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

30 March 2017

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 2016.

Financial Results

- Sales revenue £3.77m (2015: £6.76m)
- EBITDA (£0.13m) loss (2015: £1.23m loss)
- Loss after tax (£2.5m) (2015: £3.5m loss)
- Basic loss per share (2.33p) (2015: 3.93p loss)
- Net cash of £10.1m (2015: £4.4m)
- No proposed interim dividend. Whilst the Company remains committed to distributing dividends to its shareholders, the Directors believe that, in view of the ongoing reduction in exploration drilling activity and resultant financial performance, it is prudent to continue the suspension of the payment of dividends. The Company will look to reinstate the dividend at the earliest opportunity.

Overview

- Half year financials impacted by extended period of low oil prices and ongoing reduced levels of exploration activity, particularly in the North Sea
- Well placed to see out the current downturn
- Significantly reduced cost and overhead base, strengthened debt free balance sheet and reduced capital spending commitments
- Research and Development ('R&D') spend reduced to £0.3m compared to £1.3m for the prior half year, and capital expenditure reduced to £0.3m compared to £3.0m in the prior year
- Circa 30% increase in the price of a barrel of oil following OPEC's decision in December 2016 to curtail production by 1.2m barrels a day
- Growing increase in enquiries with greater visibility currently than at the same time last year
- Gaining exposure to new geographies and markets with active dialogues with Russia, India, and the Middle East
- Continued strong presence in the North Sea, where various industry and government initiatives are underway to increase exploration
- Strengthening product suite to cater for all stages of the oil cycle from exploration to decommissioning based on extending the range of applications for ground-breaking POS-GRIP technology
- Increased activity post period end:
    - Purchase order from Masirah for an exploration well in Oman

- Four-year framework agreement with Centrica Norway to supply surface wellhead and mudline equipment services for jack up exploration wells of all pressure ratings in the Norwegian sector of the North Sea
  - Extension of an existing agreement with Shell Brunei to supply both HPHT and standard pressure wellhead systems and services for three exploration wells in Brunei
  - New customer contract win from Nexen Petroleum U.K. Limited ('Nexen') a subsidiary of CNOOC Limited for HPHT exploration wellhead equipment for a well in the Central North Sea
- Bank facilities with the Bank of Scotland currently comprises a two-year term £5.0m revolving credit facility renewable September 2018. The facility remains undrawn at the balance sheet date. In addition, the Group has a reducing five year £1.5m term loan (with a current balance of £0.8m), which was put in place in September 2014 to part fund the purchase of an additional facility in Aberdeen, and which runs to August 2019.

Chief Executive Ben van Bilderbeek said:

"Six months can be a long time in what continues to be a volatile oil and gas industry. At the beginning of the review period, oil prices appeared stuck at around the US$40 level; the global supply glut was proving hard to shift as OPEC prioritised maintaining market share over prices; and operators were focusing their efforts on conserving cash. Fast forward six months and oil prices have strengthened to around the US$50 level; upward revisions to oil demand and OPEC driven production cuts are helping the industry towards the point at which demand and supply reach equilibrium; and operators are seemingly prepared to look at exploration projects more closely. As Malcolm Dickson, analyst at Wood Mackenzie, said recently 'The industry has moved out of survival mode, through a phase of adaptation to lower prices and now it is beginning to think about renewed growth'. I must stress however that the spectre of ever more efficient shale production combined with OPEC members and others not adhering to reduced production targets continues in the short term to cast a shadow over exploration activity levels.

"As an IP-led oil and gas engineering company, which supplies its best in class wellheads to blue chip operators, including Royal Dutch Shell, Total, and ENI, any improvement in sentiment from the depths to which it had fallen is very welcome. While it will take time for this to filter through to our order book, we are looking forward to an anticipated upturn in trading conditions in the next financial year so that we can continue to work towards delivering on our objective: to establish Plexus as the go-to provider for the safest, most reliable and best performing wellhead equipment, not only for exploration but in due course also for surface production and subsea applications.

"The decision by OPEC and certain major non-OPEC producers including Russia in December 2016 to curtail production by 1.2m barrels a day has largely fuelled the near 30% increase in the price of a barrel of oil compared to the summer's lows. It is of course one thing to promise production cuts but another to deliver them. Encouragingly, the International Energy Agency ('the IEA') has reported that cuts amounting to 90% of the overall target were achieved in January 2017, although it remains to be seen whether this accord will hold. The IEA went on to forecast that these cuts when taken together with a 100,000 bopd upgrade to 2017 oil demand growth to 1.4m bopd, then the global supply glut, which has cast a shadow over markets for more than two years, could be reduced by approximately 600k bopd over the next six months. Operators have taken note and, combined with the steps they have taken to significantly cut costs, exploration appears to be back on the agenda. Encouragingly, Tom Ellacott, head of corporate research at Wood Mackenzie, was recently reported as saying 'Most oil and gas companies will start 2017 on a firmer footing, having halved cash flow to break-even (point) to survive the past two years. Further

evidence of a cautious U-shaped recovery in investment should emerge.' Such sentiment was encouragingly reflected by Deirdre Michie, chief executive of Oil & Gas UK, in relation to the North Sea which has been our most important market – 'Confidence is slowly returning to the basin'.

