Avingtrans plc
engineering technology group

INTERIM REPORT
6 MONTHS ENDED 30 NOVEMBER 2017

Avingtrans plc

("Avingtrans" or the "Group")

Interim results for the six months ended 30 November 2017

Avingtrans plc, which designs, manufactures and supplies critical components, modules, systems and associated services to the energy, medical and industrial sectors, today announces its interim results for the six months ended 30 November 2017.

Financial Highlights

- Revenue from continuing operations £26.9m (2017 H1: £9.6m)
    - Reflecting the acquisition of HTG. Underlying organic growth was 14.9%
- Gross Margin 22.6% (2017 H1: 15.0%)
- Adjusted* EBITDA from continuing operations increased to £1.1m (2017 H1: £0.0m)
- Adjusted* Loss Before Tax marginal improvement to £0.1m (2017 H1: £0.2m)
- Adjusted* Diluted earnings per share were 0.4p (2017 H1: loss 0.4p)
- Cash outflow from operating activities £10.5m (2017 H1: £3.5m outflow)
    - following payment costs of acquisition, restructuring expenses and creditor overhang
- Net Debt of £8.2m (31 May 2017: Net Cash £26.4m)
- Interim dividend increased by 8.3% to 1.3p per share (2017 H1: 1.2p)

** Adjusted to add back amortisation of intangibles from business combinations, acquisition costs and exceptional items*

Operational Highlights
Energy

- Transformative acquisition of Hayward Tyler Group plc ("HTG") for £29.5m, excl. debt & costs
- Energy revenues increased by 465%, driven by the HTG acquisition - underlying increase 26.3%
- Split of Energy into two divisions is underway, to maximise long term shareholder value
- Aftermarket organisation strengthened in Hayward Tyler and Peter Brotherhood - improved focus
- First Sellafield 3M3 (three-metre-cubed) production boxes now delivered - programme on track
- Expanding orders in nuclear sector, includes $10m from KHNP (S. Korea) year to date
- Oil & Gas market remains challenging, but with some new orders being won
- Fossil fuels - margins stabilising and orders improving for Original Equipment and Aftermarket
- New Hayward Tyler Chinese factory in Kunshan (China) close to completion
- Post period end, certain assets of Ormandy Ltd acquired for £0.1m, excluding costs

Medical

- 4% improvement in revenues.
- The Scientific Magnetics and MR Resources (USA) partnership has launched a new service offering in Europe
- Chinese facility ready for new contracts with Wuhan and Bruker
- Composite Products performance improving, with shipments to Rapiscan increasing

Commenting on the results, Roger McDowell, Chairman, said:
"Following the acquisition of Hayward Tyler Group ("HTG") for £29.5m (excluding debt and costs) we have moved swiftly to improve the operating performance of the HTG businesses. Restructuring is substantially complete and we are now into the investment and development phase of our stated PIE strategy. This will enable us to fully capitalise on the underlying value of the Hayward Tyler and Peter Brotherhood businesses. Operationally, the main business units are on track and we have had an excellent response from the existing management and employees within HTG. We continue to make good progress with key accounts, especially Sellafield, where we have now commenced delivery of 3M3 boxes."

"The potential to develop exciting domestic and international opportunities in both the Energy and Medical sectors is evident, with great customers and prospects underpinning a promising outlook."

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About Avingtrans plc:
Avingtrans is engaged in the provision of highly engineered components, modules, systems and services to the energy, medical and industrial markets worldwide.

Business units

Stainless Metalcraft Ltd – Chatteris, UK and Chengdu, China
Provider of safety-critical equipment for the energy, medical, science and research communities, worldwide, specialising in precision pressure and vacuum vessels and associated fabrications, sub-assemblies and systems.

Maloney Metalcraft Ltd – Aldridge, UK
Designs, manufactures and services oil and gas extraction and processing equipment, including process plant for dehydration, sweetening, drying and compression.

Hayward Tyler – Luton & East Kilbride, UK and USA, China and India
Specialises in the design, manufacture and servicing of performance-critical motors and pumps for challenging environments.

Peter Brotherhood – Peterborough, UK
Specialises in the design, manufacture and servicing of performance-critical steam turbines, turbo gen-sets, compressors, gear boxes and combined heat and power systems.

Composite Products Ltd – Buckingham, UK
Centre for composite technology, parts and assemblies, serving customers in industrial markets.

Scientific Magnetics – Abingdon, UK
Designs and manufactures superconducting magnet systems and associated cryogenic systems for a variety of markets including MRI and provides service and support for Nuclear Magnetic Resonance instruments.

Crown International Ltd – Portishead, UK
Designs and manufactures market-leading pole and support systems for roadside signage and safety cameras, rail track signalling and gantries.

Chairman's Statement

In September, Avingtrans acquired Hayward Tyler Group plc ("HTG") becoming a predominately Energy focused engineering group. The two principal HTG subsidiaries, Hayward Tyler and Peter Brotherhood, between them have a pedigree of over 350 years in the sector. This transaction was executed by way of a reverse takeover.

Avingtrans, with its proven strategy of "buy and build" in regulated engineering niche markets, together with its strong balance sheet and experienced management, is an excellent fit ideal with HTG. Shareholders will recall we have named this strategy PIE ("Pinpoint-Invest-Exit").

