**FOR IMMEDIATE RELEASE** 24 September 2018

**PENNANT INTERNATIONAL GROUP PLC**

**Interim Results for the six months ended 30 June 2018**

**Revenues, profits and earnings per share all significantly increase;**

**Positive trading momentum maintained, with new orders and extensions to existing contracts**

Pennant International Group plc ("**Pennant**" or the "**Group**"), the AIM quoted supplier of integrated training and support solutions, products and services which train and assist engineers in the defence and regulated civilian sectors, announces interim results for the six months ended 30 June 2018 (the "**Half Year**" or the "**Period**").

**Commenting on the results, Chairman Simon Moore said:**

"*The Group has recorded a pre-tax profit of over £2 million. As highlighted in the Trading Update announced in July, we have also been successful in securing new orders and beneficial amendments to existing contracts.*

*We continue to deliver valued products and services to our customer base of global companies and national governments and these well-established, long-term relationships continue to provide the solid foundation for future growth.*

*Implementation of the Group's strategy is progressing well under the leadership of Phil Walker and the recently formed executive team. We continue to invest in product development and infrastructure to enhance our offering and improve our capacity and capabilities, while actively pursuing a number of promising opportunities for new work. The Board remains focused on continuing to deliver 'on target' results, increased earnings, good cash generation and a robust balance sheet, thereby further increasing shareholder value."*

**Key points: Financial**

- Group revenues for the Period of £13.2 million (H1 2017: £9.6 million);
- profit before tax of £2.03 million (H1 2017: £0.94 million);
- profit for the Period attributable to shareholders of £2.03 million (H1 2017: £0.94 million);
- earnings before interest, taxation and amortisation of £2.1 million (H1 2017: £1 million);
- gross profit margin of 34% (H1 2017: 38%);
- cash generated from operations of £3 million (H1 2017: cash used in operations of £2.3 million);
- trade and other receivables of £5.1 million (H1 2017: £10.7 million), including £0.8 million due from contracts (H1 2017: £7.3 million);
- nil borrowings;
- net cash at Period end of £3 million (H1 2017: £1.1 million);

- basic earnings per share of 6.17p per share (H1 2017: 2.84p per share);
- no interim dividend declared (H1 2017: nil) but dividend policy under continual review based on performance, cash generation and working capital and investment requirements;
- three-year order book (to 30 June 2021) of £31 million (H1 2017: £35 million);
- effective nil tax rate; unrelieved tax losses of £0.3 million carried forward (H1 2017: £2.5 million).

**Key points: Operational**

- Successful rescoping of the Group's key contract with a major UK prime contractor for electro-mechanical trainers and computer-based training for the Ajax vehicle (the "**Ajax Contract**"), with contract value increase by £3.5 million to just under £12 million, with approximately £6 million of revenue still to be recognised.
- Delivery of all remaining training aids on the Middle East contracts signed in 2016 (the "**2016 Middle East Contracts**"), with final payments received in July.
- An order from the UK MOD for an upgrade to its virtual parachute training systems (worth circa £370,000).
- An order from a new customer in the rail industry for the re-configuration and re-deployment of a rail cab simulator (worth circa £125,000).
- A new contract in the Middle East for technical and support services in region.
- Additional orders from Network Rail for control room simulators worth circa £50,000.
- An extension to 31 March 2019 on its existing Omega PS contract with the Australian Defence Organisation.
- An extension to the end of 2018 on its existing Omega PS contract with the Canadian Department of National Defence (worth circa $1.5 million).
- Omega PS consultancy work for a new customer in Italy.
- Continued investment in product development, with multiple new products currently in development, comprising a mix of customer-paid and self-funded work.
- Continued investment in facilities and infrastructure (including purchase of an additional unit and substantial refurbishment of an existing unit), positioning the Group well for future orders.
- Strengthening of the Board, with the appointment of new Directors: Gary Barnes joining the executive team as Finance Director, and John Ponsonby joining as Non-Executive Director (chairing the newly formed Strategy Committee).