"As recent updates from both ourselves and our peers in the oil and gas services sector have shown, there is some way to go before the improvement in sentiment translates into stronger financial results. At Plexus, we have seen a marked increase in enquiries in recent months and we are pleased to report that several of these are moving forward, although timing is expected to fall in the 2017/18 financial year.

"In the meantime, like others in the sector we have not been idle waiting for the recovery to take hold. We have significantly pared back our cost base to more closely match the lower revenue profile; we have strengthened our debt free balance sheet by raising equity at the end of the last financial year around market price; and we have reduced our capital spending commitments. These actions are not unique to Plexus. Many of our peers within the sector, both large and small, have carried out similar exercises. In addition to the above, large companies within the industry have embarked on a series of mergers and acquisitions in search of cost savings, efficiencies, synergies and increased market share to help them adapt to a significantly lower oil price. It is in this light that Schlumberger's US$14.9 billion acquisition of Cameron International and the multi-billion dollar merger completed last month between Technip and FMC ought to be seen. As Osmar Abib, global head of oil and gas at Credit Suisse, said in an interview with the Financial Times 'There has been a trend towards consolidation in the service industry over the past 30 years or more. As oil production becomes more complex it becomes more and more important for service companies to have the right skills and capabilities, and that means they need to be large enough.' Many commentators, believe further consolidation is likely, and intellectual property strengths are likely to be an important factor in the future, especially where cost saving and safety factors come into play. In a recent note on the sector, analysts at investment bank Canaccord wrote, 'We primarily see niche high-technology specialists as the potential targets as the new behemoths seek to round out their portfolios.'

"An additional motive behind the increase in corporate activity in the services sector has been to enter new markets. Gaining exposure to new geographies and markets has been a key strategic focus for Plexus and we have recently secured a licensing agreement in Russia. For a technology based company of our size, licensing agreements allow Plexus to gain a foothold in a targeted territory without having to commit vast sums of capital associated with establishing supply lines, sales teams and other associated costs. Instead, by partnering with leading local companies, we can capitalise on their existing capabilities, infrastructure and relationships with major operators who are active in the region. With this in mind, we are working towards securing additional licensing agreements in other hydrocarbon jurisdictions such as India and the Middle East where we do not currently have a presence.

"Looking to the future I am hopeful that the bottom of the cycle has been reached. The industry has realigned itself to an oil price that is closer to US$50 oil as opposed to the US$100 a barrel that had prevailed for much of this decade, and capex and opex costs have been significantly reduced. It will take time for the next upswing to take root, but with demand for oil and gas forecast to continue rising, new discoveries will have to be made not only to cover the natural decline of mature fields but also to make up for the exceptional drop in exploration activity we have seen over the last two years. Quite simply - new wells will have to be drilled. With unique and superior technology, an inventory of 62 wellheads, a blue-chip customer base, licensing agreements in place with established local partners in important hydrocarbon regions, a growing suite of products and a strong balance sheet, Plexus is well placed to help operators deliver these wells around the world and in the process, generate value for all its shareholders."

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Chairman's Statement

Business progress

Plexus is an asset backed, proprietary IP led oil and gas engineering company which to date has supplied its best in class POS-GRIP wellheads to a wide range of major international oil and gas operators for use on over 400 exploration wells worldwide.

The six month period under review saw the cyclical downswing continuing into its second year with exploration drilling activity associated with new projects remaining depressed. This situation resulted in year on year sales falling from £6.76m last year to £3.77m this year, although cash balances remained stable as costs were reduced to better balance overhead and activity levels. On a positive note we have continued to win business when opportunities present themselves whether longer term framework agreements, or with a new customer such as Nexen, a subsidiary of CNOOC, for an HPHT well in the Central North Sea.

At the macro level at International Petroleum Week in February 2017 held in London, it was reported that the widely adopted mantra 'lower for longer' had now been replaced by 'wait and see'. This sentiment was more recently echoed by Stefano Cao, the chief executive of Saipem of Italy, who told the Financial Times that offshore oil exploration remains in the doldrums and that most oil explorers remained in a "wait and see mode" before committing to new projects, adding that in "order to see light at the end of the tunnel we need to see a rebound of capital expenditure by oil companies". We would of course agree with this analysis, but are hoping that there is now some light at the end of the tunnel with signs of increased exploration activity and tender opportunities which we expect will translate into sales revenue in the next financial year.

Encouragingly, post period end we announced a purchase order from Masirah for an exploration well in Oman; a four-year framework agreement with Centrica Norway to supply surface wellhead and mudline equipment services for jack up exploration wells of all pressure ratings in the Norwegian sector of the North Sea; and also the extension of an existing agreement with Shell Brunei under which we have previously received purchase orders to supply both HPHT and standard pressure wellhead systems and services for three exploration wells in Brunei. Furthermore, as we stated in our trading update of 1 February 2017, we are currently negotiating the conclusion of several other new contracts. The pick-up in sentiment was never going to be reflected in our financial performance for the latest half year period. We remain hopeful however that purchase orders will be signed in the second half but as ever, timing is dependent on factors that are largely out of our control.

