Pressure Technologies

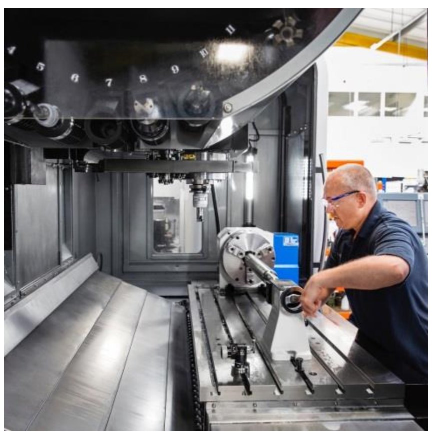
AGM Presentation

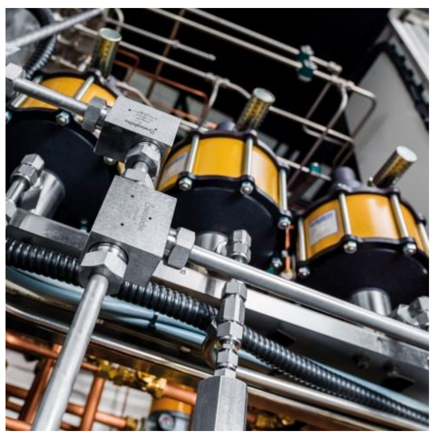
14 February 2017

Presented by

Alan Wilson, Chairman

John Hayward, Chief Executive Officer

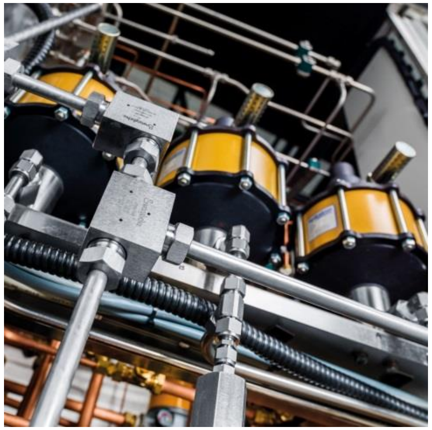




Agenda

- Formalities
- Oil and gas market conditions
- Group overview
- Alternative Energy in the news
- Lunch
- Tour of Chesterfield Special Cylinders

Formalities



Resolutions

Ordinary business

- **Resolution 1:** To approve the annual report and accounts
- **Resolution 2:** To approve the annual report on Director's remuneration
- **Resolution 3:** To re-elect Alan Wilson as a Director
- **Resolution 4:** To re-elect John Hayward as a Director
- **Resolution 5:** To re-elect Neil MacDonald as a Director
- **Resolution 6:** To reappoint the auditors and fix their remuneration
- **Resolution 7:** To authorise allotment of shares

Special business

- **Resolution 8:** To authorise Company to purchase own shares
- **Resolution 9:** To disapply pre-emption provisions

Oil and gas market

Agenda

- A brief re-cap…
- Recent events…a cause for hope?
- Market fundamentals

A brief recap…

- **Reduced investment -** $1 trillion 2015-20
- **Job cuts** - 500,000 jobs cuts globally, four largest service companies spent $3.12bn in severance costs 2015-2016
- **Oil company losses in 2016:**
  - Shell - $2.7bn in upstream
  - Anadarko - net loss of $3bn
  - Exxon Mobil - US upstream losses of $2.1bn including impairment charges
- **Service company losses 2016 Q4:**
  - Haliburton – $149m
  - Schlumberger - $204m
- "In many ways 2016 was like a barroom brawl, where everyone and I mean everyone took a punch," Schlumberger President Jeff Miller

Oil industry growing again after losing half-million jobs

By DAVID WETHE on 1/9/2017

HOUSTON (Bloomberg) -- The oil industry is expected to boost spending for the first time in three years after slashing almost half a million jobs globally during the downturn, according to industry consultant Graves & Co.

More than three quarters of the 440,131 oil jobs eliminated around the world through the end of 2016 came from the oilfield service providers, drilling contractors and equipment makers, said John Graves, whose Houston firm assists in oil and gas deals with audits and due diligence. He has tracked announcements of layoffs from all parts of the oil industry since the downturn began in the middle of 2014. Roughly a third of the cuts came in the U.S., Graves estimates.