**Commenting on the Group's prospects for the year as a whole, Simon Moore added:**

"*The Board anticipates that the Group's trading will be in line with current market expectations for the year ending 31 December 2018. With a contracted order book of £31 million scheduled for delivery over the next three years, together with a pipeline of potential opportunities valued at over £100 million in aggregate, the Board is confident about the Group's prospects for the future*."

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*Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014) ("MAR") prior to its release as part of this announcement and is disclosed in accordance with the Company's obligations under Article 17 of MAR.*

**Pennant International Group plc**

**Interim Report for the six months ended 30 June 2018**

**Chairman's Statement**

On behalf of the Board of Directors, I can report that the Group recorded a pre-tax profit for the six months ended 30 June 2018 of £2.03 million, an outcome which exceeds the equivalent period for 2017 (£0.94 million).

Based on the financial performance for the Half Year and budgeted revenues for the balance of the financial year, the Group expects its trading to be in line with current market expectations for the full year.

**Results and dividend**

Revenues for the Period increased 38% to £13.2 million (H1 2017: £9.6 million), driven by the performance of the Ajax Contract, recognition of revenue on the delivery of training aids on the 2016 Middle East Contracts (in accordance with IFRS15) and a strong performance by the OmegaPS business.

The gross profit margin for the Period was 34% (H1 2017: 38%) as a result of the product mix and the adoption of a relatively prudent approach to the recognition of revenue and profit on the Ajax Contract.

Administrative costs for the Period were £2.5 million (H1 2017: £2.7 million). Cost control has been maintained despite inflationary employee salary increases and significant bid costs associated with several highly promising opportunities (including the opportunities on which the Group has received a Statement of Intent, as announced on 20 March 2018, and the opportunity on which the Group has been provisionally 'down-selected' as announced on 9 August 2018).

Basic earnings per share for the Half Year improved to 6.17p compared to 2.84p for the same period last year.

Cash generated from operations was very positive, amounting to £3 million (H1 2017: cash used in operations of £2.3 million), which reflects ongoing receipt of milestone payments, particularly under the 2016 Middle East Contracts and the Ajax Contract.

An effective nil tax rate is expected for the full year with unrelieved tax losses of £0.3 million carried forward at Half Year and R&D tax credit claims in progress.

The Group has contracted revenues currently scheduled for delivery over the next three years amounting to £31 million (H1 2017: £42 million).

In view of potential new contract wins during the remainder of 2018, and the associated capital and operating expenditures anticipated to arise therefrom, the Directors have concluded that it is in the best interests of the Company and its shareholders to retain cash at this time for working capital and investment. The Board will therefore not be declaring an interim dividend but will continue to review the Group's dividend policy based on performance, cash generation and working capital and investment requirements.

**Operational Commentary**

*Delivering Key Contracts*

*Ajax Contract*

The Ajax Contract was awarded to the Group and announced in September 2015.

During 2017, the prime contractor confirmed to Pennant that it wished to change the scope of the contract and a formal rescoping of the requirements was completed in 2017 with a restatement of the contract signed in March 2018, increasing the order value by £3.5 million (to circa £12 million).

The Period also saw the completion of significant design work on the electro-mechanical trainers which the Group is to deliver under the Ajax Contract, with Pennant successfully passing the Preliminary Design Review stage of the programme towards the end of the Half Year.

The relationship between the parties remains strong and the Group expects the balance of contractual revenues (anticipated to be not less than £6 million) to be realised during the remainder of 2018, 2019 and the first half of 2020.

*Middle East*

The Period saw the Group complete delivery (and obtain customer acceptance) of the final training aids under the 2016 Middle East Contracts, with the final payments due on those contracts received shortly after the end of the Period.

*Omega PS*

The Group's Software Services division continued to provide consultancy, support and maintenance services on the Omega PS software product to the Canadian and Australian defence departments and their respective supply bases, contributing revenues for the Period of £2.1 million.

*Other contracts*

The Group completed delivery (and following Period-end obtained sign-off from its customer, Lockheed Martin) for a winch training device for helicopter rear crew to be used by the UK Military Flight Training System.