As the industry has had to focus intensively on reducing costs and increasing efficiency levels, specifically addressing non-productive time, it is helpful that a number of the enquiries we are seeing are from long-standing customers of Plexus who have first-hand experience of the benefits of using our equipment. These operators therefore do not need to be educated on how our proprietary POS-GRIP technology, which involves deforming one tubular member against another within the elastic range of the steel to effect gripping and sealing, sets a new standard for wellhead equipment, as well as offering material time savings. Instead, the conversations we are having centre on factors such as logistics, availability and the speed with which purchase orders can be turned around. We tick all these boxes. We have a tried and tested logistics network which in recent years has ensured the timely delivery of our equipment for wells drilled all over the world, including offshore Australia, West Africa, Oman, Brunei and Venezuela; and thanks to an inventory of 62 sets of wellheads, we have stock available for rent at short notice.

We have stated before that where there is business to be won we are well placed to win it and we stand by this view. We believe that the high level of repeat orders we are awarded, the framework agreements we have with blue chip operators such as Centrica and Shell, and Plexus' standing prior to the downturn as the go to supplier of HPHT and Ultra-HPHT wellheads in the North Sea with a near 100% market share, are all testament to our high standing within the industry. Our continued aim is to capitalise on this success to break into much larger and more valuable markets, such as land based production and subsea, as well as build a major presence in those fast-growing hydrocarbon regions that we are targeting around the world, which is further helped by the accelerating trend away from coal.

It should not be forgotten that as Plexus is an IP-led technology company protected by an extensive suite of patents, we have several capital-light routes to market at our disposal. One of these is the licensing model and we have already begun to pursue this strategy with progress being made with the signing of agreements with established local operators in the large Russian market. To date, no jack-up orders have been secured via these agreements but this clearly must be seen in the context of the global drop-off in exploration, which has impacted activity across the world. We remain confident that once exploration picks up, these and other licence agreements we are looking to secure in targeted regions such as the Middle East and the Gulf of Mexico, will fast track the adoption of our equipment in new territories. In the meantime, we are using this hiatus to work closely with our local partners in demonstrating to those majors operating in these regions the performance benefits and cost advantages of all our POS-GRIP based equipment, not just our traditional jack-up exploration wellheads.

Although geographic expansion remains a key part of our strategy to establish Plexus wellheads as a new industry standard, it cannot be ignored that the North Sea remains an important market for the Company. Needing relatively high oil prices to breakeven, the region was particularly exposed to the downturn and exploration drilling all but dried up. This extreme level of decline is demonstrated by the announcement during the period by the Government Expenditure and Revenue Scotland ('GERS') that the Scottish government's revenues from the North Sea in the last financial year collapsed by 97% to just £60m from a level of £1.8bn in 2014/15. The industry, however, has responded: the average cost of oil production has fallen to $20 a barrel from $35; the UK Government has slashed tax rates; while in a vote of confidence in the region's prospects, lenders have been reluctant to pull the plug on indebted operators, preferring instead to work through debt issues with management teams. Progress has also been made at the project level and according to Oil and Gas UK, the UK offshore oil and gas industry association, oil production in the North Sea rose by 10% last year and is expected to rise further in 2017.

The entry of new players into the region provides further evidence that the North Sea is alive and well: private equity backed Chrysaor acquired a large portfolio of both new and mature fields as well as infrastructure assets from Royal Dutch Shell for £3bn; while Blackrock-backed Siccar Point paid Austria's OMV £1 billion for a collection of North Sea assets. The emergence of private equity backed operators bodes well for Plexus, as these companies typically make investment decisions quickly and when they do drill they can rely on turnkey contractors whom Plexus have historically worked well with. We are therefore confident that when jack-up exploration activity picks up, we will once again emerge as the dominant supplier in the North Sea. At the political level we were also pleased to see in this month's budget that a review of North Sea tax rules has been initiated to find ways of encouraging and accelerating fresh investment in UK oil and gas assets. Chancellor Philip Hammond said that an expert panel would examine ways of making it easier to buy and sell North Sea oil and gas fields with the aim of keeping them in production longer. Crucially, Mr Hammond told MP's that as 'UK oil and gas production declines, it is absolutely essential we maximise exploitation of remaining reserves'. Such political will and strategy if effective would we believe be very positive for exploration activity and in turn for Plexus.

Our growing family of products can now cater for all stages of the oil cycle from exploration, production, subsea and decommissioning. This family of products is based around our ground-breaking POS-GRIP friction grip technology, which is proven scientifically to be superior in terms of performance, reliability and safety compared to that of our competitors. This in turn has enabled Plexus to become the go to provider for exploration wellheads in the North Sea, our home market; build a blue-chip customer base from whom we regularly win repeat business where operators have the budget; and secure licensing agreements such as for the huge Russian market. In addition, we have strong asset backing and cash resources. While all the above could not and did not prevent our half year financial numbers from being impacted by the extended period of low oil prices and low levels of exploration activity, they do serve to demonstrate how well placed Plexus is to not only ride out the current downturn, but also to emerge from it ready to benefit from the upturn when it comes.

