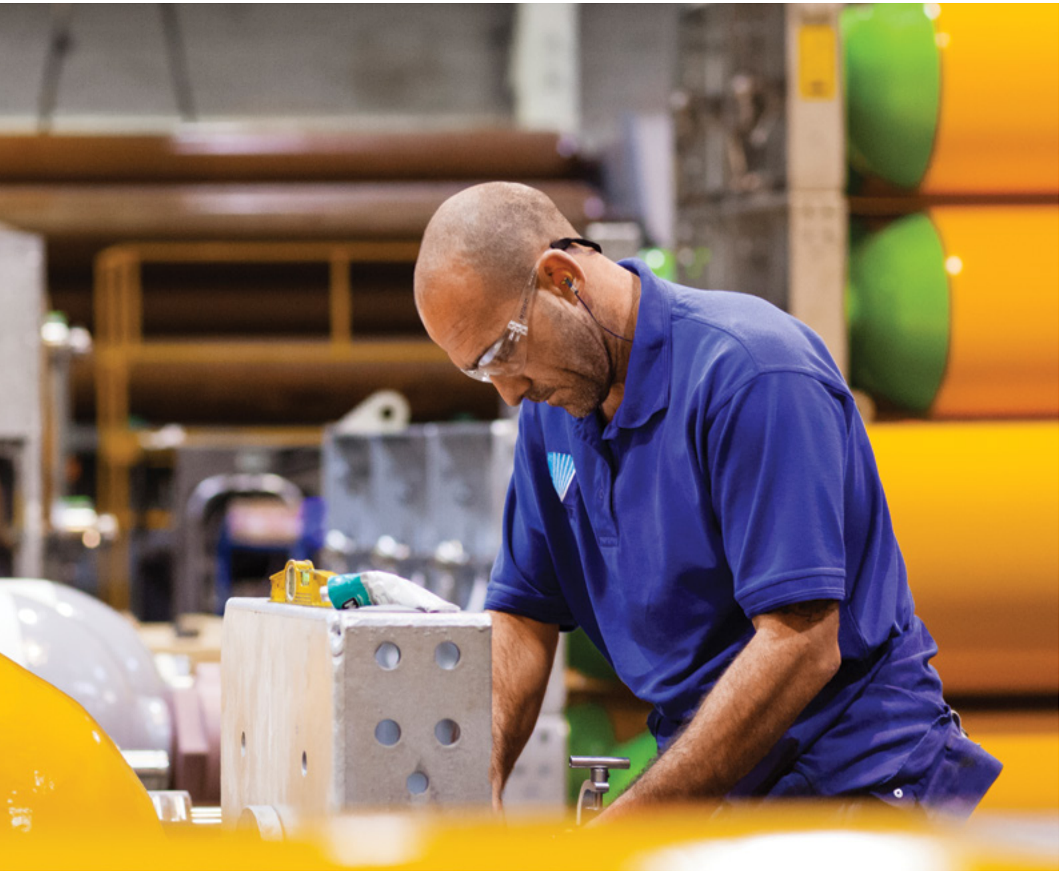
Pressure Technologies plc

Interim Report 2015



Engineered Products

Cylinders

Alternative Energy

Precision Machined Components

WELCOME

A leading designer and manufacturer of high pressure engineering systems, serving the global oil and gas, defence, industrial gases and clean energy markets.

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HIGHLIGHTS

- Continued underlying growth:
  – Revenue of £32.1 million (2014: £19.9 million) – up 62%
- Underlying operating profit* at £2.6 million (2014: £2.2 million) – up 20%
- Underlying earnings per share* of 12.1p (2014: 12.7p) – down 5%
- Interim dividend unchanged at 2.8p per share
- Net debt of £7.5 million (2014 year end: net cash £5.8 million)
- New four-year bank facility with Lloyds Banking Group for up to £15 million with an accordion of up to an additional £10 million

* Before acquisition costs, related amortisation and exceptional items

M&A ACTIVITY

- Acquisition of Quadscot Precision Engineers in October 2014 for £6.9 million net and two-year earn out of up to £3 million
- Acquisition of the trade and certain assets of the Greenlane group of companies in October 2014 for £5.8 million with a four-year earn out of up to £6.2 million
- Acquisition of the freehold land and buildings at the Group's Meadowhall site for £3.3 million to secure the long-term future of the Cylinders Division

Contents

CHAIRMAN'S STATEMENT

"Whilst we cannot escape the current and very challenging conditions within the oil and gas market, the Group is now much better balanced and the Board will continue efforts to broaden our customer, technology and industrial base. The Board remains confident in the medium to long-term prospects for the Group."