On its other contract with Lockheed Martin (for engineering and courseware training, again for the UK Armed Forces), the Group's progress during the Period against schedule was slower than anticipated but the Group expects this to resolve during the second half of 2018.

*Securing Additional Work*

During the Half Year, the Group secured a number of new contracts and agreed valuable amendments to existing contracts including the Ajax Contract.

The Group's Software Services division agreed an amendment to extend its Omega PS contract with the Canadian Department of National Defence until the end of the year pending the anticipated formal renewal for a multi-year term. A similar extension to 31 March 2019 on its existing Omega PS contract with the Australian Defence Organisation was also secured. A new Italian customer also engaged the Group for Omega PS consultancy work during the Period.

In the UK, orders were received from the MOD (for an upgrade to its virtual parachute training systems (worth circa £370,000)) and a new customer in the rail industry for the re-configuration and re-deployment of a rail cab simulator (worth circa £125,000). Network Rail also placed orders for additional control room simulators worth circa £50,000.

Expanding the Group's global support services portfolio, a new contract in the Middle East for technical and support services was secured (with other opportunities in progress in the Middle East and elsewhere).

*Board Changes*

During the Period, Gary Barnes was appointed to the executive team and to the Board as Finance Director. John Ponsonby (previous MD of Leonardo Helicopters UK and former Air Vice-Marshal in the RAF) joined the Board as a Non-Executive Director, subsequently being appointed as Chair of the newly-formed Strategy Committee.

*Investment in Products*

Product development continues to be a focus for the Group, with the Period seeing design, prototyping and production work on several new products. Some of these projects are customer-paid and some self-funded and comprise a mix of hardware and software solutions.

The second half of the year will see the release of a new version of the Group's OmegaPS software (tailored to a new industry sector) and the launch of the Virtual Loadmaster Training System in North America (a virtual procedures and faults rectification trainer for use by loadmasters in heavy transport aircraft such as the C130).

*Investment in Infrastructure*

The Group acquired the freehold to an additional unit at its Pennant Connection site in Cheltenham (which it already occupied under a lease), thereby securing its occupation of the site for the long-term, and allowing the unit (and the adjoining unit owned by Pennant) to be further configured to the Group's own requirements.

The upgrade of facilities at the Group's Pennant Connection site was completed during the Period, and refurbishment of production space at the Pennant Court site commenced, positioning the Group well for future orders.

The Group also invested significant resources in enhancing internal systems to improve operational efficiency and prepare for growth. This has included investing in IT infrastructure and updating and streamlining its ISO:9001 accredited quality system.

*Group Re-structuring*

At the start of the Half Year, the Group rationalised its UK corporate structure by consolidating its Pennant Support and Development Services Limited and Pennant Software Services Limited subsidiaries with Pennant Training Systems Limited (subsequently renamed Pennant International Limited).

The consolidation was executed with an effective date of 1 January 2018 and the relevant transactions had no net effect on the Group's balance sheet, or profit and loss account, and are tax neutral.

The consolidation was implemented with the intention of simplifying the Group's financial reporting and reducing administration (including finance arrangements) and enabling clearer reporting lines and greater integration between teams and offices. The Group is already benefiting from this re-organisation.

**Post Period End**

Pipeline

Following the end of the Period, the Group has maintained its positive trading momentum, announcing a statement of intent in relation to a new end-user in the Middle East (potentially worth over £10 million) and being ‘down-selected’ on another significant programme (potentially worth in the region of £25 million to £30 million).

Senior Management

In readiness to deliver these new opportunities, the Group is gearing up its resources, in particular bolstering the senior management within its operational functions and expanding its production facilities.

A new Chief Operating Officer for Pennant International Limited has been appointed, to commence in post later this year. The COO will oversee all operational functions which report through the UK-based ‘Training Systems’ business. With many years’ experience in senior operations roles within a UK defence prime, he will be responsible for ensuring the overall effectiveness of the Operations function including the delivery of key contracts such as the Ajax programme.