Operating Review

As stated in our trading update of 1 February 2017, the subdued levels of exploration activity and resultant drop in orders for our wellheads have continued into the second half of the current financial year. Despite this, while a recovery when it comes is likely to be slow and bumpy, particularly in the early stages, in the same update we expressed our view that the remainder of the current year will prove to be the bottom of the exploration drilling cycle. This opinion is consistent with Rystad Energy, which is predicting a modest increase in demand for jack-up drilling units in 2017 before the rate of growth accelerates from 2018 onwards until activity levels normalise by 2020.

Such dynamics clearly have a direct impact on our operational plans and activities, but this increasing confidence does at least stem from positive developments at both the macro and micro levels. At the macro level, we have been encouraged by the oil price beginning to stabilise at levels at which the economics of many exploration and production projects once again become commercial, a consequence of OPEC's decision to tackle the global oil supply glut by cutting production by 1.2million barrels a day. Micro in the sense that at Plexus we are seeing tentative signs that the industry is regaining its appetite for exploration activity and as a result we have more visibility today in terms of potential orders than we did this time last year. Management therefore believes that from the 2017/18 financial year onwards, Plexus' revenues will show a marked improvement compared to the current year and we will be making the necessary operational changes to work towards delivering an improved set of results next year.

Obviously the current adverse trading conditions have required Plexus to continue to tightly control overheads including personnel numbers which were further reduced in November 2016. This resulted in a total headcount as at the half year period end of 70 compared to 80 as at the last 30 June 2016 financial year end and 127 at the previous first half period end of December 2015. These lower headcount numbers clearly illustrate the extent of the restructuring and associated cost reduction initiatives. Although this circa 45% reduction in personnel over the last twelve months is significant, it is operationally important to note that this has been carried out in a balanced way to enable the business to be easily scaled up again through re-hiring as activity levels increase, while in the meantime ensuring today's growth opportunities and service levels are not compromised. No further headcount reductions are envisaged at the current time. The backbone to such future growth remains our rental wellhead inventory where our 62 wellhead sets are capable of being deployed at relatively short notice and which can, subject to contract mix and location efficiencies support revenues of up to £40m.

Operationally the North Sea has historically been our main market and continues to suffer from the downturn, although Oil and Gas UK in their recently published 2017 "Business Outlook" have stated that the North Sea will in 2017 generate positive free cash flow for the first time in four years provided costs are kept under tight control and commodity prices hold. These 'closer to home' trading conditions have meant that Plexus has continued to focus on opportunities further afield and we were therefore pleased to be able to announce post period end a follow-on exploration well contract in Oman from Masirah Oil Limited, and an additional two year contract extension with Shell Brunei for the supply of HPHT and standard pressure wellhead equipment. In addition, we are hopeful that progress will continue to be made in Russia.

The key functions within the business are HR, Health and Safety ('HSE'), IT and IP. HR's focus has continued to be on managing the headcount to meet operational needs. Further analysis resulted in an additional rightsizing exercise, which commenced in November 2016, and following the requisite consultation period nine staff were made redundant. Emphasis remains on maintaining and developing the right technical skills within the business, and therefore further training needs were met with the development of in-house training modules for Relative Space Out and Temporary Abandonment Cap modules, which were subsequently rolled out across the Field Service Technician team. Continued development of the Competency Management System has been undertaken, and the fourth safety critical department competency system has been drafted. Maintenance of the robust competency system will continue and consideration given to further areas in the business which can benefit from being part of the Competency Management System.

In terms of HSE, Plexus remains fully committed to delivering the highest safety standards in everything we do every day. We continue to maintain a positive safety culture which is aligned with our Company Safety Values and is evident throughout the organisation. We are pleased to report our HSE culture remains strong across the business with no major findings during our past and most recent LRQA certification surveillance audits set against OHSAS 18001 standard. We continue to manage our safety risks through assessment, implementation of controls, continual monitoring, engaging and developing staff to meet the competency levels required. We always reinforce the important message that the health and well-being of our employees is a crucial feature of our HSE and HR strategy. We encourage our personnel to get involved, have confidence to intervene and to challenge any act or condition, suggest improvements, and to ensure transparent reporting to meet our desired safety culture. Quality also remains a key focus in the delivery of our products and services and this is demonstrated in our customer satisfaction survey results score of 4.4 out of 5 and no major findings in our past and most recent LRQA ISO 9001 surveillance audit. We

are currently reviewing our procedures and developing our Business Management System to comply with the ISO 9001:2015 and API Q1 standards, with the aim to have full compliance by the end of 2017, again as part of our relentless commitment to attain and sustain the highest standards possible.

