Plexus Holdings PLC / Index: AIM / Epic: POS / Sector: Oil equipment & services

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Plexus Holdings PLC ('Plexus', 'the Company' or 'the Group')
Interim Results

Plexus Holdings PLC, the AIM quoted oil and gas engineering services business and owner of the proprietary POS-GRIP® friction-grip method of wellhead engineering, announces its interim results for the six months to 31 December 2017.

Financial Results

- Following the announcement on 19 October 2017 in which Plexus notified its intention to dispose of its wellhead jack-up exploration application business ("the "Jack-up Business") to FMC Technologies Limited ('FMCT'), a subsidiary of major oil services provider TechnipFMC (Paris:FTI)(NYSE:FTI), and the subsequent post period end completion of the transaction announced 1 February 2018, the interim results and prior periods are reported as required on a continuing and a discontinuing operations basis
- Continuing operations sales revenue £40k (2016: £179k)
    - Discontinuing operations sales revenue £2,411k (2016: £3,591k)
- Continuing operations EBITDA loss (£1,883k) (2016: £1,654k loss)
    - Discontinuing operations EBITDA profit £105k (2016: £1,528k)
- Continuing operations loss after tax (£2,743k) (2016: Loss £2,592k)
    - Discontinuing operations loss after tax (£1,008k) (2016: profit £141k)
- Basic loss per share from continuing activities (2.60p) (2016: 2.46p loss)
    - Basic loss per share from discontinuing activities (0.96p) (2016: 0.13p earning)
- Net cash of £5.3m (2016: £10.1m). Following completion of the post period end disposal and receipt of the initial £14.1m net consideration from FMCT cash held by the Group stood at £18.8m as at 1 February 2018.
- The Company remains committed to distributing dividends to its shareholders, however the Directors believe that it is prudent to continue the suspension of the payment of dividends. The Company will look to reinstate the dividend at the earliest opportunity and, as previously announced, the Board intends to assess the on-going capital requirements of the business and if appropriate may consider paying a proportion of the proceeds of the sale of the Jack-up Business to shareholders by way of a special dividend

Overview and Corporate Highlights

- Continued low levels of exploration activity in the North Sea and outside Europe impacted on the financial performance of the Group
- The higher oil price trend which saw the price rising to circa US$57 per barrel by the end of the period and above US$60 per barrel at the time of this report bodes positively for increased investment across the sector
- September 2017 – first production well order (continuing operations) awarded by long-standing customer Centrica North Sea Limited ('Centrica') now Spirit Energy, for a gas well in the UK Southern North Sea due to spud around April 2018
    - supports the strategy to focus on extending the application of POS-GRIP technology beyond the discontinuing Jack-up Business and into the mainstream production wellhead market

- September 2017 - purchase order from new customer Rosneft (TNK Vietnam B.V.) ('Rosneft Vietnam') for the supply of POS-GRIP HP/HT adjustable rental jack-up wellhead equipment for an exploration well in a new territory offshore Vietnam
- October 2017 - Business Purchase Agreement ('BPA') signed for the sale of Plexus' Jack-up Business for up to £42.5m to FMCT a subsidiary of the top three global oil and gas services supplier TechnipFMC – transaction completed post period end
- Collaboration Agreement signed with FMCT together with the formation of a joint Steering Committee to explore the development of new and existing products based on POS-GRIP
- Three year earn-out up to a maximum additional payment value of £27.5m allows Plexus to benefit from FMCT's global reach and relationships which should be further boosted by the anticipated recovery in exploration drilling activity
- Deal provides major industry recognition of Plexus' POS-GRIP technology and acts as a catalyst for a strategic shift of focus to market sectors beyond jack-up exploration such as production surface, subsea exploration and production and decommissioning
- February 2018 - (post period end) – sale of two POS-GRIP HP/HT rental wellhead sets and associated equipment and tooling for circa £1.4m to LLC Gusar (OOO Gusar) Ltd ('Gusar') Plexus' partner and licencee in Russia
- Strong balance sheet further strengthened by completion of the disposal with FMCT

Chief Executive Ben van Bilderbeek said:

"Since we first developed our proprietary friction-grip method of engineering our objective has been to establish POS-GRIP as the superior enabling technology behind a suite of products within the wider energy sector, and in the process set new and higher industry standards in terms of performance, reliability and safety. Today, I firmly believe we have never been in a stronger position to achieve our goal.

"While our first half financial performance bears the hallmarks of the severe downturn that has continued to blight the sector in recent years, what lies behind our confidence is the landmark sale of our niche Jack-up Business for up to £42.5 million and the signing of a Collaboration Agreement with FMCT where the two companies have agreed to collaborate together on future applications of the POS-GRIP method of engineering. As well as boosting our already cash rich balance sheet following the receipt of the initial £14.1 million net consideration post period end, both the sale and Collaboration Agreement provide our technology with the industry recognition from one of the world's leading oil and gas service and equipment companies that we have been striving for. In a sector where the adoption and acceptance of newer technologies is typically slow, the decision by a global top three oil services group to not only buy our Jack-up Business but to agree to explore working with us to develop new products based on our unique IP is a major vote of confidence in POS-GRIP, the Plexus team and our vision.

