family business providing a range of services to clients in the Middle East. These included owning and operating family and procurement offices for prominent families and their businesses, and co-investing in the UK stock market with a number of Middle Eastern families. He is a Life Fellow of the Royal Society of Arts.

Osman Abdullah – Group Chief Executive

Osman Abdullah was appointed to the Board in September 2010 as a non-executive director, becoming executive Chairman of the Group's principal trading subsidiary in 2013 to lead its restructure. He was appointed as Group Chief Executive from January 2016.

He was formerly Group Chief Executive of Evered Holdings plc, a fully listed public company specialising in industrial manufacturing, distribution and quarry mining related products from 1981 to 1989. He subsequently served from 1993 to 2005 as a non-executive director of Umeco plc, a fully listed company specialising in component distribution and the manufacture of composite material based products principally to the aerospace industry.

Paul Negus – Director

Paul Negus joined the Board in September 2014 and is responsible for business development for Petards' rail products. He has considerable commercial experience having spent eight years as Managing Director of PIPS Technology Limited, a developer of automatic number plate recognition and CCTV systems first under private ownership and latterly under the ownership of Federal Signal Inc.

Terry Connolly FCA – Non-Executive Director

Terry Connolly was appointed in August 2007. He is a chartered accountant and had a career in advertising and the entertainment sector where as Group Managing Director of Chrysalis he was responsible for taking that company to a public listing. Since 1989 he has been a self-employed consultant specialising in strategic and corporate affairs. He is Chairman of the Audit and Remuneration Committees.

Directors' interests in the share capital of the Company are set out in the Remuneration Report.

Research and development

The Group is committed to research and development activities in order to secure competitive advantage in the markets in which it operates. An amount of £1,444,000 (2017: £1,043,000) has been capitalised during the year which relates to the ongoing development of the Group's rail products. In addition, the Group expensed other development expenditure totalling £127,000 (2017: £247,000) directly to the income statement.

Directors' report (continued)

Corporate Governance Statement

The Board is collectively responsible for Corporate Governance and I, as Chairman of the Board, am ultimately responsible for ensuring that a high level of Corporate Governance is embedded in the Company's culture.

As a company whose shares are traded on the Alternative Investment Market ('AIM') of the London Stock Exchange, Petards Group plc recognises its responsibility for the proper management of the Company and the importance of sound corporate governance, commensurate with the size and nature of the Company and the interests of its shareholders. In accordance with AIM Rule 26, which requires AIM companies to comply with a recognised code of Corporate Governance, the Board believes that the Quoted Companies Alliance Corporate Governance Code 2018 (the "QCA Code") provides a suitable framework by which it is able to continue to commit to maintaining high standards of corporate governance. Accordingly, the Company complies with the 10 principles of the QCA Code where considered relevant and appropriate, having regard to the size, current stage of development and resources of the Company.

The QCA Code is applied by the Company primarily through its Board process, which includes regular meetings covering financial as well as non-financial matters which affect not only the Company's shareholders but other significant stakeholders, including employees. The Board process and corporate governance is enhanced by the establishment of Audit, Remuneration and Nominations Committees.

The Board believes that, having regard to the size of the Group, its stage of development and the resources it has available, its governance structures and practices are in compliance with the expectations of the QCA Code.

Set out below are the 10 principles of the QCA Code, together with a summary under each heading explaining how the Company has applied these. In fulfilling their responsibilities, the directors believe that they govern the Company in the best interests of its shareholders, whilst having due regard to the interests of other stakeholders in the Group including, in particular, customers, employees and creditors.

1 Establish a strategy and business model which promotes long-term value for shareholders

Application

The Board must be able to express a shared view of the Company's purpose, business model and strategy. It should go beyond the simple description of products and corporate structures and set out how the Company intends to deliver shareholder value in the medium to long-term. It should demonstrate that the delivery of long-term growth is underpinned by a clear set of values aimed at protecting the Company from unnecessary risk and securing its long-term future.

Compliance

The Company's vision is to invest in and develop its business to deliver long term, sustainable growth in shareholder value. This may come from organic growth, acquisitions or divestments.

The strategy for achieving this focuses on maintaining acceptable gross profit margins, underpinned with sensible cost and cash management, having regard to perceived risks within the industry market and sector parameters, as well as the macro economic environment.

The Chairman's Statement and Strategic Report include detailed analysis of the Group's strategy, financial performance, principal risks and uncertainties and future expectations.

2 Seek to understand and meet shareholder needs and expectations

Application

Directors must develop a good understanding of the needs and expectations of all elements of the Company's shareholder base. The Board must manage shareholders' expectations and should seek to understand the motivations behind shareholder voting decisions.

Compliance

The Board recognises and understands that it has a fiduciary responsibility to the shareholders. The Board is aware of the need to protect the interests of minority shareholders and balancing these interests with those of any more substantial shareholders. The Chairman is responsible for ongoing dialogue and relationships with shareholders supported by the other executive directors. As such, members of the Board meet with the Company's larger shareholders during the course of the year. The Annual General Meeting is always an opportunity for the Board to communicate with shareholders and the Board welcomes the attendance and participation of all shareholders.

This communication allows the Board to understand the shareholders' views, and to ensure that the strategies and objectives of the Group are aligned with shareholders. In its decision-making, the Board will have regard to the ascertained expectations and needs of its shareholders (as appropriate in accordance with its statutory and fiduciary duties).

The Group's website (www.petards.com) allows shareholders access to information including; contact details, major shareholders and the current share price. In addition, all announcements issued since 2014 via RNS are available, together with an archive of recent financial reports and accounts and interim statements.

The resolutions to be put to a vote at each AGM can be found at the back of the relevant Annual Financial Report and the Financial Reports and Circulars section of the Company's website for any forthcoming AGM. Past AGM resolutions can be found at the back of each Annual Financial Report with the results now published in the RNS section.

3 Take into account wider stakeholder and social responsibilities and their implications for long-term success

Application

Long-term success relies upon good relations with a range of different stakeholder groups both internal (workforce) and external (suppliers, customers, regulators and others). The Board needs to identify the Company's stakeholders and understand their needs, interests and expectations.

Where matters that relate to the Company's impact on society, the communities within which it operates or the environment have the potential to affect the Company's ability to deliver shareholder value over the medium to long-term, then those matters must be integrated into the Company's strategy and business model.

Feedback is an essential part of all control mechanisms. Systems need to be in place to solicit, consider and act on feedback from all stakeholder groups.

Compliance

The Group's responsibilities to stakeholders including staff, suppliers and customers and the wider society are also recognised as important to the delivery of the Company's business objectives.

The Company is committed to a series of Corporate Social Responsibility principles that provide a reference point for all stakeholders on the elements that define the conduct of the Company's business and relationships in the geographical markets in which it operates.

These principles are subject to periodic review and cover the following areas; ethics and business conduct, employees (including our supply chain), health and safety, environment and community.

The environmental impact of the Group's activities is carefully considered, and the maintenance of high environmental standards is a priority. The Group is committed to reducing that impact as far as reasonably possible through full regulatory compliance, recycling programmes and other initiatives.

The Board has regard to the feedback of relevant stakeholders in its decision-making and the formulation of strategy.

4 Embed effective risk management, considering both opportunities and threats, throughout the organisation

Application

The Board needs to ensure that the Company's risk management framework identifies and addresses all relevant risks in order to execute and deliver strategy; companies need to consider their extended business, including the Company's supply chain, from key suppliers to end-customer.

Setting strategy includes determining the extent of exposure to the identified risks that the Company is able to bear and willing to take (risk tolerance and risk appetite).

Directors' report (continued)

Compliance

The Board has established Audit and Remuneration Committees full details of which are contained in principle 9, below.

The Company also receives feedback from its external auditors on the effectiveness of its internal control structure.

The Audit Committee believes that there should be no internal audit function for the Group at this time considering the size of the Group and the close involvement of senior management over the Group's accounting systems. However, the Committee will keep this matter under review in the event that circumstances warrant an internal function in the future.

In addition to the activities of the Board's sub-committees, the Board approves the annual budget each year. This process allows the Board to identify key performance targets and risks expected during the upcoming year. The Board also considers the agreed budget when reviewing trading updates and considering expenditures throughout the year. Progress is monitored via monthly reporting of actual financial performance against budget. Where appropriate, forecasts are prepared to further appraise any risks arising during the year.

The Group has clear authority limits deriving from the list of matters reserved for decision by the Board, including capital expenditure approval procedures.

The Board regularly reviews and monitors Key Performance Indicators, including those related to banking covenants.

The Board plans to develop a risk register to assist in addressing and monitoring the risks critical to executing and delivering its strategy.

5 Maintain the Board as a well-functioning, balanced team led by the Chair

Application

The Board members have a collective responsibility and legal obligation to promote the interests of the Company, and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the Chair of the Board.

The Board (and any committees) should be provided with high quality information in a timely manner to facilitate proper assessment of the matters requiring a decision or insight.

The Board should have an appropriate balance between executive and non-executive directors and should have at least two independent non-executive directors. Independence is a Board judgement.

The Board should be supported by committees (e.g. audit, remuneration, nomination) that have the necessary skills and knowledge to discharge their duties and responsibilities effectively.

Directors must commit the time necessary to fulfil their roles.

Compliance

The principal risks faced by the Group are addressed by the appointment of an experienced executive Board supported by an experienced independent non-executive director and a team of appropriately qualified professional advisers.

The executive directors are closely involved in the day to day operations of the Group and report to the Board in detail, typically on a monthly basis. Their reports include the status and trends of agreed Key Performance Indicators that are noted in the Group's Annual Financial Report in the Strategic Report and Financial and Operational Highlights.

Nine main Board meetings were held during 2018. The Company Secretary records attendance at all Board meetings and the table below shows attendance by each director.

Raschid Abdullah	9/9
Osman Abdullah	9/9
Paul Negus	9/9
Terry Connolly	9/9

The Board currently comprises three executive directors and one independent non-executive director. Biographical details of the directors are provided at the beginning of this report.

The role of the independent non-executive director is to bring independent judgement to Board deliberations and decisions. The independent non-executive director has no personal financial interest, other than as a shareholder, in the matters to be decided and although he has served for more than 9 years the Board is satisfied that the he is independent in terms of character and judgement.

The Board believes that based on the size of the Company, its current stage of development and its internal resources, having only one independent non-executive director represents a sufficient balance and level of independence. The Board reviews these factors regularly and considers whether, or at what stage of the Company's development, a second independent non-executive director will be required to further enhance this balance.

The Board has sub-committees appointed to review the specific matters of Audit, Remuneration and Nominations. The Audit and Remuneration Committees are chaired by the independent non-executive director and the whole Board undertakes the responsibilities of the Nominations Committee. Further details are provided under principle 9, below.

The Board is confident that each current member has the necessary skills, experience and knowledge to discharge his duties and responsibilities effectively and that each commits the time necessary to fulfil his role.

6 Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

Application

The Board must have an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate balance of personal qualities and capabilities. The Board should understand and challenge its own diversity, including gender balance, as part of its composition.

The Board should not be dominated by one person or a group of people. Strong personal bonds can be important but can also divide a Board.

As companies evolve, the mix of skills and experience required on the Board will change, and Board composition will need to evolve to reflect this change.

Compliance

Each Board director has a wealth of knowledge and experience of the Group's business operations and financial management, and of the market the sector in which it operates.

The Board is collectively aware of its need to consider and review its composition, in terms of individual personalities, diversity and gender. Having regard to the size and stage of development of the Group and of its internal resources and management support structure beneath it, the Board believe that it currently has an appropriate mix of personal qualities, experience and capability.

7 Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

Application

The Board should regularly review the effectiveness of its performance as a unit, as well as that of its committees and the individual directors.

The Board performance review may be carried out internally or, ideally, externally facilitated from time to time. The review should identify development or mentoring needs of individual directors or the wider senior management team.

It is healthy for membership of the Board to be periodically refreshed. Succession planning is a vital task for Boards. No member of the Board should become indispensable.

Directors' report (continued)

Compliance

The Board undertakes regular monitoring of personal and corporate performance using agreed key performance indicators and detailed financial reports.