We have now commenced the investment and development stage - balance sheet strength has been restored, expensive debt cleared, costs reduced, creditor overhang resolved, restructuring largely completed, portfolios trimmed and strategies refreshed. All this in readiness for the reinvigoration of profitable growth, which we expect these businesses are capable of fulfilling. Progress has been as expected at this early stage and now a degree of patient reconstruction is required, to enable these businesses to achieve their full potential.

Following the restructuring process, we have taken the decision to split the Energy assets into two distinct divisions, making three divisions in total, (including the medical division). This future structure is explained in more detail later and is specifically designed to enable medium to long term release of shareholder value.

We have been delighted with the response of HTG managers and teams having achieved a merit based blend of both Avingtrans and HTG senior managers. We have also strengthened the PLC board with the appointments of non-executives Ewan Lloyd-Baker (former CEO of HTG) and we are also delighted to welcome John Clarke, former CEO of the Nuclear Decommissioning Authority.

As investors will no doubt realise, this latest change signals a clear intent to build a bigger, stronger nuclear capability within our Energy divisions, be this in decommissioning, life extension, or new build opportunities. Both Hayward Tyler and Metalcraft have fine credentials in the nuclear sector and we have recently seen Hayward Tyler underline this track record with significant contract wins – notably with KHNP in South Korea, where over $10m of new business has been won since acquisition.

Meanwhile, at Metalcraft, the second phase of the factory redevelopment for Sellafield 3M3 Box operations at Chatteris has gone smoothly and we have now delivered the first pre-production boxes to Sellafield. We expect to be bidding on further nuclear decommissioning contracts in the next financial year, with a view to building on this early success. We believe that Metalcraft is well-placed to be a key partner for Sellafield in their programme over the next 30 years.

Although some end markets have remained challenging – notably conventional fossil fuel and oil & gas – the acquisition of Peter Brotherhood and Hayward Tyler provides the catalyst to construct a strong aftermarket business and we have set out our stall accordingly. Further strengthening of the aftermarket organisations is anticipated.

At our nascent Medical division businesses, the performance has been mixed. Strategically, Scientific Magnetics is making good progress, but this is yet to show through in the results, which were somewhat disappointing in the period. In China, Metalcraft has also experienced delays from its MRI and NMR customers. In contrast, during January 2018, we launched a Europe-wide NMR service with our partners MR Resources in the USA, thereby ensuring that all three divisions will engage in aftermarket activities for their respective industries. Finally, Composite Products had a promising first half and the business with Rapiscan, its biggest customer, is expanding.

In keeping with our history of the last few years, the Board has declared an increased interim dividend, of 1.3 pence per share, underpinning our commitment to consistently improve returns to our shareholders.

Finally, and most importantly I would like to take this opportunity to thank all of our employees, particularly including those recently arrived with acquisitions, for all their hard work and dedication to deliver excellent quality engineering products and services to our customers. We believe in UK engineering and we believe in the capabilities of our people worldwide.

Roger McDowell
Chairman
27 February 2018

Strategy and business review

Group Performance

Strategy

We are a precision engineering group, operating in differentiated, specialist niches in the supply chains of many of the world's best known engineering original equipment manufacturers (OEMs). Our core strategy is to build market-leading niche positions in our chosen market sectors – currently Energy and Medical. Over the longer term, our acquisition strategy has enabled our businesses to develop the critical mass necessary to achieve market leadership.

Our core businesses have the capability to engineer products in the UK and produce those products partly, or wholly in Asia and now, with the addition of HTG, in the USA. This allows us and our customers to access low cost sourcing at minimum risk, as well as positioning us neatly in the development of the Chinese and other Asian markets for our products. We are well established in China, providing integrated supply chain options for our blue-chip customers.

An emerging strategic theme, for Avingtrans in particular following the acquisition of HTG, is our intention to proactively grow the proportion of our business stemming from aftersales into our installed base and indeed the wider installed base of such equipment, in areas where we can offer an advantage to our end-user customers. This focus applies equally to our Energy and Medical businesses.

The Group's clear objective is to continue the proven strategy of "buy and build" in regulated engineering niche markets, where we see consolidation opportunities, which can lead to significantly increased shareholder returns over the medium to long term. At the appropriate time, we will seek to crystallise these gains with periodic sales of businesses at advantageous valuations and return the proceeds to shareholders. We call this strategy PIE – "Pinpoint-Invest-Exit". Previous deals – eg the disposal of Sigma - have clearly demonstrated the success of this approach, producing substantial increases in shareholder value. We have built strong brands and value from smaller constituent parts; we have demonstrated well-developed deal-making skills and prudence in the acquisition of new assets. The strategy to "buy and build" around smaller deals and consolidate relevant niches has significant potential to generate growth and shareholder value, as demonstrated with previous disposals.

The Board's is currently focused on the full integration of HTG's operations, which is progressing to plan. The objective for the Group is to become a leading supplier in the energy and medical markets of low volume, operation critical products, with a reputation for high quality and delivery on-time and on-budget. The Group has production facilities in its three key geographical markets (the Americas, Asia and Europe) with high volume/lower cost facilities in Asia, and product development and realisation in the UK and the USA. The Group intends to invest in breakthrough and disruptive technologies in the energy and medical markets.