During challenging trading conditions, it is still vitally important that Plexus is committed to ensuring its IT Systems deliver safe and secure services to customers and the business. To ensure that the confidentiality, integrity and accessibility of information is maintained Plexus has continually evolved its computer network and security monitoring systems to ensure ever expanding cyber risks are minimised. Penetration testing and network monitoring are regularly carried out to ensure our systems have not been breached, while anti-virus and malware protection are used to keep our data secure. The ever-changing cyber landscape presents an increasing threat to the security of our systems. Defending against cyber-attacks and keeping up to date with evolving policies and regulations is a complex task. To ensure Plexus systems and data are as secure as possible Plexus is currently working towards ISO 27001 accreditation, which will 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. These systems allow the Company to develop software solutions that can quickly react to the changes demanded by the business. During this period the systems have been upgraded in several key areas, the main being sales forecasting, capital expenditure monitoring and inventory utilisation. These improvements will provide management with a greater visibility of key areas which in turn will allow them to make better decisions based on more accurate data.

It is important to remember that our patent protected POS-GRIP technology is the enabler behind the best in class qualities of not only our jack-up exploration equipment, but also our Python Subsea wellhead, developed in collaboration with majors including Total, Royal Dutch Shell, and ENI; our HGSS tie back connector developed in partnership with Maersk; and our POS-SET Connector™ which has already been used by Centrica for abandonment operations on a gas well originally drilled in 1982, offshore Holland. As a result, all three products offer operators the same mix of operational and performance advantages together with cost savings that our jack-up wellheads provide, none of which we believe can be matched by our competitors. Significant operational advantages and costs savings also apply to our Tersus-PCT HPHT Tie-Back connector product which utilises our POS-GRIP technology. This is the first product on the market which allows HPHT exploration and pre-drilled production wells to be converted to either subsea or platform producing wells. We estimate the time and cost savings made by the operator can run into millions of dollars and certainly cover the cost of the Tie-Back connector many times over. As activity in the oil and gas sector picks up we are confident that the combination of performance and cost benefits that run through our engineering solutions will increasingly resonate with operators who we believe will enter the next industry upturn keen to maintain a tight control over costs, whilst looking for superior technology driven solutions.

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 two year term £5.0m revolving credit facility renewable September 2018. The facility remains undrawn both at the balance sheet date and currently. In addition the Group has a reducing five year £1.5m term loan (with a current balance of £0.8m) which was put in place in September 2014 to fund the purchase of an additional facility in Aberdeen, which runs to August 2019.

Interim Results

The ongoing reduction in jack-up exploration drilling activity around the world, and the major down turn in the North Sea, which traditionally has been one of the most expensive areas in the world to explore and produce, has

inevitably continued to impact on our first half financial performance, and the outlook for the remainder of this financial year. On a positive note according to Oil and Gas UK the North Sea has halved its average unit operating costs from $29.70 per barrel to $15.30 per barrel which bodes well for future exploration activity. As a result, revenue for the six month period ended 31 December 2016 was £3.77m, a 44.2% reduction compared to the previous year's figure of £6.76m. The rental wellhead equipment and associated services business activities for exploration drilling contracts accounted for over 93% of sales revenues. The largest sales element remains the supply of our HP/HT wellhead equipment which totalled £3.2m compared to £5.8m last year, and accounted for approximately 86% of total revenues compared to 87% last year. Revenue generated by the rental of 10,000 psi standard pressure wells were £0.29m (2015: £0.59m) which again reflects the significant downturn in the North Sea. Geographically the North Sea during this period was the largest element of sales revenues as compared to the Rest of the World. Within the North Sea, UKCS sales during the period were £0.17m, an 81% reduction against the same period last year, and meanwhile in the ECS sales totalled £2.79m, a less impacted 39% reduction compared to last year. Norway was once again the most important sector and accounted for sales of £2.56m and where year on year sales activity fell to a lesser degree by 36%. The relative robustness of the Norwegian offshore territory we believe is the result of tax incentives that relate to exploration drilling in the region combined with the highest level of safety and operating standards that are required. First half gross margins reduced to 41.3% compared to 46.8% in the comparative period last year.

The negative financial performance resulting from the reduced level of exploration drilling has continued to dictate the need to focus on cash preservation and conservation. Like many companies in the sector this has led once again to a reduction in headcount numbers as well as investment in capex, opex, and non-essential R&D to better align our cost base with reduced sales revenues. For the first half period to the end of December 2016 administration and overhead expenses were reduced to £3.92m compared to £6.45m reflecting the full impact of the major restructuring that took place in the second half of the last financial year. Within this total the salary component remained the largest at £1.94m which is a 52.4% reduction compared to the prior year first half which totalled £4.01m. These reductions have been an important part of reducing year on year losses. Personnel numbers have reduced from circa 127 as at 31 December 2015 to circa 70 currently. These headcount numbers are down from circa 157 as at 30 June 2015. The cost reductions have been considered and implemented carefully with the primary aim we believe being achieved; ensuring an ongoing ability to supply our customers with first class equipment and service. This is important as we need to be well positioned to respond to an upturn in business activity when it comes. The effective focus on cash and cost reduction meant that the closing cash position at the end of the last financial year 30 June 2016 was almost unchanged as at 31 December 2016 at circa £10m. Combined with having a strong balance sheet, we are in a good position to weather continued challenging trading conditions throughout the remainder of this financial year.