Oil companies are starting to hire back workers as they add rigs to the shale patch in North America to take advantage of oil prices above $50/bbl. After unprecedented spending cuts over the past two years, explorers are forecast to boost capital expenditures by 7% this year, David Anderson, an analyst at Barclays, wrote Monday in a note to investors.

Oil slump causes 120,000 UK job cuts since 2014 industry peak

By ANGELINA RASCOUET on 6/9/2016

LONDON (Bloomberg) -- The UK oil and gas industry will ax 120,000 jobs by the end of the year following the collapse in oil prices, according to a lobby group.

This year, 330,000 jobs will be supported by oil and gas production, down from a peak of 450,000 in 2014, according to the report from Oil & Gas U.K. The numbers include non-oil producing jobs in the wider economy, including hotel staff and taxi drivers.

The estimates demonstrate how much oil companies have tightened their belts in order to weather the collapse in crude prices and the effect of the downturn on the wider economy. Brent, the global benchmark, has tumbled from as high as $115/bbl two years ago to about $52/bbl.

"The industry has been spending more than it is earning since the oil-price slump towards the end of 2014," Deirdre Michie, CEO of Oil & Gas U.K., said in a statement. "To survive, the industry has had no choice but to improve its performance."

BP Plc said in January it would cut North Sea jobs by 600 over the next two years, while Royal Dutch Shell Plc said on May 25 it was planning 475 job cuts in its UK and Ireland exploration and production business, mostly this year.

The job losses have come as the sector has been forced to reduce its capital expenditure, shed assets, cancel or postpone costly development projects and even sometimes cut dividends. Just this week, Shell said it was cutting its spending plans further to $29 billion for this year from a previous forecast of $30 billion.

The total employment the oil and gas industry can sustainably provide "depends on the level of investment attracted to the basin," Michie warned. "If investment falls, then so will jobs."

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A brief recap…

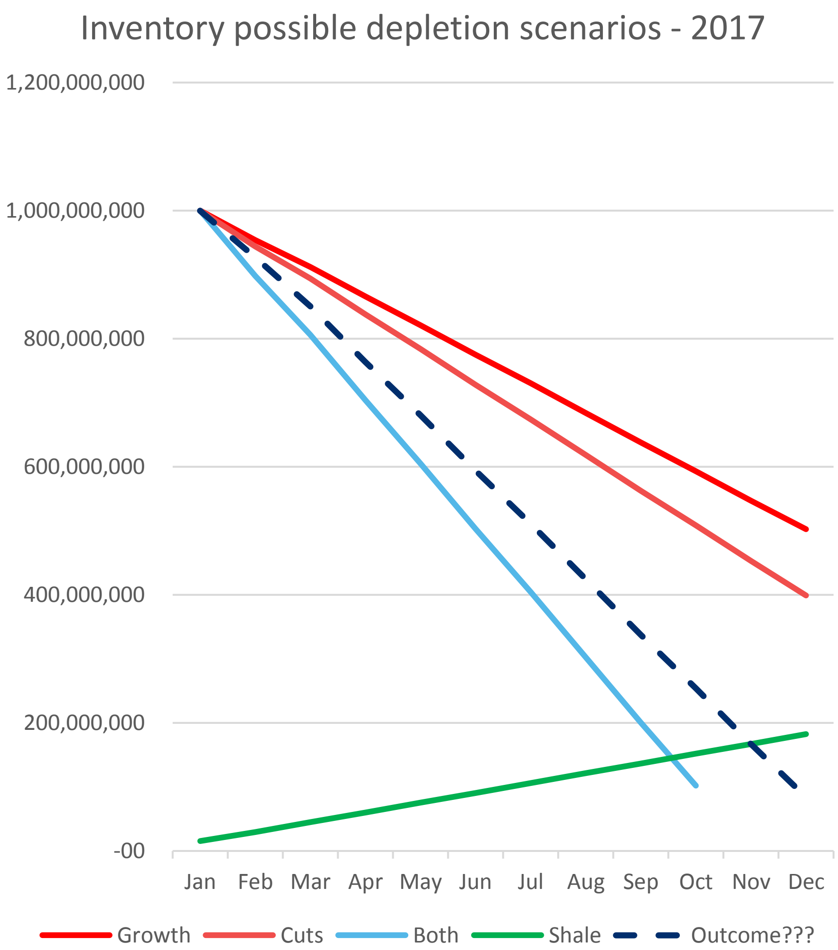
- **Bankruptcies -** Around 100 US oilfield service firms 2015-16
- **Dividend reductions** - many oil companies have cut dividends of more than $7.4 billion
- **Less exploration** – 2015: lowest discoveries of oil reserves for more than 60 years
- **Rigs being scrapped** – 2012 worldwide rig count averaged 3,518; in 2016 it averaged 1,561. Day rates for rigs have fallen from $650,000 to $200,000

