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PENNANT INTERNATIONAL GROUP PLC

Preliminary Results for the Year Ended 31 December 2018

A Year of Delivery with Significant Progress

Positive Contribution across all Divisions; Earnings per Share more than Double

Pennant International Group plc ("**Pennant**", the "**Company**" or the "**Group**"), the AIM quoted supplier of integrated training and support solutions, products and services which train and assist operators and maintainers in the defence and regulated civilian sectors globally, is pleased to announce Preliminary Results for the Financial Year Ended 31 December 2018.

Commenting on the Group's performance, Simon Moore, Chairman, said:

"I am delighted to report that 2018 has seen Pennant build on the firm foundations established in 2017, delivering full-year revenues of £21.07 million and operating profit of £3.17 million.

During the period, a number of key operational and strategic objectives were achieved, most notably the successful completion of two major Middle East contracts, the securing of other major contract awards across the business, several of which are with new customers, and the launch and subsequent sales of our innovative new training solutions.

Post period-end, this positive trading momentum has been maintained, complemented by the raising of over £2.1 million of new share capital by way of an over-subscribed institutional placing and the exercise of share options, and the purchase of the Aviation Skills Partnership, the Group's first acquisition since 1999."

Financial Summary

- Group revenues (following application of IFRS 15) of £21.1 million (2017: £18.1 million);
- Gross profit margin was 39% (2017: 40%);
- Profit before taxation was £3.2 million (2017: £1.8 million);
- Earnings before interest, tax and amortisation of £3.3 million (2017: £2.1 million);
- Profit for the year attributable to shareholders was £3.15 million (2017: £1.53 million);
- Basic earnings per share of 9.49p (2017: 4.65p)
- Group net assets at year-end of £14.04 million (2017: £13.33 million);
- Net cash at year-end of £1.85 million (2017: £1.50 million); nil borrowings;
- No final dividend recommended (2017: £NIL);
- Three-year order book at year-end stood at £37 million (2017: £34 million).

Operational Summary

Contracts

- Down-selection on major programme worth in the region of £25 million to £30 million. Negotiations with the customer are ongoing with a view to a contract being placed in the first half of 2019.

- Award of a new contract in October 2018 to supply training aids for a Qatari customer worth in the region of £10 million, deliverable over 2018, 2019 and 2020.

- The successful completion and customer acceptance of the first tranche of devices on the Qatari contract prior to year-end.

- Successful rescoping of the Group's key contract with a major UK prime contractor for electromechanical trainers and computer-based training for the Ajax vehicle, with contract value increased by £3.5 million to just under £12 million.

- Delivery of all remaining training aids on both Middle East contracts signed in 2016, with final payments received in July 2018.

- Successful renewal of the key contract with the Canadian government, worth circa C$30 million over five years.

- New order secured worth in the region of C$750,000 over three years (to June 2021) for OmegaPS consultancy services to a North American prime contractor.

- An order from the UK MOD for an upgrade to its virtual parachute training systems (worth circa £370,000).

- A new contract in the Middle East for technical and support services to be provided in region.

- An order from a new customer in the rail industry for the re-configuration and re-deployment of a rail cab simulator (worth circa £125,000).

- Additional orders from Network Rail for control room simulators worth circa £50,000.

- A new contract from a rail car builder for technical documentation services (initial value: £150,000 per annum).

- An extension to 31 March 2019 of the existing Omega PS contract with the Australian Defence Organisation.

Investment

- The Group has continued to modernise and improve both production and administrative facilities with investment in a planned programme to upgrade our operations.

- During 2018, the Group invested over £2 million in new facilities, acquiring two new freehold properties and increasing overall floorspace to circa 60,000 square feet.

- Targeted investment in innovation has been made to further expand the Group's market penetration, addressing gaps in the product range and improving the overall customer proposition. During the period, the Group invested over £1m in the development of new and enhanced solutions.

- To date six new products have been successfully launched and orders have been secured for five of these solutions within the first year, comprising the Basic Helicopter Maintenance Trainer, Generic Stores Loading Trainer, Genskills Mk. 2 Virtual Aircraft Training System and Virtual Loadmaster Training System.

Management

The Group continued to strengthen its operational management during the period, making a number of key appointments, including a new Chief Operating Officer to manage the Technical Training business (an experienced operations director with a prime contractor and military background).