The circa 44% decrease in sales revenues resulted in a loss of £2.5m which was a significant reduction on the prior year's loss of £3.5m. The loss came after absorbing similar rental asset and other property, plant and equipment depreciation and amortisation costs totalling circa £2.2m. The stabilising of this cost reflects the reduction in capital expenditure. On-going investment in Plexus' rental wellhead equipment inventory was minimal at £0.004m compared to £1.33m last year. Total capital expenditure decreased 88.4% to £0.35m compared to £3.01m during the same period last year. These reductions are not simply part of our cash control strategy, but also reflect the fact that we now have sufficient inventory to respond as necessary to market demand even if there is a sharp increase in activity levels. Loss before tax is stated after charges for share based payments under IFRS2; the charge for this year was zero which compares to £0.01m last year. The Group has therefore once again not provided for a charge to UK

Corporation tax at the prevailing rate of 20%. Basic earnings per share is a negative 2.33p per share which compares to a 3.93p loss 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 £13.9m and £13.8m respectively illustrate the amount of investment that has been made in the business. Total asset values at the end of the period stood at £46.9m. The cut backs in investment have been carefully considered and will not compromise on our technology and ability to service the customer, as well as potential new licencing partners. The non-essential R&D spend was able to be reduced from £1.31m last year to £0.32m this year, a reduction of 75.4%. The core part of our business, and the balance sheet assets that have been built up around it, continues to be our POS-GRIP method of friction grip engineering. It is this IP and the engineering solutions developed from it which enable us to offer the industry unique safety, operational and cost saving solutions and we remain confident that our technology will play an important role at a time when the industry continues to pursue efficiency gains and cost reduction strategies such as needing to reduce non-productive drilling time. With regards to cash flow the Group's cash position remained strong. The Group closed the period with net cash of circa £10m, which although being part utilised during the current second half, is anticipated to stabilise and be neutral to positive during the next financial year. Bank facilities currently comprise an undrawn two year term £5.0m revolving credit facility renewable September 2018. In addition, the Group has a reducing five year £1.5m term loan (with a current balance of £0.8m), which was put in place in September 2014 to fund the purchase of an additional facility in Aberdeen, which runs to August 2019.

Outlook

Looking at the performance of the oil price over the last two years, it can easily be overlooked that in terms of global end user demand, Plexus operates in a stable market, and one that is in fact forecast to continue to grow. According to a report by the US Energy Information Agency in January 2017, 'Global consumption of petroleum and other liquid fuels averaged 95.6 million b/d in 2016, an increase of 1.4 million b/d from 2015. Consumption growth in 2016 was driven by non-OECD countries. Consumption growth is expected to be about 1.6 million b/d in 2017 and 1.5 million b/d in 2018, with 1.2 million b/d of the growth in both years coming from rising non-OECD consumption. Forecast growth in the consumption of hydrocarbon gas liquids (HGL) is an important driver of overall global liquid fuels consumption growth.' Even though renewable technologies are expected to continue to grow their share of fossil fuels' end markets, such as energy generation and transport, hydrocarbons are expected, thanks to the industrial and chemical sectors, to remain the dominant fuel driving the global economy for the foreseeable future.

The IEA is not alone in predicting gas will account for an increasingly bigger slice of the hydrocarbon pie. BP's latest Energy Outlook, which sets out a base case outlining the 'most likely' path for global energy markets until 2035, states "The gradual decarbonisation of the fuel mix is set to continue, with renewables, together with nuclear and hydroelectric power expected to account for half of the growth in energy supplies. Even so, oil, gas and coal remain the dominant sources of energy, accounting for more than 75% of energy supplies in 2035 (down only 10% from 85% in 2015)." However, different growth rates are forecast within the hydrocarbon fuel mix, as BP continues "Natural gas is expected to grow faster than oil or coal, helped by the rapid growth of liquefied natural gas increasing the accessibility of gas across the globe." The rise of natural gas is not just down to increased accessibility but also as a result of it being among the cleanest fossil fuel around. A higher proportion of gas in the energy mix very much plays to Plexus' strengths as our equipment is ideally suited to the high pressures and high temperatures associated with gas wells. This was demonstrated by the award to Plexus of a £3.3m contract from Total E&P Norge AS to supply the

Solaris exploration well, a technically challenging Ultra HPHT well offshore Norway, believed to be the highest pressure well drilled in the North Sea to date.

Looking further into the future, while demand for energy is forecast to increase, supply needs to grow at a faster rate just to keep pace as it first must counter the natural decline of producing fields before it can meet rising demand. Exploration activity levels therefore need to pick up from today's depressed levels. According to IHS Markit, at 174 2016 represented a 60 year low for oil and gas discoveries, well below the annual 400-500 run rate achieved in the years up until 2013. Combined with the length of time between first making a discovery and commencing production, which can take between five to seven years, it is easy to envisage a future supply crunch materialising. According to recent reports, Khalid al-Falih, Saudi Arabia's oil minister, estimates US$1 trillion needs to be invested in oil projects each year just to keep pace with demand. Due to shorter lead times and reduced breakeven costs, unconventional exploration such as US shale is expected to play an increasingly larger role in satisfying future energy demand. Such a dynamic is now underway with new technology even reviving old US fields previously written off as exhausted, increasing recovery rates threefold whilst in some cases costs have been cut in half. However with unconventional resources exposed to steep decline curves, conventional projects will still need to pick-up from the reduced levels brought about by the oil price collapse. Mr al-Falih encouragingly further said at the recent CERAWeek event in Houston that Saudi Arabia welcomed wind, solar, and other renewables but warned that they cannot quench Asia's "insatiable demand" for more oil or meet supply as global energy demand doubles by 2050. Such sentiment was only this month echoed in an International Energy Agency report which said that after a two year slump the industry was making a weak recovery but that the world will be hit by a sharp increase in oil prices in the next decade without major investment in new fields.

