Avingtrans

PINPOINT-INVEST-EXIT

2019 Interim Report

About

Avingtrans plc has a proven strategy of “buy and build” in highly regulated engineering markets, a strategy it has named “Pinpoint-Invest-Exit”. Significant shareholder value is delivered through a clear strategy, a strong balance sheet and an agile and experienced management team.

www.avingtrans.plc.uk

Avingtrans plc

("Avingtrans" or the "Group")

Interim results for the six months ended 30 November 2018

Avingtrans PLC (AIM: AVG), which designs, manufactures and supplies original equipment, systems and associated aftermarket services to the energy and medical sectors, today announces its interim results for the six months ended 30 November 2018.

Financial Highlights

- Revenue from continuing operations increased to £47.7m (2018[1] H1: £26.9m)
  - Reflecting impact of FY18 HTG acquisition and 11% underlying organic growth
- Gross Margin improved to 25.7% (2018[1] H1: 22.6%)
- Adjusted[2] EBITDA from continuing operations increased to £3.6m (2018[1] H1: £1.1m)
- Adjusted[2] Profit Before Tax advanced positively to £1.6m (2018[1] H1: loss of £0.1m)
- Adjusted[2] Diluted earnings per share were 4.1p (2018[1] H1: 0.4p)
- Cash inflow from operating activities £1.7m (2018 H1: £10.5m outflow)
- Net Debt £7.1m (31 May 2018:£7.1m)
- Interim dividend increased by 7.7% to 1.4p per share (2018 H1: 1.3p)

[1] *2018 not restated for IFRS15*
[2] *Adjusted to add back amortisation of intangibles from business combinations, acquisition costs and exceptional items*

Operational Highlights
Energy

- Energy revenues increased by 90%, driven mainly by HTG - underlying increase 10%
- Aftermarket performance continuing to improve across all business units
- Sellafield 3M3 (three-metre-cubed) production now ramping to full current capacity
- Expanding orders in nuclear sector in the UK, USA, Europe and Asia
- Nuclear life extension contract with Vattenfall for Forsmark - worth £10m - post period end
- Ormandy Group performance is steadily improving – robust order book
- The oil and gas market remains challenging – focus on Aftermarket continues
- Exited Whiteley Read site to rationalise oil and gas assets
- Fossil fuels - margins continue to improve for Original Equipment and Aftermarket
- New Hayward Tyler Chinese factory in Kunshan (China) fully operational

Medical

- 22% improvement in revenues.
- Acquisition of Tecmag Inc, for $0.1m including costs
- Scientific Magnetics and MR Resources (USA) service partnership is developing steadily
- Metalcraft's Chinese facility now producing NMR production vessels for QOne in China
- Work on MRI systems options is on-going. Prototype work is progressing to plan
- Composite Products performance stable

Commenting on the results, Roger McDowell, Chairman, said:

"The former Hayward Tyler Group ("HTG") businesses have continued to improve financially post-acquisition and we are engaged in the investment and development phase of our stated PIE strategy. This will enable us to fully realise the underlying value of the Hayward Tyler and Peter Brotherhood businesses. Our main business units are performing well. We continue to make good progress with new business – especially in nuclear. Since acquisition in February 2018, the Ormandy business has improved steadily and promises to produce a significant uplift in the value of our investment. The recent acquisition of Tecmag further cements our plans for the MRI and NMR markets"

"Notwithstanding global macroeconomic uncertainties, we remain confident about our prospects in both the Energy and Medical sectors. Recent orders and prospects underpin the confidence in our outlook."

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About Avingtrans plc:
Avingtrans designs, manufactures and supplies original equipment, systems and associated aftermarket services to the energy, medical and industrial markets worldwide.

Business units

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.

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.

Ormandy Group, Bradford, UK
Design, manufacturers and servicing of off-site plant, heat exchangers and other HVAC (heating, ventilation and air conditioning) products

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.

Tecmag Inc, Houston, USA
Designs, manufactures, tests and installs instrumentation, including full consoles, system upgrades, and solid-state probes, mainly for Magnetic Resonance Imaging (MRI) and Nuclear Magnetic Resonance (NMR) systems.

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

The acquisition of Hayward Tyler (HTG) in 2017 was a pivotal moment for Avingtrans. The resulting shift towards original equipment and aftermarket opportunities continues - and has our full attention. Our first half performance was solid.

The plan to build a bigger, stronger nuclear capability within our Energy divisions - be it in decommissioning, life extension, or new build opportunities - remains intact, with some excellent recent contract wins in Europe, Asia and North America to show for our concerted efforts. We are also buoyed by the UK government contract wins, at Peter Brotherhood in particular.

Meanwhile at Metalcraft, the ramp towards full production capacity for Sellafield 3M3 Box operations is now underway and we expect to be running at capacity by financial year end. Moreover, we expect to be bidding on further nuclear decommissioning contracts for Sellafield later in calendar 2019. Metalcraft is well-placed to be a key partner for Sellafield in their programme over the next 30 years.