On current trading and prospects, Mr Moore concluded:

"Prospects for the UK, not least due to Brexit, and the broader global economy remain uncertain, with ongoing political and financial pressures in defence markets and elsewhere.

However, the Group is experiencing an encouraging start to the current financial year. The Board anticipates that the full year results for 2019 will be significantly second-half weighted due to the mix of products and the application of IFRS 15 to the timing of product delivery and realisation of Group profits.

Our contracted order book, valued at more than £37 million, underpins good forward visibility of revenues well into 2021, and, when combined with the pipeline of active bids and the acquisition of ASP, together provide an excellent basis for further achievement in 2019 and beyond."

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CHAIRMAN'S STATEMENT

Year of delivery

In my statement for 2017, I advised that Pennant had undergone a period of dynamic and transformational change, led by the new management team, and provided guidance that the Group's trading prospects for 2018 were positive.

The Group is reporting a record performance for 2018, with full-year revenues and operating profits ahead of historic levels and in-line with market expectations.

During the period under review, a number of key operational and strategic objectives have been achieved, most notably the successful completion of two major Middle East contracts, the securing of other major contract awards across the business, several of which are with new customers, and the launch and subsequent sales of our innovative new training solutions.

Post period-end, this positive trading momentum has been maintained, complemented by the raising of over £2.1 million of new share capital by way of an over-subscribed institutional placing and the exercise of share options, and the purchase of The Aviation Skills Partnership Limited ("**ASP**"), the Group's first acquisition since 1999.

Key financials

For the year ended 31 December 2018, the Group delivered consolidated revenues of £21.07 million (2017: £18.07 million), driven by the continued production and successful completion of products on its major contracts for training colleges in the Middle East.

The Group posted consolidated profit before tax of £3.18 million (2017: £1.81 million) which represents a significant increase in performance and a record reported profit for the Group. Consolidated net assets increased to £14.04 million (2017: £13.33 million) reflecting the profitable trading.

Basic earnings per share more than doubled to 9.49p compared to the reported earnings per share of 4.65p for the same period last year.

Dividends

The Board fully appreciates the importance of dividend payments. However, notwithstanding the Group's strong trading performance, positive outlook and nil borrowings, the Directors have concluded that it is in the Company's and shareholders' current best interests to retain cash for working capital and investment in accordance with plans for future growth (including securing key new contracts and the development of the ASP business).

The Board will therefore not be recommending the payment of a final dividend for the year ended 31 December 2018. However, it will continue to review dividend policy throughout 2019 based on trading performance and working capital requirements.

Governance

The Board believes in robust corporate governance. We have worked closely with our advisors and in 2018 continued to strengthen our governance frameworks to ensure strong, proportionate governance throughout the Group. We have established appropriate risk management procedures and keep key risks to the Group under regular review. Further details of our principal risks and uncertainties are provided in the Governance & Risks section of the Group's 2018 Annual Report.

Board changes

During the year under review there have been a number of Board changes. With effect from 1 April 2018 Gary Barnes was appointed as Finance Director and John Ponsonby was appointed Non-Executive Director and Chair of the Strategy Committee. Further details on both new Board members can be found in the Governance & Risks section of the 2018 Annual Report.

Christopher Powell, Non-Executive Director and Chair of the Audit Committee is due to retire by rotation at the next Annual General Meeting ("**AGM**"). After more than 25 years of service to the Group, Mr Powell has confirmed that he will not be standing for re-election.

On behalf of the Board, I would like to take this opportunity to recognise Christopher for his long service and significant contribution to the Company. Christopher has been integral to the Group's success over the years, being key to the Company's admission to AIM over 20 years ago, overseeing the award of the Group's 'game-changing' contract for training devices at RAF Cosford, leading the acquisition of the OmegaPS business, and many other critical contributions. Following his retirement as a Director at the AGM, we anticipate that we will engage Christopher from time to time on strategic matters, drawing on his extensive knowledge and experience.

On 24 September 2018, Timothy Rice, who was due to retire by rotation at the next AGM confirmed that he would not be standing for re-election and it was agreed that Mr Rice would leave the Company with immediate effect. On behalf of the Board, I would like to thank Tim for his contribution to the Company.

Our people

As always, I would also like to take this opportunity to thank to thank Philip Walker, his executive team and all Pennant staff across the Group for their hard work and dedication throughout the year. Their continued commitment and drive to ensure that the business delivers the high-quality solutions that our customers require and expect, operating under tight timescales, are key factors in maintaining and enhancing the ongoing and longstanding relationships we have with our customers.