"Furthermore, while we continue to work with FMCT to maximise the three-year earn-out, our focus is no longer centred on the day to day running of the Jack-up Business. The sale and Collaboration Agreement with FMCT therefore not only provide us with cash resources and an industry major as a partner, but also free up capacity to develop and monetise other products based on our ground-breaking technology which, through the Jack-up Business, has been selected above conventional equipment many times over out in the field. To date, POS-GRIP has been successfully deployed on over 350 jack-up exploration wells by blue-chip operators, including Royal Dutch Shell and Statoil. By showcasing our technology, which, as far as we are aware, is the only equipment that meets a higher performance and safety standard recently set by a major operator, our Jack-up Business has fulfilled the job it was set up to do. Now that it has been sold, we can move onto the next phase of our growth strategy: the development and roll-out of POS-GRIP enabled applications for larger and more lucrative markets, such as production and subsea wellheads, where we are confident POS-GRIP can raise industry standards, just as it has done with jack-up exploration.

"Importantly, we are not having to start from scratch. We have a portfolio of tried and tested products in the production, abandonment and subsea markets that have already been deployed out in the field or are ready for commercial roll-out. Tangible progress is already being made. In September 2017, we announced a purchase order from a subsidiary of Centrica to supply our POS-GRIP "HG" 10,000psi adjustable production wellhead for a gas production well in the UK Southern North Sea. Production is a large and lucrative market many times the size of the niche jack-up sector, and if we can achieve the same level of success we enjoyed in jack-up exploration, the potential for significant value generation is clear. Together with our POS-SET Connector™ for abandonment operations, our developed Python subsea wellhead, and our Collaboration Agreement with FMCT to consider the development of existing POS-GRIP IP for applications outside of jack-up exploration, we have a strong platform in place to extend our family of products into other segments of the energy sector, which could include geothermal and fracking.

"Although our first half financial performance, which incorporates a full contribution from the Jack-up Business, reflects the low levels of exploration activity experienced during the period, the half year under review witnessed a recovery in oil prices to US$60 - US$70 per barrel. Together with an industry-wide restructuring of cost bases over the last few years, we are hopeful the seeds for a sustained pick-up in activity are in place. Plexus stands to benefit from higher levels of exploration activity, not only via the three-year earn-out with FMCT, but also via our exclusive licence agreement with Gusar and CJSC Konar, two independent Russian oil and gas equipment manufacturers, to manufacture and rent Plexus' proprietary jack-up exploration wellhead and associated equipment within the Russian Federation and the other CIS states. We were therefore pleased to announce post period end the sale of two wellheads to Gusar for £1.4 million which is a key step towards POS-GRIP equipment being used in Russia for shallow water jack-up drilling for the first time. Based on our success in the North Sea and elsewhere around the world, once an operator experiences our equipment we have found additional orders typically follow and as a result we are hopeful our licensing agreement in Russia, which falls outside the sale of the Jack-up Business, will soon start to generate a growing licence royalty revenue stream for Plexus.

"We are excited for the future. We have emerged from what has been a severe and painful circa three year downturn for the oil and gas industry as a whole with a strong balance sheet; a Collaboration Agreement with a top tier oil and gas services provider to look at expanding the reach of our existing POS-GRIP IP into new areas of the energy sector; a licensing agreement covering the Russian market; and a growing portfolio of POS-GRIP enabled products that are ready for roll-out in large and lucrative markets. We are entering a new phase in our development, one in which we are focused on realising the full potential of our ground-breaking technology and, at the same time, raising standards throughout the wider energy industry.

"Finally I would also like to thank Geoff Thompson, who will be retiring from his role of Non-executive Director and from the Board of the Company with effect from 4 May 2018, for his dedication and service to Plexus since his appointment in 2010."

For further information please visit www.posgrip.com or contact:

Ben van Bilderbeek	Plexus Holdings PLC	Tel: 020 7795 6890
Graham Stevens	Plexus Holdings PLC	Tel: 020 7795 6890
Derrick Lee	Cenkos Securities PLC	Tel: 0131 220 9100
Frank Buhagiar	St Brides Partners Ltd	Tel: 020 7236 1177
Isabel de Salis	St Brides Partners Ltd	Tel: 020 7236 1177

Chairman's Statement

Business progress

The cyclical downturn in oil and gas markets may have weighed on our first half financial performance, as it has done for many in the sector, but it did not prevent us from achieving a number of strategic objectives which we regard as being key to delivering on our goal to position our POS-GRIP friction grip method of engineering as the go-to technology for the energy industry. Specifically, the sale of our Jack-up Business for up to £42.5 million to FMC Technologies Limited ('FMCT'), a subsidiary of top tier services provider TechnipFMC (Paris:FTI)(NYSE:FTI), the Collaboration Agreement we have also signed with FMCT, and the contract we secured with a subsidiary of Centrica to supply one of our POS-GRIP enabled wellheads for use on a production well are all major milestones we have been working towards.

The sale of the Jack-up Business represents the culmination of the first phase of our strategy. This was centred on firstly proving our equipment out in the field and secondly gaining industry recognition that our technology offers superior solutions to conventional "slip and seal" and "mandrel hanger" wellhead technologies. It is the simplicity of the theory and design that lies behind the best in class performance, reliability and safety that our patented POS-GRIP technology provides: compressive force is applied to the outside of a wellhead or pipe to flex it inwards and, as the bore of the vessel moves inwards, it makes contact with an inner pipe (or hanger) on the inside, generating sufficient contact force to hold the inner member (hanger) in place through friction between the two components and create a superior metal-to-metal seal. In addition, all movement between parts is virtually eliminated, fewer components are used, and resistance to corrosion is enhanced. This design has enabled us to match wellhead test standards to those of premium couplings.