Although some end markets remain challenging – notably conventional fossil fuel and oil and gas – the HTG acquisition has been the catalyst to construct a strong aftermarket business. Progress so far is generally pleasing and further strengthening of the aftermarket organisations is on-going.

Within our early stage Medical & Industrial Imaging division, we still expect it to be some time before our strategic intent shows through in the results. However, Scientific Magnetics is making positive progress and the acquisition of Tecmag means that we now control another piece of the imaging systems jigsaw. Metalcraft China's results are gradually improving. Composite Products had a reasonable first half and the business with Rapiscan, its biggest customer, is stable, as installations at airports continue worldwide.

Subsequent acquisitions of Ormandy Group and Tecmag (during calendar 2018) have given us additional aftermarket opportunities to pursue, albeit somewhat more limited than at the former HTG businesses. Following its acquisition in February 2018, the performance of the Ormandy business has improved continuously and promises to produce a significant uplift in the value of our investment.

Our proven strategy of "buy and build" in regulated engineering niche markets continues to bear fruit. Shareholders will recall we have named this strategy Pinpoint-Invest-Exit ("PIE"). We are now deeply embedded in the investment and development stage of the recent acquisitions, which we expect to enhance profitable growth in each case. Progress has been as expected and we continue with our targeted reconstruction plans, to enable these businesses to achieve their full potential and value.

Although global events have increased uncertainty to some extent, we are not unduly concerned. While the spectre of Brexit looms ever larger, this is not an alarming prospect for Avingtrans. We do not expect Brexit to have a material impact on our operations and our European exposure is relatively limited. Appropriate mitigating actions have been implemented, although we cannot say that there will not be any issues with this transition.

The Board has again declared an increased interim dividend, of 1.4 pence per share, underpinning our commitment to consistently improve returns to our shareholders.

In the period, Ewan Lloyd-Baker resigned from the Board, having assisted Avingtrans with the handover of HTG. Both the Board and I thank Ewan for his support during the transition of HTG into Avingtrans and we all wish him well for the future.

Finally, I would like to take this opportunity to thank all of our employees once again for their relentless hard work and dedication to deliver world-class engineering products and services to our customers. We believe in the intrinsic quality of our product engineering and we believe in the capabilities of our people worldwide.

Roger McDowell
Chairman
26 February 2019

Strategy and business review

Group Performance

The acquisition of HTG in 2017 has anchored Avingtrans more firmly in original equipment manufacturing and associated aftermarket services, in turn affording an improved margin mix, both in the near and longer term. Following the acquisition, the Group's Energy divisions, comprising Engineered Pumps and Motors and Process Solutions and Rotating Equipment, now form the bulk of Avingtrans' operations. Development of the Group's smaller Medical and Industrial Imaging division remains a primary focus for management.

Energy - Engineered Pumps and Motors ("EPM")

For Hayward Tyler ("HT"), the main priority remains to strengthen the aftermarket capability and to maximise our opportunities in the nuclear life extension market. The division delivered a solid first half performance.

At HT Luton, the new organisation is stable and aftermarket activities continue to build, as evidenced by the recently announced £10m contract in Sweden with Vattenfall for the Forsmark plant, for nuclear life extension.

HT Inc in Vermont, USA continues to see solid order intake in the nuclear life extension market in the USA and again with KHNP, South Korea, where we continued to book new orders in the period. HT Inc's new R&D opportunities - in next generation nuclear power and concentrated solar power - are making good progress.

The HT team in Kunshan, China now have the new factory fully operational and we recently celebrated this achievement with the official opening ceremony. This expanded manufacturing and repair centre will also support our new product introduction plans with locally made products.

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

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

PSRE is also increasingly focused on aftermarket where feasible, which is gradually improving the margin mix. Some contract delays mean that this division is slightly more biased towards the second half than ideal in this financial year, but the required orders are now in hand to produce the necessary results for the full year.

Although Metalcraft's progress with Sellafield was initially slower this year (due to customer induced changes) more recently we have begun the ramp process to full production of 3M3 boxes. We expect to be at this full production capacity by financial year end. The next 3M3 box contract tender is expected in the second half of 2019 and we are organising ourselves to pursue this contract aggressively. The on-going soft market sentiment in Oil and Gas left Whiteley Read short of new business and with a less certain future pipeline, so we decisively exited this facility in the first half, with the site and staff being transferred to Glacier Energy. Business with other key Metalcraft accounts, such as Cummins, was reassuringly steady.

Peter Brotherhood (PB) has been able to focus profitably on aftermarket activities and also to capitalise on the recently won government contracts, thus minimising our dependence on new Oil and Gas prospects. Consequently, PB's results have been agreeably sturdy in the first half and the prospects for the year are good. A number of other opportunities are being pursued, to further broaden the footprint of PB in the medium term.