Brexit

The Board has carried out a review of its customer and supplier base and continues to monitor developments in relation to Brexit and its potential impact on the Group.

Pennant has no significant contracts with customers in EU member states (other than the UK itself), and no material direct suppliers within the EU. Whilst the ultimate form Brexit will take remains unclear, the Group presently expects that Brexit will have only a minimal effect on its trading. However, the Board will continue to monitor closely the political and economic situation as it develops and any potential impact Brexit may have on the wider supply chain and the business environment generally.

Outlook and future developments

The Board is pleased with the healthy organic growth achieved across the Group in 2018, and is looking to build on this positive momentum by continuing to implement the Group's strategy, however, we recognise that prospects for both the UK and the broader global economy remain uncertain; there are political and financial pressures in defence markets and beyond.

The key risks faced by Pennant have been carefully considered by the Board and our assessment of these risks and the mitigations and controls we are deploying in response are set out in the 2018 Annual Report. However, Pennant is nimble, agile and responsive, so is well placed to address these challenges as they arise.

The Group is experiencing an encouraging start to the current financial year and anticipates that the full year results for 2019 will be significantly second-half weighted due to the mix of products and the application of IFRS 15.

Our contracted order book, currently valued at more than £37 million, underpins good forward visibility of revenues well into 2021, and when combined with the pipeline of active bids, and the acquisition of ASP, together provide a solid platform to deliver further progress in 2019 and beyond.

Simon Moore

Chairman

CHIEF EXECUTIVE'S REVIEW

Significant progress by Pennant

In the 2017 Annual Report, I outlined my confidence that the implementation of operational improvements coupled with the continued investment in infrastructure, people and products had provided a firm platform to drive future growth.

I am delighted to report that this confidence was well-founded as 2018 saw the Group make significant progress, delivering impressive results for the year and continuing to successfully implement its strategy. The Group overcame all the key challenges it faced and was able to focus on contract delivery which generated revenues for the year of £21.1 million (up 17%), an operating profit of £3.2 million (up 75%) and an operating margin of 15% (2017: 10%).

Across all units we have seen major new orders secured, with every division and every territory in which we operate making a positive contribution to overall performance.

Financial review

The key financial performance indicators are noted below.

The gross profit margin for the period was 39% (2017: 40%) reflecting the consistent mix of products and services delivered across the two years.

The operating margin has significantly increased to 15% (2017: 10%) due to effective management of central costs and the benefits of an improved operational model following the re-organisation of UK operations at the start of 2018.

Cash generated in operations amounted to £5.0 million (2017: cash used in operations £1.0 million), reflecting the achievement of contractual delivery on major programmes. The Group has nil borrowings and at the year-end had cash balances of £1.8 million (2017: £1.5 million).

The Group's tax position shows a tax charge of £32,712 (2017: £275,409), representing an effective tax rate of 1% (2017: 15%). The Group has unrelieved tax losses carried forward of £5.3 million (2017: £0.3 million).

Research and Development tax credits claimed in the UK during the year amounted to £1.9 million (2017: £0.3 million) and further claims on current projects are expected to be made during 2019.

The order book at the year-end stood at £37 million (2017: £34 million), of which £19 million of revenue (2017: £13 million) is scheduled for recognition within one year. Of the total order book, 51% (2017: 65%) is denominated in sterling and 36% (2017: 30%) is denominated in Canadian dollars. Any movement of sterling to the Canadian dollar would potentially impact the OmegaPS business.

The Company's balance sheet remains strong, and post year-end the Company raised £2.1 million from an issue of new shares. These funds will be used to support the acquisition of ASP, to continue investing in product development and for working capital requirements.

Divisional performance

All business units have contributed to the Group's profitable performance and new orders have been secured in each division. Divisional financial performance is set out below and further information about the business of each division is provided in the 'About Pennant' section of this document.

Technical Training

The Group's Technical Training division (formerly known as Training Systems) is focused on the design and build of generic and platform-specific training solutions and the provision of related technical and support services.

The Technical Training division continues to be the main driver of revenues within the Group and has delivered an excellent performance. Revenues for the year were strong at £16.8 million (2017: £13.6 million) as a direct result of the successful delivery of major Middle East contracts.

	2018 **£m**	2017 £m
Revenue	**16.8**	13.6
Divisional Contribution	**2.9**	1.4

Revenues from the Technical Training division were predominantly generated from product sales, which accounted for 80% of the divisional revenue, with the balance generated from technical and support services.