The Jack-up Business was established to deliver these highest standards of wellhead design and more for operators to deploy on niche jack-up exploration wells, specifically on high pressure / high temperature ('HP/HT') applications. Since then, it has been used on over 350 wells by a blue-chip roster of operators including BP, Centrica, ConocoPhillips ENI, Maersk, Shell and Total, many of whom have become long-standing customers. Furthermore, prior to the downturn our POS-GRIP wellheads achieved a near 100% market share of the HP/HT market in the North Sea and in particular was chosen by Total for use on the Solaris well, which is believed to be the highest pressure and highest temperature well ever drilled in the North Sea. Having proved our wellhead technology is best in class in all operating conditions, including the most extreme pressures and temperatures, the sale of the Jack-up Business clearly provides industry recognition from a top tier supplier of POS-GRIP's unique capabilities.

Jack-up exploration drilling is niche compared to the much larger production and subsea sectors and it is these and other markets that we will be looking to penetrate going forward. It was with this in mind that we were pleased to enter into the Collaboration Agreement with FMCT. This agreement also provides for the formation of a joint Steering Committee made up of personnel from both Plexus and FMCT who will explore potential areas of future collaboration. This is a non-exclusive arrangement and potentially provides us with an excellent platform with which to target new markets for our existing and new technology.

We already have a suite of products outside jack-up exploration which are ready for roll-out as demonstrated by the award of a contract to supply Centrica with a wellhead for a production well in September 2017. We have previously supplied wellheads for production wells, including on the BP Amethyst gas field in the Southern North Sea and Tullow in the North Sea. Having demonstrated how our equipment outperforms other competing products in jack-up exploration, production has always been high on our list of priority markets to target and we are confident that this contract for a production well bodes well for future opportunities.

Momentum beyond our historic activities has been maintained in the second half of the year. As well as completing the sale of the Jack-up Business and signing the Collaboration Agreement with FMCT, post period end we announced the sale of two wellheads and associated mudline equipment and tooling to our licensee in Russia, for circa £1.4 million. This is a significant step towards breaking into the huge Russian market and the intention is for Gusar to use these wellheads to secure a first jack-up rental exploration gas well order within the Russian Federation. The licence agreement falls outside of the Jack-up Business sold to FMCT, and so any orders secured by our Russian partners will generate royalties for Plexus as per the terms of our Licence Agreement. Owing to its size, the importance of gas within its energy mix and the ongoing import replacement programme where locally manufactured and safest drilling technology is sought, Russia has the potential to become a major revenue earner for Plexus and we will continue to support our partners' efforts there to secure a first order for our equipment.

Looking to the future, the sale of the Jack-up Business demonstrates just one route to monetising POS-GRIP. With our technology proven and now recognised by a global industry-leader, licensing agreements, through which Plexus earns royalties for equipment rented out or sold, can offer a more efficient route to market for a company of our size than organic growth. Indeed smaller technology led businesses with disruptive applications often generate significant value for their shareholders via licensing agreements. Being IP-led and having raised standards in the jack-up exploration market, we consider ourselves to be such a technology company with disruptive applications, albeit a company that is, for the time being at least, focused on the energy sector. When it is appropriate to do so, we will look to secure additional licensing agreements either covering certain geographies and applications, as we did with Russia, or specific products such as our subsea and production wellheads, the Connector for abandonment operations as well as additional products that are still at the development stage. We are therefore excited to embark on this new strategy.

Operating Review

With the sale of the Jack-up Business to FMCT completing post period end on 1 February 2018, the six months under review includes a full contribution from the rental wellhead business. While the OPEC driven recovery in oil prices gathered pace during the period, resulting in prices settling in the US$60-US$70 per barrel range, lag effects mean the recovery in prices has yet to fully translate into a full-blooded pick-up in industry investment levels. Subdued exploration activity therefore persisted in the first half, resulting in a year on year reduction in half yearly revenues.

In spite of the challenging trading conditions, in September 2017 we announced the award of two landmark contracts: a purchase order from new customer Rosneft (TNK Vietnam B.V) ('Rosneft Vietnam') for the supply of POS-GRIP HP/HT adjustable rental jack-up wellhead equipment for an exploration well in a new territory offshore Vietnam; and importantly a contract with Centrica North Sea Limited ('Centrica') to supply a POS-GRIP "HG" 10,000psi adjustable wellhead for a gas production well in the UK Southern North Sea. Both these contracts represent firsts for the Company. The second order is the first awarded by Centrica for a production well. As mentioned earlier, following the sale of the Jack-up Business, production is a key target market for management, as we look to replicate the success we enjoyed in jack-up exploration in much larger and more lucrative markets.

As a backdrop to day to day operational activities, both discontinued and continued, it is relevant to report that the outlook for hydrocarbon demand is seen by the industry and various independent bodies as being more robust than may be expected in view of the focus on renewables and alternative energy sources. Approximately 66% of oil consumption derives from transportation, with vehicles accounting for circa 40% of that demand, whilst less than 2% of new car sales are electric vehicles which in turn are less than 0.2% of the total fleet. It is encouraging for the oil services companies that it is widely reported that global hydrocarbon demand will continue to increase, and S&P Global Platts Analytics recently projected that oil production will have to increase from about 100m barrels per day ('b/d') today to just under 125m b/d in 2040.