Due to its reliance on new capital projects in Oil and Gas, Maloney Metalcraft saw slow progress with orders in the first half, so results were somewhat disappointing, although this is a small business unit for the group. Happily, the EDF nuclear life extension contract is tracking broadly to plan. Given this picture, we are reassessing the best way forward for Maloney, since the Oil and Gas softness shows no signs of abating. Conversely, Ormandy's performance has steadily improved since acquisition in February 2018 and we are increasingly confident about the order pipeline, so our efforts have been focused on strengthening Ormandy's prospects in recent months.

The Fluid Handling business in Scotland has been a consistently good performer since acquisition and has fitted well into our ambitions to build a wider nuclear capability. Some smaller new contracts have been won in this sector – eg with Sellafield – and orders are being won at a consistent pace.

Finally, whilst Crown had a relatively subdued first half, due to delays in the award of various road infrastructure contracts (including for "Smart Motorways"), prospects remain good. Results are therefore expected to be better in the second half, though the impact on Group results is not material in any case.

Medical and Industrial Imaging ("MII")

MII is a division in pro-active transition. We have been pivoting away from the custom business previously targeted by Scientific Magnetics (SM) and working towards new products in Magnetic Resonance Imaging (MRI) and Nuclear Magnetic Resonance (NMR), including service and support offerings with our US partner, MR Resources. These potentially exciting developments will take some time to bear fruit, but our strategic progress is consistent.

Whilst it is small, the acquisition of Tecmag in the USA is strategically important. Tecmag produces electronics and software for MRI and NMR systems. Therefore, it is an important piece in the jigsaw, facilitating our ability to produce complete MRI and NMR systems. In this first part year with the Group, Tecmag is expected to make a small loss, whilst we pivot our new product plans away from custom systems, as we have been doing at Scientific Magnetics. The intended strategy for SM and Tecmag will require further investment and some patience before we see the results (notably in the MRI market) but the rewards are potentially great enough for us to undertake this journey with enthusiasm.

Metalcraft UK's business with Siemens for MRI components was steady and progress in China with other customers – eg Alltech and QOne (Wuhan) - was encouraging overall. Our partnership with QOne means that we are unlikely to see any further volume from Bruker, although we had already anticipated this fact and removed Bruker volumes from our plans anyway, so there is no consequential impact on our results.

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

Strategy

Our strategy remains consistent with previous statements. Avingtrans is a precision engineering group, operating in differentiated, specialist markets, within 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 focused on the Energy and Medical sectors. Over the longer term, our acquisition strategy has enabled our businesses to develop the critical mass necessary to achieve leadership in our chosen markets.

The Board continues to focus on improvements in HTG's operations. This programme 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 higher 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. We are also engaged with 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 reorganised 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, plus Peter Brotherhood, Ormandy, 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 and now Tecmag in the USA.

Our core businesses have the capability to engineer products in developed markets and to produce those products partly, or wholly, in Asia, where appropriate. 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, Indian and other Asian markets for our products. We are very well established in China, providing integrated supply chain options for our blue- chip customers.

A crucial strategic theme for Avingtrans is to proactively grow the proportion of our business stemming from aftersales. We are targeting both our own installed base and 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 constant objective is to continue the proven strategy of "buy and build" in regulated engineering markets, where we see consolidation opportunities, potentially leading 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 – e.g. the disposal of Sigma in 2016 – 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.

Markets

Global demand for energy continues to grow at a consistent rate as prosperity increases and the world's population rises. Two main global themes that continue to dominate the outlook for energy consumption:

- 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 fuel 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, positioning 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 offering. Successes include conducting engineering design and qualification studies for obsolete equipment on critical systems.

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 and the USA.

Although the UK Government continues to reaffirm its commitment to new nuclear, the industry is fraught with uncertainty. Toshiba and Hitachi have both withdrawn from their planned projects which leaves only the partnership between EDF and CGN currently active. Hinkley Point C is well underway, with some potential niche opportunities for the Group. Any success at Hinkley would be mirrored on the sister project at Sizewell and the Group's partnership with a prominent Chinese pump supplier positions it well for the proposed Chinese reactor at Bradwell.

To address many of the issues associated with full-scale reactor designs, the development of Small Modular Reactor (SMR) and Advanced Modular Reactor (AMR) technology remains a promising opportunity for the Group, albeit longer term. With a good product and capability fit and a footprint in the UK and USA, the Group is fully engaged in positioning itself as a key player in this developing market. We now have fully funded development programmes for molten salt equipment and a broad range of existing products and fabrications. Therefore, the Group views these smaller, factory built technologies as an attractive route forwards for our nuclear technology and as a good fit to our capabilities 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 has both value-engineered its product line and localised it in China. Opportunities exist for new power plants across Asia in addition to retrofitting systems to existing plants to reduce harmful emissions. Selective Catalytic Reduction (SCR) is one such process. The first such project has been secured for a power plant in China, which will also be manufactured in the country.
- **Gas –** The growing gas-fired power station market offers the Group opportunities across our pump, compressor and steam turbine product lines. While the gas market is not currently dominated by Asian demand and Asian EPCs, we do expect an inevitable shift to these markets. To position itself for this, the Group continues to cement its position in the western supply chain through strategic partnerships with key customers and product partners alike.
- **Renewables –** Most of the products for coal and gas have direct benefits to the Group product lines that can be deployed for concentrated solar power (CSP), biomass and waste to energy - the main renewable submarkets that we can service. In addition the fully funded development programmes for molten salt applications benefit both nuclear and CSP applications. All eyes are on the Chinese EPCs, who look set to

dominate the CSP market, for example by building the largest CSP plant in the world in Dubai. The Group's products, footprint and relationship with key EPCs positions us well for these opportunities.