Alongside such analysis it would be remiss to ignore the ongoing development and growth of electric cars and associated vehicle battery technology. Although it cannot be denied that battery powered cars are beginning to penetrate the car market there are key macro drivers which strongly suggest that the impact on petrol consumption will not be significant for some decades to come. The energy consultancy FGE reported this month that the fate of petrol demand (and therefore oil) will not be set in the west but in Asia which is at an early stage of mass motorisation. FGE refer to a range of statistics which underpin this view in a compelling way. Asia accounts for approximately one third of the global light vehicle fleet of 1.1 billion, whilst growth in the region is expected over the next twenty five years to be more than 500m units which is more than the whole of the rest of the world combined. This would mean that by 2014 almost every other car in the world will be driven in Asia (unless government or regulatory intervention applies a brake to such a trend through for example taxation measures). Therefore according to FGE petrol demand is likely to grow for many years into the future.

Clearly, the downturn has undoubtedly been painful for the industry and especially for Plexus in terms of the necessary steps we took to realign our business to the lower oil price environment. We continue to see the remainder of the second half of the financial year being challenging, but thanks to the measures we have taken we have a balance sheet that has considerable asset backing in the form of cash, our inventory of 62 wellheads, and our valuable patent protected suite of POS-GRIP related IP. At the same time, our much-reduced cost base has been designed to allow us to break even at the operating level at a much lower rate of wellhead deployment than was the case prior to the downturn, and we are planning on being cash flow neutral as we move into the next financial year. Furthermore, we have an expanded family of POS-GRIP enabled products, which will allow us to target markets other than our traditional jack-up exploration business. Taking these factors into consideration we strongly believe

that once the next upswing becomes firmly entrenched and activity normalises, Plexus' future will be extremely positive and rewarding for shareholders.

J Jeffrey Thrall
Non-Executive Chairman
29 March 2017

Plexus Holdings Plc
Unaudited Interim Consolidated Statement of Comprehensive Income
For the six months ended 31 December 2016

	Six months to 31 December 2016	Six months to 31 December 2015	Year to 30 June 2016
	£ 000's	£ 000's	£ 000's
Revenue	3,770	6,764	11,227
Cost of sales	(2,212)	(3,602)	(5,994)
Gross profit	1,558	3,162	5,233
Administrative expenses	(3,925)	(6,451)	(11,276)
Restructuring costs	(69)	(142)	(755)
Operating loss	**(2,436)**	**(3,431)**	**(6,798)**
Finance income	35	34	69
Finance costs	(50)	(96)	(187)
Loss before taxation	**(2,451)**	**(3,493)**	**(6,916)**
Income tax expense (note 5)	-	(9)	1,126
Loss after taxation	**(2,451)**	**(3,502)**	**(5,790)**
Other comprehensive income	-	-	-
Total comprehensive income	**(2,451)**	**(3,502)**	**(5,790)**
Loss per share			
Basic (note 6)	**(2.33p)**	**(3.93p)**	**(6.39p)**
Diluted (note 6)	**(2.33p)**	**(3.93p)**	**(6.39p)**

Plexus Holdings Plc
Unaudited Interim Consolidated Statement of Financial Position
As at 31 December 2016

	31 December 2016	31 December 2015	30 June 2016
	£ 000's	£ 000's	£ 000's
ASSETS			
Goodwill	767	767	767
Intangible assets	13,890	14,056	14,080
Property, plant and equipment (note 8)	13,843	17,074	15,567
Total non-current assets	28,500	31,897	30,414
Inventories	6,782	6,327	6,726
Trade and other receivables	715	1,222	1,747
Cash and cash equivalents	10,880	10,534	15,863
Current income tax asset	-	-	229
Total current assets	18,377	18,083	24,565
TOTAL ASSETS	46,877	49,980	54,979
EQUITY AND LIABILITIES			
Called up share capital (note 10)	1,054	894	1,054
Share premium account	36,893	28,045	36,893
Share based payments reserve	862	1,457	766
Retained earnings	5,826	10,562	8,277
Total equity attributable to equity holders of the parent	44,635	40,958	46,990
Bank loans	525	5,825	675
Deferred tax liabilities	372	628	468
Total non-current liabilities	897	6,453	1,143
Bank loans	300	300	5,300
Trade and other payables	994	2,187	1,546
Current income tax liabilities	51	82	-
Total current liabilities	1,345	2,569	6,846
Total liabilities	2,242	9,022	7,989
TOTAL EQUITY AND LIABILITIES	46,877	49,980	54,979