These projections and the need to be ready for the anticipated increase in operational activity were further reinforced earlier this month by the International Energy Agency ('IEA') who stated that the global oil market faces a supply cliff edge over the next decade as demand for crude increases faster than even US shale production. As a result the IEA warned that a supply crunch will result unless more investment increases after 2020 due to what they called the unprecedented reduction in investment during the oil crash when the price collapsed from over US$100 a barrel in mid-2014 to less than US$30 in early 2016. Further factors highlighted in relation to future global oil demand growth include economic growth in Asia, increased petrochemical activity in the US and declining oil fields where the head of the IEA, Fatih Birol said that more investment will be needed because "the world needs to replace 3m barrels a day of declines each year, the equivalent of the North Sea…".

Plexus intends to play its part in the recovery and stands to benefit through the post period end earn out relationship with FMCT, as well as organically or with partners for wellhead equipment applications outside of jack-up exploration drilling (with the exception of Russia and the CIS). These macro developments clearly influence our future planning and strategy and our job now post the completion of the transaction with FMCT is to structure and position Plexus to be able to respond to such opportunities. We have therefore worked hard operationally to rebalance Plexus in terms of which personnel and related functions to transfer to FMCT, and which are retained to ensure we have the building blocks for necessary capabilities going forward. These include maintaining our API6A and 17D Monogram licences.

Key functions within the business are HR, Health and Safety ('HSE'), IT and IP. HR's focus during the period has been on managing the headcount and organisation structure appropriate for meeting the operational needs of the business. With the post period end sale of Plexus' Jack-up business to FMCT, a formal consultation process with employees was carried out. At completion of the sale, this resulted in 31 employees transferring under TUPE regulations to FMCT and a restructuring of the continuing business. Emphasis remains on maintaining and developing the right balance of technical skills within the continuing business, and therefore further training needs were met with, for example, the development of in-house training modules for Gate Valves and Understanding Capacity Charts, which were subsequently rolled out across the Field Service Technician team. In addition competency assessments were successfully completed for QC and material handling. Continued development of the Competency Management System has been undertaken, including the launch of the fourth safety critical department competency system and work has been initiated to create a competency framework for support staff. Importantly the Plexus Business Code of Conduct, Modern Slavery Statement and Whistleblowing procedures were finalised and rolled out across the business.

HSE also continues to be an important area for any business, and Plexus remains fully committed to delivering the highest safety standards in everything we do. We maintain a positive safety culture which is aligned with our Company Safety Values and are pleased to report that our HSE culture remains strong across the business with no findings identified during the most recent LRQA certification surveillance audit against OHSAS 18001 standard. Safety risks continue to be managed through assessment, implementation of controls, continual monitoring, engaging and developing staff to ensure that the required competency levels are met. Plexus continues to reinforce the important message that the health and well-being of our employees is a crucial feature of our HSE and HR strategies. Personnel are encouraged to get involved and have confidence to intervene and challenge any act or condition that they are concerned about, suggest improvements, and to ensure transparent reporting to meet our desired safety and quality culture. A full review of our procedures and development of our Business Management System has been conducted to ensure compliance with the ISO 9001:2015 and API Q1 standards. As a result we have now fully transitioned to ISO 9001:2015 with no adverse findings in our most recent surveillance audit. This demonstrates our continual commitment to attain and sustain the highest standards possible.

Whatever trading conditions exist, IT Systems remain of vital importance to Plexus, and the delivery of safe and secure services to customers and Plexus itself is paramount. Ensuring confidentiality, integrity and accessibility of information is maintained, Plexus continually reviews and develops its computer network and security monitoring systems capability. This is of course very pertinent in view of the large number of cyber risks and attacks that continue to arise. Precautions include penetration testing and network monitoring to ensure our IT systems have not been breached, while our anti-virus software is updated to newer version malware protection and internet filtering is used to keep our data secure. It is widely reported and understood that the fast moving cyber world presents an increasing threat to the security of IT systems and protection from cyber-attacks and keeping up to date with evolving policies and regulations is a complex task. Plexus continues to work towards ISO 27001 accreditation, designed to help ensure that both internal and external risks are minimised. Certification provides customers and key stakeholders with the confidence that security risks are taken and addressed seriously. Plexus relies on its own in-house developed software systems, and these systems have the advantage of allowing the Company to develop software solutions that can react quickly to urgent changes.

IP lies at the heart of Plexus, and in particular oil and gas equipment design and development which utilises our proprietary POS-GRIP friction grip method of engineering. POS-GRIP was designed to address a number of limitations associated with conventional technology particularly in terms of metal sealing, and this has led to the raising of safety standards for HP/HT wellhead applications whilst delivering significant operational and cost advantages. The ongoing protection and development of our extensive IP suite continues to be a priority for the Company, and ongoing investment in research and development in a wide range of areas and applications outside of jack-up exploration including surface production and subsea wellhead equipment, as well as proprietary connector technology is an important part of this strategy. This strategy also of course becomes even more relevant following the post period end sale of the Jack-up Business to FMCT where, having now proven the merits of POS-GRIP in the jack-up exploration niche market, we are free to pursue the larger market sector opportunities with new products and applications. These include: the Python™ Subsea Wellhead (a new standard for subsea wellheads – supported by BG, Royal Dutch Shell, Wintershall, Maersk, Total, Tullow Oil, ENI, Senergy, and Oil States Industries Inc); the development and launch of the POS-SET™ Connector ('POS-SET') product designed to re-establish a connection onto rough conductor casing previously cut above the seabed to facilitate tieback or for the growing de-commissioning and abandonment market operations; development of HP/HT dual marine barrier risers to provide an efficient, safe and cost effective solution for use on jack-up rigs; an innovative HP/HT Tie-Back connector product; and a new Well Tree product. Encouragingly a combination of a stronger oil price and signs of increased drilling activity in the sector suggests that the long running down cycle is beginning to reverse and we believe that the combination of our superior oil and gas equipment designs with more exploration and production activity will be positive for Plexus going forward.