With the Group heavily dependent for its revenues from the oil and gas market, the results for the half-year and the outlook have to be viewed in conjunction with current conditions in this market.

Market conditions during the first-half have been particularly challenging, as the price of Brent crude oil fell below $50/bbl in early January. This dramatic price drop was caused by a continuing demand and supply imbalance for crude oil, mostly as a result of lower than expected global growth and the rapid increase in production from North American tight-oil fields coupled with a decision by OPEC to maintain production levels. Saudi Arabia's refusal to play its traditional role as swing producer in order to maintain prices has changed global oil market dynamics for the foreseeable future.

The net result of this substantial decline and underlying market uncertainty has seen oil companies delay exploration and production spending, resulting in project postponements, cancellations and requests for price reductions. The Group has not been immune to these market conditions and the overall order book, excluding the Alternative Energy Division, has reduced by 35% since the last financial year-end.

However, integration of acquisitions made in 2014 is progressing well. Al-Met, Roota Engineering and Quadscot have become the Precision Machined Components Division headed by Matt Crampin, Managing Director of Roota. Quadscot has now started to provide in-house precision machining to other Group companies, thereby reducing external spending. The integration of Greenlane Biogas has broadened the Group's control of biogas technology and access to global markets.

Continuous cost reduction initiatives are in place across all divisions with reduced working hours to match demand, elimination of waste and a reduction in discretionary expenditure. However, we continue to invest in training and recruitment of apprentices to ensure we have the capability to step-up production as the market recovers.

Results

Revenue for the 26 weeks to 28 March 2015 was £32.1 million (2014: £19.9 million), which returned an operating profit, before acquisition costs, related amortisation and exceptional items, of £2.6 million (2014: £2.2 million) and a corresponding return on sales of 8.1% (2014: 10.9%).

Acquisition costs of £0.2 million incurred in the half-year (2014: £0.5 million) relate to completion of the acquisitions of Quadscot and Greenlane. The amortisation charge of £1.1 million (2014: £0.2 million) has risen significantly following the acquisitions of Roota, Quadscot and Greenlane. The intangible assets acquired with these acquisitions are being amortised over a period of seven and a half years.

As previously announced, a provision of £1.4 million has been made in the half-year against the value of loans provided to Kelley GTM. Full provision has now been made against the Group's investment in and loans to Kelley GTM. Also separately identified are redundancy costs of £0.3 million and the release of a provision of £0.3 million to equalise rental payments over the life of the Meadowhall site which, following its purchase, is no longer required.

At the beginning of the half-year, the Group agreed a new four year £15 million Revolving Credit Facility with the Group's principal bankers, Lloyds Banking Group. The facility also includes an accordion option allowing for an additional facility of £10 million.

An unchanged interim dividend of 2.8p per share (2014: 2.8p) will be paid on 7 August 2015 to shareholders who are registered at the close of business on 10 July 2015. The unchanged dividend reflects the Board's confidence in the underlying strength of the Group.

CHAIRMAN'S STATEMENT CONTINUED

Precision Machined Components

	2015 £m	2014 £m
Revenue	**11.6**	4.2
Operating profit*	**3.3**	0.6

The new financial year started with the acquisition of Quadscot Precision Engineers, a manufacturer of precision machined components for the oil and gas market based near Glasgow. As a result of this purchase our three machining businesses, Quadscot, Roota and Al-Met were split out from the Engineered Products Division to form the Precision Machined Components Division.

First-half performance of the division was excellent, especially at Al-Met where continued demand for flow control components for subsea trees gave a sustained increase in both revenues and operating profit. However, signs of weakening demand across the division were evident during the period and these have accelerated post the half-year end. As a result of this, the material decrease across the division in enquiries and order intake that has been experienced in recent weeks is now expected to last into the next financial year.

Lead-times in the division are typically 12 to 16 weeks and can be as low as a few days for simpler components so the recovery, when it comes, is expected to be rapid. Encouragingly, the division's products are predominantly used in the subsea sector of the oil and gas market, which is expected to be a focus for investment as the oil price recovers.

Weakening demand has led customers to request price reductions. The division's approach to this is to work with customers to link price reductions to cost reductions through better purchasing and redesign of products.

The division has the manufacturing capability to supply into the nuclear sector and work is underway to obtain the required approvals. This will provide medium to long-term opportunities for diversification from the core oil and gas market.

Capital investment in the division has been focused on efficiency and productivity gains with new CNC milling and grinding equipment installed at Al-Met. The additional factory space acquired as part of the acquisition of Quadscot has been refurbished to create an area for the machining of products for the rest of the Group. Customer specific capital investment has been put on hold until the market recovers as lead-times for machine tools are relatively short.