Oil & Gas
The oil price continued to be somewhat erratic over the past year and a degree of uncertainty remains. The landscape across all verticals remains highly competitive. The lifetime cost of ownership for capital equipment is now high on the agenda, which suits our high-end product portfolio, but is less suited to the commodity end of the market.

- **Upstream –** Upstream bidding activity is increasing, including in the North Sea which is our strongest market. The Group has had an offering from topside systems through to submersible and subsea pumping solutions. Product initiatives over the last year have filled out the product range further to give a more balanced portfolio and to eliminate weaker parts of the offering in the current market conditions.
- **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 market is difficult to predict, but some major awards have been announced recently. Singapore remains a key focus territory for the group, but China is set to become a major player in producing the vessels for this market and early business development is underway.
- **Downstream –** India continues to rise as a major player in the downstream market, where rising income levels translate into more vehicles on the road. From a significant installed base, the Group aims to develop a more coherent Middle East strategy. This 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 is a consistent theme for end user customers. In Asian markets, continual pressure on operational expenditure is challenging preventative maintenance decisions and drives a purchase cost focused decision-making process. However, in Europe, Middle East and the Americas, operators seem to be refocusing on cost of ownership and are thinking more strategically. Across the globe, all end users are demanding quick response and local solutions to keep plants operating and the Group continues to build out its local presence through strategic partnerships.

OEM loyalty remains high in specialist, safety related markets such as nuclear and deep-water offshore oil and 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 remain key to the Group's response to the evolving market landscape. Equipment upgrades that increase the mean time between failures of both the Groups installed base - and that of other OEMs - is a key theme being developed across the business. 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 simply too expensive, though it is difficult to specify the quantum of the opportunity for the Group at this point.

NMR - In the adjacent Nuclear Magnetic Resonance (NMR) instruments market, the entry of new player QOne Instruments (Wuhan), affords us the opportunity to expand our activities, not only for cryogenic 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 four 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. Their hold baggage screening solutions offer some of the most innovative scanning technology.

Financial Performance

Adoption of IFRS 15

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 June 2018. Adoption of IFRS 15 has led to a number of changes in the way the Group recognises revenue including whether to recognise over time or at a point in time, the splitting of contracts into multiple performance conditions which are recognised separately, the aggregation of a series of products into a single performance condition, reassessment of contract losses in the prior period and a change in the methodology for the recognition of long term service agreements.

The Group has applied IFRS 15 using the cumulative effect of initially applying the new revenue standard as an adjustment of £1.9m to the opening balance of equity at 1 June 2018. The comparative information has not been restated and continues to be reported under IAS11 and IAS 18.

Key Performance Indicators

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

Revenue: 77% increase with underlying growth 11%
Overall Group revenue increased to £47.7m (2018 H1: £26.9m), driven mainly by the inclusion of HTG for the full six months and an underlying revenue growth of 11%.

Gross margin (GM)
GM increased to 25.7% (2018 H1: 22.6%) - improvement due to the higher HTG gross margins and an increase in the proportion of revenue derived from aftermarket services when compared to prior year.

Profit margin: a 234% increase with restructuring benefits showing through
Adjusted EBITDA increased to £3.6m (2018 H1: £1.1m) again driven by the effect of HTG being incorporated for the full six months this year (three months in FY18), the benefit of the FY18 restructuring and an increase in the proportion of aftermarket business. Operating profit improved to £1.0m (2018 H1: £3.8m loss).

Tax: benefit from reduction in US tax rate
The effective rate of taxation at Group level was a 30.4% tax charge, whereas FY17 was a 9.4% tax credit. The tax charge has in the main come from the profits made in the US offset by the recognition of tax losses in the UK which can be later utilised, as we continue to grow the businesses. The US business has benefited from a reduction in its historical effective tax rate of 39% - we are now paying 28%. 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): significant improvement
Adjusted diluted earnings per share for continuing operations improved to 4.1p (2018 H1:0.4p) as higher margin aftermarket and cost savings work through.

Funding and Liquidity: net debt post HTG acquisition remains under control
Net debt was £7.1m (31 May 2018: £7.1m). Cash inflow from operating activities in the period was £1.7m (2018 H1: £10.5m outflow - due to the large cash outflows associated with the HTG acquisition) after a modest working capital increase of £1.2m. During the period, £1.4m net was invested in capital expenditure and project development costs, offset by the disposal of Whiteley Read assets.