Avingtrans' primary focus in Energy is the nuclear sector; decommissioning, life extension and "new nuclear" markets – in particular, nuclear waste storage – as well as a variety of other niches in the renewable energy sector. In addition, the Directors will continue to build on HTG's footprint in the wider power and energy sectors; in particular the provision of traditional power generation, motor solutions, steam turbines, combined heat and power units and gas to power units, in various sectors, with a principal focus on the power, oil and gas, marine, water and industrial sectors.

Following the HTG acquisition, to maximise long term shareholder value via our PIE strategy, we will be further reorganising the Energy assets of the Group into two distinct divisions:

- Engineered Pumps and Motors (EPM) consists of Hayward Tyler's units in the UK, USA, China and India
- Process Solutions and Rotating Equipment (PSRE) consists of Metalcraft's energy assets, including Maloney and Whiteley Read, plus Peter Brotherhood, Crown and the Fluid Handling business in Scotland.

The focus of the Group's Medical division - now known as Medical and Industrial Imaging (MII) - is to become a market leader in the production of high integrity components and systems for medical, scientific and industrial equipment manufacturers in specific niche markets, including: MRI (Magnetic Resonance Imaging) derivatives, proton therapy, NMR (Nuclear Magnetic Resonance) and industrial imaging modalities, such as x-ray. This division consists of Metalcraft's medical assets in the UK and China, plus Scientific Magnetics and Composite Products.

Markets

Global demand for energy continues to grow as prosperity increases and the world's population rises. Two main global themes that dominate the energy outlook are:

- *Energy transition* – the continued shift in demand from the US and Europe to fast growing Asian markets;
- *Fuel mix* – the on-going shift in supply to lower carbon fuels.

Nuclear - the Group is positioning itself as a leading supplier across the nuclear cycle.

The UK continues to dominate global spend in decommissioning and reprocessing and the excellent progress made by Metalcraft on the strategic partnership for waste containers for Sellafield, remains a highlight, and positions the Group as a leader in the field. With this solid platform to build upon, the Group is actively engaged with key stakeholders to expand its presence.

Across the world, governments are seeking to extend the life of nuclear assets through refurbishment programmes and the Group is ideally placed to benefit from this trend, as evidenced by recent contract wins in South Korea, Sweden, the UK and the USA.

With Hinkley Point C underway, the UK remains a focus for full scale new build and the remaining projects are moving through generic design assessment and final investment decisions.

The development of Small Modular Reactor technology is a promising opportunity for the Group. With a good product and capability fit, a footprint in the UK and USA, and a partner in China, the Group is fully engaged in positioning itself as a key player in this fast developing market. From reactor coolant pump sets, through to steam turbines and high integrity fabrications, the Group views this smaller, factory built technology both as an attractive route forwards for our nuclear technology and as a good fit to our capability and capacity.

Power Generation - the share of energy used for power generation continues to rise and remains a key Group focus

- **Coal -** The Group maintains a stable position in the ongoing coal fired power market and is addressing the competiveness of its Boiler Circulating Pump for ongoing opportunities, primarily in China and India.
- **Gas –** The growing gas fired power station market offers us opportunities across our pump, compressor and steam turbine product lines. The gas market is not currently dominated by Asian demand and Asian EPCs and the Group intends to cement its position in the western supply chain ahead of this inevitable shift.
- **Renewables –** Most of the product initiatives for coal and gas have direct benefits to the Group product lines that can be deployed for concentrated solar, biomass and waste to energy, the main renewable submarkets that we can service. The highest investment for biomass and waste to energy is in Europe, which suits our footprint.

Oil & Gas - as oil prices have climbed and stabilised above $60 a barrel, the green shoots of recovery are being seen across industry verticals. Although the scene is set for a more competitive landscape, a new stream of projects anticipated in 2018 signal the end of market contraction.

- **Upstream –** Upstream bidding activity is slowly increasing, but with a clear message from the majors that they are targeting c20% cost reduction across their supply chain for new projects. The Group has a strong and broad offering from topside systems through to submersible and subsea pumping solutions. Innovative solutions for subsea boosting with F-subsea, and working with the likes of TechnipFMC and Eureka pumps, keeps the Group well connected and able to position itself for market growth.
- **Midstream –** The midstream market for the Group is principally focused on floating production and transportation vessels for oil (FPSO) and liquefied natural gas (FLNG). The future of the FLNG market in particular remains promising, with over $40bn predicted to be spent over the next five years. China is set to become a major player in producing the vessels for this market and will import key technology for the first projects before localisation demands increase. Our offering of top side systems, steam turbine generators and sea water and fire water lift equipment gives us relevance in this space.
- **Downstream** - India is rising as a major player in the downstream market, where rising income levels translate into more vehicles on the road. Traditional strongholds in the USA, Russia and the Middle East remain very active. USA crude production hit 10.3 million barrels per day this year, which exceeds the all-time USA monthly record, set in 1970. With a good installed base, the Group's Middle East strategy will be key to growth in this market. Engineered systems, steam turbines and reciprocating compressors play into this highly competitive market place.

Aftermarket - Energy

The continued drive for safety, efficiency and reliability across all operating platforms remains a consistent theme. Overlaying this however is increased pressure on operational expenditure that is challenging traditional preventative maintenance decisions and driving a more tactical decision-making process. Operators are increasingly demanding quick response and local solutions to keep plants operating at minimum cost.