Key performance indicators include; revenues, Adjusted EBITDA, pre-tax profit, cash generation, net cash, net assets and earnings per share.

The Board considers the need for refreshing its membership and is also responsible for succession planning. Having regard to the size and stage of development of the Group and of its internal resources and management support structure beneath it, the Board believes that it currently has an appropriate mix of personal qualities, experience and capability and that it undertakes sufficient procedures to review its own effectiveness and performance as a unit, as well as that of its committees and individual members.

8 Promote a corporate culture that is based on ethical values and behaviours

Application

The Board should embody and promote a corporate culture that is based on sound ethical values and behaviours and use it as an asset and a source of competitive advantage.

The policy set by the Board should be visible in the actions and decisions of the Chief Executive and the rest of the management team. Corporate values should guide the objectives and strategy of the Company.

The culture should be visible in every aspect of the business, including recruitment, nominations, training and engagement. The performance and reward system should endorse the desired ethical behaviours across all levels of the Company.

The corporate culture should be recognisable throughout the disclosures in the Annual Report, website and any other statements issued by the Company.

Compliance

The Board is committed to embodying and promoting a sound corporate culture and has endorsed various policies which require ethical behaviour of staff and relevant counterparties (such as those mandating anti-corruption, anti-counterfeiting, fair treatment and equality of opportunity).

The Board and management conduct themselves ethically at all times. The Group values its reputation for ethical behaviour and has a set of values that are at the core of its business philosophy.

9 Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

Application

The Company should maintain governance structures and processes in line with its corporate culture and appropriate to its:

- size and complexity; and
- capacity, appetite and tolerance for risk.

The governance structures should evolve over time in parallel with its objectives, strategy and business model to reflect the development of the Company.

Compliance

Whilst the Company recognises the importance of high standards of Corporate Governance, the Board has sought to address the matter in a proportionate way having regard to the size and resources of the Group.

The principal risks faced by the Group are addressed by the appointment of an experienced executive Board, supported by an experienced independent non-executive director, an experienced, capable and diverse operational management support structure and a team of appropriately qualified external professional advisers.

The Board aims to hold twelve formally constituted meetings per annum at which it typically reviews the Group's financial performance and risk profile and considers strategies for future growth.

The Board is supported by the Company Secretary who records and distributes minutes of the meetings on a timely basis.

In support of its aim of maintaining governance structures and processes, the Board has sub-committees appointed to review the specific matters of Audit, Remuneration and Nominations.

Audit Committee

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported on and monitored and for meeting the auditors and reviewing their reports in relation to the accounts and the audit. It holds a formal meeting with the external auditors at least twice a year.

The Audit Committee evaluates the independence and objectivity of the external auditor and takes into consideration all United Kingdom professional and regulatory requirements. Consideration is given to all relationships between the Group and the audit firm including in respect of the provision of non-audit services. The Audit Committee considers whether those relationships appear to impair the auditor's judgement or independence. The Audit Committee believes they do not.

The Audit Committee believes that there should be no internal audit function for the Group at this time considering the size of the Group and the close involvement of senior management over the Group's accounting systems. However, the Committee will keep this matter under review in the event that circumstances warrant an internal function for the Group in the future.

Remuneration Committee

The Remuneration Committee is responsible for setting the scale and structure of the executive directors' remuneration. It also recommends the allocation of share options to directors and other employees.

The responsibilities of both the Audit and Remuneration Committees are undertaken by the Company's independent non-executive director, who seeks independent advice from external advisors as he feels is appropriate and necessary.

Nomination Committee

The whole Board undertakes the Nomination Committee responsibilities. The remit comprises all new appointments of directors and senior management throughout the Group; nominations, interviewing, taking up references and considering related matters.

10 Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Application

A healthy dialogue should exist between the Board and all of its stakeholders, including shareholders, to enable all interested parties to come to informed decisions about the Company.

In particular, appropriate communication and reporting structures should exist between the Board and all constituent parts of its shareholder base. This will assist:

- the communication of shareholders' views to the Board; and
- the shareholders' understanding of the unique circumstances and constraints faced by the Company.

It should be clear where these communication practices are described.

Compliance

The Board is conscious of the need to engage with shareholders and other stakeholders so that interested parties have sufficient information on which to make informed decisions about the Company.

Directors' report (continued)

The Company's Annual Financial Report provides information on a number of key areas, including the following:

- Corporate Governance, including reference to the QCA Code;
- Operational and Financial review
- A summary of the business, the business model and strategy;
- Significant risks and uncertainties;
- Significant accounting policies and particularly areas which are subject to judgements, estimates and assumptions; and
- A Remuneration Committee Report.

The Company's website provides further information on a number of key areas, including the following:

- Material on the Company's Corporate Governance Framework;
- The AGM Statement and results of voting at the AGM;
- Regulatory News; and
- Historical Annual Financial Reports.

Both this Annual Financial Report and the Company's Website provide information on forthcoming AGMs and a list of external advisers.

Further details regarding the communication between the Company and its shareholders is explained in the disclosure above against principle 2.

Financial instruments and financial risk management

The Group presently finances its operations through a mixture of cash resources, bank borrowings, retained earnings and share capital. Its principal financial instruments comprise cash and bank borrowings together with trade receivables and trade payables.

The Group's other financial instruments arise from its day to day operations and comprise primarily of short term debtors and creditors and, where deemed appropriate, forward currency contracts.

Further details of the Group's financial instruments are given in note 26 to the financial statements and the directors consider the principal risks associated with the Group's financial instruments to be liquidity risk and currency risk.

Employment policies

The Group has established policies to comply with the relevant legislation and codes of practice regarding employment and equal opportunities. It keeps its employees informed of matters affecting them as employees through regular team briefings throughout the year and has a policy that training, career development and promotion opportunities should be available to all employees.

It is the Group's policy to give full and fair consideration to applications for employment by people who are disabled, to continue wherever possible the employment of staff who become disabled and to provide equal opportunities for the career development of disabled employees.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Substantial shareholdings

At 5 April 2019 the Company was aware of the following interests in three percent or more of its issued share capital.

Name of holder	Number of shares	Percentage held
El-Khereiji Financial Company WLL	8,615,268	14.9%
Charwell Investments Limited	5,083,767	8.8%
PFS Downing Active Management Limited	3,605,000	6.3%
R M Abdullah	3,476,909	6.1%
Miton UK Microcap Trust PLC	2,639,375	4.6%
A Perloff	2,500,000	4.4%
O Abdullah	2,139,948	3.7%
Chelverton Growth Trust plc	2,000,000	3.5%
MT Zahid	1,875,000	3.3%
YT Zahid	1,875,000	3.3%
T W G Charlton	1,725,000	3.0%

Going concern

After making detailed enquiries, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and accordingly continues to prepare the financial statements on a going concern basis. Further details relating to going concern are provided at note 1 on page 35 to the financial statements.

Auditor

In accordance with section 489 of the Companies Act 2006, a resolution for the appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Raschid Abdullah
Director

Parallel House
32 London Road
Guildford
Surrey
GU1 2AB

9 April 2019

Remuneration report

Remuneration Committee

The Remuneration Committee is presently comprised of Mr T Connolly.

Remuneration Policy

The Remuneration Committee reviews the performance of executive directors and sets the scale and structure of their remuneration and other benefits. Individual rewards and incentives are aligned with the performance of the Group and the interests of the shareholders and are set at an appropriate level in order to attract, retain and motivate executives who are expected to meet challenging performance criteria.

The committee also recommends the allocation of share options to directors and other employees.

Service contracts

No directors have contracts of service with notice periods that exceed 12 months.

Directors' emoluments

Details of individual director's emoluments are set out in note 6 to the financial statements.

Directors' share interests

The directors' beneficial interests in the shares of the Company at the year-end were as follows:

	Ordinary Shares of 1p each at 31 December 2018	Ordinary Shares of 1p each at 31 December 2017
R Abdullah	**3,476,909**	3,476,909
O Abdullah	**2,139,948**	2,724,585
T Connolly	**30,000**	30,000
P Negus	**575,000**	–

Directors' interests in share options

At 31 December 2018 the number of options to subscribe for ordinary shares of 1p held by directors were as follows:

	Number of options at 1 January 2018	Exercised during the year	Granted during the year	Number of options at 31 December 2018	Exercise price (pence)	Date first exercisable	Expiry date
R Abdullah[1]	1,000,000	(1,000,000)	–	–	8.00p	25.11.13	24.11.23
	850,000	–	–	850,000	12.25p	06.01.19	05.01.26
	–	–	575,000	575,000	21.50p	31.10.21	31.10.28
O Abdullah	1,312,500	–	–	1,312,500	8.00p	25.11.13	24.11.23
	850,000	–	–	850,000	12.25p	06.01.19	05.01.26
	–	–	575,000	575,000	21.50p	31.10.21	31.10.28
P Negus[2]	700,000	(700,000)	–	–	11.625p	23.04.18	24.04.25
	–	–	300,000	300,000	21.50p	31.10.21	31.10.28

1 There was a gain on the exercise of these options of £136,000. R Abdullah also exercised share options in 2017 on which there was a gain of £81,250.

2 The options were held by Adcel Ltd, a company solely controlled by P Negus. There was a gain on the exercise of these options of £97,125.

The share price at 31 December 2018 was 26.50p and the share price has ranged during the year from 19.00p to 27.50p.

There have been no changes to directors' interests since the year end.

Non-executive director

Fees for the non-executive director are determined by the Board as a whole having regard to the time devoted to the Company's affairs. The non-executive director is not part of any pension, share option or bonus schemes of the Group.

Terry Connolly
Director

9 April 2019

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Petards Group plc

1. Our opinion is unmodified

We have audited the financial statements of Petards Group plc ("the Company") for the year ended 31 December 2018 which comprise the consolidated income statement, consolidated statement of comprehensive income, Group and parent Company statements of changes in equity, Group and parent Company balance sheets, Group and parent Company statements of cash flows, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview	
Materiality: Group financial statements as a whole	£195k (2017: £156k) 1% (2017: 1%) of revenue
Coverage	100% (2017: 100%) of Group revenue
Key audit matters	vs 2017
Event driven – New: The impact of uncertainties due to the UK exiting the European Union on our audit	▲
Event driven – New: Completeness and valuation of intangibles arising on acquisition	▲
New: Going concern	▲
Recurring risk – Revenue from contracts ongoing at year end	◀▶
Recurring risk, Parent Company – Recoverability of Parent Company's investments in subsidiaries	◀▶

Independent auditor's report to the members of Petards Group plc (continued)

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 7 (financial review).*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in the recoverability of the parent company's investments in subsidiaries and the completeness and valuation of intangibles arising on acquisition (see below), and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge** – We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis** – When addressing estimates, in particular the recoverability of the parent company's investments in subsidiaries, the completeness and valuation of intangibles arising on acquisition and the appropriateness of the going concern basis of preparation of the financial statements key audit matters and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency** – As well as assessing individual disclosures as part of our procedures on estimates, in particular as described in the recoverability of the parent company's investments in subsidiaries, the completeness and valuation of intangibles arising on acquisition and the appropriateness of the going concern basis of preparation of the financial statements key audit matters, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Group and this is particularly the case in relation to Brexit.

	The risk	Our response
Completeness and valuation of intangibles arising on acquisition of RTS Solutions (Holdings) Limited and its subsidiary Intangible assets of £553k: *Refer to note 1 on page 38 (accounting policy) and note 15 on page 58.*	**Forecast based valuation** There is significant judgement with regard to the assumptions and estimates involved in the forecasting of future cash flows that form the basis of the assessment of the value of the intangible assets recognised on acquisition. The key assumptions are the expected future revenue and discount rates applied to the cash flows. Given the level of goodwill recognised on this acquisition, there is a risk that not all intangible assets have been recognised on acquisition. The effect of these matters is that, as part of our risk assessment, we determined that the recognition and valuation of intangible assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than materiality.	**Our procedures included:** • **Use of an expert** – With the assistance of our own valuation specialists, we assessed the appropriateness of the valuation methodologies applied and challenged the completeness of the intangible assets identified and the discount rates applied. • **Assessing transparency** – We considered the adequacy of the disclosures in respect of the acquisition. • **Historical comparison** – We challenged the reasonableness of the assumptions, particularly the projected sales volumes, by assessing the historical accuracy of the Group's forecasting.