The COO will be joined by a new Head of Programmes, responsible for programme management across the Training Systems business. Having significant experience in senior programmes roles gained in training divisions of UK defence primes, she will focus on ensuring delivery on time and within budget as the order book and portfolio of programmes expands.

Directorate Change

Tim Rice, Non-Executive Director, is due to retire by rotation at the Company’s next annual general meeting. Mr Rice has confirmed that he will not be standing for re-election and Mr Rice and the Company have agreed that Mr Rice will leave with immediate effect. On behalf of the Board, I would like to thank Tim for his contribution to the Company.

**Outlook**

Following the successful Half Year, the Board anticipates that the Group’s trading will be in line with current market expectations for the year ending 31 December 2018.

Prospects for next year and beyond remain positive and with bids for significant new contracts in progress, the Board expects the Group to increase revenues through organic growth in line with its strategic plan, offering its new and prospective customers a broader and deeper range of products and services.

We continue to keep opportunities for corporate development under review in order to accelerate achievement of our strategic objectives and will consider the right opportunities at the appropriate time and price.

Finally, the Board and I wish to thank all staff across the Group for their hard work and dedication during the Period and I look forward to updating the market on the Group’s progress in due course.

S A Moore
Chairman

**PENNANT INTERNATIONAL GROUP plc**
**CONSOLIDATED INCOME STATEMENT** for the six months ended 30 June 2018

| | Notes | Six months ended 30 June 2018 Unaudited | Six months ended 30 June 2017 Unaudited | Year ended 31 December 2017 Audited |
|---|---|---|---|---|
| | | £ | £ | £ |
| | | | | |
| Revenue | | 13,232,433 | 9,642,978 | 18,069,960 |
| Cost of sales | | 8,710,501 | 5,990,533 | 10,906,992 |
| **Gross profit** | | 4,521,932 | 3,652,445 | 7,162,968 |
| | | | | |
| Administration expenses | | 2,493,959 | 2,719,886 | 5,356,895 |
| **Operating profit** | | 2,027,973 | 932,559 | 1,806,073 |
| | | | | |
| Finance costs | | (2,779) | (814) | (2,693) |
| Finance income | | 6,157 | 3,608 | 5,371 |
| **Profit before taxation** | | 2,031,351 | 935,353 | 1,808,751 |
| | | | | |
| Taxation | 2 | - | - | (275,409) |
| **Profit for the period** | | 2,031,351 | 935,353 | 1,533,342 |
| | | | | |
| *Earnings per share* | 3 | | | |
| | | | | |
| Basic | | 6.17p | 2.84p | 4.65p |
| Diluted | | 5.62p | 2.68p | 4.30p |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
for the six months ended 30 June 2018

| | Six months ended 30 June 2018 Unaudited | Six months ended 30 June 2017 Unaudited | Year ended 31 December 2017 Audited |
|---|---|---|---|
| | £ | £ | £ |
| Profit attributable to equity holders of the parent | 2,031,351 | 935,353 | 1,533,342 |
| **Other comprehensive income** | | | |
| Exchange differences on translation of foreign operations | (35,283) | (43,039) | (85,055) |
| **Profit attributable to equity holders of the parent** | 1,996,068 | 892,314 | 1,448,287 |