Cylinders

	2015 £m	2014 £m
Revenue	**7.8**	10.5
Operating profit*	**1.1**	2.2

Chesterfield Special Cylinders ("CSC") has performed in line with expectations, albeit at a lower level than 2014, as its long order to delivery lead-times of six to nine months give accurate short-term forecasting.

The key issue behind the reduction in revenue and profits in the period was the continued low level of orders for Air Pressure Vessels (APVs) for the deep-water semi-submersible oil rig and drillship market. As a result of this, revenues from the oil and gas market declined by 51% from £7.3 million to £3.6 million.

Revenues from other markets increased by 34% from £3.2 million to £4.2 million due to increased activity in the defence and integrity management markets. To bolster our ambitions in the US defence and oil and gas markets a sales office has this week been established in the USA headed by the former President of a US competitor.

The installation and commissioning of the new forge was completed during the period giving a significant productivity increase in forging and improvements to quality thereby reducing downstream manufacturing requirements.

The long-term future of CSC was secured by the purchase of the freehold land and buildings at its Meadowhall site, the lease on which had only five years to run. This not only secures the business, but gives a saving net of interest of over £200,000 per year for the Group and approximately two acres of surplus land available for future development.

Our 40% investment in Kelley GTM in the USA continues to underperform. This business builds Gas Transportation Modules for Compressed Natural Gas ("CNG"). The major market for this is the onshore oil and gas market in the USA which has declined substantially due to the collapse in the oil price. There have been 693 rigs taken out of action since March 2014; equating to a 38% drop in activity and no improvement is forecast in the short to medium-term. As a result of this, and as intimated in the February trading update, the Group has decided not to exercise its option to purchase a further 40% of the share capital of Kelley GTM.

Recovery in the division is largely dependent on recovery in the deep-water oil and gas market driving demand for new drillships and semi-submersible rigs. Given current low rig utilisation rates world-wide, upturn in the market is not expected before mid-2016 at the earliest. Growth in the defence and integrity management markets is expected but not at a level to compensate for the reduction from the oil and gas market.

CHAIRMAN'S STATEMENT CONTINUED

Engineered Products

	2015 £m	2014 £m
Revenue	**4.7**	5.1
Operating profit*	**0.1**	0.5

This division now comprises Hydratron Ltd, based in Altrincham, UK and Hydratron Inc, based in Houston, Texas, USA. The division had a weak start to the financial year. The Houston subsidiary experienced a rapid drop in demand from the outset as customers delayed decisions on capital equipment orders. The UK subsidiary had a strong opening order load and continued demand, but project execution issues adversely impacted the first-half through increased costs of manufacture and a restriction of order intake. Recovery of this has coincided with a downturn similar to that experienced by the Precision Machined Components Division and the level of orders and enquiries has reduced markedly and is expected to remain subdued into the next financial year.

Operations and engineering management in the UK has been significantly strengthened in recent months to eliminate the issues experienced in the first-half. A major project is underway to expand the division's sales and distribution channels around the world with specific focus on North America and the Far East. As Hydratron is an order of magnitude smaller than its major competitors, there is the opportunity to grow the business through increasing market share.

Alternative Energy

	2015 £m	2014 £m
Revenue	**8.0**	0.1
Operating loss*	**(0.9)**	(0.3)

The division was transformed by the purchase of the assets of its technology provider, Greenlane, in October 2014. This has given the division a worldwide platform for selling biogas upgrading technology, trading out of the UK, Canada and New Zealand. The restructuring, which is now complete has focused on the reorganisation and integration of Greenlane into the Group. Chesterfield BioGas, our existing subsidiary, is from June 2015 trading under the Greenlane name. Staffing has been rationalised across the division with a number of areas of duplication removed. Research and development, following a project to rationalise and record core product designs, has now been more closely aligned with market requirements and located and sized accordingly.

Key growth markets for the division are UK, France, Italy, Canada, USA, Brazil and China and the division has sufficient resources to properly target these markets. Order intake has been slower than anticipated due to a combination of delays in setting incentive levels, land and planning issues and environmental permits. The potential pipeline based on projects which divisional management believes have a medium to high probability of winning is over £35 million. The division subcontracts manufacture of equipment and there is an established supply chain with capacity to absorb a major increase in orders. With lead-times of six to nine months from order to commissioning, any new orders will not have a material impact in the current financial year but we expect significant progress in the 2016 financial year.

Outlook

The price of Brent crude rose above $60/bbl in mid-April and has remained there since. This increase and relative stability thereafter is underpinned by reductions in US crude stockpiles seen at Cushing, Oklahoma for the first time since November and lower output from tight-oil formations in April. Further and larger reductions are forecast for the coming months. It is tempting to believe that the economic price point for tight oil is now known to be $60-70/bbl and market stability will follow thereafter, but only time will tell. Given the foregoing and the fact that around 70% of our revenue is derived from this sector, the Board considers it unlikely that the Group will see a substantial improvement in trading at least until the second-half of next year.

