15 September 2015

TP Group plc

Interim Report for the six months ended 30 June 2015

TP Group ("TPG" or "the Group"), a group of companies that design, deliver and support advanced engineering systems in the global energy and security markets, today announces its interim results for the six months ended 30 June 2015.

Financial highlights

- First half revenues were £8.3m (2014: £9.9m), with major projects second half weighted
- Gross profit margins increased to 26% (31 December 2014: 19%)
- Group adjusted EBITDA[1] losses reduced to £1.0m (2014: £1.4m) through elimination of some non-revenue generating R&D, operational cost efficiencies and enhanced project controls
- Net cash used in operations reduced to £2.0m (2014: £4.1m)
- Cash balance of £6.6m (31 December 2014: £9.7m)

Operational highlights

- Restructured business operations to be manage by sector, with focus on Aerospace & Defence (A&D) and Energy & Process Industries (E&P) with exceptional costs of £0.9m in the first half
- Completed acquisition and integration of Shaw Sheet Metal Company Limited
- Order book substantially improved to £19.2m (30 June 2014: £12.2m)

Outlook

- £0.8m - £1.0m annualised benefits of restructuring commencing in the second half
- £10.9m of the current order book is deliverable in the second half of 2015
- Cross-selling of Group-wide propositions to key markets created significantly improved sales pipeline in excess of £140m
- The business continues to trade in line with market expectations

Commenting on the results, Chief Executive Officer Phil Cartmell said:

"We are pleased to report a solid set of results that clearly demonstrate further progress in our move towards becoming a profitable Group.

"We have made excellent progress to reposition the Group, which now moves forward with a strong product set, an enviable global customer base and an efficient operational model.

"Our business development teams are connecting with their markets to create a significant pipeline of future business that gives us great visibility of our growth prospects.

"The Board is confident in TPG's outlook and expects an improved performance in the second half of the year. We anticipate eliminating the adjusted EBITDA[1] losses for the year, which positions us to deliver sustainable profitability."

Ends

Notes

[1] Adjusted EBITDA is defined as operating profit adjusted to add back depreciation of property, plant and equipment, amortisation and impairment of acquired intangible assets and any other acquisition-related charges, share based payment charges and exceptional items. Exceptional items are those items believed to be exceptional in nature by virtue of their size and or incidence. Exceptional items in the period to 30 June 2015 comprise restructuring costs of £943k (2014: Exceptional items in the second half comprised termination costs of £322K).

[2] Total R&D spend includes some costs within cost of sales.

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NOTES TO EDITORS

TP Group is a group of innovative UK based engineering companies, supplying technologies and support to global Aerospace & Defence and Energy & Process Industries markets. The Group designs and develops advanced technologies; engineers complex equipment and systems; and provides support throughout their operational life. TP Group shares have been traded on the London Alternative Investment Market (AIM) since July 2001.

Chief Executive's Review

The progress made in transforming the Group during the period has repositioned TPG with a strong technical platform and expert capability, aligned to our growing global customer base, reducing operating losses and cash outflow.

Financial Overview

The Group loss before tax was £2.6m (2014: £2.1m) including previously stated one-off costs of the reorganisation (£0.9m). The reorganisation provides TPG with a strong operational platform to leverage key customers and end markets. The Group's adjusted EBITDA[1] loss reduced to £1.0m (2014: £1.4m) in line with our objective to achieve breakeven at that level this year.

Revenues in the first half were impacted by timing factors on major projects in the Aerospace & Defence (A&D) sector, coupled with trading conditions that have delayed some contract placement in the Energy & Process Industries (E&P) sector. These pressures are expected to ease in the second half to support management's objectives for the year. Whilst there have been pressures on revenues, the Group's focus has been to drive gross profit margin improvement, which as a consequence has increased to 26% compared to 23% at 30 June 2014 and 19% at year-end last year.

Central costs, which now reflect activities associated only with Plc management, fell in the first half to £0.6m (2014: £0.9m, which included legal and director costs, not incurred in the current year). All costs associated with supporting the two sector businesses are fully allocated to them.

Total R&D[2] spend was £0.6m (2014: £1.4m) reflecting the migration towards supporting commercial activities.

The Group cash balance at 30 June 2015 was £6.6m (31 December 2014: £9.7m), including payments of £0.9m for the purchase of Shaw Sheet Metal Company Limited (SSM) and associated acquisition costs in February 2015 (see note 5). Cash used in first half operations was £2.0m (2014: £4.1m), reflecting our underlying focus on reducing operating losses, and is anticipated to be lower in the second half. On this basis, management expects to retain a healthy cash balance at year end in line with market forecasts.