Ongoing operational activities and necessary R&D and capex continue to be funded from cash reserves and if necessary our bank facilities with the Bank of Scotland, comprising a £5m revolving credit facility available to 30 September 2018 and a £1.5m term loan (with a current balance of £0.5m) which runs to August 2019.

Interim Results

The six months to December 2017 continued to reflect the significant down-turn in jack up exploration drilling activity across the world, and particularly in the UK and European North Sea which historically are the most important markets for Plexus. This continued to impact adversely on our financial performance which is not a reflection on the strength and value of our IP, as evidenced by the exciting corporate activity that was taking place throughout the period.

This corporate activity culminated post period end in the sale of the Jack-up Business to FMCT which reaffirmed the strength of our IP and much wider industry acceptance of Plexus' POS-GRIP technology. The sale will allow the Group to develop further applications for its technology, namely production wellhead systems as well as the further development of the Group's Python subsea wellhead system

As the sale of the Jack-up Business was completed in February 2018, all income and expenditure relating to the transferring business unit has been reported as a discontinuing operation in line with IFRS 5. Inevitably the income and expenditure figures associated with discontinuing operations are larger than continuing operations as for many years the Company's focus has been on the discontinuing Jack-up Business.

Continuing operations revenue for the six-month period ended 31 December 2017 was £40k, compared to the previous year's figure of £179k. However, the second half of the financial year will see a significant increase in continuing operations revenues following the supply of a production wellhead systems to Spirit Energy (formerly known as Centrica) and the sale of mudline equipment to Gusar.

Despite the pending sale of the Jack-up Business during the period Plexus continued to concentrate on preserving and conserving Group cash by minimising spending and investment on capex, opex and non-essential R&D without compromising operations.

Continuing activities administrative expenses are broadly in line with the prior year with expenditure for the 6 months to December 2017 of £2.71m (2016: £2.66m). Within this total the continuing salary component remained the largest at £1.07m which is a 11.6% reduction compared to the prior year first half which totalled £1.21m. Personnel numbers for continuing staff are broadly in line with the prior year which have reduced by 1 from 36 as at 31 December 2016 to 35 at 31 December 2017.

For continuing operations the Group has reported a loss of £2.7m which is in line with the prior year loss of £2.6m. The loss comes after absorbing similar rental asset and other property, plant and equipment depreciation and amortisation costs on non-transferring assets totalling circa £0.9m. The stable nature of this cost reflects the continued and planned low levels of capital expenditure.

For discontinued operations for the six months to December 2017, sales revenue was £2.4m in 2017, compared to £3.6m the prior year. Administrative expenditure for discontinued operations was in line with the prior year at £3.4m (2016: £3.5m). The Group made a loss of £1.0m compared to a profit of £0.1m in the prior year driven by the decline in sales revenues.

The Group has not provided for a charge to UK Corporation tax at the prevailing rate of 20%. Basic loss per share for continuing operations was 2.60p per share which compares to a 2.46p loss per share for the same period last year. For discontinuing operations the loss per share was 0.96p per share which compares to a 0.13p profit per share for the same period last year.

The balance sheet continues to remain strong, and the current level of intangible and tangible property, plant and equipment asset values at £13.2m and £4.2m respectively illustrate the amount of cumulative investment that has been made in the business. Total asset values at the end of the period stood at £39.8m. The non-essential R&D spend has decreased from £0.3m in December 2016 to £0.1m in December 2017, the reduction being driven by the engineering team being heavily involved in on-going operational activities. Such control on investment activity will not compromise our IP and our ability to provide customers with our usual high standard of equipment and service.

The Group's cash position remains strong. The Group closed the period with net cash of approximately £5.3m, which post period end has been further supplemented with the receipt of the first £14.1m payment from the completion of the sale of the Jack-up Business resulting in a cash balance of £18.8m as at 1 February 2018.

Bank facilities with the Bank of Scotland comprise a £5m revolving credit facility available to 30 September 2018 and a £1.5m term loan (with a current balance of £0.5m) which runs to August 2019.

Outlook

Looking forward, we believe macro developments, both at the cyclical and structural levels, are also moving in Plexus' favour. In terms of the cycle, we believe the upward trend in the oil price in recent months towards the US$60-70 per barrel range could trigger a much-needed pick-up in oil and gas exploration from the depressed levels of the last few years. As well as improve the financial performance of those companies servicing the oil and gas sector, this is needed to drive new hydrocarbon supplies to come on stream in time to offset the natural decline in production from maturing fields and meet continued growth in demand for energy. As stated in BP's 2018 edition of its Energy Outlook: "If there were no new investment in oil production from today, and existing production declined at 3% p.a., global oil supplies would be around 45m b/d in 2040." Such forecasts speak for themselves.

According to EY's UK oil field services report, in 2017 operating costs per barrel in the UKCS stood at US$14.70, down from US$26.30 in 2013, thanks to a concerted effort by operators and suppliers to reduce costs and find efficiencies.