Across the divisions, we expect that Precision Machined Components will be the first and fastest division to recover and it is encouraging to report that the subsea sector it primarily serves is expected to be a focus for investment once the recovery is underway. Engineered Products has the potential to take market share and a major project is underway to expand its sales and distribution network around the world. While Cylinders with its long-lead times will be the last to recover from the downturn in the oil and gas market, we are seeing a stronger order pipeline from the defence market. Opportunities within the Alternative Energy Division remain exciting; with substantial opportunities for securing new orders that will impact 2016.

Whilst we cannot escape the current and very challenging conditions within the oil and gas market, the Group is now much better balanced and the Board will continue efforts to broaden our customer, technology and industrial base. The Board remains confident in the medium to long-term prospects for the Group.

Alan Wilson
Chairman
16 June 2015

*Divisional operating profit/(loss) is stated before unallocated central costs, acquisition costs, related amortisation and exceptional items.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 26 weeks ended 28 March 2015

	Note	**Unaudited 26 weeks ended 28 March 2015 £'000**	Unaudited 26 weeks ended 29 March 2014 £'000	Audited 52 weeks ended 27 September 2014 £'000
Revenue	2	**32,120**	19,870	54,015
Cost of sales		**(22,466)**	(13,894)	(38,277)
Gross profit		**9,654**	5,976	15,738
Administration expenses		**(7,052)**	(3,802)	(7,904)
Operating profit pre acquisition costs, amortisation and exceptional items		**2,602**	2,174	7,834
Acquisition costs and related amortisation	3	**(1,333)**	(718)	(1,556)
Exceptional costs	4	**(5)**	—	—
Operating profit		**1,264**	1,456	6,278
Finance income		**—**	5	32
Finance costs		**(227)**	(9)	(60)
Exceptional costs in relation to loans to KGTM	4	**(1,408)**	—	(718)
Share of loss of associate	5	**(151)**	(140)	(183)
(Loss)/profit before taxation		**(522)**	1,312	5,349
Taxation	6	**28**	(505)	(1,638)
(Loss)/profit for the financial period		**(494)**	807	3,711
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Currency differences on retranslation of foreign operations		**(55)**	24	10
Total comprehensive income for the period attributable to the owners of the parent		**(549)**	831	3,721
(Loss)/earnings per share – basic	7	**(3.4)p**	6.9p	28.5p
(Loss)/earnings per share – diluted	7	**(3.4)p**	6.7p	27.9p
Earnings per share – adjusted	7	**12.1p**	12.7p	44.9p

CONDENSED CONSOLIDATED BALANCE SHEET

As at 28 March 2015

	Note	**Unaudited 28 March 2015 £'000**	Unaudited 29 March 2014 £'000	Audited 27 September 2014 £'000
Non-current assets				
Goodwill		**14,771**	7,081	7,081
Intangible assets		**14,575**	7,523	6,960
Property, plant and equipment		**13,915**	6,694	7,802
Deferred tax asset		**19**	124	155
Trade and other receivables		**134**	2,249	1,575
Investment in associate	5	**—**	166	123
		43,414	23,837	23,696
Current assets				
Inventories		**8,183**	8,808	8,819
Trade and other receivables		**20,564**	14,774	20,561
Cash and cash equivalents	8	**4,655**	10,490	6,356
Derivative financial instruments		**26**	50	43
		33,428	34,122	35,779
Total assets		**76,842**	57,959	59,475
Current liabilities				
Trade and other payables		**(17,704)**	(16,009)	(16,453)
Borrowings	8	**(11,749)**	—	(180)
Current tax liabilities		**(1,244)**	(1,264)	(1,183)
		(30,697)	(17,273)	(17,816)
Non-current liabilities				
Other payables		**(8,035)**	(4,943)	(2,909)
Borrowings	8	**(362)**	—	(324)
Deferred tax liabilities		**(2,484)**	(1,971)	(1,897)
		(10,881)	(6,914)	(5,130)
Total liabilities		**(41,578)**	(24,187)	(22,946)
Net assets		**35,264**	33,772	36,529
Equity				
Share capital		**719**	713	718
Share premium account		**21,475**	21,281	21,463
Translation reserve		**(20)**	49	35
Profit and loss account		**13,090**	11,729	14,313
Total equity		**35,264**	33,772	36,529

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 26 weeks ended 28 March 2015