The Group's order book has grown significantly in the period to the end of June 2015 to £19.2m (30 June 2014: £12.2m) and reflects a very strong position for the Group's A&D sector for the remainder of the year. Business development initiatives in the first half year have created a very strong and growing pipeline across both sectors which builds the Group's momentum in the second half and onward into 2016.

Restructuring

We completed a significant restructuring of the business to improve operational performance, and position us better to succeed in our key markets. We have organised our business to align with our strongest customer relationships within the Aerospace & Defence and Energy & Process Industries markets.

The Group's capabilities are:

- Technical Services - technical advice, design and prototyping activity at the beginning of any major systems programme
- Engineering and Products - build and delivery of customer systems is the core activity of the Group
- Managed Services – supporting systems once they are in use, and provide a range of complementary consulting and process support to work closely with our customers to assure their long-term success

These capabilities have been focused on critical applications where we support customer operations in difficult and/or dangerous environments. Customers rely upon us to create clean air to support life, manage dangerous materials and control temperatures in chemical processes, convert wasted energy sources into useful power, and to protect the environment by controlling emissions.

These product and service offerings have been managed to allow sales and delivery across both A&D and E&P sectors. We are set up to provide product and service excellence to all our customers throughout the life of their projects or programmes.

The Group completed the acquisition of SSM as announced 9 February 2015 for a cash consideration of £0.8m. The business has been successfully integrated into the Group and is driving significant improvement in margins.

Overall restructuring, including the exit from the Slough Technology Centre, has resulted in a one-off exceptional charge of £0.9m in the first half. The anticipated benefit of this restructuring is a significant reduction in ongoing annualised costs of between £0.8m and £1m, associated with facilities and staff, as previously announced. £0.4m of this is expected to be realised in the second half, with the full benefit in 2016 and beyond.

The Group restructuring has reshaped our technical resources from R&D activities towards revenue and profit generating roles, and introduced new staff from SSM. Group headcount remains broadly constant at 169 (31 December 2014: 171).

On 3 June 2015 the Group reinforced the business transformation by renaming to TP Group plc. This move reflected the evolution of the business from its R&D roots as Corac to a more balanced and diverse services and engineering Group with a focus on technology and partnership.

Aerospace & Defence

A&D remains highly active as work continues on boats six and seven of the Astute programme, with preparatory work under way on the Successor programme which is expected to accelerate in 2016.

Timing factors on large projects led to a fall in revenues to £4.2m (2014: £4.7m), driving a small reduction in adjusted EBITDA[1] to £0.7m (2014: £0.9m). As previously stated, the revenues associated with these projects are weighted towards the second half of the year.

The forward order book has improved, with contracts worth £6.0m taken from established and new export customers, adding to the UK orders taken at the end of 2014. This provides full visibility for the remainder of 2015 and more than 60% cover for 2016. Orders are expected to convert into revenue at a faster rate in the second half as major subsystems are built.

Long-term support work continues to contribute approximately a quarter of the A&D sector revenue. The Group is committed to expanding this area of activity and has already qualified on three UK Government framework contracts with the potential to more than double the revenue in this area. Bidding work continues with participation in four other selections that are expected to conclude this year or early in 2016.

Energy & Process Industries

Large scale project approvals have slowed down as a result of current economic pressures in the energy markets, particularly in the downstream petrochemicals area. Revenues were £4.1m in the period (2014: £5.2m). We have taken steps to ensure that customer and prospect relationships are maintained, and the Group is well positioned for this work when these projects are released.

Adjusted EBITDA[1] losses reduced to £1.0m (2014: £1.4m) as a result of reshaping the business to reduce R&D spend and migrate towards supporting commercial activities in our Technical Services product area.

Maintenance and support of installed facilities remains buoyant, and this is another stream of business activity that will extend our reach in this market.

We have seen increasing commercial project work in the renewable energy market. Our partnership with a global Original Equipment Manufacturer (OEM) to develop steam turboexpanders has led to a ten year commercial agreement and a further order for five units, as announced in June 2015. This, alongside similar turbomachinery projects, is anticipated to be a major driver of growth in this area.

We have accelerated our technology services activities with the first commercial contracts to advise on setting up a manufacturing supply chain, and also on product technical options for another rotating equipment OEM.

Strategy and Outlook

Our near term strategic focus has been to restructure the Group to forge closer connections with our key customers and prospects in Aerospace & Defence and Energy & Process Industries markets. We will move forward as a specialist technology, services and engineering company, providing support across the full life of their projects or programmes.