OEM loyalty remains high in specialist, safety related markets such as nuclear and deep water offshore Oil & Gas, but pressure from other OEMs and local independents is increasing. Securing the existing installed base remains the highest priority across the Group. With focused operational teams in each of the key locations, the challenge is to respond quicker, provide a more solution orientated service and move the solution closer to the customer.

The use of innovative technologies, processes and business models are key to the Group's response to the evolving market landscape. Condition monitoring is key, to fully understand product behaviour and accurately predict potential failure mechanisms. When combined with long term service agreements, the result can be a more comprehensive service offering. Technology like 3D printing and high-end reverse engineering are also being targeted, to address the growing issue of obsolescence and to drive timely improvements in reliability and maintainability.

MRI - The demographics of a growing and ageing world population are encouraging for the medical imaging and diagnostics markets, so the business is well placed to benefit from external market drivers. We continue to see new entrants penetrating the Chinese medical imaging market, which, in general, we view positively. New entrants are also emerging for MRI systems in India. These developments indicate that the sector will continue to spend money on developing new products and imaging techniques. We believe that the helium free technology being developed by Scientific Magnetics will find niche MRI applications in areas where helium cannot be used for cooling or is too expensive.

NMR - In the adjacent Nuclear Magnetic Resonance (NMR) instruments market, the entry of new player Zhongke Niujin (Wuhan), affords us the opportunity to expand our activities, not only for vacuum vessel supply, but also for potential magnet design and supply and other system components. A well-established field base of NMR instruments in Europe is poorly serviced in certain areas, after the demise of Varian/Agilent about three years ago. This was the catalyst for us to join forces with our US partner, MR Resources, to launch a Europe-wide NMR service and support business, providing a solid aftermarket opportunity for the medical division. We will also explore the sale of other third-party products using this route to market.

Security - Threat detection standards for hold baggage handling at airports are being tightened everywhere around the world – especially in Europe and the USA. Millions of bags flow through airport security and border crossings every day. Hold baggage screening devices have to comply with threat detection standards without impacting throughput. Rapiscan, the biggest customer for Composite Products, is a market leader in this sector, whose hold baggage screening solutions offer some of the most innovative scanning technology.

Operations

Following the acquisition of HTG, the Energy division now forms the bulk of Group operations which, going forward, will be split into:

Energy - Engineered Pumps and Motors ("EPM")

For Hayward Tyler ("HT"), the main priority is to strengthen the aftermarket capability and, therein, to maximise our opportunities in the nuclear life extension market.

At HT UK, the main restructuring activity after the acquisition took place at Luton and is largely complete. Having right-sized the business, the performance is already improving, with new orders being secured – eg for nuclear plant life extension in Sweden.

HT Inc in Vermont, USA has seen solid order intake in the nuclear life extension market, both in the USA, but also with KHNP, South Korea, where we have booked over $10m of new orders since the HTG acquisition. HT Inc has also completed the development of a new pump condition monitoring system for aftermarket applications and is pursuing new R&D opportunities in next generation nuclear power.

The HT team in Kunshan, China have been working hard to complete the factory there. This project commenced under HTG's ownership and is now expected to complete by the end of our financial year. This expanded manufacturing and repair capability will also support our new product introduction plans.

Meanwhile, in India, we are carefully expanding HT's operations to include a rewind centre, again with aftermarket potential in mind.

Energy – Process Solutions and Rotating Equipment ("PSRE")

Metalcraft's progress with Sellafield has been pleasing, with the second phase of factory development for 3M3 boxes now completed, with the world's first dedicated plasma robot welding station for box production commissioned and operational. We delivered "commissioning" boxes to Sellafield in the period and we commenced pre-production 3M3 box deliveries. The programme is tracking broadly to plan, although we anticipate some reshaping of the delivery profile over the next few months and we have adjusted our forecasts accordingly. Whiteley Read is busy, with a variety of smaller contracts won – eg with GDF Suez for gas storage – so that this Metalcraft subsidiary is now restored to health. Business with other existing key accounts – eg Cummins – was steady, although timescales for some new opportunities have slipped by a few months.

Maloney Metalcraft has seen slow progress with Oil and Gas orders in the first half, but there are some signs of life, with a number of smaller contracts won. The EDF nuclear life extension contract is tracking to plan. Post period end, we acquired certain assets of the Ormandy Group Limited, for £0.1m and this activity will be merged into Maloney's operations after a short transition period, with a modest sales uplift expected in the next financial year.

Peter Brotherhood (PB) in Peterborough was the other HTG unit which underwent significant restructuring, largely completed as planned in the first half. We anticipated that OEM sales recovery would be slow, due to Oil and Gas market issues, so we have been concentrating on aftermarket opportunities, where a number of mid-sized contracts have been secured in the period. PB are manufacturing a steam turbine to drive a boiler feed pump at the Tees Renewable Energy Plant, a 299MW CHP biomass plant at Teesport, which will be the largest dedicated biomass power plant in the world and is the largest thermal-combustion power plant under construction in the UK today. Other opportunities are being pursued to broaden the footprint of Peter Brotherhood in the medium term.

The Fluid Handling business in Scotland will be rebranded, following its move away from the other HT businesses. The experienced team there have had a very solid initial period with the Group and will seek to build on their existing relationship with Sellafield, in particular, using other divisional and Group resources.

Finally, Crown had a solid first half. The contract with Fluor for flame detector masts was largely completed and the business continued to win contracts associated with the UK's "smart motorway" developments.