Independent auditor's report to the members of Petards Group plc (continued)

	The risk	Our response
Going concern	**Disclosure quality**	**Our procedures included:**
Refer to page 10 (principal risks), note 1 on page 35 (accounting policy) and note 21 on page 64 (financial disclosures).	The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and parent Company's business model and how those risks might affect the Group's and parent Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risk most likely to adversely affect the Group's and parent Company's available financial resources and compliance with the terms of the bank facilities over this period is the timing and delivery of larger orders which are difficult to predict, and can cause material fluctuations in actual cash flows compared to those forecast. There are also less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer confidence, which could result in a rapid reduction of available financial resources. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	• **Funding assessment** – We inspected the bank facility documents and correspondence with the lender to ascertain the committed level of financing and the related covenant requirements. • **Historical comparisons** – We compared the Group's forecasts to actual cash flows achieved in the year and in earlier years. • **Sensitivity analysis** – We considered sensitivities over the level of available financial resources (and related covenant requirements) indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. • **Benchmarking assumptions** – We tested the integrity of the cash flow projections and challenged the appropriateness of the key assumptions used therein by reference to our knowledge of the business. We also assessed the projections and assumptions by reference to general market conditions and post year end trading and cash flows, and assessed the potential risk of management bias. • **Assessing transparency** – We assessed the completeness and accuracy of the going concern disclosures, and disclosures on the maturity and classification of debt.

	The risk	Our response
Revenue from contracts with customers ongoing at year end *Refer to note 1 on page 36 and note 2 on page 46 (accounting policy notes).*	**Accounting application** The Group's contracts comprise the construction and delivery of a combination of electronic services and/or electronic assets. A typical contract identifies the consideration applicable to each deliverable and milestones are usually specified for the provision of electronic services. This is the first year that the Group is required to account for revenue under the revised revenue accounting standard. Each contract is reviewed to identify and assess distinct performance obligations, and the consideration applicable to each. For contracts ongoing at year end, inaccurate identification of the performance obligations and/or incorrectly concluding whether performance obligations have been satisfied could lead to material variances in the amounts recognised in revenue. Inaccurate assessment of whether revenue from ongoing contracts at year end should be recognised 'over time' rather than 'point in time', under the relevant accounting standards, could lead to material variances in the amounts recognised in revenue.	**Our procedures included:** • **Accounting analysis** – For selected contracts ongoing at year end we inspected the signed contracts to identify relevant performance obligations and other key information in order to assess whether the Group's determination that contract revenue should be recognised over time or at a point in time was appropriate. • **Test of detail** – For selected contracts ongoing at year end, we inspected the signed contracts to identify relevant performance obligations and corroborated with reference to customer correspondence, other documentation, or client project personnel interviews whether these obligations had been satisfied and revenue appropriately allocated to the performance obligations and reflected in the financial statements. • **Assessing transparency** – We assessed the adequacy of the disclosures about the judgement involved in the identification of performance obligations and the classification of ongoing contracts at year end as over time or point in time under the relevant accounting standards.

Independent auditor's report to the members of Petards Group plc (continued)

	The risk	Our response
Parent Company: Recoverability of investments in subsidiaries £12.9m million; *2017: £11.0 million* *Refer to note 1 on page 37 (accounting policy) and note 16 on page 60 (financial disclosures).*	**Low risk, high value** The carrying amount of the parent company's investments in subsidiaries represents 96% (2017: 92%) of the Company's total assets of £13.3 million (2017: £11.9 million). Their recoverability is not at a high risk of significant misstatement or subject to significant judgement, and the market capitalisation is in excess of the carrying value. However, due to their materiality in the context of the parent Company's financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	**Our procedures included:** • **Tests of detail** – We compared the carrying value of all investments to with the relevant subsidiaries' draft balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessed whether those subsidiaries had historically been profit making. For investments where the carrying amount exceeded the net asset value of the subsidiary, we compared the carrying amount of the investment with an estimate of the recoverable amount of the investment determined by reference to discounted cash flow forecasts. • **Assessing the subsidiary audits** – We considered the results of the audit work performed on all of those subsidiaries' profits and net assets. • **Comparing valuations** – We compared the carrying amounts of investments to the Group's market capitalisation to assess whether there were any indicators of impairment.

3. Our application of materiality and an overview of the scope of our audit

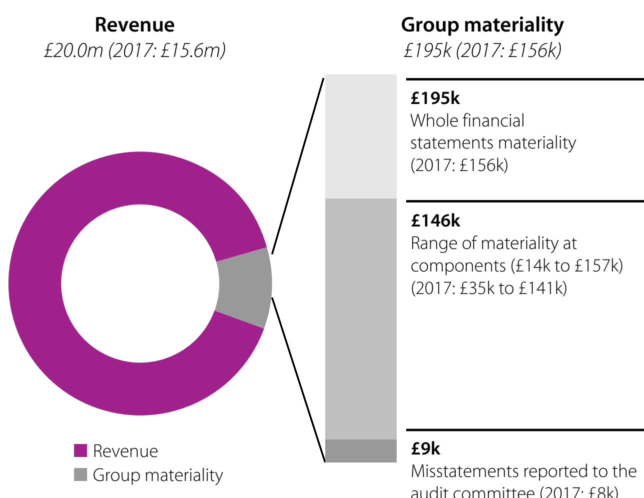
Materiality for the group financial statements as a whole was set at £195k (2017: £156k), determined with reference to a benchmark of total revenue of £20.0 million (2017: £15.6 million of which it represents 1% (2017: 1%). We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than Group profit before tax.

Materiality for the Parent Company financial statements as a whole was set at £131k (2017: £119k) determined with reference to a benchmark of Company total assets of £13.3 million (2017: £11.9 million) which it represented 1% (2017: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £9k (2017: £8k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group audit team performed full scope audits for Group purposes on all 9 (2017: 7) of the Group's reporting components, as well as the audit of the Parent Company. These components accounted for 100% (2017: 100%) of total Group revenue, Group profit before tax and total Group assets. The component materialities ranged from £14k to £157k (2017: £35k to £141k), having regard to the mix of size and risk profile of the Group across the components.

The group team conducted all audits at the Group's offices in Gateshead.



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the parent Company or the Group or to cease their operations, and as they have concluded that the parent Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report).

Based on the work described in our response to that key audit matter, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in this respect.

Independent auditor's report to the members of Petards Group plc (continued)

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 22, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Moran
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

9 April 2019

Consolidated income statement

For year ended 31 December 2018

	Note	2018 £000	2017 £000
Revenue	4	**19,973**	15,581
Cost of sales		**(13,089)**	(9,566)
Gross profit		**6,884**	6,015
Administrative expenses		**(5,728)**	(4,770)
Adjusted EBITDA*		**2,057**	1,619
Amortisation of intangibles	14	**(590)**	(547)
Depreciation	12	**(209)**	(162)
Exceptional income	7	**–**	362
Acquisition costs	15	**(77)**	–
Share based payment charges	23	**(25)**	(27)
Operating profit		**1,156**	1,245
Financial income *(2017 included £340,000 exceptional income)*	8	**3**	340
Financial expenses *(2017 included £211,000 exceptional expense)*	8	**(33)**	(380)
Profit before tax		**1,126**	1,205
Income tax	9	**17**	32
Profit for the year attributable to equity shareholders of the parent		**1,143**	1,237
Earnings per ordinary share (pence)			
Basic	11	**2.01**	3.31
Diluted	11	**1.95**	2.32

* Earnings before financial income and expenses, tax, depreciation, amortisation, exceptional items, acquisition costs and share based payment charges. See Alternative Performance Measures Glossary on page 72.

Consolidated statement of comprehensive income

For year ended 31 December 2018

	Note	2018 £000	2017 £000
Profit for the year		**1,143**	1,237
Other comprehensive income			
Items that may be reclassified to profit:			
Release of foreign currency reserve on abandonment of US subsidiary (included in financial expenses)	7,8	**–**	211
Total comprehensive income for the year		**1,143**	1,448

Statements of changes in equity

For year ended 31 December 2018

Group	Share capital £000	Share premium £000	Equity reserve £000	Retained earnings £000	Currency translation reserve £000	Total equity £000
At 1 January 2017	357	68	200	3,768	(211)	4,182
Profit for the year	–	–	–	1,237	–	1,237
Other comprehensive income	–	–	–	–	211	211
Total comprehensive income for the year	–	–	–	1,237	211	1,448
Equity-settled share based payments	–	–	–	27	–	27
Conversion of convertible loan notes	198	1,383	(169)	142	–	1,554
Exercise of share options	3	22	(6)	–	–	19
At 31 December 2017	558	1,473	25	5,174	–	7,230
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	–	–	–	1,143	–	1,143
Total comprehensive income for the year	–	–	–	1,143	–	1,143
Equity-settled share based payments	–	–	–	25	–	25
Exercise of share options	17	144	(11)	11	–	161
At 31 December 2018	**575**	**1,617**	**14**	**5,885**	**–**	**8,091**

* The Group has adopted IFRS 15 using the cumulative effect method, under which the comparative information is not restated (note 3). The cumulative effect of adopting IFRS 15 is recognised in equity at the date of first adoption on 1 January 2018.

Company	Share capital £000	Share premium £000	Equity reserve £000	Retained earnings £000	Total equity £000
At 1 January 2017	357	68	200	5,897	6,522
Profit for the year	–	–	–	1,038	1,038
Total comprehensive income for the year	–	–	–	1,038	1,038
Equity-settled share based payments	–	–	–	27	27
Conversion of convertible loan notes	198	1,383	(169)	142	1,554
Exercise of share options	3	22	(6)	–	19
At 31 December 2017	558	1,473	25	7,104	9,160
At 1 January 2018	558	1,473	25	7,104	9,160
Profit for the year	–	–	–	514	514
Total comprehensive income for the year	–	–	–	514	514
Equity-settled share based payments	–	–	–	25	25
Exercise of share options	17	144	(11)	11	161
At 31 December 2018	**575**	**1,617**	**14**	**7,654**	**9,860**

The accompanying notes form an integral part of the financial statements.

Balance sheets

At 31 December 2018

	Note	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
ASSETS					
Non-current assets					
Property, plant and equipment	12,13	**943**	825	**2**	2
Intangible assets	14	**4,676**	2,488	**–**	–
Investments in subsidiary undertakings	16	**–**	–	**12,851**	10,999
Deferred tax assets	17	**284**	344	**130**	130
		5,903	3,657	**12,983**	11,131
Current assets					
Inventories	18	**4,104**	3,403	**–**	–
Trade and other receivables	19	**2,553**	3,743	**258**	743
Cash and cash equivalents	20	**2,117**	1,324	**85**	30
		8,774	8,470	**343**	773
Total assets		**14,677**	12,127	**13,326**	11,904
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Share capital	24	**575**	558	**575**	558
Share premium		**1,617**	1,473	**1,617**	1,473
Equity reserve	25	**14**	25	**14**	25
Currency translation reserve		**–**	–	**–**	–
Retained earnings		**5,885**	5,174	**7,654**	7,104
Total equity		**8,091**	7,230	**9,860**	9,160
Non-current liabilities					
Interest-bearing loans and borrowings	21	**883**	23	**875**	–
Trade and other payables	22	**–**	–	**901**	870
		883	23	**1,776**	870
Current liabilities					
Interest-bearing loans and borrowings	21	**265**	15	**250**	–
Trade and other payables	22	**5,438**	4,859	**1,440**	1,874
		5,703	4,874	**1,690**	1,874
Total liabilities		**6,586**	4,897	**3,466**	2,744
Total equity and liabilities		**14,677**	12,127	**13,326**	11,904

These financial statements were approved by the Board of Directors on 9 April 2019 and were signed on its behalf by:

Raschid Abdullah
Director

Registered number: 02990100

The accompanying notes form an integral part of the financial statements.