Derek Leith, EY partner and head of Oil and Gas Tax, said: "Industry leaders have taken action to make operations as lean and efficient as possible which has helped them ride out this downturn. However, cost-cutting and headcount reduction cannot continue indefinitely. A shift towards greater innovation in systems, processes and technologies could help drive operational costs down further while also enabling the sector to respond to an increase in activity which appears to be on the horizon." POS-GRIP is one such technology that can help drive costs lower. For example, our Tersus-PCT HP/HT Tie-Back connector product, which utilises POS-GRIP, is the first product on the market which allows HP/HT exploration and pre-drilled production wells to be converted to either subsea or platform producing wells. This has major cost benefits and we estimate time and cost savings for operators could run into millions of dollars, easily covering the cost of the Tie-Back connector many times over. Similarly our Python subsea wellhead, with the benefit of a simpler design which does away with the need for example for wear bushings and lock rings can save multiple 'trips' when drilling which equates to many millions of dollars of time savings that can exceed the cost of the wellhead and the subsea tree.

Close to home the North Sea has to date been our most important market, and it is encouraging to see recent announcements by leading operators, such as Royal Dutch Shell and BP, that capital is once again being allocated to the North Sea. Speaking about his company's decision to develop the Penguins field, Royal Dutch Shell's CEO Mr van Beurden said: "We remain committed to the UK, we remain committed to the North Sea and we see more opportunities to grow going forward." "We see there's a lot of rejuvenation going on in the North Sea, we see much more running room and to underline that to take a final investment decision on Penguins was important for us to do as well. There's more to come". Meanwhile in January 2018, BP unveiled two discoveries, Capercaillie in the central North Sea and Achmelvich west of Shetland. Royal Dutch Shell and BP are not the only ones demonstrating their commitment to the North Sea. According to Oslo-based consultancy Rystad Energy, "The UK offshore oil and gas industry is stirring back to life, fuelled by a robust uptick in the number of field development projects". This has positive implications for Plexus not only as we look to establish ourselves in new markets such as production and subsea but also for the ability to secure up to £27.5 million from the three-year earn-out formula that we have in place following the sale of the Jack-up Business to FMCT.

At the structural level, how energy is produced is changing. BP's Energy Outlook – 2018 Edition forecasts that, at 7% p.a., renewable energy is forecast to be the fastest growing source of energy so that by 2040 oil, gas, coal, and non-fossil fuels are each projected to provide approximately 25% of the world's energy. However, within the fossil fuel mix, natural gas at 1.6% p.a. is projected to grow considerably faster than either oil (0.5% p.a.) or coal (flat), overtaking coal and converging on oil by 2040 to become the second largest source of energy due to it being a lower carbon alternative to electricity generation than coal. BP predicts coal's share in primary energy will fall to 21%, the lowest since the industrial revolution. For natural gas to live up to these high expectations, new gas wells will need to be drilled. As POS-GRIP wellheads are ideally suited to coping with extreme gas drilling operating conditions, as demonstrated by the successful deployment of our POS-GRIP wellhead by Total on the Solaris well we hope this will be a positive trend for Plexus. Together with our plans to extend the family of POS-GRIP enabled applications into newer and faster growing sub-sectors of the energy industry such as renewables, we believe that Plexus will prove to be one of the winners of the energy transition that is currently underway.

In summary the half year period under review has seen us achieve a series of firsts: the sale of our niche Jack-up Business including our POS-GRIP wellhead inventory to FMCT; the Collaboration Agreement with a major top tier supplier in FMCT; and the award of our first contract to supply a wellhead for a production well to a subsidiary of

Centrica. The run of firsts has continued into the second half with the sale of two wellheads to our Russian partner which we are hopeful will result in a first order for POS-GRIP equipment from a major local Russian operator through our licensee. We are confident the momentum behind the business will be maintained going forward as we build out our new IP-led strategy. The tailwind provided by the tentative signs we are seeing of a cyclical upturn in activity, together with the longer term favourable structural gas drivers that now appear well-entrenched, we believe will firmly embed our proprietary POS-GRIP method of engineering within the wider energy sector and as a result significantly increase the value of our IP further.

J Jeffrey Thrall
Non-Executive Chairman
23 March 2018

Plexus Holdings Plc
Unaudited Interim Consolidated Statement of Comprehensive Income
For the Six Months Ended 31 December 2017

	Six months to 31 December 2017	**Six months to 31 December 2016**	**Year to 30 June 2017**
	£ 000's	**£ 000's**	**£ 000's**
Revenue	40	179	225
Cost of sales	(88)	(95)	(180)
Gross profit	(48)	84	45
Administrative expenses	(2,705)	(2,661)	(5,468)
Operating loss	**(2,753)**	**(2,577)**	**(5,423)**
Finance income	19	35	59
Finance costs	(9)	(50)	(61)
Loss before taxation	**(2,743)**	**(2,592)**	**(5,425)**
Income tax expense (note 5)	-	-	1,027
Loss after taxation from continuing operations	**(2,743)**	**(2,592)**	**(4,398)**
(Loss) / Profit after taxation from discontinued operations	(1,008)	141	(1,304)
Loss for Year	(3,751)	(2,451)	(5,702)
Other comprehensive income	-	-	-
Total comprehensive income	**(3,751)**	**(2,451)**	**(5,702)**
(Loss)/earning per share (note 6)			
Basic from continued operations	**(2.60p)**	**(2.46p)**	**(4.17p)**
Diluted from continued operations	**(2.60p)**	**(2.46p)**	**(4.17p)**
Basic from discontinued operations	**(0.96p)**	**0.13p**	**(1.24p)**
Diluted from discontinued operations	**(0.96p)**	**0.13p**	**(1.24p)**