**PENNANT INTERNATIONAL GROUP plc**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** as at 30 June 2018

| | Six months ended 30 June 2018 Unaudited | Six months ended 30 June 2017 Unaudited | Year ended 31 December 2017 Audited |
|---|---|---|---|
| | **£** | **£** | **£** |
| **Non-current assets** | | | |
| Goodwill | 955,200 | 966,744 | 962,133 |
| Other intangible assets | 381,236 | 206,509 | 231,048 |
| Property plant and equipment | 4,847,326 | 3,036,405 | 3,702,851 |
| Deferred tax asset | 309,578 | 483,467 | 310,699 |
| **Total non-current assets** | 6,493,340 | 4,693,125 | 5,206,731 |
| | | | |
| **Current assets** | | | |
| Inventories / work-in-progress | 793,417 | 73,417 | 74,629 |
| Trade and other receivables | 5,067,968 | 10,658,049 | 10,153,650 |
| Cash and cash equivalents | 2,952,575 | 1,129,171 | 1,502,655 |
| Current tax asset | - | 4,754 | - |
| **Total current assets** | 8,813,960 | 11,865,391 | 11,730,934 |
| | | | |
| **Total assets** | 15,307,300 | 16,558,516 | 16,937,665 |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 1,988,100 | 3,035,577 | 2,808,009 |
| Current tax liabilities | 31,207 | - | 80,600 |
| Obligations under finance leases | 4,862 | 4,632 | 4,945 |
| Deferred revenue | 510,114 | 270,339 | 124,848 |
| **Total current liabilities** | 2,534,283 | 3,310,548 | 3,018,402 |
| | | | |
| **Net current assets** | 6,279,677 | 8,554,843 | 8,712,532 |
| | | | |
| **Non-current liabilities** | | | |
| Obligations under finance leases | 23,748 | 30,682 | 26,895 |
| Deferred revenue | 92 | 13,892 | 6,325 |
| Deferred tax liabilities | 307,916 | 287,625 | 307,916 |
| Warranty provisions | 240,000 | 150,000 | 250,000 |
| **Total non-current liabilities** | 571,756 | 482,199 | 591,136 |
| | | | |
| **Total liabilities** | 3,106,039 | 3,792,747 | 3,609,538 |
| | | | |
| **Net assets** | 12,201,261 | 12,765,769 | 13,328,127 |
| | | | |
| **Equity** | | | |
| Share capital | 1,647,177 | 1,647,177 | 1,647,177 |
| Share premium | 2,677,571 | 2,677,571 | 2,677,571 |
| Capital redemption reserve | 200,000 | 200,000 | 200,000 |
| Retained earnings | 6,904,922 | 7,379,696 | 7,982,360 |
| Translation reserve | 296,729 | 374,028 | 332,012 |
| Revaluation reserve | 474,862 | 487,297 | 489,007 |
| **Total equity** | 12,201,261 | 12,765,769 | 13,328,127 |

**PENNANT INTERNATIONAL GROUP plc**
**CONSOLIDATED STATEMENT OF CASH FLOWS** for the six months ended 30 June 2018

| | Six months ended 30 June 2018 Unaudited £ | Six months ended 30 June 2017 Unaudited £ | Year ended 31 December 2017 Audited £ |
|---|---|---|---|
| **Net cash generated from / (used in) operating activities** | 2,979,619 | (2,341,178) | (988,536) |
| **Investing activities** | | | |
| Interest received | 6,157 | 3,608 | 5,371 |
| Proceeds from sale of assets held-for-sale | - | 575,000 | 575,000 |
| Purchase of intangible assets | (199,053) | (62,075) | (227,108) |
| Purchase of property plant and equipment | (1,308,181) | (503,679) | (1,282,088) |
| Net cash used in investing activities | (1,501,077) | 12,854 | (928,825) |
| | | | |
| **Financing activities** | | | |
| Proceeds from sale of ordinary sales | - | (10,500) | (10,500) |
| Net (repayment of) obligations under finance leases | (3,230) | (713) | (4,187) |
| Net cash used in financing activities | (3,230) | (11,213) | (14,687) |
| | | | |
| **Net increase / (decrease) in cash and cash equivalents** | 1,475,312 | 2,339,537 | (1,932,048) |
| Cash and cash equivalents at beginning of period | 1,502,655 | 3,517,541 | 3,517,541 |
| Effect of foreign exchange rates | (25,392) | (48,833) | (82,838) |
| **Cash and cash equivalents at end of period** | 2,952,575 | 1,129,171 | 1,502,655 |