Statements of cash flows

For year ended 31 December 2018

	Note	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Cash flows from operating activities					
Profit for the year		**1,143**	1,237	**514**	1,038
Adjustments for:					
Depreciation	12,13	**209**	162	**1**	1
Amortisation of intangible assets	14	**590**	547	**–**	–
Financial income	8	**(3)**	(340)	**–**	(340)
Financial expenses	8	**33**	380	**31**	157
Equity settled share-based payment expenses	23	**25**	27	**25**	27
Income tax (credit)/charge	9	**(17)**	(32)	**–**	–
Operating cash flows before movement in working capital		**1,980**	1,981	**571**	883
Change in inventories		**1,024**	(1,450)	**–**	–
Change in trade and other receivables		**1,344**	(1,003)	**685**	(373)
Change in trade and other payables		**(1,834)**	1,057	**(603)**	(1,165)
Cash generated from operations		**2,514**	585	**653**	(655)
Interest received		**3**	–	**–**	–
Interest paid		**(58)**	(107)	**(31)**	(133)
Tax received		**56**	61	**–**	–
Net cash from operating activities		**2,515**	539	**622**	(788)
Cash flows from investing activities					
Acquisition of property, plant and equipment	12,13	**(325)**	(509)	**(1)**	(1)
Capitalised development expenditure	14	**(1,444)**	(1,043)	**–**	–
Acquisition of subsidiary	15,16	**(1,224)**	–	**(1,852)**	–
Net cash outflow from investing activities		**(2,993)**	(1,552)	**(1,853)**	(1)
Cash flows from financing activities					
Bank loan received	21	**1,250**	–	**1,250**	–
Bank loan repaid	21	**(125)**		**(125)**	–
Finance lease repayments		**(15)**	(10)	**–**	–
Proceeds from exercise of share options	24	**161**	25	**161**	25
Net cash inflow from financing activities		**1,271**	15	**1,286**	25
Net increase/(decrease) in cash and cash equivalents		**793**	(998)	**55**	(764)
Total movement in cash and cash equivalents in the year		**793**	(998)	**55**	(764)
Cash and cash equivalents at 1 January		**1,324**	2,322	**30**	794
Cash and cash equivalents at 31 December	20	**2,117**	1,324	**85**	30

The accompanying notes form an integral part of the financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Petards Group plc (the "Company") is a company incorporated in the UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its Group.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

In these financial statements the Group has changed its accounting policies in the following areas:

- Revenue recognition
- Financial instruments

These are further described in note 2.

Statement of compliance

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

Basis of preparation

The financial information is presented in pounds sterling, rounded to the nearest thousand, and is prepared on the historic cost basis.

Going concern

Information on the Group's business activities, cashflows and liquidity position, together with the factors likely to affect its future development, performance and position are described in the Strategic Report. In addition note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group currently meets its day to day working capital requirements through its own cash resources, and also has available a revolving credit facility of £0.75m which was undrawn at the year end and which is available until 21 June 2020. Interest bearing loans and borrowings total £1.15m at the year end, of which only £0.26m is payable within one year. The Group has prepared forecasts which have been flexed to take into account reasonably possible changes in future trading performance, in particular to take into account uncertainty as to the timing of contract awards. This reflects the fact that the Group contracts with a number of customers across different industries and that the Group's revenue is generated from a mix of longer and shorter lead time orders. The order book at the year end was in excess of £19m with over £13m scheduled for revenue in 2019 with an ongoing pipeline of new contracts under negotiation. The timing and delivery of the larger orders are difficult to predict, and can cause material fluctuations in actual results compared with forecast results and cash flows. These flexed forecasts show that the Group should be able to operate within the level of its cash resources and available bank facilities and accordingly the financial statements have been prepared on a going concern basis.

Judgements and estimates

The preparation of financial statements requires the directors to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The key areas requiring the use of estimates and judgements which may significantly affect the financial statements are considered to be:

Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

a) *Revenue recognition (notes 2 and 3)*

The Group has adopted IFRS 15 retrospectively from 1 January 2018 and has chosen to apply the cumulative effect approach.

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

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

A proportion of the Group's contracts were previously treated as construction contracts under IAS 11 on the basis that they comprised contracts specifically negotiated for the construction and delivery of a combination of electronic assets and/or electronic services in a single package which were so closely related as to be in essence part of a single project, with an overall profit margin, being performed concurrently or in a continuous sequence. In applying IFRS 15 the Group has had to apply judgements and estimates to its portfolio of contracts in order to identify specific performance obligations and the timing of transfer of control of a product or service to a customer.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group has not needed to apply estimates and judgements in respect of the time value of money as applied to transaction prices.

b) *Recognition of deferred tax assets (notes 9 and 17)*

The Group has substantial deferred tax assets. In determining how much of these assets can be recognised this requires an assessment of the extent to which it is probable that future taxable profits will be available. This assessment is based on management's future assessment of the Group's financial performance and forecast financial information.

c) *Capitalised development expenditure (note 14)*

This involves the identification of development expenditure which is recoverable through future product revenue together with an assessment of the estimated useful economic life of any asset recognised. Assets recognised in this way are also subject to impairment reviews.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

d) *Valuation of intangible assets arising on acquisition (note 15)*

The determination of the fair value of intangible assets including goodwill arising on acquisition includes significant judgement. The fair value of these intangible assets is determined by discounting the estimated future net cash flows to be generated by those assets where no active market exists.

The use of different assumptions for the cash flows, the discount rate and the useful life of these assets would all change the valuation.

Allocation of the purchase price impacts the results of the Group as finite life intangible assets are amortised whereas goodwill is not amortised but is tested annually for impairment.

1 Accounting policies continued

Basis of consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-company balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated when preparing the consolidated financial information.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

The Group has taken advantage of the relief available in IFRS 1 to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to Adopted IFRSs (1 January 2006).

Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of financial expenses. Finance payments associated with financial instruments that are classified in equity are treated as distributions and are recorded directly in equity.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment in the Company balance sheet.

Derivative financial instruments

Derivative financial instruments are recognised initially at fair value and subsequently re-measured. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

Intra-group financial guarantee contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Leasehold improvements	life of lease straight line
Plant and equipment:	
Plant and equipment	3-10 years
Computer equipment	3-5 years
Furniture and fittings	3-5 years
Motor vehicles	4-5 years

The residual values and useful economic lives are reassessed annually.

Business combinations

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

1 Accounting policies continued

Acquisitions between 1 January 2006 and 1 January 2010

For acquisitions between 1 January 2006 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Acquisitions prior to 1 January 2006

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Group elected not to restate business combinations that took place prior to transition date. In respect of acquisitions prior to 1 January 2006, goodwill is included at transition date on the basis of its deemed cost, which represents the amount recorded under UK GAAP. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged on a straight line basis over the estimated useful lives of intangible assets. Other intangible assets are amortised from the date they are available for use.

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Expenditure on activities for the development of new or substantially improved products is capitalised if the product is technically and commercially feasible, and the Group has the technical ability and has sufficient resources to complete development and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Development expenditure not meeting the above criteria is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Internally generated development expenditure is amortised on a straight-line basis over the period which the directors expect to obtain economic benefits (typically 3 to 8 years from asset being available for use). Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Technology related assets	4-10 years
Customer related assets	3-5 years

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank borrowings that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Goodwill is allocated to cash generating units and is tested annually for impairment and more frequently if there are indications of impairment.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

An impairment loss in respect of other assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as service is provided.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

Options granted under the Group's employee share schemes are equity settled. The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax risk-free rate.

Contracts with customers – accounting policies applied since 1 January 2018

The Group has adopted IFRS 15 retrospectively from 1 January 2018 in accordance with paragraph C3(a) and has chosen to apply the cumulative effect approach. As a result, the Group has restated its opening equity position as at 1 January 2018 to reflect the impact of transitioning to IFRS 15. Comparatives for the year ended 31 December 2017 have not been restated.

1 Accounting policies continued

The following expedients have been used in accordance with paragraph C5:

- revenue in respect of completed contracts that begin and end in the same accounting period has not been restated;
- revenue in respect of completed contracts with variable consideration reflects the transaction price at the date the contracts were completed; and
- in the financial statements for the year ending 31 December 2018, the comparative information for the year ending 31 December 2017 will not disclose the amount of the transaction price allocated to the remaining performance obligations or an explanation of when the Group expects to recognise that amount as revenue.

Following the adoption of IFRS 15, the Group's accounting policy in respect of revenue is as follows:

Revenue represents income derived from contracts for the provision of goods and services by the Group to customers in exchange for consideration in the ordinary course of the Group's activities.

Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as price escalation, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. Given the bespoke nature of many of the Group's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are sometimes no observable stand-alone selling prices. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin consistent with the Group's pricing principles.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer.

For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time. The Group has determined that the performance obligations of the majority of its contracts are satisfied at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method faithfully depicts the Group's performance in transferring control of the goods and services to the customer.

Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

The Group's contracts that satisfy the over time criteria are typically services and maintenance support contracts where the customer simultaneously receives and consumed the benefit provided by the Groups performance.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

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

Software licences
The Group sells software licences either separately or together with other goods and services. Revenue recognition in respect of software licences sold as part of a bundle of goods and services is considered separately when the licence is determined to be a separate performance obligation. Software licences either represent a right to access the Group's intellectual property as it exists throughout the licence period or a right to use the Group's intellectual property as it exists at the point in time at which the licence is granted. Revenue in respect of right to access licences is recognised over the licence term and revenue in respect of right to use licences is recognised upfront on delivery to the customer.

Contract modifications
The Group's contracts are sometimes amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

(a) prospectively as an additional, separate contract;

(b) prospectively as a termination of the existing contract and creation of a new contract; or

(c) as part of the original contract using a cumulative catch up.

The majority of the Group's contract modifications are treated under either (a) (for example, the requirement for additional distinct goods or services) or (c) (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

Costs to obtain a contract
The Group expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded.

Costs to fulfil a contract
Contract fulfilment costs in respect of over time contracts are expensed as incurred. Contract fulfilment costs in respect of point in time contracts are accounted for under IAS 2 Inventories.

Inventories
Inventories include raw materials, work-in-progress and finished goods recognised in accordance with IAS 2 in respect of contracts with customers which have been determined to fulfil the criteria for point in time revenue recognition under IFRS 15. It also includes inventories for which the Group does not have a contract. This is often because fulfilment costs have been incurred in expectation of a contract award. The Group does not typically build inventory to stock. Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value.

1 Accounting policies continued

Contract receivables

Contract receivables represent amounts for which the Group has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprises costs incurred plus attributable margin.

Contract liabilities

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Revenue – accounting policies applied prior to 1 January 2018

Revenue is measured at the fair value of consideration received or receivable in the normal course of business, net of discounts, VAT and other sales related taxes provided that it can be measured reliably.

Revenue from sales of goods and equipment is recognised on despatch unless the customer specifically requests deferred delivery instructions. For deliveries deferred at the customer's request, revenues are recognised when the customer takes title to the goods provided that it is probable that delivery will be made, the goods are identified and ready for delivery and usual payment terms apply.

Revenue from service contracts, where services are performed by an indeterminate number of acts over a specified period of time, is recognised on a straight line basis over the period of the contract.

Revenue from certain of the Group's contracts is recognised in accordance with IAS 11 Construction Contracts by reference to the stage of completion of the contract, as set out in the accounting policy for construction contracts. Construction contracts comprise contracts specifically negotiated for the construction and delivery of a combination of goods and/or services in a single package which are so closely related as to be in essence part of a single project and are performed concurrently or in a continuous sequence.

Construction contracts – accounting policies applied prior to 1 January 2018

Construction contracts comprise contracts specifically negotiated for the construction and delivery of a combination of electronic assets and/or electronic services in a single package which are so closely related as to be in essence part of a single project with an overall profit margin and are performed concurrently or in a continuous sequence.

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract.

The stage of completion is assessed by reference to completion of a physical proportion of the contract work. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the income statement.

Contract work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus any appropriate profit recognised to date less progress billing and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Payments from customers, to the extent that they exceed income recognised, are included as payments on account within trade and other payables.

Inventories – accounting policies applied prior to 1 January 2018

Raw materials and consumables

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Notes (continued)

(forming part of the financial statements)

1 Accounting policies continued

Expenses

Operating lease payments

Payments under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Financial income

Financial income comprises interest receivable on funds invested, and foreign exchange gains. Interest income is recognised in the income statement as it accrues using the effective interest method.