A brief recap…

- **Production costs dramatically reduced** – US shale production costs fallen by around 40%: 60% of oil US shale production profitable at $60/bbl…only 20% of deep-water oil is
- **Saudi economy damaged** – Budget deficit of $100 billion, Government debt of $73 billion, an oil price of $80/bbl needed to balance the books

Recent developments…a cause for hope?

- Reputedly 1 Bnbbls of oil in inventories
- Global oil demand set to increase by 1.6% in 2017
- OPEC and 11 others to cut output by 1.8 Mbopd…until June 2017
- North American upstream industry set to stage a comeback - US production increased by about 460,000bbls/day in the past six months
- Inventories in industrialised nations have declined five months in a row and fell in Q4 by the most in three years
- OPEC implemented 90% of promised output cuts in January, Saudi Arabia reduced production by even more than committed
- Resilient oil demand is aiding OPEC's bid to re-balance world markets, growing more than expected last year and poised to do so again in 2017



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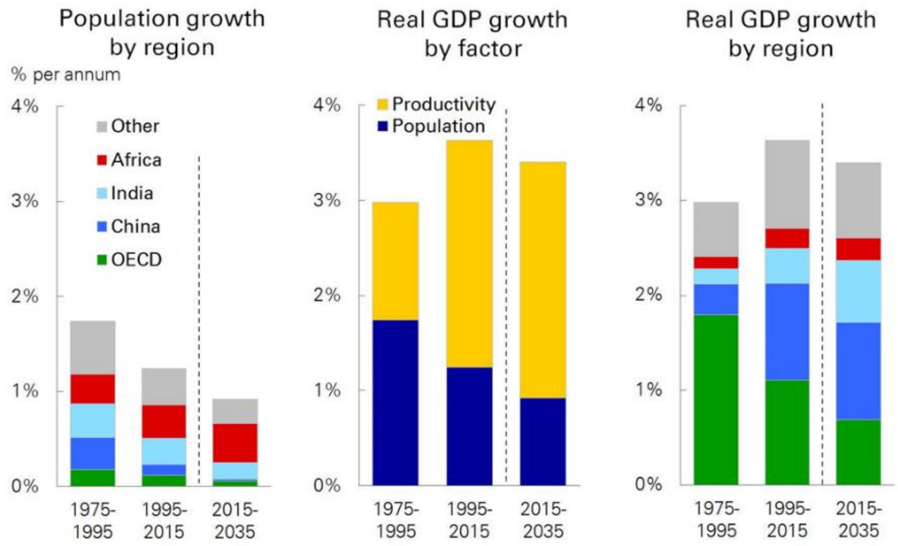
Market fundamentals



- World economy expected to double in next 20 years
- Mostly driven by productivity - GDP per person
- Population projected to grow by 1.5bn by 2035
- More than 2m people lifted from low incomes
- Half the increase in population is expected in Africa
- Economic growth requires more energy