Plexus Holdings Plc
Unaudited Interim Statement of Changes in Equity
For the six months ended 31 December 2016

	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 30 June 2015	**849**	**20,141**	**1,862**	**15,628**	**38,480**
Total comprehensive income for the period	-	-	-	(5,790)	(5,790)
Issue of ordinary shares (net of issue costs)	205	16,752	-	-	16,957
Share based payments reserve charge	-	-	21	-	21
Transfer of share based payment reserve charge on exercise of options	-	-	(3)	3	-
Current year credit on share option exercise to share based payment	-	-	5	-	5
Net deferred tax movement on share options	-	-	(1,119)	-	(1,119)
Dividends	-	-	-	(1,564)	(1,564)
Balance as at 30 June 2016	**1,054**	**36,893**	**766**	**8,277**	**46,990**
Total comprehensive income for the period	-	-	-	(2,451)	(2,451)
Net deferred tax movement on share options	-	-	96	-	96
Balance as at 31 December 2016	**1,054**	**36,893**	**862**	**5,826**	**44,635**

Plexus Holdings Plc
Unaudited Interim Statement of Cash Flows
For the six months ended 31 December 2016

	Six months to 31 December 2016	Six months to 31 December 2015	Year to 30 June 2016
	£ 000's	£ 000's	£ 000's
Cash flows from operating activities			
Loss before taxation	(2,451)	(3,493)	(6,916)
Adjustments for:			
Depreciation, amortisation and impairment charges	2,240	2,193	4,471
(Profit)/loss on disposal of property, plant and equipment	(4)	2	(2)
Charge for share based payments	-	11	21
Investment income	(35)	(34)	(69)
Interest expense	50	96	187
Changes in working capital:			
(Increase)/decrease in inventories	(56)	224	(175)
Decrease in trade and other receivables	1,032	6,079	5,554
Decrease in trade and other payables	(552)	(1,109)	(1,750)
Cash generated from operations	224	3,969	1,321
Net income taxes received/ (paid)	280	68	34
Net cash generated from operating activities	504	4,037	1,355
Cash flows from investing activities			
Purchase of intangible assets	(323)	(1,367)	(1,900)
Purchase of property, plant and equipment	(27)	(1,640)	(1,956)
Proceeds of sale of property, plant and equipment	28	3	61
Net cash used in investing activities	(322)	(3,004)	(3,795)
Cash flows from financing activities			
Repayment of loans	(5,150)	(150)	(300)
Net proceeds from issue of new ordinary shares	-	7,949	16,923
Proceeds from share options exercised	-	-	34
Interest paid	(50)	(96)	(187)
Interest received	35	34	69
Equity dividends paid	-	(1,564)	(1,564)
Net cash generated from financing activities	(5,165)	6,173	14,975
Net (decrease)/increase in cash and cash equivalents	(4,983)	7,206	12,535
Cash and cash equivalents at brought forward	15,863	3,328	3,328
Cash and cash equivalents at carried forward	10,880	10,534	15,863

Notes to the Interim Report December 2016

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 2016 and which are also expected to apply for 30 June 2017.

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 2016. 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 29 March 2017.

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 2016 (2015: nil). As a result there is no effective rate of tax for the six months ended 31 December 2016 (2015: 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 (2015: 89,226,270).

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 2015	4,379	432	28,544	174	48	33,577
Additions	-	168	588	1,200	-	1,956

Transfers	**-**	**-**	1,316	(1,316)	**-**	**-**
Disposals	-	-	(318)	-	(14)	(332)
As at 30 June 2016	**4,379**	**600**	**30,130**	**58**	**34**	**35,201**
Additions	-	-	27	-	-	27
Transfers	-	-	11	(11)	-	-
Disposals	-	-	(41)	-	(2)	(43)
As at 31 December 2016	**4,379**	**600**	**30,127**	**47**	**32**	**35,185**
Depreciation						
As at 1 July 2015	558	182	15,650	-	33	16,423
Charge for the year	250	68	3,164	**-**	6	3,488
On disposals	**-**	**-**	(263)	**-**	(14)	(277)
As at 30 June 2016	**808**	**250**	**18,551**	**-**	**25**	**19,634**
Charge for the year	125	38	1,562	**-**	2	1,727
On disposals	**-**	**-**	(17)	**-**	(2)	(19)
As at 31 December 2016	**933**	**288**	**20,096**	-	**25**	**21,342**
Net book value						
As at 31 December 2016	**3,446**	**312**	**10,031**	**47**	**7**	**13,843**
As at 30 June 2016	3,571	350	11,579	58	9	15,567
As at 30 June 2015	3,821	250	12,894	174	15	17,154

9. The comparative figures for the financial year ended 30 June 2016 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.

10. Share Capital

	Six months to 31 December 2016	Six months to 31 December 2015	Year to 30 June 2016
	£'000	£'000	£'000
Authorised:			
Equity: 110,000,000 (2015: 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 2015: 89,390,576, June 16: 105,386,239) Ordinary shares of 1p each	**1,054**	894	1,054