Financial expenses

Financial expenses comprise interest payable on borrowings, and foreign exchange losses.

Taxation

Income tax on the profit or loss for the period comprises both current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Exceptional items

Exceptional items are items of income and expenditure that are individually material due to size or incidence that the directors consider require separate disclosure in order for the reader to obtain a full understanding of the performance of the Group in the year.

Standards issued but not yet effective

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 17: Insurance Contracts (effective date 1 January 2021);
- Amendments to References to the Conceptual Framework in IFRS Standards (effective date 1 January 2020);
- Amendment to IFRS 3: Business Combinations (effective date 1 January 2020);
- Amendments to IAS 1 and IAS 8: Definition of material (effective 1 January 2020);
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective 1 January 2019);
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective date 1 January 2019);
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective 1 January 2019);
- IFRIC 23: Uncertainty over Income Tax Treatments (effective 1 January 2019);
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective 1 January 2019); and
- IFRS 16: Leases (effective date 1 January 2019).

1 Accounting policies continued

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Group will adopt the requirements of IFRS 16 for the first time in 2019. As a result, it will recognise a balance sheet asset and corresponding obligation relating to its use of properties under multi-year agreements. The Group will not apply IFRS 16 to its commitments under operating leases on certain low value non-property assets.

Rental payments made under leases will be accounted for as repayments of the balance sheet liability, which will include an implied interest element, and the asset recognised will be depreciated over the remaining lease term.

The Group will adopt the modified approach to transition where the initial asset values will be equal to the present value of the future lease payments as at the date of transition. This will result in all existing leases being capitalised over their remaining lives, as if they had just been entered into, and the Group's accounts will reflect a higher interest charge following adoption.

Although the final determination has not been concluded, it is estimated that on transition the opening balance sheet position for 2019 will be adjusted to include approximately £0.4m of right-of-use assets and a corresponding lease liability.

The effect on the Group's net profit before tax for 2019 is not expected to be material with the pre-IFRS 16 rental charge being replaced by depreciation and interest. The depreciation will be charged on a straight-line basis; however interest is charged on the outstanding lease liabilities and will therefore be higher in the earlier years and will decrease over time.

The transition to IFRS16 will have no effect on cash flows.

2 Changes in significant accounting policies

IFRS 9 Financial instruments (effective 1 January 2018)

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

IFRS 9 replaces the provisions of IAS 39 that relate to recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies however no adjustments were required to the amounts recognised in the financial statements in previous periods. The new accounting policies are set out below.

Classification and measurement

On 1 January 2018, the Group has classified its financial instruments in the appropriate IFRS 9 categories.

The Group has no derivative financial instruments either designated as cash flow hedges or not qualifying for hedge accounting.

Financial assets previously classified in the "loans and receivables" category and measured at amortised cost under IAS 39 (being trade and other receivables and amounts owed by equity accounted investments) continue to be classified in the "amortised cost" category under IFRS 9.

Notes (continued)

(forming part of the financial statements)

2 Changes in significant accounting policies continued

Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade and other receivables; and
- contract receivables.

Trade and other receivables, and contract receivables, do not contain a significant financing element and therefore expected credit losses are measured using the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivables.

The Group has assessed credit risk in relation to defence-related sales to government customers or sub-contractors to governments and believes it to be extremely low, therefore no expected credit loss provision is required for these trade and other receivables, or contract receivables. The Group also considers expected credit losses for non-government commercial customers, however this risk is not expected to be material to the financial statements.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, no impairment loss was identified.

There was no IFRS 9 impact on retained earnings at 1 January 2018.

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

The Group subsequently measures trade and other receivables and contract receivables at amortised cost.

Impairment

For trade and other receivables, contract receivables and amounts due from equity accounted investments, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Financial liabilities

There are no changes to the accounting policies in respect of loans, overdrafts, and trade and other payables, which continue to be measured at amortised cost.

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

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

The Group has adopted IFRS 15 retrospectively from 1 January 2018 and has chosen to apply the cumulative effect approach. As a result, the Group has restated its opening equity position as at 1 January 2018 to reflect the impact of transitioning to IFRS 15. A summary of the effect of the impact of the adoption of IFRS 15 is set out at note 3 below.

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

3 Impact of the adoption of IFRS 15

Impact in respect of the position on adoption at 1 January 2018

Balance sheet headings	As reported 31 December 2017 £000	Reclassification £000	Remeasurement £000	IFRS 15 as adopted 1 January 2018 £000
Work in progress within inventories	2,211	–	1,707	3,918
Payments on account within current trade and other payables	(382)	382	–	–
Deferred revenue within current trade and other payables	–	(382)	(2,271)	(2,653)
Deferred tax assets	344	–	96	440

	As reported 1 January 2018 £000
Retained earnings as previously reported	5,174
Adjustment to earnings from adoption of IFRS 15 – profit before tax	(564)
Adjustment to earnings from adoption of IFRS 15 – deferred tax	96
Retained earnings on adoption of IFRS 15 – at 1 January 2018	**4,706**

Impact on the result for the year ended 31 December 2018

	Result before adoption of IFRS 15 £000	Impact of change in GAAP £000	Result after adoption of IFRS 15 £000
Consolidated income statement			
Revenue	18,198	1,775	19,973
Cost of sales	(11,719)	(1,370)	(13,089)
Gross profit	6,479	405	6,884
Administrative expenses	(5,728)	–	(5,728)
Operating profit	751	405	1,156
Financial income	3	–	3
Financial expense	(33)	–	(33)
Profit before tax	721	405	1,126
Income tax	103	(86)	17
Profit for the year	**824**	**319**	**1,143**

Revenue before the adoption of IFRS 15 was accounted for under IAS 11 and IAS 18.

Notes (continued)

(forming part of the financial statements)

3 Impact of the adoption of IFRS 15 continued

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

This review ascertained that under IFRS 15, £2,271,000 of revenue and £564,000 of profit recognised in previous accounting periods up to and including 31 December 2017 would be deferred to future periods. The effect of this assessment based on the progress of these contracts during the current year, has been to recognise revenue of £1,961,000 and profit of £451,000 in 2018, leaving revenue of £310,000 and profit of £113,000 to be recognised in accounting periods after 31 December 2018.

The impact of IFRS 15 on contracts commencing during the year and which are incomplete at 31 December 2018 has been to defer revenue of £186,000 and estimated profit of £46,000 to future accounting periods.

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

Type of product or service	Nature, timing and satisfaction of performance obligations and significant payment terms	Nature, timing and satisfaction of performance
Revenue from the sale of goods and equipment	Revenue from sales of goods and equipment is recognised on despatch unless the customer specifically requests deferred delivery. For deliveries deferred at the customer's request, revenues are recognised when the customer takes title to the goods provided that it is probable that delivery will be made, the goods are identified and ready for delivery and usual payment terms apply.	No material impact on adoption of IFRS 15.
Revenue from service contracts	Revenue from service contracts, where services are performed by an indeterminate number of acts over a specified period of time, is recognised on a straight line basis over the period of the contract.	No material impact on adoption of IFRS 15.
Revenue from construction contracts	Construction contracts comprise contracts specifically negotiated for the construction and delivery of a combination of electronic services and/or electronic assets. A typical contract identifies the consideration applicable to each and milestones are usually specified for the provision of electronic services. Each contract is reviewed to identify and assess distinct performance obligations, and the consideration applying to each. An expected loss on a contract is recognised immediately in the income statement.	The impact of IFRS 15 has been to identify and segregate the elements of the contracts relating to the construction and delivery of electronic services as these have distinct performance obligations. This is outlined below.
Revenue from sale of electronic assets	Revenue deriving from the provision of electronic assets is recognised at the point in time that the assets are provided.	There is no material impact on the adoption of IFRS 15.

3 Impact of the adoption of IFRS 15 continued

Type of product or service	Nature, timing and satisfaction of performance obligations and significant payment terms	Nature, timing and satisfaction of performance
Revenue from provision of electronic services	Revenue deriving from the provision of electronic services, which is normally classified as non-recurring development expenditure, is recognised at the point that each development service obligation has been completed. If at the end of a reporting period the provision of this service is incomplete, costs incurred are included in the balance sheet as work in progress within inventories. Costs include all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. If at the end of a reporting period the provision of this service is incomplete, payments received from customers on the achievement of milestones are included in the balance sheet as deferred income until the provision of the service is complete.	The impact of IFRS 15 on this element of contract revenue is to defer revenue and profit until the completion of each development service obligation. Under IAS 11 revenue was recognised in proportion to the stage of completion of the contract, which was assessed by reference to the completion of each customer agreed milestone. Contract work in progress represented the gross unbilled amount expected to be collected from customers for contract work performed to date. It was measured at cost plus any appropriate profit recognised to date less progress billings and recognised losses. Payments from customers, to the extent that they exceeded income recognised, were included as payments on account within trade and other payables.

4 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 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:

	2018 **£000**	2017 £000
United Kingdom	**15,285**	10,227
Continental Europe	**4,250**	4,930
Rest of World	**438**	424
	19,973	15,581

The timing of revenue recognition can be analysed as follows:

	2018 **£000**	2017 £000
Products and services transferred at a point in time – IFRS 15	**19,058**	–
Products and services transferred over time – IFRS 15	**915**	–
Products and services – IAS 11 and IAS 18	**–**	5,921
Construction contract revenue – IAS 11	**–**	9,660
	19,973	15,581

Details of the revenues relating to the Group's main customers in the year are given in note 19.

Notes (continued)

(forming part of the financial statements)

5 Expenses and auditor's remuneration

Profit before tax is stated after charging/(crediting):

	2018 £000	2017 £000
Amortisation of intangibles	**590**	547
Development costs expensed directly to income	**164**	247
Depreciation of property, plant and equipment – owned	**196**	147
Depreciation of property, plant and equipment – leased	**13**	15
Net write down/(up) of inventories	**7**	(64)

Auditor's remuneration:

	2018 £000	2017 £000
Audit of these financial statements	**15**	13
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**57**	44
Other services relating to taxation	**17**	13

Amounts receivable by the Company's auditor and its associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

6 Staff numbers and costs

The aggregate payroll costs, including directors, were as follows:

	Group	
	2018 £000	2017 £000
Wages and salaries	**4,816**	4,606
Share based payments (note 23)	**25**	27
Social security costs	**489**	458
Other pension costs (note 23)	**206**	202
	5,536	5,293

The average number of employees during the year (including directors) was as follows:

	Group	
	2018 Number	2017 Number
Direct labour	**70**	69
Development	**26**	20
Sales	**10**	12
Administration	**20**	19
	126	120

6 Staff numbers and costs continued

Directors' remuneration

	2018 £000	2017 £000
Directors' emoluments	669	497
Company contributions to defined contribution pension schemes	–	–
	669	497

The aggregate of emoluments of the highest paid director was £282,000 (2017: £186,000).

	Salaries and fees		Other benefits		Share options exercised		Total	Total
Name of director	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
R Abdullah	111	105	–	–	136	81	247	186
O Abdullah	111	105	–	–	–	–	111	105
P Negus [1]	185	182	–	–	97	–	282	182
T Connolly [2]	29	24	–	–	–	–	29	24
	436	416	–	–	233	81	669	497

[1] Includes fees for the services of P Negus payable to Adcel Limited of £171,000 (2017: £182,000).

[2] Includes ex-gratia fee of £5,000 (2017: £nil)

No performance bonus is payable in respect of the year ended 31 December 2018 (2017: £nil).

No directors are accruing rights to shares under long term incentive schemes.

	2018 Number	2017 Number
Number of directors exercising share options	2	1
Number of directors accruing benefits under a defined contribution pension scheme	1	–

Directors' rights to subscribe for shares in the Company are as follows:

Director	At start of year Number of shares	At end of year Number of shares	Exercise price (pence)
R Abdullah	1,850,000	1,425,000	8p – 21.5p
O Abdullah	2,162,500	2,737,500	8p – 21.5p
P Negus	700,000	300,000	11.6p – 21.5p

Further details of movement in rights to subscribe for shares are included in the Remuneration Report, under the heading 'Directors' Interests in Share Options', which forms part of these audited financial statements.