We have successfully restructured the Group and continue to trade in line with market expectations. We anticipate:

- Eliminating adjusted EBITDA[1] losses in current year
- Continuing to reduce cash outflow, towards positive cash generation in 2016
- Delivering growth and profit in 2016

This will be achieved both organically and through selected acquisition opportunities with a focus on companies that complement our existing offering and are immediately earnings enhancing. Our acquisition strategy will focus on the following rationale:

- Technical alignment with existing TPG services
- Applications in growth areas
- Established customer base, operating in similar markets to those of TPG
- Capable of adding revenues, profit and cash
- Private company, or division of a larger business

The Group's business now has increasing momentum based upon:

- Proven solutions and services
- A strong technical platform and expert capability, with emerging technologies positioned for commercial expansion
- An existing global customer base ready to be leveraged

The result is a growing sales pipeline of business opportunities, currently valued at £140m, and we are working to improve our conversion rate in all markets. The Board is confident that this strategic focus will enable the Group to build a business that delivers profitable growth and greatly enhances shareholder value.

Condensed Consolidated Statement of Financial Position

	Unaudited Six months ended 30 June	Unaudited Six months ended 30 June	Audited Year ended 31 December
	2015	2014	2014
	£'000	£'000	£'000
Revenue	8,340	9,911	21,693
Cost of sales	(6,161)	(7,626)	(17,554)
Gross profit	2,179	2,285	4,139
Selling & distribution costs	(444)	(258)	(233)
Research and development costs	(51)	(570)	(928)
Administrative expenses	(4,300)	(3,576)	(6,905)
Operating loss	(2,616)	(2,119)	(3,927)
Adjusted EBITDA[1]	(965)	(1,427)	(2,112)
Depreciation, amortisation and impairment	(686)	(667)	(1,339)
Acquisition-related costs	-	-	(110)
Exceptional items	(943)	-	(322)
Share-based payments	(22)	(25)	(44)
Operating loss	(2,616)	(2,119)	(3,927)
Finance income	6	25	34
Loss before income tax	(2,610)	(2,094)	(3,893)
Income tax credit	70	273	172
Total comprehensive loss for the period attributable to shareholders	(2,540)	(1,821)	(3,721)
Loss per share expressed in pence per share	Pence	Pence	Pence
Basic and diluted loss per share	(0.60)	(0.43)	(0.88)

All results relate to continuing activities.

[1] Adjusted EBITDA is defined as operating profit adjusted to add back depreciation of property, plant and equipment, amortisation and impairment of acquired intangible assets and any other acquisition-related charges, share based payment charges and exceptional items. Exceptional items are those items believed to be exceptional in nature by virtue of their size and or incidence. Exceptional items in the period to 30 June 2015 comprise restructuring costs of £943k (2014: Exceptional items in the second half comprised termination costs of £322K).

[2] Total R&D spend includes some costs within cost of sales.

Condensed Consolidated Statement of Financial Position

	Unaudited 30 June 2015	Unaudited 30 June 2014	Audited 31 December 2014
	£'000	£'000	£'000
ASSETS			
Non-current assets			
Goodwill	5,036	4,953	4,953
Other intangible assets	9,919	10,331	9,923
Property, plant and equipment	554	1,227	1,007
	15,509	16,511	15,883
Current assets			
Inventories	143	37	59
Trade and other receivables	6,914	5,013	7,215
Taxation recoverable	149	416	249
Cash and cash equivalents	6,623	8,932	9,569
	13,829	14,398	17,092
Total assets	29,338	30,909	32,975
LIABILITIES			
Current liabilities			
Trade and other payables	(6,553)	(3,560)	(7,606)
	(6,553)	(3,560)	(7,606)
Non-current liabilities			
Deferred taxation	(1,985)	(2,065)	(1,985)
Provisions	(1,289)	(1,374)	(1,355)
	(3,274)	(3,439)	(3,340)
Total liabilities	(9,827)	(6,999)	(10,946)
Net assets	19,511	23,910	22,029
EQUITY			
Share capital	42,246	42,246	42,246
Share premium	13,769	13,769	13,769
Capital redemption reserve	575	575	575
Own shares held by the Employee Benefit Trust	(561)	(561)	(561)
Share-based payments reserve	1,160	1,119	1,138
Retained earnings	(37,678)	(33,238)	(35,138)
Total equity	19,511	23,910	22,029

Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium	Capital redemption reserve	Own shares held by EBT	Share-based payments reserve	Retained earnings	Total
Six months to 30 June 2015	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 January 2015	42,246	13,769	575	(561)	1,138	(35,138)	22,029
IFRS 2 share option charge	-	-	-	-	22	-	22
Transactions with owners	-	-	-	-	22	-	22
Total comprehensive loss for the period	-	-	-	-	-	(2,540)	(2,540)
Balance at 30 June 2015	42,246	13,769	575	(561)	1,160	(37,678)	19,511
Six months to 30 June 2014							
Balance at 1 January 2014	42,246	13,769	575	(561)	1,094	(31,417)	25,706
Issue of shares	-	-	-	-	-	-	-
IFRS 2 share option charge	-	-	-	-	25	-	25
Transactions with owners	-	-	-	-	25	-	25
Total comprehensive loss for the period	-	-	-	-	-	(1,821)	(1,821)
Balance at 30 June 2014	42,246	13,769	575	(561)	1,119	(33,238)	23,910
Year to 31 December 2014							
Balance at 1 January 2014	42,246	13,769	575	(561)	1,094	(31,417)	25,706
IFRS 2 share option charge	-	-	-	-	44	-	44
Transactions with owners	-	-	-	-	44	-	44
Total comprehensive loss for the year	-	-	-	-	-	(3,721)	(3,721)
Share issue costs	-	-	-	-	-	-	-
Balance at 31 December 2014	42,246	13,769	575	(561)	1,138	(35,138)	22,029

Condensed Consolidated Statement of Cash Flows

	Unaudited Six months ended 30 June 2015	Unaudited Six months ended 30 June 2014	Audited Year ended 31 December 2014
		£'000	£'000
Operating activities			
Loss before income tax	(2,610)	(2,094)	(3,893)
Adjustments for:			
Depreciation	265	259	523
Amortisation	421	408	816
Finance income	(6)	(25)	(34)
Impairment of property, plant and equipment	557	-	-
Share-based payment expense	22	25	44
(Increase)/decrease in inventories	(60)	1	162
Decrease/(increase) in trade and other receivables	687	(2,297)	(3,191)
(Decrease)/Increase in trade and other payables	(1,188)	115	2,682
(Decrease) in provisions	(66)	(488)	(507)
	(1,978)	(4,096)	(3,398)
Income tax received/(paid)	(13)	(11)	(25)
Net cash used in operating activities	(1,991)	(4,107)	(3,423)
Investing activities			
Acquisition of subsidiary (including costs)	(886)	-	-
Interest received	6	25	34
Purchase of property, plant and equipment	(65)	(121)	(165)
Net cash used in investing activities	(945)	(96)	(131)
Financing activities			
Repayment of hire purchase liabilities	(10)	-	(12)
Expenses of issue of shares	-	(614)	(614)
Net cash from financing activities	(10)	(614)	(626)
Net (decrease)/increase in cash and cash equivalents	(2,946)	(4,817)	(4,180)
Cash and cash equivalents at beginning of period	9,569	13,749	13,749
Cash and cash equivalents at end of period	6,623	8,932	9,569

Notes to the Condensed Consolidated Interim Financial Statements

1. Nature of operations and general information

The principal activities of TP Group plc and its subsidiaries (the "Group") are to deliver a range of technologies, equipment and services to customers recognised in two segments:

- **Aerospace & Defence** - UK Ministry of Defence and other international naval forces, and prime contractors engaged in the production, operation and support of ships and submarines.
- **Energy & Process Industries** - supply of precision engineering and high-integrity fabricated structures in upstream and downstream energy, renewables, power generation and chemical processing industries.

Product and service offerings may be delivered across both A&D and E&P sectors throughout the life of customers' projects or programmes. In summary, the service offerings are:

- Technical Services - at the beginning of any major systems programme is a range of technical advice, design and prototyping activity
- Engineering and Products - at the core of our activity is the build and delivery of customer systems
- Managed Services - supporting systems once they are in use, plus a range of complementary consulting and process support to work closely with customers to assure their long-term success.

TP Group plc (the "Parent Company") is the Group's ultimate parent company which is incorporated and domiciled in the United Kingdom. The address of the registered office of the Company is Technology Centre, 683-685 Stirling Road, Slough, Berkshire, SL1 4ST. The Parent Company's shares are listed on the Alternative Investment Market of the London Stock Exchange.

The condensed consolidated interim financial statements are presented in pounds sterling, which is also the functional currency of the Parent Company, and all values are rounded to the nearest thousand pounds except when otherwise indicated.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 December 2014, prepared under IFRS as adopted by the EU, have been delivered to the Registrar of Companies. The auditor's report on the 2014 financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498(2) or Section 498(3) of the Companies Act 2006.