	Share capital £'000	Share premium account £'000	Translation reserve £'000	Profit and loss account £'000	Total equity £'000
Balance at 27 September 2014 (audited)	**718**	**21,463**	**35**	**14,313**	**36,529**
Dividends	**—**	**—**	**—**	**(805)**	**(805)**
Share based payments	**—**	**—**	**—**	**76**	**76**
Shares issued	**1**	**12**	**—**	**—**	**13**
Transactions with owners	**1**	**12**	**—**	**(729)**	**(716)**
Loss for the period	**—**	**—**	**—**	**(494)**	**(494)**
Exchange gains arising on retranslation of foreign operations	**—**	**—**	**(55)**	**—**	**(55)**
Total comprehensive income	**—**	**—**	**(55)**	**(494)**	**(549)**
Balance at 28 March 2015 (unaudited)	**719**	**21,475**	**(20)**	**13,090**	**35,264**

For the 26 weeks ended 29 March 2014

	Share capital £'000	Share premium account £'000	Translation reserve £'000	Profit and loss account £'000	Total equity £'000
Balance at 28 September 2013 (audited)	568	5,387	25	11,484	17,464
Dividends	—	—	—	(591)	(591)
Share based payments	—	—	—	29	29
Shares issued	145	15,894	—	—	16,039
Transactions with owners	145	15,894	—	(562)	15,477
Profit for the period	—	—	—	807	807
Exchange differences arising on retranslation of foreign operations	—	—	24	—	24
Total comprehensive income	—	—	24	807	831
Balance at 29 March 2014 (unaudited)	713	21,281	49	11,729	33,772

For the 52 weeks ended 27 September 2014

	Share capital £'000	Share premium account £'000	Translation reserve £'000	Profit and loss account £'000	Total equity £'000
Balance at 28 September 2013 (audited)	568	5,387	25	11,484	17,464
Dividends	—	—	—	(991)	(991)
Share based payments	—	—	—	109	109
Shares issued	150	16,076	—	—	16,226
Transactions with owners	150	16,076	—	(882)	15,344
Profit for the period	—	—	—	3,711	3,711
Exchange differences arising on retranslation of foreign operations	—	—	10	—	10
Total comprehensive income	—	—	10	3,711	3,721
Balance at 27 September 2014 (audited)	718	21,463	35	14,313	36,529

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the 26 weeks ended 28 March 2015

	Unaudited 26 weeks ended 28 March 2015 £'000	Unaudited 26 weeks ended 29 March 2014 £'000	Audited 52 weeks ended 27 September 2014 £'000
Cash flows from operating activities			
(Loss)/profit after taxation	**(494)**	807	3,711
Adjustments for:			
Depreciation	**548**	381	804
Finance costs – net	**227**	4	28
Amortisation of intangible assets	**1,156**	201	764
(Profit) on disposal of fixed assets	**(3)**	(1)	(7)
Share option costs	**62**	29	109
Taxation (credit)/expense recognised in income statement	**(28)**	505	1,638
Loss on derivative financial instruments	**17**	21	28
Foreign exchange movement	**—**	49	—
Exceptional charges associated with Kelley GTM	**1,408**	—	718
Other exceptional costs	**5**	—	—
Share of losses in associate	**151**	140	183
Decrease/(increase) in inventories	**925**	(429)	(440)
(Increase) in trade and other receivables	**(789)**	(4,279)	(7,449)
Increase in trade and other payables	**631**	4,955	3,324
Cash generated from operations	**3,816**	2,383	3,411
Finance costs paid	**(107)**	—	(7)
Income tax paid	**(406)**	(454)	(1,766)
Net cash from operating activities	**3,303**	1,929	1,638
Cash flows from investing activities			
Interest received	**—**	—	19
Purchase of property, plant and equipment	**(4,588)**	(709)	(1,792)
Proceeds from sale of fixed assets	**3**	17	155
Cash outflow on purchase of subsidiaries net of cash acquired	**(9,573)**	(7,825)	(7,630)
Deferred consideration paid	**(1,400)**	—	—
Cash outflow on investment in associate	**—**	(306)	(306)
Cash outflow on loan made to associate	**—**	(2,108)	(2,147)
Cash outflow on third party loans	**—**	—	(2,782)
Net cash flow used in investing activities	**(15,558)**	(10,931)	(14,483)
Cash flows from financing activities			
Cash inflow from borrowings	**11,500**	—	—
Repayment of borrowings	**(154)**	—	(78)
Shares issued	**13**	16,039	16,226
Dividends paid	**(805)**	(591)	(991)
Net cash used for financing activities	**10,554**	15,448	15,157
Net (decrease)/increase in cash and cash equivalents	**(1,701)**	6,446	2,312
Cash and cash equivalents at beginning of period	**6,356**	4,044	4,044
Cash and cash equivalents at end of period	**4,655**	10,490	6,356