Notes (continued)

(forming part of the financial statements)

7 Exceptional items

	2018 £000	2017 £000
Exceptional income included in administrative expenses	–	362
Exceptional interest received included in financial income	–	340
Exceptional loss on currency translation reserve	–	(211)

The 2017 results included two exceptional items. First, the Group accepted an offer to settle a historic matter, unrelated to the current trading activities of the Group, which arose over ten years ago. Under the settlement, on 9 January 2018, the Group received a total of £702,000 in cash comprising an amount of £362,000 plus compensatory interest of £340,000.

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

8 Financial income and expenses

	2018 £000	2017 £000
Recognised in profit or loss		
Exceptional item – interest receivable on settlement (note 7)	–	340
Interest on bank deposits	**1**	–
Other exchange gain	**2**	–
Financial income	**3**	340

	2018 £000	2017 £000
Interest expense on financial liabilities at amortised cost	**33**	133
Exceptional item – foreign exchange loss (note 7)	–	211
Other exchange loss	–	36
Financial expenses	**33**	380

9 Taxation

Recognised in the income statement

	2018 £000	2018 £000	2017 £000	2017 £000
Current tax (credit)/expense				
Current tax charge	34		5	
Adjustments in respect of prior years	(113)		(57)	
Total current tax		(79)		(52)
Deferred tax (credit)/expense				
Origination and reversal of temporary differences	105		5	
Derecognition of previously recognised tax losses	73		–	
Recognition of previously unrecognised tax losses	(56)		(148)	
Utilisation of recognised tax losses	75		303	
Adjustment in respect of prior years	(145)		(162)	
Effect of differential tax rate for deferred tax	10		22	
Total deferred tax		62		20
Total tax credit in income statement		(17)		(32)

The majority of the adjustments to tax in respect of prior years *(2017: same)* relates to research and development claims. 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.

The main rate of UK corporation tax will reduce to 17% from 1 April 2020. 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 2018 and 31 December 2017.

Reconciliation of effective tax rate

	2018 £000	2017 £000
Profit before tax	1,126	1,205
Tax using the UK corporation tax rate of 19% *(2017: 19.25%)*	214	232
Non-deductible expenses	42	81
Non taxable income	(21)	–
Derecognition of previously recognised tax losses	73	–
Recognition of previously unrecognised tax losses	(56)	(148)
Adjustments in respect of prior years	(258)	(219)
Effect of differential tax rate for deferred tax	10	22
Other reconciling items	(21)	–
Total tax credit	(17)	(32)

Notes (continued)

(forming part of the financial statements)

10 Profit for the financial year – parent company

As permitted by section 408 of the Companies Act 2006, the parent company's income statement has not been included in these financial statements. The parent company's profit for the financial year was £514,000 *(2017: £1,038,000)*.

11 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.

	2018	2017
Earnings		
Profit for the year (£000)	**1,143**	1,237
Number of shares		
Weighted average number of ordinary shares ('000)	**56,752**	37,418
Basic earnings per share (pence)	**2.01**	3.31

Diluted earnings per share

Diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, which arise from 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 2017 comprised the profit for the year attributable to the shareholders after adding back the interest on convertible loan notes amounting to £131,000.

	2018	2017
Adjusted earnings		
Profit for the year (£000)	**1,143**	1,368
Number of shares		
Weighted average number of ordinary shares ('000)	**58,627**	58,844
Diluted earnings per share (pence)	**1.95**	2.32

12 Property, plant and equipment – Group

	Leasehold improvements £000	Plant and equipment £000	Motor vehicles £000	Total £000
Cost				
Balance at 1 January 2017	255	1,324	51	1,630
Acquisitions	30	477	24	531
Disposals	–	(274)	(3)	(277)
Balance at 31 December 2017	285	1,527	72	1,884
Balance at 1 January 2018	285	1,527	72	1,884
Acquisitions	–	325	–	325
Arising on acquisition (note 15)	–	2	–	2
Balance at 31 December 2018	285	1,854	72	2,211
Depreciation and impairment				
Balance at 1 January 2017	193	965	16	1,174
Depreciation charge for the year	17	134	11	162
Disposals	–	(274)	(3)	(277)
Balance at 31 December 2017	210	825	24	1,059
Balance at 1 January 2018	210	825	24	1,059
Depreciation charge for the year	18	175	16	209
Balance at 31 December 2018	228	1,000	40	1,268
Net book value				
At 1 January 2017	62	359	35	456
At 31 December 2017 and 1 January 2018	75	702	48	825
At 31 December 2018	**57**	**854**	**32**	**943**

The net book value of assets held under finance lease obligations is £29,000 *(2017: £43,000)*.

Notes (continued)

(forming part of the financial statements)

13 Property, plant and equipment – Company

	Plant and equipment £000
Cost	
Balance at 1 January 2017	3
Acquisitions	1
Balance at 31 December 2017	4
Balance at 1 January 2018	4
Acquisitions	1
Balance at 31 December 2018	5
Depreciation and impairment	
Balance at 1 January 2017	1
Depreciation charge for the year	1
Balance at 31 December 2017	2
Balance at 1 January 2018	2
Depreciation charge for the year	1
Balance at 31 December 2018	3
Net book value	
At 1 January 2017	2
At 31 December 2017 and 1 January 2018	2
At 31 December 2018	**2**

14 Intangible assets – Group

	Customer related intangibles £000	Technology related intangibles £000	Goodwill £000	Development costs £000	Total £000
Cost					
Balance at 1 January 2017	32	41	707	3,466	4,246
Additions – internally developed	–	–	–	1,043	1,043
Disposals	–	–	–	(973)	(973)
Balance at 31 December 2017	32	41	707	3,536	4,316
Balance at 1 January 2018	32	41	707	3,536	4,316
Additions – internally developed	–	–	–	1,444	1,444
Arising on acquisition (note 15)	146	407	781	–	1,334
Balance at 31 December 2018	178	448	1,488	4,980	7,094
Amortisation and impairment					
Balance at 1 January 2017	9	13	–	2,232	2,254
Amortisation for the year	6	18	–	523	547
Disposals	–	–	–	(973)	(973)
Balance at 31 December 2017	15	31	–	1,782	1,828
Balance at 1 January 2018	15	31	–	1,782	1,828
Amortisation for the year	67	34	–	489	590
Balance at 31 December 2018	82	65	–	2,271	2,418
Net book value					
At 1 January 2017	23	28	707	1,234	1,992
At 31 December 2017 and 1 January 2018	17	10	707	1,754	2,488
At 31 December 2018	**96**	**383**	**1,488**	**2,709**	**4,676**

Development costs relate to the ongoing development of the Group's rail products. This includes an amount of £1,249,000 *(2017: £156,000)* for which amortisation has not yet commenced.

Amortisation

The amortisation charge is recognised within administrative expenses in the income statement.

Impairment testing

The Group considers that for the purpose of goodwill impairment testing it has three cash generating units (CGUs) involved in the development, supply and maintenance of technologies used in advanced security, surveillance, web-based real-time safety critical integrated software applications and ruggedised electronic applications.

Notes (continued)

(forming part of the financial statements)

14 Intangible assets – Group continued

Goodwill has been allocated to cash generating units as follows:

	2018 £000	2017 £000
Petards Joyce-Loebl	**401**	401
QRO Solutions	**306**	306
RTS Solutions	**781**	–
	1,488	707

Impairment is tested by calculating its value in use by reference to discounted cash flow forecasts over a five year period. The key assumptions for the value in use calculation are those regarding the growth rates, discount rates and expected changes in profit margins during the period. These are based on approved forecasts for the next year and an assumption of no growth thereafter has been applied in perpetuity *(2017: approved forecasts for the next year and an assumption of no growth thereafter) and are based on forecast profit margin being maintained (2017: profit margin maintained).* The discount rate applied is 10% *(2017: 10%).*

For Petards Joyce-Loebl the discount rate would have to increase to 260% before there is an impairment. The profit margin would have to fall by 96% before there is an impairment.

For QRO Solutions the discount rate would have to increase to 33% before there is an impairment. The profit margin would have to fall by 70% before there is an impairment.

For RTS Solutions (UK) the discount rate would have to increase to 43% before there is an impairment. The profit margin would have to fall by 77% before there is an impairment.

The Company had no intangible assets in 2017 or 2018.

15 Acquisitions

On 11 May 2018, the Group acquired the entire issued share capital of RTS Solutions (Holdings) Limited which was the sole shareholder of RTS Solutions (UK) Limited (RTS) for £1.8 million, comprising £1.2 million for the business and £0.6 million for surplus cash. This consideration was settled by an initial cash consideration of £1 million, funded by a 5 year bank loan and £547,000 paid from internal cash reserves. Further deferred consideration of £250,000 was paid in June 2018, funded by an additional drawdown on the 5 year bank loan and a further £55,000 was paid in July, funded from cash reserves. The terms of the acquisition provided for a further amount of up to £250,000 to be payable in the event that the financial performance of RTS for the year ended 31 March 2019 met certain targets. The fair value of this element of consideration has been determined to be £nil on the basis that the forecast results were expected to be below the target amounts.

During the period from acquisition to 31 December 2018, RTS contributed £511,000 of revenue and £183,000 of profit to the Group. Had the results been consolidated from 1 January 2018, Group revenue would have been £20,165,000 and net profit would have been £1,167,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2018.

15 Acquisition continued

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Provisional fair values recognised on acquisition £000
Net assets acquired	
Intangible assets	
Technology related assets	407
Customer related assets	146
Property, plant and equipment	2
Inventories	18
Trade and other receivables	131
Cash and cash equivalents	628
Trade and other payables	(167)
Deferred tax	(94)
Net identified assets and liabilities	1,071
Goodwill on acquisition	781
Total consideration	1,852
Cash flow	
Consideration paid in cash	1,852
Cash and cash equivalents acquired	(628)
Net cash flow	1,224

Pre-acquisition carrying amounts were determined based on applicable IFRSs, immediately prior to the acquisition. The values of assets and liabilities recognised on acquisition are the estimated fair values. The goodwill arising on acquisition can be attributed to a multitude of assets that cannot be readily separately identified for the purposes of fair value accounting. None of the goodwill is expected to be deductible for tax purposes.

The fair value adjustments arise in accordance with the requirements of IFRSs to recognise intangible assets acquired. In determining the fair value of intangible assets, the Group has used discounted cash flow forecasts and these are being amortised over their estimated useful life.

The Group incurred acquisition related costs of £77,000 that are included within administrative expenses.