The condensed consolidated interim financial statements were approved for issue by the Board of Directors on 14 September 2015.

2. Basis of preparation

These condensed consolidated interim financial statements are for the six months ended 30 June 2015. They have been prepared following the principal accounting policies and methods of computation set out in the Group's Annual Report and Accounts for the year ended 31 December 2014.

These condensed consolidated interim financial statements have been prepared under the historical cost convention using accounting policies consistent with International Financial Reporting Standards (IFRS) as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements. While the financial figures included in this half-yearly report have been computed in accordance with IFRS applicable to interim periods, this half-yearly report does not contain sufficient information to constitute an interim financial report as that term is defined in IAS 34.

Going concern

The Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future, and accordingly continue to adopt the going concern basis in preparing the accounts.

Restatement of comparative segmental results for 2014

The presentation of the audited segmental results for the year to 31 December 2014 and the unaudited segmental results for the six months to 30 June 2014 have been reclassified to be consistent with the current year presentation. The overall reported loss for the period has not changed.

3. Segmental Reporting

The following table presents revenue and profit information for each business segment.

	Aerospace & Defence	Energy & Process Industries	Central Costs	Group
	£'000	£'000	£'000	£'000
Six months ended 30 June 2015				
Revenue	4,197	4,143	-	8,340
Operating profit/(loss)	284	(2,251)	(649)	(2,616)
Depreciation, amortisation and impairment	406	279	1	686
Exceptional items	-	943	-	943
Share based payments	-	-	22	22
Adjusted EBITDA[1]	690	(1,029)	(626)	(965)
Six months ended 30 June 2014[3]				
Revenue	4,677	5,234	-	9,911
Operating profit/(loss)	541	(1,686)	(974)	(2,119)
Depreciation, amortisation and impairment	407	259	1	667
Share based payments	-	-	25	25
Adjusted EBITDA[1]	948	(1,427)	(948)	(1,427)
Year ended 31 December 2014[3]				
Revenue	11,675	10,018	-	21,693
Operating profit/(loss)	1,339	(3,454)	(1,812)	(3,927)
Depreciation, amortisation and impairment	813	525	1	1,339
Acquisition related costs	-	-	110	110
Exceptional items	152	-	170	322
Share based payments	-	4	40	44
Adjusted EBITDA[1]	2,304	(2,925)	(1,491)	(2,112)

[1] Adjusted EBITDA is defined as operating profit adjusted to add back depreciation of property, plant and equipment, amortisation and impairment of acquired intangible assets and any other acquisition-related charges, share based payment charges and exceptional items. Exceptional items are those items believed to be exceptional in nature by virtue of their size and or incidence. Exceptional items in the period to 30 June 2015 comprise restructuring costs of £943k (2014: Exceptional items in the second half comprised termination costs of £322K).

[3] The analysis of the 2014 audited full year and unaudited half year numbers have been restated to reflect our changed reporting to be in line with our business focus of Aerospace & Defence and Energy & Process Industries.

4. Loss per share

The calculation of the basic loss per share is based on the loss after tax for the period divided by the weighted average number of shares in issue during the period as follows:

	Unaudited Six months ended 30 June 2015 number	Unaudited Six months ended 30 June 2014 number	Audited Year ended 31 December 2014 number
Weighted average shares in issue	420,857,956	420,857,956	306,379,318

The weighted average number of shares in issue has been reduced by deducting the weighted average number of shares held by the Employee Benefit Trust of 1,606,770 shares (six months ended 30 June 2014 and year ended 31 December 2014: 1,606,770 shares).

The issue of additional shares on exercise of employee share options would decrease the basic loss per share and there is therefore no dilutive effect of employee share options.

5. Acquisition of Shaw Sheet Metal Company Limited.

On 30 January 2015 the Group, through its subsidiary Hunt Thermal Technologies Ltd acquired 100% of the issued share capital of Shaw Sheet Metal Company Limited for a consideration of £776,000 paid in cash from the Group's existing cash resources. The company specialises in laser cutting and sheet metal fabrication. Payback of the investment is expected within three years. The identifiable assets acquired and liabilities are:

	Book Value £'000	Fair Value £'000
Property, plant and equipment	105	303
Identifiable intangible assets	-	498
Financial assets	295	310
Financial liabilities	(250)	(252)
Deferred taxation	-	(83)
Total identifiable assets	**150**	**776**
Goodwill arising on consolidation		-
Cash consideration		**776**

The difference between the book values and fair values relates to the revaluation of certain plant and equipment and the fair value of acquired intangible assets. The acquired intangible assets relate to technical know-how, customer relationships and trade names acquired.