Plexus Holdings Plc
Unaudited Interim Consolidated Statement of Financial Position
As at 31 December 2017

	31 December 2017	31 December 2016	30 June 2017
	£ 000's	£ 000's	£ 000's
ASSETS			
Goodwill	767	767	767
Intangible assets	13,257	13,890	13,678
Property, plant and equipment (note 8)	4,203	13,843	11,976
Deferred tax asset	287	-	287
Total non-current assets	18,514	28,500	26,708
Asset held for sale (note 9)	13,134	-	396
Inventories	1,251	6,782	6,840
Trade and other receivables	705	715	1,008
Cash and cash equivalents	5,828	10,880	7,178
Current income tax asset	420	-	966
Total current assets	21,338	18,377	16,388
TOTAL ASSETS	39,852	46,877	43,096
EQUITY AND LIABILITIES			
Called up share capital (note 11)	1,054	1,054	1,054
Share premium account	36,893	36,893	36,893
Share based payments reserve	767	862	767
Retained earnings	(1,176)	5,826	2,575
Total equity attributable to equity holders of the parent	37,538	44,635	41,289
Bank loans	225	525	375
Deferred tax liabilities	-	372	-
Total non-current liabilities	225	897	375
Bank loans	300	300	300
Trade and other payables	1,789	994	1,132
Current income tax liabilities	-	51	-
Total current liabilities	2,089	1,345	1,432
Total liabilities	2,314	2,242	1,807
TOTAL EQUITY AND LIABILITIES	39,852	46,877	43,096

Plexus Holdings Plc
Unaudited Interim Statement of Changes in Equity
For the six months ended 31 December 2017

	Called Up Share Capital	Share Premium Account	Share Based Payments Reserve	Retained Earnings	Total
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Balance as at 1 July 2016	**1,054**	**36,893**	**766**	**8,277**	**46,990**
Total comprehensive income for the period	-	-	-	(5,702)	(5,702)
Net deferred tax movement on share options	-	-	1	-	1
Balance as at 30 June 2017	1,054	36,893	767	2,575	41,289
Total comprehensive income for the period	-	-	-	(3,751)	(3,751)
Net deferred tax movement on share options	-	-	-	-	-
Balance as at 31 December 2017	**1,054**	**36,893**	**767**	**(1,176)**	**37,538**

Plexus Holdings Plc
Unaudited Interim Statement of Cash Flows
For the six months ended 31 December 2017

	Six months to 31 December 2017	Six months to 31 December 2016	Year to 30 June 2017
	£ 000's	£ 000's	£ 000's
Cash flows from operating activities			
Loss before taxation	(3,751)	(2,451)	(7,033)
Adjustments for:			
Depreciation, amortisation and impairment charges	1,982	2,240	4,472
Profit loss on disposal of property, plant and equipment	-	(4)	(1)
Charge for share based payments	-	-	-
Investment income	(19)	(35)	(59)
Interest expense	9	50	61
Changes in working capital:			
Increase in inventories	(305)	(56)	(114)
(Increase)/Decrease in trade and other receivables	(429)	1,032	739
Increase/(decrease) in trade and other payables	658	(552)	(414)
Cash generated from operations	(1,855)	224	(2,349)
Net income taxes received/ (paid)	546	280	(160)
Net cash generated from operating activities	(1,309)	504	(2,509)
Cash flows from investing activities			
Purchase of intangible assets	(100)	(323)	(632)
Interest paid	(9)	(50)	(61)
Purchase of property, plant and equipment	(197)	(27)	(287)
Net proceeds of sale of property, plant and equipment	396	28	45
Net cash used in investing activities	90	(372)	(935)
Cash flows from financing activities			
Repayment of loans	(150)	(5,150)	(5,300)
Net proceeds from issue of new ordinary shares	-	-	
Proceeds from share options exercised	-	-	
Interest received	19	35	59
Net cash generated from financing activities	(131)	(5,115)	(5,241)
Net (decrease) in cash and cash equivalents	(1,350)	(4,983)	(8,685)
Cash and cash equivalents at brought forward	7,178	15,863	15,863
Cash and cash equivalents carried forward	5,828	10,880	7,178

Notes to the Interim Report December 2017

1. This interim financial information does not constitute statutory accounts as defined in section 435 of the Companies Act 2006 and is unaudited.

This unaudited interim report has been prepared based on the accounting policies set out in the annual report for the year ended 30 June 2017 and which are also expected to apply for 30 June 2018.

The comparative figures for the financial year ended 30 June 2017 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors, Crowe Clark Whitehill LLP, and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The interim financial information is compliant with IAS 34 – Interim Financial Reporting.

The accounting policies are based on current International Financial Reporting Standards (“IFRS”), International Financial Reporting Interpretation Committee (“IFRIC”) interpretations and current International Accounting Standards Board (“IASB”) exposure drafts that are expected to be issued as final standards and adopted by the EU such that they are effective for the year ending 30 June 2017. These standards are subject to on-going review and endorsement by the EU and further IFRIC interpretations and may therefore be subject to change.

2. This interim report was approved by the board of directors on 23 March 2018.

3. The directors do not recommend payment of an interim dividend.

4. There were no other gains or losses to be recognised in the financial period other than those reflected in the Statement of Comprehensive Income.