Medical and Industrial Imaging ("MII")

Whilst strategic progress at Scientific Magnetics has been promising, the expected resulting orders have been slower to materialise and we now expect this business to make a loss this year. This does not derail our intentions in the sector, however. Indeed, we have continued to invest in the business for the longer term and, post period end, we have launched a Europe-wide Nuclear Magnetic Resonance (NMR) service and support offering with our US partner, MR Resources. This potentially exciting development will not start to bear fruit until next financial year, but this new service offering means that all three divisions now have access to a solid aftermarket revenue stream.

Metalcraft UK's business with Siemens for MRI components was steady, but progress in China with other vacuum vessel customers – eg Alltech, Zhongke Niujin (Wuhan) and Bruker - was slower in ramping up and, therefore, behind plan in the first half. We have adjusted forecasts for China for the full year, therefore, to reflect the reality of the market.

Conversely, Composite Products had a solid first half, with deliveries to Rapiscan steadily increasing and showing promise for next year. Other smaller accounts also supported revenues at this unit.

Financial Performance

Key Performance Indicators
The Group uses a number of financial key performance indicators to monitor the business, as set out below.

Revenue: HTG acquisition drives growth
Overall Group revenue increased to £26.9m (2017 H1: £9.6m), driven mainly by the effect of the HTG acquisition. Underlying revenue growth, excluding the HTG acquisition, was still a respectable 14.9%.

Profit margin: results skewed positively by acquisition effects
Adjusted EBITDA increased to £1.1m (2017 H1: £0.0m) with HTG contributing £0.7m in the quarter following acquisition. Significant exceptional costs were incurred in the period initially for the acquisition (£1.5m) and subsequently for right-sizing restructuring (£1.4m).

Gross margin was 22.6% (2017 H1: 15.0%) helped by higher HTG gross margin, whilst existing margins remained similar to the prior year.

Tax: potential US upside to come next year
The effective rate of taxation at Group level was a 9.4% tax credit, whereas FY16 was a 17.4% tax credit. With the acquisition of HTG, we now have a US business historically paying 39% tax which will reduce to c27% following the recent US announcements from January 2018. The effective tax charge for the Group is also impacted by the non-allowable transaction costs in the current year and not recognising all the trading tax losses in the UK. The tax position will be aided in the coming years, not only through the reduced US rate, but also as we the utilise elements of the UK and China losses.

Adjusted Earnings per Share (EPS): modest improvement
Adjusted diluted earnings per share for continuing operations improved to 0.4p (2016 H1: loss 0.4p)

Funding and Liquidity: Net Debt post acquisition remains low
Net Debt was £8.2m (31 May 2017: Net cash: £26.4m). HTG's higher cost debt (£11.5m) elements were repaid at acquisition and a further £10.9m absorbed, with HTG costs of £3.7m also being incurred and paid. During the period £3m was removed from the HTG creditor overhang at the time of acquisition, with further right-sizing restructuring costs of £1.4m and Avingtrans acquisition costs of £1.4m also being paid alongside a working capital investment of £2m. Despite further planned investment in the Group, with the bulk of these one-off costs being accounted for we anticipate that we will be cash generative in the second half.

Dividend: steady progress continues
The Board again proposes to underpin our progressive dividend policy. We are pleased to be able to recommend an improved interim dividend of 1.3 pence per share (2017 H1: 1.2 pence per share). We intend to continue on this progressive path, subject to the outcome of acquisition activities in the coming years. The dividend will be paid on 15 June 2018, to shareholders on the register at 25 May 2018.

People

At Board level, Ewan Lloyd-Baker was formally admitted to the Board upon completion of the acquisition. We are delighted that John Clarke, formerly the CEO of the Nuclear Decommissioning Authority (NDA), is joining the Board as a non-executive director. John will be formally admitted to the Board with immediate effect.

Within the Group structure, Colin Elcoate was confirmed as the Chief Commercial Officer for Avingtrans.

The future divisional structure has driven other top management changes as follows:

- Mike Turmelle has been appointed as Divisional Managing Director of the EPM division
- Austen Adams continues in the role of Divisional Managing Director of the expanded PSRE division
- Austen Adams is also Acting Divisional Managing Director of the MII division and will continue in this role until the medical businesses fully separate from our energy assets.

The management teams in the three divisions continue to be strengthened, with a number key appointments being made in the period and with emphasis on the importance of the aftermarket opportunities. Skills availability is always challenging, but we do not expect to be unduly constrained by any shortages. Like Avingtrans, HTG had invested significant effort in developing skills, both through structured apprenticeship programmes and also graduate development plans, which we plan to continue to develop. The Group continues to be recognised nationally for the strength of its apprenticeship and graduate training schemes. Metalcraft was awarded the accolade of being in the top 100 apprentice providers in the UK, by the UK Government Apprenticeship Service.

Environment

The Group's policy with regard to the environment is to ensure that we understand and effectively manage the actual and potential environmental impact of our activities. Our operations are conducted such that we comply with all legal requirements relating to the environment in all areas where we carry out our business. During the period covered by this report, the Group has not incurred any significant fines or penalties, or been investigated for any significant breach of environmental regulations.

Outlook

Avingtrans is a niche engineering market leader in the Energy and Medical sectors. We expect that the recent acquisitions (particularly that of HTG) will afford investors another opportunity to build enduring value with us in an exciting clutch of engineering market niches. We will continue to be frugal and seek to crystallise value and return capital, if the timing is right.