Dividend: steady progress continues for the eighth year
The Board proposes to underpin our progressive dividend policy once again. We are pleased to be able to recommend an improved interim dividend of 1.4 pence per share (2018 H1: 1.3 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 14 June 2019, to shareholders on the register at 24 May 2019.

People

There was one change at Board level in the period. Ewan Lloyd-Baker resigned from the Board on 30 November 2018, having assisted Avingtrans with the handover of the HT businesses. The Board thanks Ewan for his support during the transition of HTG into Avingtrans and wishes him well for the future.

In addition to his Group role, Dr. Colin Elcoate has moved to China, to take charge of the new HT factory – replacing the previous GM - and thus strengthening the Chinese team in preparation for their wider role in the EPM division's future. The recent formal opening of the new HT Kunshan facility was an essential first step in this process. There were no other senior management changes in the period.

The management teams in the three divisions continue to be strengthened, with a number of key appointments being made in the period and with emphasis on the importance of the Aftermarket opportunities. Skills availability remains challenging, but we do not expect to be materially constrained by any shortages, Brexit notwithstanding. We continued to invest significant effort in developing skills, both through structured apprenticeship programmes and graduate development plans. The Group continues to be recognised nationally for the strength of its apprenticeship training schemes. Metalcraft was again awarded the accolade of being in the top 100 apprentice providers in the UK, by the UK Government Apprenticeship Service and has won other national training awards in the period.

Health, Safety and Environment

The Group takes Health and Safety (H&S) very seriously and it is a key performance indicator for all business units, overseen by the Board. Acquired companies – particularly private ones - often have unstructured, or weak health and safety process and systems. So, H&S is typically an important initial improvement area for new Group companies. We have seen steady improvement in H&S statistics for Group companies in recent years.

With regard to the environment, our policy 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 an original equipment manufacturer and niche engineering market leader in the Energy and Medical sectors. We expect that our more recent acquisitions (particularly that of HTG) will afford investors another opportunity to build enduring value with us, in an exciting portfolio of specialist engineering markets. We will continue to be frugal and seek to crystallise value and return capital, as and when 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 Vattenfall, 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 macro-trends in our markets and market consolidation, particularly across the Energy sector.

As previously noted, we do not expect Brexit to have a material impact on our operations and our European exposure is relatively limited. Appropriate mitigating actions have been implemented, where warranted. We hope that this offers some solace to investors who are concerned about this matter.

Our larger businesses - Metalcraft, Hayward Tyler and Peter Brotherhood - are leaders in their chosen markets, providing customers with consistent quality and delivery, as part of a world class journey. We believe that Scientific Magnetics and Tecmag can be key to growth of the Medical division and can enable enhanced value for shareholders in the longer term.

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

Roger McDowell	**Steve McQuillan**	**Stephen King**
Chairman	Chief Executive Officer	Chief Financial Officer
26 February 2019	26 February 2019	26 February 2019

Consolidated Income Statement (Unaudited)
for the six months ended 30 November 2018

	6 months to 30 Nov 2018 £'000	6 months to 30 Nov 2017 £'000	Year to 31 May 2018 £'000
Revenue	**47,696**	26,945	78,864
Cost of sales	**(35,422)**	(20,854)	(58,787)
Gross profit	**12,274**	6,091	20,077
Distribution costs	**(2,396)**	(1,514)	(4,050)
Share based payment expense	**(40)**	(32)	(69)
Acquisition costs	**(75)**	(1,451)	(1,567)
Restructuring costs	**-**	(1,408)	(1,699)
Amortisation of intangibles from business combinations	**(768)**	(1,808)	(3,303)
Other administrative expenses	**(7,998)**	(4,468)	(13,231)
Total administrative expenses	**(8,881)**	(9,167)	(19,869)
Operating profit/(loss)	**997**	(4,590)	(3,842)
Finance income (Note 5)	**-**	21	36
Finance costs (Note 5)	**(348)**	(184)	(692)
Profit/(loss) before taxation	**649**	(4,753)	(4,498)
Taxation (Note 3)	**(197)**	448	12
Profit/(loss) after taxation from continuing operations	**452**	(4,305)	(4,486)
Profit/(loss) per share:			
From continuing operations			
- Basic (Note 6)	**1.5p**	(19.6)p	(16.0)p
- Diluted (Note 6)	**1.4p**	(19.2)p	(16.0)p

Consolidated statement of comprehensive income (Unaudited)
for the six months ended 30 November 2018

	6 months to 30 Nov 2018 £'000	6 months to 30 Nov 2017 £'000	Year to 31 May 2018 £'000
Profit/(loss) for the period	**452**	(4,305)	(4,486)
Items that will not be subsequently be reclassified to profit or loss			
Remeasurement of net defined benefit liability	**-**	-	71
Income tax relating to items not reclassified	**-**	-	(14)
Exchange differences on translation of foreign operations	**316**	(367)	(137)
Total comprehensive profit/(loss) for the period	**768**	(4,672)	(4,566)