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The Group's interim results for the 26 weeks ended 28 March 2015 are prepared in accordance with the Group's accounting policies which are based on the recognition and measurement principles of International Financial Reporting Standards ("IFRS") as adopted by the EU and effective, or expected to be adopted and effective, at 3 October 2015. The principal accounting policies of the Group have remained unchanged from those set out in the Group's 2014 annual report and financial statements. The Group's 2014 financial statements for the 52 weeks ended 27 September 2014 were prepared under IFRS. These financial statements received an unqualified audit report, did not contain statements under Sections 498(2) or (3) of the Companies Act 2006 and have been filed with the Registrar of Companies. As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 "Interim financial reporting".

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of financial instruments.

The financial information for the 26 weeks ended 28 March 2015 and 29 March 2014 has not been audited and does not constitute full financial statements within the meaning of Section 434 of the Companies Act 2006. The unaudited interim financial statements were approved by the Board of Directors on 15 June 2015.

2. Segmental analysis

Revenue by destination

	Unaudited 26 weeks ended 28 March 2015 £'000	Unaudited 26 weeks ended 29 March 2014 £'000	Audited 52 weeks ended 27 September 2014 £'000
United Kingdom	**17,516**	6,786	25,730
Other EU	**4,762**	3,246	7,658
Rest of World	**9,842**	9,838	20,627
	32,120	19,870	54,015

Revenue by sector

	Unaudited 26 weeks ended 28 March 2015 £'000	Unaudited 26 weeks ended 29 March 2014 £'000	Audited 52 weeks ended 27 September 2014 £'000
Oil and gas	**19,765**	16,214	39,607
Defence	**3,512**	2,272	3,478
Industrial gases	**888**	1,306	2,309
Alternative energy	**7,955**	78	8,621
	32,120	19,870	54,015

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

2. Segmental analysis continued

Revenue by activity

	Unaudited 26 weeks ended 28 March 2015 £'000	Unaudited 26 weeks ended 29 March 2014 £'000	Audited 52 weeks ended 27 September 2014 £'000
Cylinders	**7,791**	10,454	21,443
Engineered Products	**4,727**	5,128	11,093
Precision Machined Components	**11,647**	4,210	13,040
Alternative Energy	**7,955**	78	8,439
	32,120	19,870	54,015

(Loss)/profit before taxation by activity

	Unaudited 26 weeks ended 28 March 2015 £'000	Unaudited 26 weeks ended 29 March 2014 £'000	Audited 52 weeks ended 27 September 2014 £'000
Cylinders	**1,093**	2,217	3,791
Engineered Products	**56**	536	1,625
Precision Machined Components	**3,306**	605	3,024
Alternative Energy	**(862)**	(347)	1,094
Unallocated central costs	**(991)**	(837)	(1,700)
Operating profit pre acquisition costs, related amortisation and exceptional costs	**2,602**	2,174	7,834
Acquisition costs and related amortisation	**(1,333)**	(718)	(1,556)
Exceptional costs (see note 4)	**(5)**	—	—
Operating profit	**1,264**	1,456	6,278
Finance costs	**(227)**	(4)	(28)
Exceptional costs in relation to loans to KGTM	**(1,408)**	—	(718)
Share of loss of associate	**(151)**	(140)	(183)
(Loss)/profit before tax	**(522)**	1,312	5,349

The (loss)/profit before taxation by activity is stated before the allocation of Group management charges.

2. Segmental analysis continued

Earnings before interest, taxation, depreciation, and amortisation (EBITDA)

	Unaudited 26 weeks ended 28 March 2015 £'000	Unaudited 26 weeks ended 29 March 2014 £'000	Audited 52 weeks ended 27 September 2014 £'000
Adjusted EBITDA	**2,999**	2,450	8,525
Acquisition costs	**(177)**	(552)	(862)
Exceptional costs (see note 4)	**(5)**	—	—
EBITDA	**2,817**	1,898	7,663
Depreciation	**(548)**	(381)	(804)
Amortisation re: acquired businesses	**(1,156)**	(166)	(694)
Amortisation re: other acquired assets	**—**	(35)	(70)
Exceptional costs in relation to loans to KGTM	**(1,408)**	—	(718)
Interest	**(227)**	(4)	(28)
(Loss)/profit before tax	**(522)**	1,312	5,349

Amortisation on acquired businesses as set out above consists of the amortisation charged on intangible assets acquired as a result of business combinations in both current and previous periods. Amortisation of other acquired assets consists of all other amortisation charged in the Condensed Consolidated Statement of Comprehensive Income.