Our strategy continues to produce significant new business wins which support our results and provide good visibility of longer term earnings – e.g. the contract with KHNP, recently announced. We have an enviable customer base which we can continue to build upon and differentiated product niches where the Group already is, or can be, world-leading. We are well placed to benefit from renewed market growth and further market consolidation, particularly across the Energy sector.

Metalcraft, Hayward Tyler and Peter Brotherhood are clear leaders in their chosen niche markets, providing customers with consistent quality as part of a world class journey. We believe that Scientific Magnetics can be the key to growing the Medical division and to develop tangible value for shareholders in the longer term.

With attractive structural growth markets and durable customer relationships, we remain optimistic about the future of the Group. In our acquisition activities, we will seek to conduct our efforts rigorously and efficiently, with an underpinning ethos that any deal should be for the benefit of all stakeholders and should build sustainable long-term value, consistent with our PIE strategy.

Roger McDowell	**Steve McQuillan**	**Stephen King**
Chairman	Chief Executive Officer	Chief Financial Officer
28 February 2018	28 February 2018	28 February 2018

Consolidated Income Statement (Unaudited)
for the six months ended 30 November 2017

	6 months to 30 Nov 2017 £'000	6 months to 30 Nov 2016 £'000	Year to 31 May 2017 £'000
Revenue	**26,945**	9,593	22,714
Cost of sales	**(20,854)**	(8,155)	(18,659)
Gross profit	**6,091**	1,438	4,055
Distribution costs	**(1,514)**	(321)	(713)
Share based payment expense	**(32)**	(7)	(34)
Acquisition costs	**(1,451)**	-	(101)
Restructuring costs	**(1,408)**	(183)	(182)
Tender share buyback costs	**-**	(199)	(226)
Amortisation of intangibles from business combinations	**(1,808)**	-	-
Other administrative expenses	**(4,468)**	(1,454)	(3,265)
Total administrative expenses	**(9,167)**	(1,843)	(3,808)
Operating loss	**(4,590)**	(726)	(466)
Finance income	**21**	159	219
Finance costs	**(184)**	(22)	(38)
Loss before taxation	**(4,753)**	(589)	(285)
Taxation (Note 3)	**448**	103	(11)
Loss after taxation from continuing operations	**(4,305)**	(486)	(296)
Loss per share:			
From continuing operations			
- Basic	**(19.6)p**	(1.9)p	(1.3)p
- Diluted	**(19.2)p**	(1.9)p	(1.3)p

Consolidated statement of comprehensive income (Unaudited)
for the six months ended 30 November 2017

	6 months to 30 Nov 2016 £'000	6 months to 30 Nov 2015 £'000	Year to 31 May 2017 £'000
Loss for the period	**(4,305)**	(486)	(296)
Items that will be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations	**(367)**	11	10
Total comprehensive loss for the period	**(4,672)**	(475)	(286)

Consolidated cash flow statement (Unaudited)
for the six months ended 30 November 2017

	6 months to 30 Nov 2017 £'000	6 months to 30 Nov 2016 £'000	Year to 31 May 2017 £'000
Operating activities			
Cash flows from operating activities	**(10,421)**	(3,466)	(3,221)
Finance costs paid	**(68)**	(22)	(38)
Income tax paid	**(15)**	-	(1)
Contributions to defined benefit plan	**(43)**	-	-
Net cash outflow from operating activities	**(10,547)**	(3,488)	(3,260)
Investing activities			
Acquisition of subsidiary undertakings (note 5)	**739**	-	(585)
Finance income	**21**	159	219
Purchase of intangible assets	**(205)**	(146)	(626)
Purchase of property, plant and equipment	**(1,021)**	(82)	(484)
Proceeds from sale of property, plant and equipment	**77**	-	13
Net cash used by investing activities	**(389)**	(69)	(1,463)
Financing activities			
Equity dividends paid	**(230)**	(305)	(886)
Repayments of bank loans	**(12,591)**	(244)	(334)
Repayments of obligations under finance leases	**(436)**	(149)	(292)
Proceeds from issue of ordinary shares	**9**	283	612
Purchase of shares - tender buyback	**-**	(19,383)	(19,383)
Borrowings raised	**3,524**	-	-
Net cash outflow from financing activities	**(9,724)**	(19,798)	(20,283)
Net decrease in cash and cash equivalents	**(20,660)**	(23,355)	(25,006)
Cash and cash equivalents at beginning of period	**27,703**	52,923	52,923
Effect of foreign exchange rate changes	**(288)**	(265)	(214)
Cash and cash equivalents at end of period	**6,755**	(29,303)	27,703

Cashflows from operating activities (Unaudited)
for the six months ended 30 November 2017

	6 months to 30 Nov 2017 £'000	6 months to 30 Nov 2016 £'000	Year to 31 May 2017 £'000
Loss before income tax from continuing operations	**(4,753)**	(589)	(285)
Adjustments for:			
Depreciation of property, plant and equipment	**821**	246	525
Amortisation of intangible assets	**158**	86	120
Amortisation of intangibles from business combinations	**1,808**	-	-
Profit on disposal of property, plant and equipment	**-**	-	(13)
Finance income	**(21)**	(159)	(219)
Finance expense	**185**	22	38
Share based payment charge	**32**	7	34
Changes in working capital			
Increase in inventories	**(425)**	(539)	(2,482)
Increase in trade and other receivables	**(2,743)**	(33)	(1,654)
Decrease in trade and other payables	**(4,857)**	(2,509)	711
Decrease in provisions	**(628)**	-	-
Other non cash changes	**2**	2	4
Cash outflow from operating activities	**(10,421)**	(3,466)	(3,221)