The contribution from Technical Training accounted for 90% of the Group's operating profit for the period (2017: 78%).

During the year, the Group made significant investment in preparation for further growth expected to be driven by future contract awards. To complement this, the division has been re-organised internally to maximise its potential to secure and deliver new orders.

<u>Integrated Logistics Support (ILS)</u>

The Group's ILS division (formerly known as Software Services) focuses on the development of the OmegaPS LSAR software product and the provision of consultancy, training and support services in relation thereto.

The division had a solid year with revenues and contribution being maintained at similar levels to the prior year:

	2018 **£m**	2017 £m
Revenue	**4.3**	4.4
Divisional Contribution	**0.3**	0.4

Revenues from the ILS division in both 2017 and 2018 were primarily generated from consultancy services (60%) and long-term software maintenance agreements (15%). This contracted, recurring revenue is integral to the Group's forward visibility and quality of earnings.

The ILS division accounted for 10% of the Group's net profit for the period.

During the period, the Group secured a new consulting services contract with the Canadian government, worth up to C$30m, for the use and optimisation of Pennant's OmegaPS suite of supportability software.

<u>Aviation Skills Partnership</u>

Post year-end, the Group made its first acquisition since 1999 with the purchase of the Aviation Skills Partnership (ASP). ASP is focused on the promotion, facilitation and delivery of aviation skills training, promoting the establishment of, and then managing, aviation skills academies. The first such academy, International Aviation Academy – Norwich, operates from Norwich International Airport. Three more academies are in the process of being established and are expected to come online from 2020.

Operational review

Our mission is to generate sustainable long-term growth for the business. In order to deliver this objective, we continue to invest in areas that we consider are the main drivers for business success and to ensure the business has the tools and flexible skilled workforce required to deliver new, major and complex contracts.

<u>Infrastructure</u>
The Group has continued to modernise and improve facilities with investment in a planned programme to upgrade our operations. During 2018 the Group invested over £2 million in new facilities, acquiring two new freehold properties and increasing overall floorspace to circa 60,000 square feet.

This increased footprint provides the foundation to bid for and deliver additional and larger scale programmes in the future.

People
Our employees remain core to our future business success. Without talented people, there are no product innovations or technical solutions.

During 2018, we strengthened and grew the teams across our UK, Canadian and Australian operations with significant investment made in senior skills and we made a number of strategic appointments designed to improve operational delivery and manage risk including:

- a new Chief Operating Officer to manage the Technical Training business (an experienced operations director with a prime contractor and military background), commencing in role post period-end;

- a new Chief Operating Officer for the ILS business (an internal candidate with excellent product knowledge and creditable service with the Canadian Navy, a key user of OmegaPS), to succeed the present incumbent, Brian MacDonald from the second half of 2019;

- a new Head of Programmes for Technical Training (an experienced manager of training-related programmes at several prime contractors) to focus on effective programme delivery.

On behalf of the Board, I would like to thank Mr MacDonald for his exemplary service to the Group as the present Canadian COO over the last 15 years and to recognise his huge contribution in building the OmegaPS business (particularly its consultancy services) into the key division of the Group that it is today. Brian will continue to work with the Group in a strategic advisory role.

Innovation
In line with the Group's core strategic objective, investment in innovation has been targeted to expand the Group's market coverage, addressing gaps in the product range and improving the overall customer proposition. During the period, the Group invested over £1m in the development of new and enhanced solutions.

To date six new products have been successfully launched and orders have been secured for five of these solutions within the first year, comprising the Basic Helicopter Maintenance Trainer, Generic Stores Loading Trainer, Genskills Mk 2, Virtual Aircraft Training System and Virtual Loadmaster Training System.

The Company anticipates that it will continue to invest in new solutions during 2019 and beyond. The Group has an active pipeline of potential product innovations and improvements that are going through an assessment process with a view to obtaining funding approval if a business case is proven. Together, these new products offer the potential for further significant growth.

Contracts
New contract awards, amendments and achievements during the year are set out below:

- Award of a new contract in October 2018 to supply training aids for Qatar worth in the region of £10 million, deliverable over 2018, 2019 and 2020.

- The successful completion and customer acceptance of the first tranche of devices on the Qatar contract prior to year-end.