3. Acquisition costs and related amortisation

Acquisition costs and amortisation in relation to intangible assets acquired on business combinations are shown separately in the Condensed Consolidated Statement of Comprehensive Income.

A breakdown of those costs can be seen below.

	Unaudited 26 weeks ended 28 March 2015 £'000	Unaudited 26 weeks ended 29 March 2014 £'000	Audited 52 weeks ended 27 September 2014 £'000
Acquisition costs	**177**	552	862
Amortisation in relation to intangible assets acquired on business combinations	**1,156**	166	694
	1,333	718	1,556

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

4. Exceptional costs

Items that are material either because of their size or their nature, or that are non-recurring are considered as exceptional items and are disclosed separately on the face of the Consolidated Statement of Comprehensive Income.

An analysis of the amounts presented as exceptional items in these financial statements is given below:

	Unaudited 26 weeks ended 28 March 2015 £'000	Unaudited 26 weeks ended 29 March 2014 £'000	Audited 52 weeks ended 27 September 2014 £'000
Operating items			
Release of IFRS rent provision	**322**	—	—
Reorganisation costs	**(327)**	—	—
	(5)	—	—
Non-operating items			
Exceptional costs in relation to loans to KGTM	**(1,408)**	—	(718)
	(1,413)	—	(718)

The release of the IFRS rent provision above relates to a provision made in relation to IAS 17 with regards to the lease held by Chesterfield Special Cylinders at the Meadowhall site. Following the purchase of the site by the Group in January 2015, this provision is no longer required and is consequently released. Given its non-operating nature it is disclosed as an exceptional item.

The reorganisation costs relate to costs of restructuring across the Group. They are recognised in accordance with IAS 19.

The exceptional costs in relation to the options on and loans to Kelley GTM ("KGTM") relate to provisions made by the Board against the balance of the loans receivable from KGTM, an associated company. Due to the uncertainty of repayment, the entire balance of the loan outstanding has been provided for.

5. Investment in associate

The movement in the value of the investment in the period is as follows:

	£'000
Carrying value as at 27 September 2014	123
Share of losses in the period	(123)
Carrying value as at 28 March 2015	—

Note that the share of losses of associates as set out in the Consolidated Statement of Comprehensive Income were set first against the investment value as above and then against the value of other receivables from KGTM. The remaining value of these receivables has been provided against as set out in note 4.

6. Taxation

	Unaudited 26 weeks ended 28 March 2015 £'000	Unaudited 26 weeks ended 29 March 2014 £'000	Audited 52 weeks ended 27 September 2014 £'000
Current tax	**153**	465	1,703
Deferred taxation	**(181)**	40	(65)
Taxation (credited)/charged to the income statement	**(28)**	505	1,638

The tax charge differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the consolidated entities. The effective tax rate as set out above is (5)% in comparison to the weighted average tax rate applicable of (20)%. These differences principally relate to acquisition costs incurred in the year, which are disallowable for tax purposes, and unrelieved losses on the share of the results of KGTM and on overseas subsidiaries.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

7. (Loss)/earnings per ordinary share

The calculation of basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the period.

The calculation of diluted earnings per share is based on basic earnings per share, adjusted to allow for the issue of shares on the assumed conversion of all dilutive options.

Adjusted earnings per share shows earnings per share, adjusting for the impact of acquisition costs, the amortisation charged on intangible assets acquired as a result of business combinations, any exceptional items, and for the estimated tax impact, if any, of those costs. Adjusted earnings per share is based on the profits as adjusted divided by the weighted average number of shares in issue.

	Unaudited 26 weeks ended 28 March 2015 £'000	Unaudited 26 weeks ended 29 March 2014 £'000	Audited 52 weeks ended 27 September 2014 £'000
(Loss)/profit after tax for basic and diluted earnings per share	**(494)**	807	3,711
(Loss)/profit after tax for adjusted earnings per share:			
(Loss)/profit after tax as above	**(494)**	807	3,711
Acquisition costs	**177**	552	862
Amortisation in relation to intangible assets acquired on business combinations	**1,156**	166	694
Reorganisation costs	**327**	—	—
Provisions made against investment in KGTM	**1,408**	—	718
Release of IFRS rent provision	**(322)**	—	—
Tax movement thereon	**(514)**	(38)	(138)
Profit after tax for adjusted earnings per share	**1,738**	1,487	5,847

	Number of shares	Number of shares	Number of shares
Weighted average number of shares in issue	**14,374,585**	11,749,495	13,025,349
Dilutive effect of options	**258,352**	236,270	263,283
Diluted weighted average number of shares	**14,632,937**	11,985,765	13,288,632
Earnings per share – basic	**(3.4)p**	6.9p	28.5p
Earnings per share – diluted	**(3.4)p**	6.7p	27.9p
Adjusted earnings per share – basic	**12.1p**	12.7p	44.9p