Summarised consolidated balance sheet (Unaudited)
at 30 November 2017

	30 Nov 2017 £'000	30 Nov 2016 £'000	31 May 2017 £'000
Non current assets			
Goodwill	**20,616**	4,550	5,198
Other intangible assets	**20,193**	991	1,442
Property, plant and equipment	**27,795**	4,654	4,850
Deferred tax asset	**1,323**	6	-
Pension and other employee obligations	**343**	-	-
	70,270	10,201	11,490
Current assets			
Inventories	**13,707**	3,622	5,618
Trade and other receivables: amounts falling due within one year	**29,390**	6,270	9,038
Trade and other receivables: amounts falling due within after year	**580**	1,450	580
Current tax asset	**1,399**	85	52
Derivatives	**27**	-	-
Cash and cash equivalents	**6,755**	34,674	27,703
	51,858	46,101	42,991
Total assets	**122,128**	56,302	54,481
Current liabilities			
Trade and other payables	**(24,203)**	(4,307)	(7,870)
Obligations under finance leases	**(1,145)**	(245)	(142)
Borrowings	**(7,179)**	(5,549)	(179)
Current tax liabilities	**(2)**	(129)	-
Provisions	**(6,454)**	-	-
Total current liabilities	**(38,983)**	(10,230)	(8,191)
Non-current liabilities			
Borrowings	**(4,733)**	(986)	(896)
Obligations under finance leases	**(1,906)**	(77)	(37)
Deferred tax	**(3,229)**	(128)	(195)
Other creditors	**(3,706)**	-	(256)
Total non-current liabilities	**(13,574)**	(1,191)	(1,384)
Total liabilities	**(52,557)**	(11,421)	(9,575)
Net assets	**69,571**	44,881	44,906
Equity			
Share capital	**1,535**	916	958
Share premium account	**41,729**	11,173	12,771
Capital redemption reserve	**1,299**	814	1,299
Translation reserve	**(365)**	3	2
Other reserves	**180**	180	180
Investment in own shares	**(2,250)**	(1,000)	(2,250)
Retained earnings	**27,443**	32,795	31,946
Total equity attributable to equity owners of the parent	**69,571**	44,881	44,906

Consolidated statement of changes in equity (Unaudited)
at 30 November 2017

	Share capital account £'000	Share premium account £'000	Capital redemp-tion reserve £'000	Merger reserve £'000	Trans-lation reserve £'000	Other Reserves £'000	Investme nt in own shares £'000	Retained Earnings £'000	Total £'000
At 1 June 2016	1,387	10,903	814	-	(8)	180	(1,000)	52,477	64,753
Shares issued	13	270	-	-	-	-	-	-	283
Tender share buyback	(484)	-	-	-	-	-	-	(18,898)	(19,382)
Dividend paid	-	-	-	-	-	-	-	(305)	(305)
Share-based payments	-	-	-	-	-	-	-	7	7
Transactions with owners	(471)	270	-	-	-	-	-	(19,196)	(19,397)
Loss for the period	-	-	-	-	-	-	-	(486)	(486)
Other comprehensive income									
Exchange rate gain	-	-	-	-	11	-	-	-	11
Total comprehensive income for the year	-	-	-	-	11	-	-	(486)	(475)
At 30 Nov 2016	916	11,173	814	-	3	180	(1,000)	32,795	44,881
At 1 Dec 2016	916	11,173	814	-	3	180	(1,000)	32,795	44,881
Shares issued	43	1,598	-	-	-	-	-	-	1,641
Tender share buyback	(1)	-	485					(485)	(1)
Dividend paid	-	-	-	-	-	-	-	(581)	(581)
Investment in own shares	-	-	-	-	-	-	(1,250)	-	(1,250)
Share-based payments	-	-	-	-	-	-	-	27	27
Transactions with owners	42	1,598	485	-	-	-	(1,250)	(1,039)	(164)
Profit for the period	-	-	-	-	-	-	-	190	190
Other comprehensive income									
Exchange rate loss	-	-	-	-	(1)	-	-	-	(1)
Total comprehensive income for the year	-	-	-	-	(1)	-	-	190	(1)
At 31 May 2017	958	12,771	1,299	-	2	180	(2,250)	31,946	44,906
At 1 June 2017	958	12,771	1,299	-	2	180	(2,250)	31,946	44,906
Shares issued	577	28,958	-	-	-	-	-	-	29,535
Dividend paid	-	-	-	-	-	-	-	(230)	(230)
Share-based payments	-	-	-	-	-	-	-	32	32
Transactions with owners	577	28,958	-	-	-	-	-	(198)	29,337
Loss for the period	-	-	-	-	-	-	-	(4,305)	(4,305)
Other comprehensive income									
Exchange rate loss	-	-	-	-	(367)	-	-	-	(367)
Total comprehensive income for the year	-	-	-	-	(367)	-	-	(4,305)	(4,672)
At 30 Nov 2017	**1,535**	**41,729**	**1,299**	**-**	**(365)**	**180**	**(2,250)**	**27,443**	**69,571**

Notes to the half year statement
30 November 2017

1. Basis of preparation

The Group's interim results for the six month period ended 30 November 2017 are prepared in accordance with the Group's accounting policies which are based on the recognition and measurement principles of International Financial Reporting Standards ('IFRS') as adopted by the EU and effective, or expected to be adopted and effective, at 31 May 2018. As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS34 'Interim financial reporting'.