- Successful rescoping of the Group's key contract with a major UK prime contractor for electromechanical trainers and computer-based training for the Ajax vehicle, with contract value increased by £3.5 million to just under £12 million.

- Delivery of all remaining training aids on both Middle East contracts signed in 2016, with final payments received in July 2018.

- Successful renewal of the key contract with the Canadian government, worth circa C$30 million over five years.

- New order secured worth in the region of C$750,000 over three years (to June 2021) for OmegaPS consultancy services to a North American prime contractor.

- An order from the UK MOD for an upgrade to its virtual parachute training systems (worth circa £370,000).

- A new contract in the Middle East for technical and support services to be provided in region.

- An order from a new customer in the rail industry for the re-configuration and re-deployment of a rail cab simulator (worth circa £125,000).

- Additional orders from Network Rail for control room simulators worth circa £50,000.

- A new contract from a rail car builder for technical documentation services (initial value: £150,000 per annum).

- An extension to 31 March 2019 on the existing Omega PS contract with the Australian Defence Organisation.

Implementing the strategy

The underlying strengths of Pennant – our long-term customer relationships, our specialist services and our quality-assured reputation – remain the solid foundations of our proposition.

Through its continued investment in infrastructure, people and products, the Company has enhanced its ability to deliver future growth.

The Board is confident that Pennant can continue to increase revenues through organic growth and will continue to explore ways to complement this with acquisitions.

The achievements of the year, together with operational improvements implemented across the Group and our healthy pipeline, provide a firm platform for future success.

Philip Walker

CEO

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018	2017
Continuing operations		**£**	£
Revenue		**21,069,223**	18,069,960
Cost of sales		**(12,806,223)**	(10,906,992)
Gross profit		**8,263,000**	7,162,968
Administrative expenses		**(5,093,520)**	(5,356,895)
Operating profit		**3,169,480**	1,806,073
Finance costs		**(1,700)**	(2,693)
Finance income		**10,857**	5,371
Profit before taxation		**3,178,637**	1,808,751
Taxation (charge) / credit	1	**(32,712)**	(275,409)
Profit for the year attributable to the equity holders of the parent		**3,145,925**	1,533,342
Earnings per share			
Basic		**9.49p**	4.65p
Diluted		**8.67p**	4.30p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018	2017
		£	£
Profit for the year attributable to the equity holders of the parent		**3,145,925**	1,533,342
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(34,086)**	(85,055)
Total comprehensive income for the period attributable to the equity holders of the parent		**3,111,839**	1,448,287

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

	Notes	2018	2017
		£	£
Non-current assets			
Goodwill		**951,939**	962,133
Other intangible assets		**1,660,292**	231,048
Property, plant and equipment		**6,889,346**	3,702,851
Deferred tax assets		**198,432**	310,699
Total non-current assets		**9,700,009**	5,206,731
Current assets			
Inventories		**1,923,639**	74,629
Trade and other receivables		**5,184,533**	10,153,650
Cash and cash equivalents		**1,848,954**	1,502,655
Total current assets		**8,957,126**	11,730,934
Total assets		**18,657,135**	16,937,665
Current liabilities			
Trade and other payables		**4,478,039**	2,932,857
Current tax liabilities		**42,247**	80,600
Obligations under finance leases		**5,350**	4,945
Total current liabilities		**4,525,636**	3,018,402
Net current assets		**14,131,499**	8,712,532
Non-current liabilities			
Obligations under finance leases		**20,383**	26,895
Trade and other payables		**23,105**	6,325
Deferred tax liabilities		**-**	307,916
Warranty provisions		**50,000**	250,000
Total non-current liabilities		**93,488**	591,136
Total liabilities		**4,619,124**	3,609,538
Net assets		**14,038,011**	13,328,127
Equity			
Share capital		**1,685,177**	1,647,177
Share premium account		**3,168,870**	2,677,571
Capital redemption reserve		**200,000**	200,000
Retained earnings		**8,225,321**	7,982,360
Translation reserve		**297,926**	332,012
Revaluation reserve		**460,717**	489,007
Total equity		**14,038,011**	13,328,127