Summarised consolidated balance sheet (Unaudited)
at 30 November 2018

	30 Nov 2018 £'000	30 Nov 2017 £'000	31 May 2018 £'000
Non current assets			
Goodwill	**23,369**	20,616	23,369
Other intangible assets	**15,116**	20,193	15,612
Property, plant and equipment	**27,028**	27,795	27,595
Deferred tax asset	**1,252**	1,323	1,454
Pension and other employee obligations	**1,710**	343	1,590
	68,475	70,270	69,620
Current assets			
Inventories	**15,416**	13,707	10,341
Trade and other receivables: amounts falling due within one year	**26,632**	29,390	34,606
Trade and other receivables: amounts falling due within after year	**-**	580	-
Current tax asset	**1,223**	1,399	608
Derivatives	**-**	27	-
Cash and cash equivalents	**4,759**	6,755	6,574
	48,030	51,858	52,129
Total assets	**116,505**	122,128	121,749
Current liabilities			
Trade and other payables	**(24,376)**	(24,203)	(26,179)
Obligations under finance leases	**(932)**	(1,145)	(1,179)
Borrowings	**(5,594)**	(7,179)	(6,719)
Current tax liabilities	**(925)**	(2)	(15)
Provisions	**(5,926)**	(6,454)	(6,135)
Derivatives	**(176)**	-	(127)
Total current liabilities	**(37,929)**	(38,983)	(40,354)
Non-current liabilities			
Borrowings	**(4,125)**	(4,733)	(4,435)
Obligations under finance leases	**(1,222)**	(1,906)	(1,375)
Deferred tax	**(2,222)**	(3,229)	(2,914)
Contingent consideration	**(256)**	(256)	(256)
Other creditors	**(3,157)**	(3,450)	(3,339)
Total non-current liabilities	**(10,982)**	(13,574)	(12,319)
Total liabilities	**(48,911)**	(52,557)	(52,673)
Net assets	**67,594**	69,571	69,076
Equity			
Share capital	**1,568**	1,535	1,553
Share premium account	**14,019**	12,780	13,385
Capital redemption reserve	**1,299**	1,299	1,299
Translation reserve	**181**	(365)	(135)
Merger reserve	**28,949**	28,949	28,949
Other reserves	**180**	180	180
Investment in own shares	**(3,435)**	(2,250)	(2,835)
Retained earnings	**24,833**	27,443	26,680
Total equity attributable to equity owners of the parent	**67,594**	69,571	69,076

Consolidated statement of changes in equity (Unaudited)
at 30 November 2018

	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 2017	958	12,771	1,299	-	2	180	(2,250)	31,946	44,906
Shares issued	577	9	-	28,949	-	-	-	-	29,535
Dividend paid	-	-	-	-	-	-	-	(230)	(230)
Share-based payments	-	-	-	-	-	-	-	32	32
Transactions with owners	577	9	-	28,949	-	-	-	(198)	29,337
Loss for the period	-	-	-	-	-	-	-	(4,305)	(4,305)
Other comprehensive income									
Exchange rate gain	-	-	-	-	(367)	-	-	-	(367)
Total comprehensive income for the period	-	-	-	-	(367)	-	-	(4,305)	(4,672)
At 30 Nov 2017	**1,535**	**12,780**	**1,299**	**28,949**	**(365)**	**180**	**(2,250)**	**27,443**	**69,571**
At 1 Dec 2017	1,535	12,780	1,299	28,949	(365)	180	(2,250)	27,443	69,571
Shares issued	18	605	-	-	-	-	-	-	623
Dividend paid	-	-	-	-	-	-	-	(676)	(676)
Investment in own shares	-	-	-	-	-	-	(585)	-	(585)
Share-based payments	-	-	-	-	-	-	-	37	37
Transactions with owners	18	605	-	-	-	-	(585)	(639)	(601)
Loss for the period	-	-	-	-	-	-	-	(181)	(181)
Other comprehensive income:									
Actuarial gains on pension scheme	-	-	-	-	-	-	-	71	71
Deferred tax on actuarial gains from pension scheme	-	-	-	-	-	-	-	(14)	(14)
Exchange rate loss	-	-	-	-	230	-	-	-	230
Total comprehensive income for the period	-	-	-	-	230	-	-	(124)	106
At 31 May 2018	**1,553**	**13,385**	**1,299**	**28,949**	**(135)**	**180**	**(2,835)**	**26,680**	**69,076**
At 1 June 2018	1,553	13,385	1,299	28,949	(135)	180	(2,835)	26,680	69,076
Adjustment of transitioning to IFRS 15	-	-	-	-	-	-	-	(1,936)	(1,936)
Adjusted equity as at 1 June 2018	1,553	13,385	1,299	28,949	(135)	180	(2,835)	24,744	67,140
Shares issued	15	634	-	-	-	-	-	-	649
Dividend paid	-	-	-	-	-	-	-	(403)	(403)
Investment in own shares	-	-	-	-	-	-	(600)	-	(600)
Share-based payments	-	-	-	-	-	-	-	40	40
Transactions with owners	15	634	-	-	-	-	(600)	(363)	(314)
Profit for the period	-	-	-	-	-	-	-	452	452
Other comprehensive income									
Exchange rate loss	-	-	-	-	316	-	-	-	316
Total comprehensive income for the period	-	-	-	-	316	-	-	452	768
At 30 Nov 2018	**1,568**	**14,019**	**1,299**	**28,949**	**181**	**180**	**(3,435)**	**24,833**	**67,594**