5. No corporation tax provision has been provided for the six months ended 31 December 2017 (2016: nil). As a result there is no effective rate of tax for the six months ended 31 December 2017 (2016: 0%) after adjustments made to reflect R&D tax credits received relating to the current and prior years and offsets for disallowable expenditure.

6. Basic earnings per share are based on the weighted average of ordinary shares in issue during the half-year of 105,386,239 (2016: 105,386,239).

7. The Group derives revenue from the sale of its POS-GRIP friction-grip technology and associated products, the rental of wellheads utilising the POS-GRIP friction-grip technology and service income principally derived in assisting with the commissioning and on-going service requirements of its equipment. These income streams are all derived from the utilisation of the technology which the Group believes is its only segment. Business activity is not subject to seasonal fluctuations.

8. Property, plant and equipment

	Buildings £'000	Tenant Improve-ments £'000	Equipment £'000	Assets under Constru-ction £'000	Motor Vehicles £'000	Total £'000
Cost						
As at 1 July 2016	4,379	600	30,130	58	34	35,201
Additions	-	132	65	90	-	287
Transfers	-	-	126	(126)	-	-
Reclassified to assets held for sale	(455)	-	-	-		(455)
Disposals	-	(26)	(1,489)	-	(2)	(1,517)
As at 30 June 2017	**3,924**	**706**	**28,832**	**22**	**32**	**33,516**
Additions	-	10	28	159	-	197
Transfers	-	-	165	(165)	-	-
Disposals	-	-	-	-	-	-
Reclassified to assets held for sale	-	-	(24,540)	(16)	(32)	(24,588)
As at 31 December 2017	**3,924**	**716**	**4,485**	**-**	**-**	**9,125**
Depreciation						
As at 1 July 2016	808	250	18,551	-	25	19,634
Charge for the year	250	72	3,112	-	4	3,438
On disposals	-	(26)	(1,453)	-	(2)	(1,481)
Reclassified to assets held for sale	(51)	-	-	-	-	(51)
As at 30 June 2017	**1,007**	**296**	**20,210**	**-**	**27**	**21,540**
Charge for the year	96	35	1,329	-	1	1,461
On disposals	-	-	-	-	-	-
Reclassified to assets held for sale	-	-	(18,051)	-	(28)	(18,079)
As at 31 December 2017	**1,103**	**331**	**3,488**	-	**-**	**4,922**
Net book value						
As at 31 December 2017	**2,821**	**385**	**997**	**-**	**-**	**4,203**
As at 30 June 2017	2,917	410	8,622	22	5	11,976
As at 30 June 2016	3,571	350	11,579	58	9	15,567

9. Assets held for sale

	31 December 2017	Six months to 31 December 2016	Year to 30 June 2017
	£'000	£'000	£'000
Buildings	**-**	-	404
Equipment	**6,489**	-	-
Assets under construction	**16**	**-**	-
Motor vehicles	**4**	**-**	-
Inventories	**5,894**	**-**	-
Trade debtors and other receivables	**732**	**-**	-
Trade creditors	**(1)**	**-**	-
Fair value adjustment	**-**	**-**	(4)
Cost of sale	**-**	**-**	(4)
	13,134	**-**	396

On 19 October 2017 Plexus Holdings PLC announced the sale of its wellhead exploration equipment and services business for jack-up applications (the "Jack-up Business") to FMC Technologies Limited ("FMCT"), a subsidiary of TechnipFMC (Paris:FTI) (NYSE:FTI) one of the leading oil & gas service and equipment companies (the "Disposal"). The sale completed on 1 February 2018.

In addition and as part of the Transaction, the company and FMCT entered into a Collaboration Agreement ("CA") which establishes a framework to work together both on the development of existing POS-GRIP IP for applications outside of jack-up exploration, as well as future new technologies.

The Disposal follows the signing of a conditional Business Purchase Agreement ("BPA") by Plexus, POSL and FMCT. Under the terms of the BPA, the Plexus Group received an initial £14.1m net consideration, with an additional sum of up to £27,500,000 payable dependent on the future performance of the Jack-up Business during a three-year earn-out period. The earn-out has the potential to increase the gross consideration to £42,500,000.

Under IFRS5 those assets which have been identified as transferring to FMCT on 1st February have been included in the table above at fair value less cost of sale.

For the year to 30 June 2017 the asset held for sale relates to a property that was sold on 14 July 2017. The Group had entered into a sale agreement prior to the year end. In line with IFRS5 the asset is held for sale at fair value less costs of sale.

10. Discontinued operations

	31 December 2017	Six months to 31 December 2016	Year to 30 June 2017
	£'000	£'000	£'000
Revenue	**2,411**	3,591	4,524
Expenses	**(3,419)**	(3,450)	(6,133)
(Loss)/Profit before tax of discontinued operations	**(1,008)**	141	(1,609)
Tax	**-**	-	305
(Loss)/Profit after tax of discontinued operations	**(1,008)**	141	(1,304)

11. Share Capital

	Six months to 31 December 2017	Six months to 31 December 2017	Year to 30 June 2017
	£'000	£'000	£'000
Authorised:			
Equity: 110,000,000 (2017: 110,000,000) Ordinary shares of 1p each	**1,100**	1,100	1,100
Allotted, called up and fully paid:			
Equity: 105,386,239 (Dec 2016: 105,386,239, June 16: 105,386,239) Ordinary shares of 1p each	**1,054**	1,054	1,054