These interim results do not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 and are unaudited. The unaudited interim financial statements were approved by the Board of Directors on 27 February 2018 and will shortly be available on the Group's website at http://www.avingtrans.plc.uk/pages/reports.html.

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of financial instruments. The accounting policies used in the interim financial statements are consistent with IFRS and those which will be adopted in the preparation of the Group's annual report and financial statements for the year ended 31 May 2018. The statutory accounts for the year ended 31 May 2017, which were prepared under IFRS, have been filed with the Registrar of Companies. These statutory accounts carried an unqualified Auditor's Report and did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006.

2. Segmental analysis

	Energy	Medical	Unallocated Central items	Total
	£'000	£'000	£'000	£'000
6 months ended 30 Nov 2017				
Revenue	**21,844**	**5,101**	**-**	**26,945**
Operating (loss)/profit	**(2,595)**	**75**	**(2,070)**	**(4,590)**
Year ended 31 May 2017				
Revenue	12,610	10,104	-	22,714
Operating profit/(loss)	456	428	(1,350)	(466)
6 months ended 30 Nov 2016				
Revenue	4,693	4,900	-	9,593
Operating (loss)/profit	(103)	54	(677)	(726)

3. Taxation

The taxation credit/(charge) is based upon the expected effective rate for the year ended 31 May 2018.

Notes to the half year statement
30 November 2017

4. (Loss)/earnings per share

Basic (loss)/earnings per share is based on the (loss)/earnings attributable to ordinary shareholders and the weighted average number of ordinary shares in issue during the year.

For diluted earnings/(loss) per share the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares, being the CSOP and ExSOP share options.

	6 months to 30 Nov 2017 No	6 months to 30 Nov 2016 No	Year to 31 May 2017 No
Weighted average number of shares – basic	**22,015,992**	25,576,758	22,295,083
Share Option adjustment	**390,350**	203,867	288,451
Weighted average number of shares – diluted	**22,406,342**	25,780,625	22,583,534
	£’000	£’000	£’000
Loss from continuing operations	**(4,305)**	(486)	(296)
Share based payments	**32**	7	34
Acquisition costs	**1,451**	-	101
Restructuring costs	**1,408**	183	182
Tender share buyback costs	**-**	199	226
Amortisation of intangibles from business combinations	**1,808**	-	-
Deferred tax release on amortisation of business combination intangibles	**(307)**	-	-
Adjusted earnings/(loss) from continuing operations	**87**	(97)	247
From continuing operations:			
Basic loss per share	**(19.6)p**	(1.9)p	(1.3)p
Adjusted basic earnings/(loss) per share	**0.4p**	(0.4)p	1.1p
Diluted loss per share	**(19.2)p**	(1.9)p	(1.3)p
Adjusted diluted earnings/(loss) per share	**0.4p**	(0.4)p	1.1p

The Directors believe that the above adjusted earnings/(loss) per share calculation from continuing operations is the most appropriate reflection of the Group performance.

Notes to the half year statement
30 November 2017

5. Acquisition of subsidiary

On 1 September 2017 the Group acquired 100 percent of the issued share capital of Hayward Tyler Group plc ('HTG"'). The acquisition was made to enhance the Group's position in the Energy division. The provisional fair value of net assets acquired at the date of acquisition were as follows:

Fair value of assets and liabilities acquired	**£'000**
Provisional Net Assets (including Goodwill of £2,573,000)	**351**
Intangibles assets identified	**19,675**
Deferred tax on intangible assets	**(3,345)**
Goodwill	**12,845**
Consideration	**29,526**
Fair value of consideration transferred:	
Cash	**-**
Shares issued	**29,526**
Consideration	**29,526**
Cash impact of acquisition and subsequent debt repayment	
Cash acquired	**(739)**
Loan	**12,500**
Acquisition costs charged to expenses	**1,451**
Net cash paid relating to the acquisition	**13,212**

Management has not completed its review of Intangible and Net Assets on acquisition of this business.

Acquisition costs arising from this transaction of £1,451,000 have been included in administration expenses included in overheads before operating profit.

The impact of the HTG acquisition on the Consolidated income statement is as follows:	**£'000**
Revenue	**15,920**
Gross profit	**4,183**
Overheads	**(4,084)**
Restructuring costs	**(1,381)**
Amortisation of intangibles from business combinations	**(1,808)**
Operating loss	**(3,090)**
Finance income	**9**
Finance costs	**(172)**
Loss before taxation	**(3,253)**
Taxation	**158**
Overall effect on the Consolidated income statement	**(3,095)**

Since acquisition HTG contributed the following to the Group's cashflows:	**£'000**
Operating cashflows	**(8,087)**
Investing activities	**(403)**
Financing activities	**3,187**

Avingtrans plc

engineering technology group

Hayward Tyler · Peter Brotherhood · Metalcraft · Maloney Metalcraft · Crown International · Composite Products · Scientific Magnetics

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