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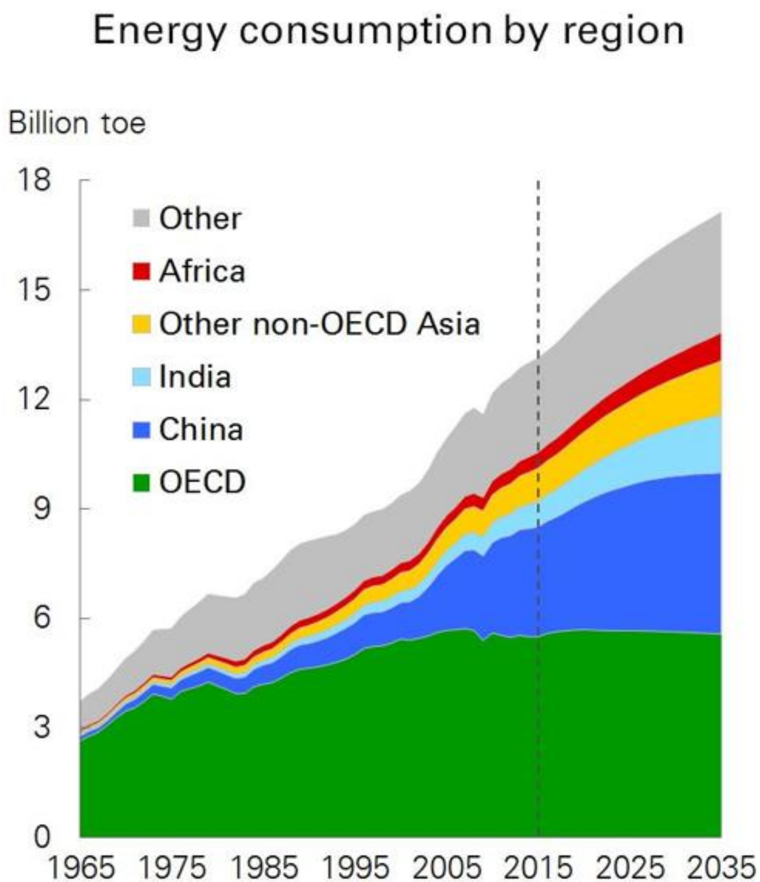
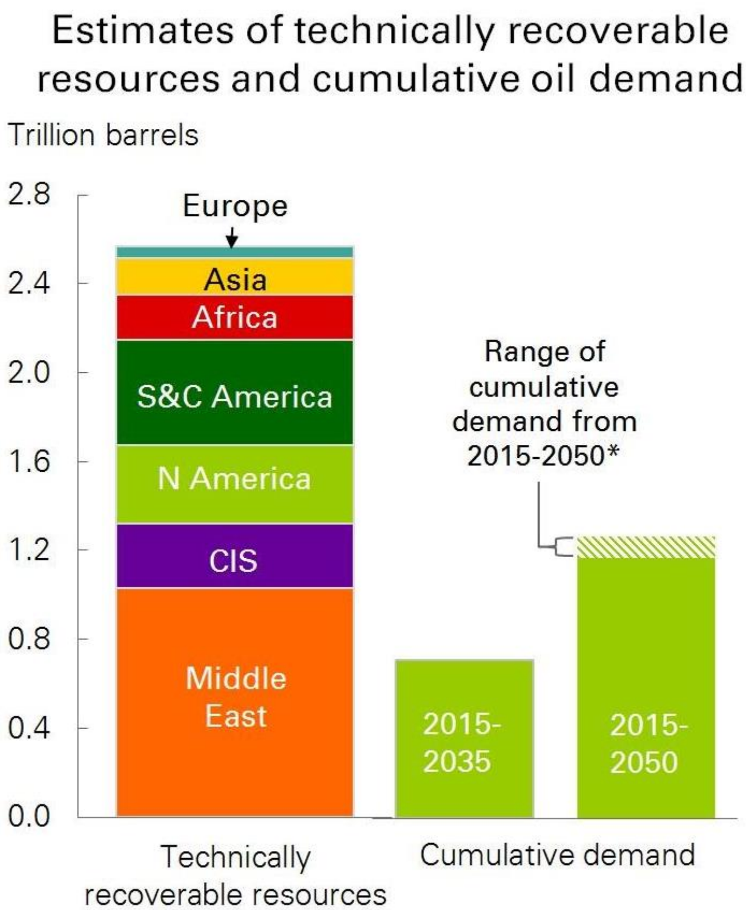
Market fundamentals