Notes (continued)

(forming part of the financial statements)

16 Investments in subsidiary undertakings

The Group and Company have the following investments in subsidiary undertakings:

Name of company	Country of operation and registration	Nature of business	Holding	Proportion held Group	Proportion held Company
Petards Joyce-Loebl Limited	England (2)	Specialist electronic systems	Ordinary shares	100%	100%
QRO Solutions Limited	England (1)	Specialist electronic systems	Ordinary shares	100%	100%
RTS Solutions (UK) Limited	England (1)	Specialist electronic systems	Ordinary shares	100%	100%
RTS Solutions (Holdings) Limited	England (1)	Non-trading	Ordinary shares	100%	100%
Water Hall Group plc	England (1)	Non-trading	Ordinary shares	100%	100%
Petards Limited	England (2)	Dormant	Ordinary shares	100%	100%
Joyce-Loebl Group Limited	England (2)	Dormant	Ordinary shares	100%	100%
Petards International Limited	England (2)	Dormant	Ordinary shares	100%	100%

Registered offices:
(1) Parallel House, 32 London Road, Guildford, GU1 2AB
(2) 390 Princesway, Team Valley, Gateshead, Tyne and Wear, NE11 0TU

Company	Shares in subsidiary undertakings £000
Cost	
At 1 January 2017	16,515
Investment in Petards Inc written off	(2)
At 31 December 2017	16,513
At 1 January 2018	16,513
Acquisition – RTS Solutions (Holdings) Limited	1,852
At 31 December 2018	**18,365**
Provisions for impairment in value	
At 1 January 2017, 31 December 2017 and 31 December 2018	5,514
Net book value	
At 1 January 2017	11,001
At 31 December 2017	10,999
At 31 December 2018	**12,851**

17 Deferred tax assets and liabilities

Group

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 £000	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Property, plant and equipment	**–**	–	**(46)**	(45)	**(46)**	(45)
Provisions	**5**	5	**–**	–	**5**	5
Tax value of loss carry-forwards	**418**	401	**–**	–	**418**	401
Intangible fixed assets	**–**	–	**(103)**	(17)	**(103)**	(17)
Initial application of IFRS 15	**10**	–	**–**	–	**10**	–
Tax assets/(liabilities)	**433**	406	**(149)**	(62)	**284**	344
Offset of tax	**(149)**	(62)	**149**	62	**–**	–
Net tax assets	**284**	344	**–**	–	**284**	344

Unrecognised deferred tax assets are attributable to the following:

	Assets 2018 £000	Assets 2017 £000
Property, plant and equipment	**209**	248
Provisions	**3**	4
Tax value of loss carry-forwards	**1,424**	1,359
Tax assets	**1,636**	1,611

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

Movement in deferred tax during the year

	31 December 2017 £000	Initial application of IFRS 15 £000	1 January 2018 £000	Arising on acquisitions £000	Recognised in income £000	31 December 2018 £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**

Notes (continued)

(forming part of the financial statements)

17 Deferred tax assets and liabilities continued

Movement in deferred tax during the prior year

	1 January 2017 £000	Recognised in income £000	31 December 2017 £000
Property, plant and equipment	(24)	(21)	(45)
Provisions	6	(1)	5
Tax value of loss carry-forwards	423	(22)	401
Intangible fixed assets	(41)	24	(17)
	364	(20)	344

Company

Recognised deferred tax assets are attributable to the following:

	Assets 2018 £000	Assets 2017 £000
Tax value of loss carry-forwards	**130**	130
Tax assets	**130**	130

Unrecognised deferred tax assets are attributable to the following:

	Assets 2018 £000	Assets 2017 £000
Property, plant and equipment	**23**	22
Provisions	**3**	3
Tax value of loss carry-forwards	**132**	168
Tax assets	**158**	193

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

18 Inventories

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Raw materials and consumables	**1,855**	1,192	**–**	–
Work in progress	**2,249**	2,211	**–**	–
	4,104	3,403	**–**	–

The Group has adopted IFRS 15 using the cumulative effect method, under which the comparative information is not restated (note 3). The cumulative effect of adopting IFRS 15 is recognised in equity at the date of first adoption on 1 January 2018. The work in progress balance at 31 December 2018 includes £337,000 representing the impact of the adoption of IFRS 15.

The directors consider all inventories to be essentially current in nature although the duration of certain contracts is such that a proportion of inventories will not be realised within 12 months. It is not possible to determine this amount with precision as this is dependent on a number of issues including future order volumes, the timing of project milestones and customer call off schedules.

18 Inventories continued

Inventories recognised as cost of sales in the year amounted to £12,530,000 *(2017: £8,730,000)*. At 31 December 2018 inventories are shown net of provisions of £191,000 *(2017: £184,000)*.

Construction contract work in progress

The Group's 2017 net balance on construction contracts work in progress of £1,224,000 was analysed into the following assets and liabilities under IAS 11; work in progress £1,458,000 and payments on account of £234,000. Work in progress at 31 December 2017 related to construction contracts in progress at that date comprising cumulative costs incurred plus recognised profits less losses of £13,975,000 less cumulative progress billings received and receivable of £12,517,000. These disclosures are not relevant to IFRS 15 that was adopted in 2018.

19 Trade and other receivables

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Trade receivables	**2,236**	2,771	**–**	–
Amounts owed by group undertakings	**–**	–	**213**	–
Corporation tax recoverable	**75**	–	**–**	–
Other receivables	**29**	791	**16**	722
Prepayments and accrued income	**213**	181	**29**	21
	2,553	3,743	**258**	743

At 31 December 2018 trade receivables include retentions of £197,000 *(2017: £2,000)*.

The Group has a variety of credit terms depending on the customer. The majority of the Group's sales are made to government agencies and blue chip companies and consequently have very low historical default rates.

At 31 December 2018 trade receivables are shown net of an allowance for credit notes of £nil *(2017: £nil)* arising from the ordinary course of business.

The ageing of trade receivables at the balance sheet date was:

	2018 Gross and net trade receivables £000	2017 Gross and net trade receivables £000
Group		
Not past due date	**1,452**	1,850
Past due date (0-90 days)	**603**	758
Past due date (over 90 days)	**181**	163
	2,236	2,771

Management has no indication that any unimpaired amounts will be irrecoverable. No other receivables are past due in either the current or prior year.

In 2018 revenues for three customers each exceeded 10% of the Group's revenues. Revenues from these customers were £5,063,000, £3,362,000 and £2,569,000 *(2017: Three customers: £4,376,000, £2,690,000 and £2,381,000)* of which £1,048,000 was included in the carrying amount of trade receivables at 31 December 2018 *(2017: £1,589,000)*.

Notes (continued)

(forming part of the financial statements)

19 Trade and other receivables continued

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Group	
	2018	2017
	£000	£000
UK	**1,364**	1,962
Europe	**815**	808
Other regions	**57**	1
	2,236	2,771

The Group's exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in note 26.

The Company has no trade receivables.

20 Cash and cash equivalents

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Cash and cash equivalents				
Cash and cash equivalents per balance sheet and per cash flow statement	**2,117**	1,324	**85**	30

The Group's exposure to credit and currency risk related to cash and cash equivalents are disclosed in note 26.

21 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. For more information about the Group's and Company's exposure to interest rate and foreign currency risk, see note 26.

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Non-current liabilities				
Bank loan	**875**	–	**875**	–
Finance lease liabilities	**8**	23	**–**	–
	883	23	**875**	–
Current liabilities				
Bank loan	**250**	–	**250**	–
Current portion of finance lease liabilities	**15**	15	**–**	–
	265	15	**250**	–

During the year the Company entered into a term loan facility of £1.25 million repayable by equal quarterly instalments over 60 months. The interest rate is set at LIBOR plus 3.19% and the loan is secured by a fixed and floating charge over the assets of the Group.

21 Interest-bearing loans and borrowings continued

During the year the Company was also provided a revolving credit facility of up to £750,000 which was undrawn at 31 December 2018. The interest rate on amounts drawn is set at LIBOR plus 3.19%.

Changes in liabilities from financing activities

	Loans and borrowings £000	Finance lease liabilities £000
Balance at 1 January 2018	–	38
New bank loan	1,250	–
Repayment of bank loan	(125)	–
Payment of finance lease liabilities	–	(15)
Total changes from financing cash flows	1,125	(15)
Balance at 31 December 2018	**1,125**	**23**

22 Trade and other payables

	Group		Company	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Non-current liabilities				
Amounts owed to group undertakings	**–**	–	**901**	870
Current liabilities				
Trade payables	**3,268**	2,869	**62**	82
Amounts owed to group undertakings	**–**	–	**1,239**	1,616
Deferred income*	**1,167**	148	**–**	–
Payments on account*	**–**	234	**–**	–
Non-trade payables and accrued expenses	**995**	1,575	**131**	143
Interest payable	**8**	33	**8**	33
	5,438	4,859	**1,440**	1,874

* The Group has adopted IFRS 15 using the cumulative effect method, under which the comparative information is not restated (note 3). The cumulative effect of adopting IFRS 15 is recognised in equity at the date of first adoption on 1 January 2018. The deferred income balance at 31 December 2018 includes £496,000 representing the impact of the adoption of IFRS 15.

No amounts included in current liabilities are expected to be settled in more than 12 months *(2017: £nil)*. In both 2018 and 2017 amounts payable to group undertakings in current liabilities are due on demand but have no fixed repayment dates.

The non-current amount payable to a group undertaking is formally agreed, attracts interest at 3.25% and is not repayable before 31 March 2020.

Notes (continued)

(forming part of the financial statements)

23 Employee benefits

Defined contribution plans

The Group operates defined contribution pension plans.

The total expense relating to defined contribution plans in the current year was £206,000 *(2017: £202,000)*.

Share-based payments

The Company has granted share options under its Enterprise Management Incentive Scheme ('EMI Scheme'), and an Unapproved Share Option Scheme ('Unapproved Scheme'). Options granted have a contractual life of ten years and are exercisable on the third anniversary from the date of grant. All options are to be settled by physical delivery of shares.

The unexercised options at 31 December 2018 are stated below.

Date of grant	Scheme	Exercise price (pence)	Number of shares granted	Vesting conditions	Exercise period
Nov 2013	EMI Scheme	8.00p	1,312,500	(1)	Nov 2013 – Nov 2023
Jan 2016	EMI Scheme	12.25p	1,810,204	(2)	Jan 2019 – Jan 2026
Jan 2016	Unapproved Scheme	12.25p	189,796	(2)	Jan 2019 – Jan 2026
Jul 2017	EMI Scheme	29.00p	80,000	(2)	Jul 2020 – Jul 2027
Oct 2018	EMI Scheme	21.50p	575,000	(2)	Oct 2021 – Oct 2028
Oct 2018	Unapproved Scheme	21.50p	875,000	(2)	Oct 2021 – Oct 2028

(1) Fully vested

(2) 3 years from date of grant

	2018 Number of shares	**2018** Weighted average exercise price £	2017 Number of shares	2017 Weighted average exercise price £
Outstanding at beginning of the year	**5,212,500**	**0.105**	5,515,000	0.10
Granted during the year	**1,570,000**	**0.22**	80,000	0.29
Forfeited/lapsed during the year	**(240,000)**	**0.18**	(70,000)	0.25
Exercised	**(1,700,000)**	**0.09**	(312,500)	0.08
Outstanding at the end of the year	**4,842,500**	**0.141**	5,212,500	0.105
Exercisable at the end of the year	**1,312,500**	**0.08**	2,312,500	0.08

The estimated fair value of the options ranges between 2.5p and 9.8p. These were calculated by applying the Black-Scholes option pricing model. The model inputs were the share price at the date of grant, the appropriate exercise price, expected volatility of 40% *(2017: 50%)* and a risk free interest rate of 0.8% *(2017: 0.13%)*. It was assumed that option holders would exercise their options during the first year after the option vesting date. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the period of one year to the date of grant.

During the year options were exercised in respect of 1,700,000 shares which were satisfied by the issue of new shares and for which the related weighted average share price at the time of exercise was 23p. The options outstanding at 31 December 2018 had exercise prices ranging from 8p to 29p and the weighted average remaining contractual life of the options was 7.3 years.

The Group and Company recognised a total expense of £25,000 *(2017: £27,000)* in respect of equity settled share options.

24 Share capital

	At 31 December 2018 Number	At 31 December 2017 Number
Number of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**57,468,229**	55,768,229
	£000	£000
Value of shares in issue – allotted, called up and fully paid		
Ordinary shares of 1p each	**575**	558

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

On 22 May 2018 the Company issued 700,000 ordinary 1p shares at a price of 11.625p each and on 11 June 2018 the Company issued a further 1,000,000 ordinary 1p shares at a price of 8p each, on the exercise of options.

25 Equity reserve

The equity reserve relates to the fair value of the share options issued but not yet exercised in respect of the acquisition of Water Hall Group plc in 2013. During the year 1,000,000 of these share options were exercised, resulting in a transfer of £11,000 from this equity reserve to retained earnings.

26 Financial risk management

The Group's and Company's policy is to maintain a strong capital base with a view to ensuring that entities within the Group will be able to continue as going concerns.

The Group's and Company's principal financial instruments comprise short term debtors and creditors, short term bank deposits, cash, bank borrowings and, when required, forward currency contracts and options. Neither the Group nor the Company trades in financial instruments but, where appropriate, uses derivative financial instruments in the form of forward foreign currency contracts and options to help manage foreign currency exposures. The prime objective of the Group's and Company's policy towards financial instruments is to manage their working capital requirements and finance their ongoing operations.

Capital management

The Group's and Company's policy is to maintain a strong capital base with a view to ensuring that entities within the Group will be able to continue as going concerns. The Group and Company finance their operations through retained earnings, cash resources, bank borrowings, share placings and the management of working capital. It is the intention to issue new shares when satisfying share based incentive schemes. Capital is defined as total equity as set out in the balance sheet.