8. Reconciliation of net (borrowings)/cash

	Unaudited 28 March 2015 £'000	Unaudited 29 March 2014 £'000	Audited 27 September 2014 £'000
Cash and cash equivalents	**4,655**	10,490	6,356
Bank borrowings	**(11,500)**	—	—
Finance leases	**(611)**	—	(504)
Net (borrowings)/cash	**(7,456)**	10,490	5,852

9. Business combinations

The Quadscot Group of Companies

On 1 October 2014, the Group acquired 100% of the issued share capital of the Quadscot Group of companies ("Quadscot") for an initial consideration of £7,884,000, plus maximum deferred consideration of £3,000,000.

In calculating goodwill below, the contingent consideration is held at fair value of £1,697,000. This has been estimated based on future earnings. The fair value estimate is based on a discount rate of 3% and assumes that £1,800,000 of deferred consideration is payable.

Quadscot specialises in a wide range of components for oil and gas pressure systems and downhole tools and is based in Blantyre, Scotland. The transaction has been accounted for by the acquisition method of accounting.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

9. Business combinations continued

The Quadscot Group of Companies continued

The table below summarises the consideration paid for Quadscot and the fair value of the assets and liabilities acquired.

	Book value £'000	Fair value adjustment on acquisition £'000	Intangible assets recognised on acquisition £'000	Fair value £'000
Recognised amounts of identifiable assets acquired and liabilities assumed:				
Property plant and equipment	1,988	(275)	—	1,713
Intangible assets	—	—	4,262	4,262
Inventories	242	—	—	242
Trade and other receivables	1,460	—	—	1,460
Cash and cash equivalents	1,149	—	—	1,149
Trade and other payables	(917)	—	—	(917)
Borrowings	(202)	—	—	(202)
Current tax liabilities	(314)	—	—	(314)
Deferred tax (liabilities)/assets	(94)	55	(852)	(891)
	3,312	(220)	3,410	6,502
Goodwill				3,079
Total consideration				9,581
Satisfied by:				
Cash				7,884
Deferred cash consideration				1,697
				9,581
Net cash outflow arising on acquisition				
Initial cash consideration				7,884
Cash and cash equivalents acquired				(1,149)
				6,735
Borrowings acquired				202
Initial consideration less net cash acquired				6,937

The intangible assets acquired with the business comprise £3,889,000 in relation to non-contractual customer relationships.

9. Business combinations continued

The Greenlane Group of companies

On 1 October 2014, the Group acquired the trade and certain assets of the Greenlane Group of companies, for an initial £5,755,000 (NZ$ 12,000,000 translated at £1 : NZ$2.085) plus a maximum deferred consideration of £6,235,000 (NZ$ 13,000,000 translated at £1 : NZ$2.085).

In calculating goodwill below, the contingent consideration is held at fair value of £3,533,000. This has been estimated using the income approach. The fair value estimate is based on a discount rate of 3% and reflects the profits the directors consider are likely to arise.

Greenlane is a leading global provider of biogas upgraders using waterwash technology. Greenlane have designed and built over 80 biogas plants around the world. The business has operations in Vancouver, Auckland and Sheffield.

The table below summarises the consideration paid for Greenlane and the fair value of the assets and liabilities acquired.

	Book value £'000	Intangible assets recognised on acquisition £'000	Fair value £'000
Recognised amounts of identifiable assets acquired and liabilities assumed:			
Property, plant and equipment	99	—	99
Intangible assets	—	5,316	5,316
Inventories	47	—	47
Trade and other receivables	194	—	194
Trade and other payables	(172)	—	(172)
	168	5,316	5,484
Goodwill			4,611
Total consideration			10,095
Satisfied by:			
Cash advanced in previous period			2,782
Cash paid in current period			2,838
Cash consideration still to pay			135
Existing licence held with Greenlane			807
Deferred cash consideration			3,533
			10,095

The intangible assets acquired with the business comprise £5,316,000 in relation to the technology acquired.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

10. Dividends

The final dividend for the 52 weeks ended 28 September 2013 of 5.2p per share was paid on 7 March 2014.

The interim dividend for the 52 weeks ended 27 September 2014 of 2.8p per share was paid on 8 August 2014.

The final dividend for the 52 weeks ended 27 September 2014 of 5.6p per share was paid on 17 March 2015.

An interim dividend for the 53 weeks period ending on 3 October 2015 of 2.8p per share will be paid on 7 August 2015 to shareholders on the share register at the close of business on 10 July 2015.

NOTES

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