- Fast-growing economies drive energy consumption
- Growth decelerates
- Virtually all growth comes from China & India
- Demand from the OECD barely grows
- China initially dominates, but India is excepted to overtake rate of growth

Market fundamentals



- Known oil resources dwarf future consumption forecasts
- Global proven reserves have more than doubled over the past 35 years: for every barrel consumed, two new barrels have been discovered
- Around 65% of recoverable reserves are located in the Middle East, CIS and North America
- Looking out to 2050, global demand amounts to less than half today's recoverable reserves

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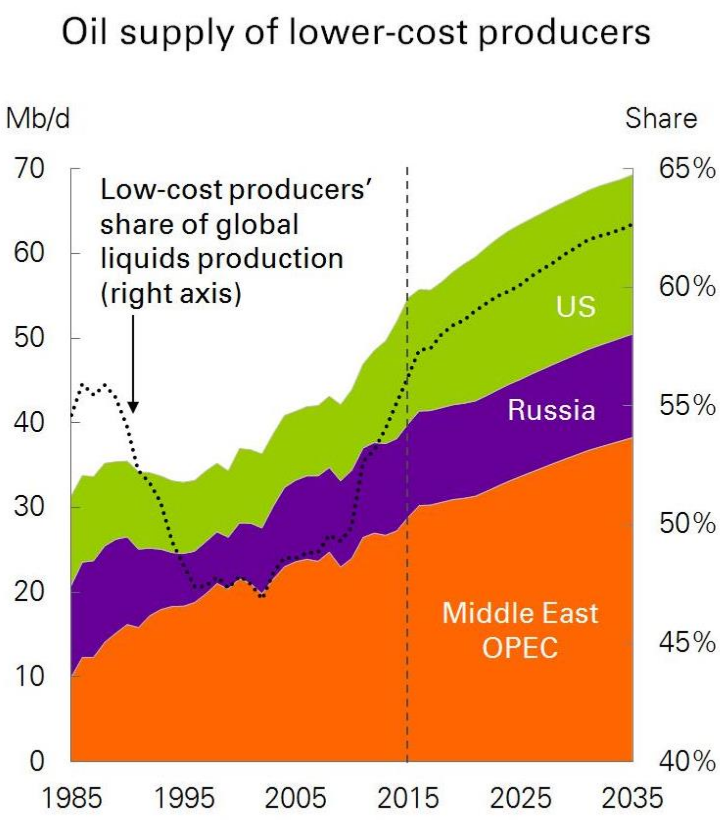
Market fundamentals



- Abundant oil resources and slowing demand have seen low-cost producers using their competitive advantage to protect market share
- Majority of low-cost resources are located onshore Middle East and Russia, with US tight oil plays following up

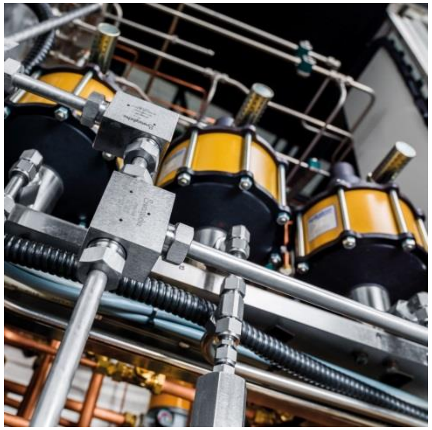
Key factors in future are:

- Balancing demand versus supply may actually work…
- Ability of low-cost producers to increase and decrease supply
- Implications of low-cost oil for producer's own economies
- Ability of higher-cost producers to respond to the threat…efficiencies, taxation, royalties etc.

What this means for PT:

- Requirement for high quality and niche consumables delivered on short lead times continues to play to our strengths
- A fundamentally restructured oil and gas market focused on cost and production efficiencies through new technologies, creates opportunities for our niche capabilities which have been further strengthened by the acquisition of Martract.