Consolidated cash flow statement (Unaudited)
for the six months ended 30 November 2018

	6 months to 30 Nov 2018 £'000	6 months to 30 Nov 2017 £'000	Year to 31 May 2018 £'000
Operating activities			
Cash flows from operating activities	**2,587**	(10,421)	(6,142)
Finance costs paid	**(138)**	(68)	(363)
Income tax paid	**(587)**	(15)	(212)
Contributions to defined benefit plan	**(120)**	(43)	(175)
Net cash inflow/(outflow) from operating activities	**1,742**	(10,547)	(6,892)
Investing activities			
Acquisition of subsidiary undertakings (note 7)	**36**	739	(11,896)
Finance income	**-**	21	13
Purchase of intangible assets	**(464)**	(205)	(712)
Purchase of property, plant and equipment	**(1,114)**	(1,021)	(2,654)
Proceeds from sale of property, plant and equipment	**188**	77	-
Net cash used by investing activities	**(1,354)**	(389)	(15,249)
Financing activities			
Equity dividends paid	**(403)**	(230)	(906)
Repayments of bank loans	**(2,464)**	(12,591)	(3,483)
Repayments of obligations under finance leases	**(572)**	(436)	(1,025)
Proceeds from issue of ordinary shares	**48**	9	47
Borrowings raised	**636**	3,524	6,289
Net cash (outflow)/inflow from financing activities	**(2,755)**	(9,724)	922
Net decrease in cash and cash equivalents	**(2,367)**	(20,660)	(21,219)
Cash and cash equivalents at beginning of period	**6,565**	27,703	27,703
Effect of foreign exchange rate changes	**50**	(288)	81
Cash and cash equivalents at end of period	**4,248**	6,755	6,565

Cashflows from operating activities (Unaudited)
for the six months ended 30 November 2018

	6 months to 30 Nov 2018 £'000	6 months to 30 Nov 2017 £'000	Year to 31 May 2018 £'000
Profit/(loss) before income tax from continuing operations	**649**	(4,753)	(4,498)
Adjustments for:			
Depreciation of property, plant and equipment	**1,568**	821	2,532
Amortisation of intangible assets	**183**	158	374
Amortisation of intangibles from business combinations	**768**	1,808	3,303
Profit on disposal of property, plant and equipment	**(18)**	-	-
Finance income	**-**	(21)	(36)
Finance expense	**348**	185	692
Share based payment charge	**40**	32	69
Changes in working capital			
(Increase)/decrease in inventories	**(3,514)**	(425)	4,144
Decrease/(increase) in trade and other receivables	**5,774**	(2,743)	(8,618)
Increase in trade and other payables	**(2,550)**	(4,857)	(3,088)
Increase in provisions	**(710)**	(628)	(1,039)
Other non cash changes	**49**	2	23
Cash inflow/(outflow) from operating activities	**2,587**	(10,421)	(6,142)

Notes to the half year statement
30 November 2018

1. Basis of preparation

The Group's interim results for the six month period ended 30 November 2018 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 2019. 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 26 February 2019 and will shortly be available on the Group's website at www.avingtrans.plc.uk.

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 2019.

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 June 2018. Adoption of IFRS 15 has led to a number of changes in the way the Group recognises revenue including whether to recognise over time or at a point in time, the splitting of contracts into multiple performance conditions which are recognised separately, the aggregation of a series of products into a single performance condition, reassessment of contract losses in the prior period and a change in the methodology for the recognition of long term service agreements. The Group has applied IFRS 15 using the cumulative effect of initially applying the new revenue standard as an adjustment of £1.9m to the opening balance of equity at 1 June 2018. The comparative information has not been restated and continues to be reported under IAS11 and IAS 18.

The statutory accounts for the year ended 31 May 2018, 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 EPM	Energy PSRE	Medical MII	Unallocated central items	Total
	£'000	£'000	£'000	£'000	£'000
6 months to 30 November 2018					
Original equipment	**7,576**	**11,978**	**6,147**	**-**	**25,701**
Aftermarket	**15,175**	**6,737**	**83**	**-**	**21,995**
Revenue	**22,751**	**18,715**	**6,230**	**-**	**47,696**
Operating profit/(loss)	**891**	**1,052**	**(207)**	**(739)**	**997**
Net finance costs					**(348)**
Taxation					**(197)**
Profit after tax from continuing operations					**452**
Year ended 31 May 2018					
Original equipment	15,194	20,096	10,410	-	45,700
Aftermarket	21,581	11,583	-	-	33,164
Revenue	36,775	31,679	10,410	-	78,864
Operating (loss)/profit	(1,532)	425	(109)	(2,626)	(3,842)
Net finance costs					(656)
Taxation					12
Loss after tax from continuing operations					(4,486)