Management of financial risk

The main risks associated with the Group's financial instruments have been identified as credit risk, liquidity risk and foreign currency risk. The main risks associated with the Company's financial instruments have been identified as liquidity risk. The Board is responsible for managing these risks and the policies adopted, which have remained largely unchanged throughout the year.

Notes (continued)

(forming part of the financial statements)

26 Financial risk management continued

Credit risk

The carrying amount of financial assets included in the balance sheet, which represents the maximum credit risk, and the headings in which they are included are as follows:

	Group		Company	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Current assets				
Trade receivables	**2,236**	2,771	**–**	–
Other receivables	**–**	–	**229**	722
Cash and cash equivalents	**2,117**	1,324	**85**	30
	4,353	4,095	**314**	752

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Group's risk is influenced by the nature of its customers. The majority of sales are made to government agencies and blue chip companies. New customers are analysed for creditworthiness before the Group's standard payment and delivery terms and conditions are offered and appropriate credit limits set. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis. The carrying amount of trade receivables in the balance sheet represents the maximum exposure to credit risk and further details are given in note 19 to the financial statements. The Board considers the Group's exposure to credit risk to be acceptable and normal for an entity of its size given the industries in which it operates.

Surplus cash balances are placed on short term deposit with UK banks.

Interest rate risk

The Group has financed its operations from its own cash resources and a bank loan for the acquisition of RTS Solutions (Holdings) Limited. The Group's bank borrowings bear interest at LIBOR plus 3.19%.

The interest rate risk profile of the Group's and Company's interest bearing financial instruments was as follows:

	Group		Company	
Interest rate risk profile of financial assets	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Floating rate assets (by currency):				
Sterling	**1,937**	1,186	**85**	30
US dollar	**123**	135	**–**	–
Euro	**57**	3	**–**	–
	2,117	1,324	**85**	30
Interest rate profile of financial liabilities				
Fixed rate liabilities (by currency):				
Sterling	**23**	38	**–**	–
Floating rate liabilities (by currency):				
Sterling	**1,125**	–	**1,125**	–

The fixed rate financial liabilities comprises finance leases.

26 Financial risk management continued

While the Group and Company have access to a revolving credit facility which carries a variable interest rate, this facility was not used in the year and so the Group and Company are not exposed to interest rate risk on this facility.

Liquidity risk

The carrying amount of financial liabilities included in the balance sheet and the headings in which they are included are as follows:

	Group		Company	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Current liabilities				
Trade and other payables	**5,438**	4,859	**201**	258
Finance leases	**15**	15	**–**	–
Bank loan	**250**	–	**250**	–
Amounts owed to group undertakings	**–**	–	**1,239**	1,616
Non-current liabilities				
Finance leases	**8**	23	**–**	–
Bank loan	**875**	–	**875**	–
Amounts owed to group undertakings	**–**	–	**901**	870
	6,586	4,897	**3,466**	2,744

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

		2018				
	Carrying amount £000	**Contractual cash flows £000**	**1 year or less £000**	**1 to <2 years £000**	**2 to <5 years £000**	**5 years and over £000**
Non-derivative financial liabilities						
Finance lease liabilities	**23**	**24**	**16**	**8**	**–**	**–**
Bank loan	**1,125**	**1,230**	**285**	**280**	**665**	
Trade and other payables	**5,438**	**5,438**	**5,438**	**–**	**–**	**–**
		6,692	**5,739**	**288**	**665**	**–**

The contractual cash flows include interest estimated at a rate of 4%.

		2017				
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities						
Finance lease liabilities	38	40	16	24	–	–
Trade and other payables	4,859	4,859	4,859	–	–	–
		4,899	4,875	24	–	–

Notes (continued)

(forming part of the financial statements)

26 Financial risk management continued

Liquidity risk is the risk that the Group and Company will not be able to access the necessary funds to finance their operations. Their own cash resources and bank borrowings are the predominant source of funds. Surplus cash is placed on short term deposit with UK banks.

The Group manages its liquidity risk by monitoring existing facilities and cash flows against forecast requirements based on a rolling cash forecast.

The directors consider that the carrying amounts of financial assets and liabilities approximate their fair values.

Foreign currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. About 21 percent *(2017: 32 percent)* of the Group's sales are to customers in Continental Europe and a further 2 percent *(2017: 3 percent)* are to customers in the Rest of the World. These sales are priced in sterling and euros. The Group's policy is to reduce currency exposures on sales through, where appropriate, forward foreign currency contracts. The Group also makes purchases in sterling, euros and US dollars and this provides an element of natural hedge. All the other sales are denominated in sterling.

Currency risk of financial assets and liabilities

The Group also has non-structural currency exposures i.e. those exposures arising from sales and purchases by group companies in currencies other than that company's functional currency. These exposures give rise to net currency gains/losses recognised in the income statement, and represent monetary assets and liabilities of the Group that were not denominated in the functional currency of the company involved.

At 31 December 2017 and 2018 the significant exposures in this respect were trade receivables and payables and were as follows:

	2018 Receivables £000	**2018 Payables £000**	2017 Receivables £000	2017 Payables £000
Currency				
US Dollar	**–**	**(177)**	–	(546)
Euro	**465**	**(269)**	419	(306)
	465	**(446)**	419	(852)

In the opinion of the directors the business has no significant exposure to market risk arising from currency exchange or other price fluctuations at 31 December 2018 and it has therefore not been deemed necessary to include a sensitivity analysis.

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group		**Company**	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Less than one year	**113**	122	**–**	–
Between one and five years	**359**	400	**–**	–
More than five years	**–**	67	**–**	–
	472	589	**–**	–

Group

During the year £123,000 was recognised as an expense in the income statement in respect of operating leases *(2017: £132,000)*.

27 Operating leases continued

The Group leases office and factory facilities under operating leases and these comprise £95,000 of the above total *(2017: £95,000)*. Land and buildings have been considered separately for lease classification.

28 Capital commitments

At 31 December 2018 the Group was committed to capital expenditure of £48,000 *(2017: none)*. The Company had no such commitments *(2017: none)*.

29 Contingent liabilities

The Company has guaranteed the contract performance of subsidiary companies amounting to £4,605,000 *(2017: £4,519,000)*.

30 Related party transactions

Transactions/balances with subsidiaries – Company

During the year the Company provided administrative services to subsidiary undertakings totalling £946,000 *(2017: £949,000)*. The balances due by subsidiaries at year end are shown in note 19 and comprised amounts owed by RTS Solutions (Holdings) Ltd of £200,000 and by Petards Joyce-Loebl Ltd of £13,000. At 31 December 2017 the Company was not due any amounts from its subsidiary undertakings.

The balances due to subsidiaries at year end shown in note 22 comprised amounts owed to QRO Solutions Ltd of £614,000, Water Hall Group plc £901,000 and to RTS Solutions (UK) Ltd £625,000 *(2017: Petards Joyce-Loebl Ltd £923,000, QRO Solutions Ltd £693,000 and Water Hall Group £870,000)*.

There is no ultimate controlling party of Petards Group plc.

Transactions with directors – Group

Fees of £171,000 *(2017: £182,000)* were paid to Adcel Limited, a company wholly controlled by P Negus, in respect of fees for the provision of consultancy services (note 6).

Key Management Compensation

Key management compensation comprises salaries and fees, employer pension contributions, share based payment charges and employer social security costs.

The key management of the Group are the directors of Petards Group plc and their compensation is as follows:

	Group	
	2018	2017
	£000	£000
Salaries and fees	**436**	416
Employer pension contributions	**–**	–
Share based payment charges	**22**	22
Employer social security costs	**28**	26
	486	464

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 payment charges, 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

Net funds comprises 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 comprises cash and cash equivalents less current liabilities in respect of interest bearing loans and borrowings. This allows management to monitor the short term indebtedness of the Group.

Directors, officers and advisors

Directors
Raschid Abdullah *(Chairman)*
Osman Abdullah
Terry Connolly FCA
Paul Negus

Company Secretary
James Murray FCCA

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Independent Auditor
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Registrar
Share Registrars
The Courtyard
17 West Street
Farnham
GU9 7DR

Website
www.petards.com

Notice of Annual General Meeting

Notice is hereby given that the 2019 Annual General Meeting of Petards Group plc (the "Company") will be held at The County Club, 158 High Street, Guildford, GU1 3HJ on 9 May 2019 at 11.00 a.m. for the following purposes:

Ordinary Business

1. To receive and consider the audited accounts of the Company for the year ended 31 December 2018 together with the directors' report and the auditor's report.
2. To re-elect Raschid Abdullah as a director of the Company.
3. To re-appoint KPMG LLP as auditor to hold office from the conclusion of the meeting until the conclusion of the next general meeting at which the accounts are laid before the Company.
4. Subject to resolution 3 being approved, to authorise the directors to fix the auditor's remuneration.

Special Business

To consider and, if thought fit, pass the following resolutions of which resolution number 5 shall be passed as an ordinary resolution and resolution number 6 shall be passed as a special resolution:

5. That, in substitution for all existing authorities, to the extent unused, and pursuant to section 551 of the Companies Act 2006 (the "Act") the directors of the Company be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £189,645 (being approximately 33% of the present issued ordinary share capital of the Company) provided that this authority shall, unless renewed, varied or revoked, expire on the conclusion of the annual general meeting of the Company to be held in 2020, save that the directors be and they are hereby entitled, as contemplated by section 551(7) of the Act, to make at any time prior to the expiry of such authority any offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the expiry of such authority and the directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.
6. That, subject to and conditional on resolution 5 above being duly passed, the directors of the Company be and they are hereby empowered pursuant to section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act) in the capital of the Company for cash pursuant to the authority conferred by resolution 5 above as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities:
   (a) in connection with an offer of such securities by way of rights, or other pre-emptive offer, to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any relevant territory, or the requirements of any regulatory body or stock exchange; and
   (b) otherwise than pursuant to (a) above up to a maximum aggregate nominal amount of £86,202 (being approximately 15% of the present issued ordinary share capital of the Company):
   (c) provided that such power shall expire at the conclusion of the annual general meeting of the Company to be held in 2020, save that the Company may make an offer or agreement prior to such expiry which would or might require equity securities to be allotted after the expiry of such power, and the directors may allot equity securities in pursuance of that offer or agreement as if such power had not expired.

BY ORDER OF THE BOARD

James Murray
Company Secretary

16 April 2019

Registered Office:
Parallel House
32 London Road
Guildford
GU1 2AB

Company Number: 02990100

Notes:

1 Pursuant to Part 13 of the Act and paragraph 18(c) of The Companies Act 2006 (Consequential Amendments) (Uncertificated Securities) Order 2009, only those members registered in the register of members of the Company at 11.00am. on 7 May 2019 (or if the AGM is adjourned, 11.00am. on the date falling two days before the date (not including non-working days) fixed for the adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the AGM.

2 Members who wish to attend the AGM in person should ensure that they arrive at the venue for the AGM in good time before the commencement of the meeting. Members may be asked to provide proof of identity in order to gain admission to the AGM.

3 A member who is entitled to attend, speak and vote at the AGM may appoint a proxy to attend, speak and vote instead of him. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A proxy need not be a member of the Company but must attend the AGM in order to represent you. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. Appointing a proxy will not prevent a member from attending in person and voting at the AGM (although voting in person at the AGM will terminate the proxy appointment).

4 A form of proxy accompanies this document. The notes to the proxy form include instructions on how to appoint the Chairman of the AGM or another person as a proxy, and should be followed carefully.

5 To be valid, a proxy form, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should reach the Company's registrar, Share Registrars, The Courtyard, 17 West Street, Farnham, Surrey GU9 7DR, by no later than 11.00 a.m. on 7 May 2019.

6 In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.

7 A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways; either by the appointment of a proxy (described in Notes 3 to 6 above) or by a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the articles of association and the relevant provision of the Act.

8 In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by Share Registrars (ID 7RA36) no later than 48 hours, excluding non-working days, before the time fixed for the AGM. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Share Registrars is able to retrieve the message by enquiry to CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages and normal system timings and limitations will apply in relation to the input of a CREST Proxy Instruction. It is the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST System by any particular time. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

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