**PENNANT INTERNATIONAL GROUP plc**
**STATEMENT OF CHANGES IN EQUITY** for the six months ended 30 June 2018

| | Share capital | Share premium | Capital redemption reserve | Retained earnings | Translation reserve | Revaluation reserve | Total equity |
|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ |
| At 31 December 2016 | 1,649,277 | 2,685,971 | 200,000 | 6,347,343 | 417,067 | 517,297 | 11,816,955 |
| Profit for period | - | - | - | 1,533,342 | - | - | 1,533,342 |
| Other comprehensive income | - | - | - | - | (85,055) | - | (85,055) |
| Total comprehensive income | 1,649,277 | 2,685,971 | 200,000 | 7,880,685 | 332,012 | 517,297 | 13,265,242 |
| Purchase of B and C shares | (2,100) | (8,400) | - | - | - | - | (10,500) |
| Recognition of share based payment | - | - | - | 73,385 | - | - | 73,385 |
| Transfer from revaluation reserve | - | - | - | 28,290 | - | (28,290) | - |
| At 31 December 2017 | 1,647,177 | 2,677,571 | 200,000 | 7,982,360 | 332,012 | 489,007 | 13,328,127 |
| Adjustment on initial application of IFRS 15 | - | - | - | (3,151,644) | - | - | (3,151,644) |
| Adjusted as at 31 December 2017 | 1,647,177 | 2,677,571 | 200,000 | 4,830,716 | 332,012 | 489,007 | 10,176,483 |
| Profit for period | - | - | - | 2,031,351 | - | - | 2,031,351 |
| Other comprehensive income | - | - | - | - | (35,283) | - | (35,283) |
| Total comprehensive income | 1,647,177 | 2,677,571 | 200,000 | 6,862,067 | 296,729 | 489,007 | 12,172,551 |
| Recognition of share based payment | - | - | - | 28,710 | - | - | 28,710 |
| Transfer from revaluation reserve | - | - | - | 14,145 | - | (14,145) | - |
| **At 30 June 2018** | 1,647,177 | 2,677,571 | 200,000 | 6,904,922 | 296,729 | 474,862 | 12,201,261 |

## 1. Basis of preparation

This condensed set of financial statements has been prepared using accounting policies expected to be adopted for the year ending 31 December 2018. These policies are materially different to those used for the last set of audited accounts due to the Company's adoption, with effect from 1 January 2018, of updated revenue recognition principles as required under International Financial Reporting Standard 15 ("**IFRS15**")(the Company's announcement from 12 February 2018 provided further details about the application of the standard to the Company's business and note 5 below contains a summary of the key points from that announcement).

These accounting policies are drawn up in accordance with International Accounting Standards and International Financial Reporting Standards as issued by the International Accounting Standards Board and adopted by the EU.

The comparative figures for the year ended 31 December 2017 set out in this Interim Report are not statutory accounts. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498 (2) or s498(3) of the Companies Act 2006.

AIM-listed companies are not required to comply with IAS34 'Interim Financial Reporting' and the Company has taken advantage of this exemption.

## 2. Taxation

The taxation charge for the Period is based on the estimated rate of tax that is likely to be effective for the full year to 31 December 2018.

## 3. Earnings per share

Basic earnings per share are calculated by dividing the profit for the Period attributable to the shareholders by the weighted average number of shares in issue. The calculation of diluted earnings per share takes into account the potentially diluting effect of share options.

| | **Six months ended 30 June 2018 Unaudited** | **Six months ended 30 June 2017 Unaudited** | **Year ended 31 December 2017 Audited** |
|---|---|---|---|
| | **£** | **£** | **£** |
| **Earnings** | | | |
| Net profit attributable to equity shareholders | 2,031,151 | 935,353 | 1,533,342 |
| | | | |
| **Number of shares** | Number | Number | Number |
| Weighted average number of ordinary shares | 32,943,533 | 32,943,533 | 32,943,533 |
| Diluting effect of share options | 3,171,316 | 2,007,619 | 2,752,096 |
| Weighted average number of ordinary shares for the purpose of dilutive earnings per share | 36,114,849 | 34,951,152 | 35,695,629 |