Notes to the half year statement
30 November 2018

2. Segmental analysis (continued)

	Energy EPM	Energy PSRE	Medical MII	Unallocated central items	Total
	£'000	£'000	£'000	£'000	£'000
6 months to 30 November 2017					
Original equipment	6,297	7,400	5,101	-	18,798
Aftermarket	5,941	2,206	-	-	8,147
Revenue	12,238	9,606	5,101	-	26,945
Operating (loss)/profit	(1,643)	(952)	75	(2,070)	(4,590)
Net finance costs					(163)
Taxation					448
Loss after tax from continuing operations					(4,305)

3. Taxation

The taxation credit/(charge) is based upon the expected effective rate for the year ended 31 May 2019.

4. Adjusted Earnings before interest, tax, depreciation and amortisation

	6 months to 30 Nov 2018 £'000	6 months to 30 Nov 2017 £'000	Year to 31 May 2018 £'000
Profit/(loss) before tax from continuing operations	**649**	(4,753)	(4,498)
Share based payment expense	**40**	32	69
Acquisition costs	**75**	1,451	1,567
Restructuring costs	**-**	1,408	1,699
Gain/(loss) on derivatives	**42**	(18)	172
Unwinding of discounting on dilapidation provision	**50**	20	62
Amortisation of intangibles from business combinations	**768**	1,808	3,303
Adjusted profit/(loss) before tax	**1,624**	(52)	2,374
Finance income	**-**	(21)	(36)
Finance cost	**348**	184	692
Gain/(loss) on derivatives/unwinding of discounting on dilapidation provision	**(92)**	(2)	(234)
Adjusted profit/(loss) before interest, tax and amortisation from business combinations ('EBITA')	**1,880**	109	2,796
Depreciation	**1,568**	821	2,532
Amortisation of other intangible assets	**183**	158	375
Adjusted Earnings before interest, tax, depreciation and amortisation ('EBITDA')	**3,631**	1,088	5,703

Notes to the half year statement
30 November 2018

5. Finance income and costs

	6 months to 30 Nov 2018 £'000	6 months to 30 Nov 2017 £'000	Year to 31 May 2018 £'000
Finance income			
Bank balances and deposits	**-**	21	5
Interest from other	**-**	-	31
	-	21	36
Finance costs			
Interest on banking facilities and finance lease agreements	**256**	182	458
Finance charges relating to the unwinding of provisions	**42**	20	62
Losses/(gain) on the fair value of derivative contracts	**50**	(18)	172
	348	184	692

6. Earnings/(loss) per share

Basic earnings/(loss) per share is based on the earnings/(loss) 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 2018 No	6 months to 30 Nov 2017 No	Year to 31 May 2018 No
Weighted average number of shares – basic	**31,087,029**	22,015,992	27,952,066
Share Option adjustment	**396,851**	390,350	360,448
Weighted average number of shares – diluted	**31,483,880**	22,406,342	28,312,514
	£'000	£'000	£'000
Earnings/(loss) from continuing operations	**452**	(4,305)	(4,486)
Share based payments	**40**	32	69
Acquisition costs	**75**	1,451	1,567
Restructuring costs	**-**	1,408	1,699
Loss on derivatives	**42**	-	172
Unwinding of discounting on dilapidation provision	**50**	-	62
Amortisation of intangibles from business combinations	**768**	1,808	3,303
Deferred tax release on amortisation of business combination intangibles	**(131)**	(307)	-
Adjusted earnings from continuing operations	**1,296**	87	247
From continuing operations:			
Basic earnings/(loss) per share	**1.5p**	(19.6)p	(16.0)p
Adjusted basic earnings per share	**4.2p**	0.4p	8.5p
Diluted earnings/(loss) per share	**1.4p**	(19.2)p	(16.0)p
Adjusted diluted earnings per share	**4.1p**	0.4p	8.4p

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 2018

7. Acquisition of subsidiary

On 22 October 2018 the Group acquired 100 percent of the issued share capital of Tecmag Inc. for $1. The acquisition was made to enhance the Group's position in the Medical division. The provisional fair value of net assets acquired at the date of acquisition were $50.

	£'000
Cash impact of acquisition	
Cash acquired	**(36)**
Acquisition costs charged to expenses	**75**
Net cash paid relating to the acquisition	**39**

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

Acquisition costs arising from this transaction of £75,000 have been included in administration expenses included in overheads before operating profit.

	£'000
The impact of the Tecmag acquisition on the Consolidated income statement is as follows:	
Revenue	**79**
Gross profit	**39**
Overheads	**(56)**
Operating loss & Loss before taxation & Overall effect on the Consolidated income statement	**(17)**

Since acquisition Tecmag contributed the following to the Group's cashflows:	**£'000**
Operating cashflows	**(57)**
Investing activities	**(3)**
Financing activities	**-**