Group overview



A specialist engineering group supplying niche products & services to the global oil and gas, defence, industrial gases and AE markets

Pressure Technologies plc

Manufacturing Divisions

- **Precision Machined Components**
  - Al-Met
  - ROOTA Engineering Ltd
  - QUADSCOT Precision Engineers Ltd
  - MARTRACT
- **Engineered Products**
  - hydratron
- **Cylinders**
  - CHESTERFIELD SPECIAL CYLINDERS

Contracting Division

- **Alternative Energy**
  - GREENLANE BIOGAS

Precision Machined Components Division

Division remains profitable despite its reliance on the oil and gas market

Customer ordering patterns continue to be unpredictable but do not appear to be subject to further deterioration and Al-Met took its single largest ever order of $1.2 million in August

Al-Met and Roota gaining market share and customers but Quadscot remains affected by low-ball pricing in a very competitive sector of the market

Costs aligned with the market to ensure continued profitability with major headcount reduction and short-time working when necessary

Technical capability strengthened through recruitment and Al-Met has gained 'Fit for Nuclear' accreditation

Significant latent capacity created through investment in technology and productivity gains

Strategic acquisition of Martract in December 2016 immediately earnings enhancing, reduces lead times through vertical integration and expands market reach

Revenue

£10.7m

2015: £18.8m

Adjusted operating profit

£1.4m

2015: £4.5m

Engineered Products Division

Business restructured over the last 18 months as cuts in capital expenditure and discretionary service spend in the oil and gas market continue to impact sales revenues and profitability

US manufacturing closed and a distributor appointed covering the Americas

Breakeven sales reduced from £700,000 per month to under £400,000

Delivery lead times for standard pumps and power packs reduced from over two months to under two weeks

Completing the implementation of ‘lean’ operating systems and product rationalisation will yield further cost reductions

Commercial focus on expanding distributor networks with additional distributors appointed in Africa and Italy post year end

Revenue

£4.1m

2015: £6.7m

Adjusted operating loss

£(0.3)m

2015: £0.1m profit

Cylinders Division

Division remains profitable despite major reduction in orders from the oil and gas market as the defence market continues to provide a base load of revenue

CSC remains the established naval defence market leader in sales to NATO and NATO-friendly nations outside the USA with potential future large projects in the UK and Australia

USA, making steady progress in the defence market and opportunities opening up in the industrial gases market as our pricing is competitive and we now have all necessary US DoT approvals

Services now account for 25% of revenues and 28% of divisional gross margin (2015: 13% and 17% respectively) due to start of a new cycle of trailer reconditioning and a 14% increase in Integrity Management service

Revenue

£9.5m

2015: £14.3m

Adjusted operating profit

£1.1m

2015: £2.1m

Alternative Energy Division

Good momentum building with nine upgrader contracts secured in the year totalling £20.8 million

Timing of securing orders results in benefits of the order book delayed to 2017 with £14.2 million of orders at the year end

Kauri upgrader, world's largest single upgrader plant capable of processing 5000 cubic metres of biogas per hour, launched

Low cost, entry level Kanuka Gen 2.0 launched for volumes up to 300 cubic metres per hour

Sales effort focused on markets where subsidies and incentives are certain

Growth markets USA, Canada, Brazil, UK, Netherlands and France

High quality pipeline with over £15 million potential orders with a medium or high probability of conversion in first-half of 2017

Service & Maintenance contracts covered 30% of UK and Europe fixed costs, North America 7% due to different market dynamics

Revenue

£11.3m

2015: £14.0m

Adjusted operating loss

£(1.1)m

2015: £(1.1)m

Summary & Outlook

Group reshaped to reduce the reliance on the oil and gas market which now accounts for 43% of revenues (2015: 57%)

Restructuring completed to provide resilience and focus now on expanding into other markets

Alternative Energy Division is showing solid momentum with a good order book and strong pipeline

Manufacturing Divisions aligned to be profitable at second-half sales levels and gross margins preserved as direct costs reduced in response to reductions in revenues

Productivity gains and improved technical capabilities have been achieved across the Group

Acquisition of Martract demonstrates commitment to the Group's growth strategy

The Board remains confident in the medium to long-term prospects for the Group

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