## 4. Cash generated from operations

| | Six months ended 30 June 2018 Unaudited | Six months ended 30 June 2017 Unaudited | Year ended 31 December 2017 Audited |
|---|---|---|---|
| | £ | £ | £ |
| Profit for the period | 2,031,351 | 935,353 | 1,533,342 |
| Finance income | (6,157) | (3,608) | (5,371) |
| Finance costs | 2,779 | 814 | 2,693 |
| Income tax expense | - | - | 275,409 |
| Depreciation of property, plant and equipment | 161,954 | 112,386 | 221,540 |
| Amortisation of other intangible assets | 48,846 | 151,323 | 291,816 |
| Share-based payment | 28,710 | 67,000 | 73,385 |
| **Operating cash flows before movement in working capital** | 2,267,483 | 1,263,268 | 2,392,814 |
| (Increase) in receivables | (1,937,913) | (2,837,921) | (2,333,522) |
| Decrease/(increase) in work-in-progress | 3,153,163 | (73,417) | (74,629) |
| (Decrease) in payables | (829,909) | (789,348) | (916,916) |
| Increase/(decrease) in deferred revenue | 379,033 | 103,328 | (49,730) |
| **Cash generated from/(used in) operations** | 3,031,857 | (2,334,090) | (981,983) |
| | | | |
| Tax paid | (49,459) | (6,274) | (3,860) |
| Interest paid | (2,779) | (814) | (2,693) |
| **Net cash generated from/(used in) operations** | 2,979,619 | (2,341,178) | (988,536) |

## 5. Revenue Recognition – IFRS15

This note 5 summarises the effect on the Group of adopting IFRS15.

### 5.1 Key points

a) Revenue in relation to the production of generic Commercial Off The Shelf ("**COTS**") products (such as the GenFly, GenSkills and IAMT) will only be recognised on completion of the contract, delivery of the product, or upon a contractual acceptance milestone, rather than throughout the duration of the contract.

b) This means that if a COTS item is produced in one year but the acceptance or delivery of the item (as the case may be) takes place the following year, all revenue associated with that item would be recognised in the second year.

c) Costs incurred to date on COTS products will be shown as work-in-progress held on the balance sheet at cost.

d) Revenue in relation to engineered-to-order solutions (such as the Wildcat trainers for the MOD), previously recognised on a percentage of costs completed basis, will continue to be recognised on fundamentally the same basis.

e) Revenue on services contracts will continue to be recognised over time as the customer receives the service.

f) Profit on contracts will continue to be recognised progressively as risks are mitigated or retired.

g) No impact is anticipated on the way that Pennant manages its contracts.

h) No impact is anticipated on the lifetime revenue and profitability of contracts or the timing of cash receipts, which are determined by the terms and conditions of those contracts.

### 5.2 Pennant's financial reporting for the 2018 financial year ("FY 2018")

a) The adoption of IFRS15 with effect from 1 January 2018 requires Pennant to:

   a. report revenue and profit on certain contracts in FY 2018 where the relevant work was carried out, costs incurred, and revenue and profit recognised during prior financial years but where the completion, acceptance or delivery of the relevant goods under those contracts will occur during FY 2018 (as explained in note 5.1 a) and 5.1 b) above);

   b. make a corresponding transitional adjustment to the Group's opening reserves for FY 2018 to reflect the impact of adopting IFRS15 in relation to such contracts (the "**Opening Adjustment**").

b) The Opening Adjustment comprises the recognition of approximately £7 million of revenue and £3 million of EBITA.

c) In addition to the Opening Adjustment, the adoption of IFRS15 is also likely to result in revenue and profit on work carried out during FY 2018 being reported across 2019 and 2020, rather than for FY 2018 (as explained in the 'key points' section above).

d) The ultimate impact of the later recognition of revenue and profit will depend on the mix of products worked on during FY 2018 but the present estimate is approximately £5 million of revenue and £2 million of EBITA.

e) The anticipated net effect of Pennant adopting IFRS15 (taking into account the Opening Adjustment and the later recognition of revenue and profit) is a positive adjustment to revenue and EBITA for FY 2018 of £2 million and £1 million respectively

**6. Copies of this statement**

Copies of this statement will be available on the Group's website (www.pennantplc.co.uk) and from Pennant International Group plc, Pennant Court, Staverton Technology Park, Cheltenham, GL51 6TL.