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Share Premium (see below)	Capital redemption reserve (see below)	Retained earnings	Translation reserve (see below)	Revaluation reserve (see below)	Total equity
	£	£	£	£	£	£	£
At 1 January 2017	1,649,277	2,685,971	200,000	6,347,343	417,067	517,297	11,816,955
Profit for the year	-	-	-	1,533,342	-	-	1,533,342
Other comprehensive income	-	-	-	-	(85,055)	-	(85,055)
Total comprehensive income	1,649,277	2,685,971	200,000	7,880,685	332,012	517,297	13,265,242
Cancellation of B and C shares	(2,100)	(8,400)	-	-	-	-	(10,500)
Recognition of share based payment	-	-	-	73,385	-	-	73,385
Transfer from revaluation reserve	-	-	-	28,290	-	(28,290)	-
At 1 January 2018	1,647,177	2,677,571	200,000	7,982,360	332,012	489,007	13,328,127
Total Comprehensive Income for the year	-	-	-	3,145,925	-	-	3,145,925
Tax relating to other comprehensive income	-	-	-	116,407	-	-	116,407
Adjustment on initial application of IFRS 15	-	-	-	(3,151,644)	-	-	(3,151,644)
Other comprehensive income	-	-	-	-	(34,086)	-	(34,086)
Total comprehensive income	1,647,177	2,677,571	200,000	8,093,048	297,926	489,007	13,404,729
Issue of New Ordinary Shares	38,000	491,299	-	-	-	-	529,299
Recognition of share based payment	-	-	-	103,983	-	-	103,983
Transfer from revaluation reserve	-	-	-	28,290	-	(28,290)	-
At 31 December 2018	**1,685,177**	**3,168,870**	**200,000**	**8,225,321**	**297,926**	**460,717**	**14,038,011**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £	2017 £
Net cash from operations		**5,012,123**	(988,536)
Investing activities			
Interest received		**10,857**	5,371
Purchase of intangible assets		**(1,583,760)**	(227,108)
Purchase of property, plant and equipment		**(3,561,439)**	(1,282,088)
Proceeds from sale of assets held for sale		**-**	575,000
Proceeds on disposal of property, plant & equipment		**1,600**	-
Net cash used in investing activities		**(5,132,742)**	(928,825)
Financing activities			
Proceeds from sale of ordinary shares		**529,299**	-
Cancellation of B & C Shares		**-**	(10,500)
Net funds from obligations under finance leases		**(4,647)**	(4,187)
Net cash from/(used in) financing activities		**524,652**	(14,687)
Net increase/(decrease) in cash and cash equivalents		**404,033**	(1,932,048)
Cash and cash equivalents at beginning of year		**1,502,655**	3,517,541
Effect of foreign exchange rates		**(57,734)**	(82,838)
Cash and cash equivalents at end of year		**1,848,954**	1,502,655

ABBREVIATED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Taxation

	2018 (£)	2017 (£)
Recognised in the income statement		
Current UK tax expense	-	52,218
Foreign tax	**103,819**	34,385
Adjustment in respect of prior tax years foreign	**9,770**	-
In respect of prior years	**5**	(3,511)
	113,594	83,092
Deferred tax expense relating to origination and reversal of temporary differences	**(84,463)**	189,398
Deferred tax prior year adjustment	**3,581**	-
Exchange rate difference	**-**	2,919
Total tax expense	**32,712**	275,409

Reconciliation of effective tax rate		
Profit before tax	**3,178,641**	1,809,751
Tax at the applicable rate of 19.00% (2017: 19.25%	**604,199**	348,378
Income not taxable for tax purposes	**(598,812)**	-
Tax effect of expenses not deductible in determining taxable profit	**88,885**	19,788
Additional deduction for R&D expenditure	**(365,604)**	(77,974)
Foreign tax credits	**30,125**	2,250
Share Option deduction	**(79,933)**	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	**21,329**	-
Effect of lower rate of deferred tax	**(9,852)**	8,853
Losses arising not recognised in deferred tax	**-**	(40,612)
Deferred tax not recognised	**340,001**	(2,169)
Effect of adjustments for prior years	**13,351**	-
Temporary differences not recognised in computation	**(10,977)**	16,895
Total tax expense	**32,712**	275,409

2. Publication of non-statutory accounts

The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in the Companies Act 2006.

The statement of financial position at 31 December 2018 and income statement, statement of changes in equity, statement of cash flows and associated notes for the year ended have been extracted from the Company's 2018 financial statements upon which the auditor opinion is unqualified.

Copies of the 2018 Annual Report and Accounts will be distributed to shareholders shortly and will be available on the Company's website: www.pennantplc.co.uk. Further copies may be obtained by contacting the Company Secretary at Pennant Court, Staverton Technology Park, Cheltenham GL51 6TL.