Pressure Technologies

Interim Report 2018

Specialist engineering • Engineering excellence • Organic growth • Future growth • Unique solutions • Integrity management services • World leader • 120 years of engineering heritage • Highly skilled craftsmen • Creativity and ingenuity • Close collaboration with customers • Creation of PMC brand • Collaboration • Investment in people • Investment in IT • Investment in systems • Substantial potential • New customers • New markets • Product development • Trusted suppliers • Niche specialism • Niche markets • Precision Machined Components • Cylinders • Alternative Energy • Oil and gas • Industrial gases • Defence • Design and development • Safety critical • High added value • Employee engagement

Who We Are

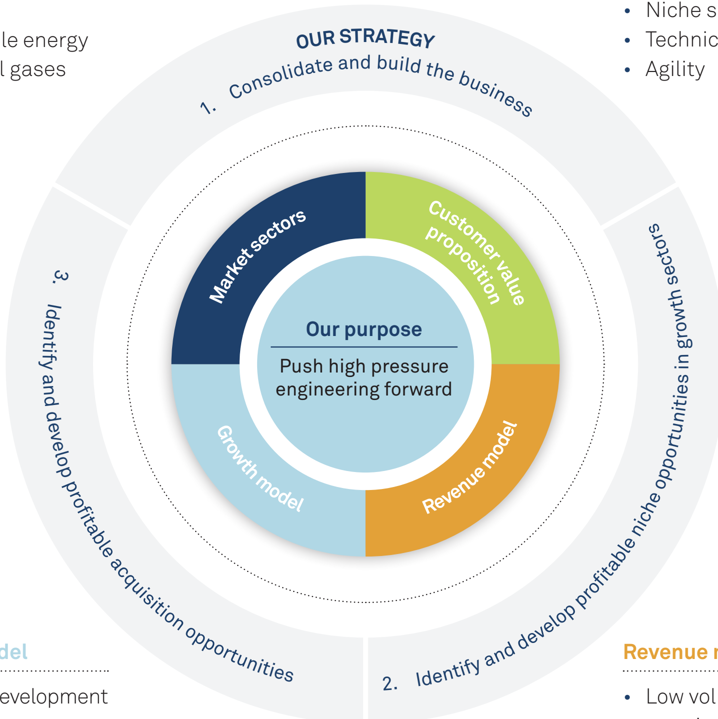
A specialist engineering Group supplying safety-critical products and services world-wide

Market sectors

- Oil and gas
- Defence
- Renewable energy
- Industrial gases

Customer value proposition

- World class
- Niche specialism
- Technical capability
- Agility



Growth model

- Organic development through investment and acquisition
- Synergy
- Value chain
- Market and technical development

Revenue model

- Low volume/high margin
- Strategic partnerships
- Long-term relationships/contracts
- Services and aftercare

Highlights

Revenue	Adjusted operating loss*	Reported loss before tax
£13.6m	£(1.3)m	£(5.0)m
(2017: £17.7m)	(2017: £(0.8)m)	(2017: £(2.6)m)

Adjusted loss per share	Reported basic loss per share	Adjusted operating cash outflow**
(6.9)p	(25.0)p	£2.1m
(2017: (6.3)p)	(2017: (15.9)p)	(2017: inflow £2.2m)

Net debt
£9.3m
(2017: £8.6m)

* before M&A costs, amortisation and exceptional charges

** before exceptional cash costs

- The short-term Group outlook is dictated by issues of timing
- Manufacturing Divisions strengthened by the more favourable market conditions in the defence and oil and gas markets
- Delays in contract awards in Alternative Energy negatively impacting the half and full year
- Manufacturing businesses focused on core competency in high added value component manufacture
- Appointment of two highly experienced business leaders to head Alternative Energy and Precision Machined Components Divisions
- Exploring strategic opportunities to unlock value for Shareholders for Alternative Energy
- Post half year end, sale of Hydratron Limited for an initial consideration of £1.1 million

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Chairman and Chief Executive Officer's Statement

"Dynamics in the defence and oil and gas markets are showing considerable momentum, so the outlook for our Manufacturing Divisions is encouraging, but time dependent. There is significant potential in AE, and the Board is considering a number of strategic options for this Division that will hopefully increase market opportunities and lead to enhanced shareholder value."

Overview

Group revenues for the 26 weeks to 31 March 2018 were down £4.1 million to £13.6 million (2017: £17.7 million) primarily due to a lower opening order book in the Alternative Energy Division (2018: £5.0 million, 2017: £14.0 million) compounded by low order intake in the period. More encouragingly, revenues in our Manufacturing Divisions increased by 10% like-for-like during the first-half.

As a consequence of reduced revenues, the Group made an adjusted operating loss* of £1.3 million (2017: loss £0.8 million).

First-half trading reflects solid defence business in our Cylinders Division ("CSC"), growing confidence in the oil and gas market which positively impacted the Precision Machined Components Division ("PMC") and delays caused by the still nascent market for renewables for the Alternative Energy Division ("AE").

On 7 June 2018, Hydratron Limited, which comprises the Group's Engineered Products Division ("EP"), was sold to Pryme Group Limited for an initial cash consideration of £1.1 million. Additional consideration of up to £2.25 million may become payable depending upon Hydratron's trading performance for the twelve month period to 31 May 2019.

Balance Sheet

Net Assets increased to £34.5 million (2017: £32.7 million). The balance sheet was strengthened by the £4.8 million net fundraising in November 2017, £2.7 million of which was used to pay-down a tranche of the Group's revolving credit facility. As anticipated, with the building momentum in PMC and phasing of large projects in CSC and AE, there was a net investment in working capital in the period totalling £1.5 million. This, combined with the operating losses, resulted in a net adjusted cash outflow** in the period of £2.1 million (2017: inflow £2.2 million). Net Debt closed at £9.3 million, down from £11.1 million at the year-end.

The post-balance sheet disposal of Hydratron gave rise to an impairment of goodwill of £1.7 million. The disposal crystallised a fair market value assessment and the Board considered it appropriate to recognise the impairment in the results for the first-half of the current financial year. The proceeds of the disposal have been used to further reduce the Group's debt and the Group is currently £11.8 million drawn on the £15.0 million revolving credit facility. The Group's bankers have committed to further extend the facility repayment date to 31 January 2020.

People

During the period, we recruited two highly experienced business leaders to head our AE and PMC Divisions.

In February 2018, we conducted a Group-wide Staff Engagement survey to assess how employees feel about a range of factors associated with working within the Group. Results were very encouraging, as they revealed a high degree of engagement within the Group, with staff reporting a real sense of pride in the companies they work for, a high degree of team spirit and that their skills are being effectively utilised. This is a strong platform to build upon as we continue to grow and develop the business.

Chairman and Chief Executive Officer's Statement continued

Manufacturing Division

	2018 H1 £m	2017 H2 £m	2017 H1 £m	2017 FY £m
Revenue	**10.8**	12.9	9.7	22.6
Operating profit*	**0.5**	2.4	0.0	2.4

Precision Machined Components Division

	2018 H1 £m	2017 H2 £m	2017 H1 £m	2017 FY £m
Revenue	**5.5**	5.7	5.0	10.7
Operating profit*	**0.6**	0.9	0.9	1.8

The Manufacturing Divisions

A more favourable oil and gas market and a strong defence order book have lifted sales and profits for these Divisions during the period. With increased volumes at PMC, reduced losses at the now divested EP Division and increased defence revenue at CSC.

Precision Machined Components Division

The Division offers four highly specialist engineering businesses under the PMC brand: Al-Met, Roota Engineering, Quadscot Precision Engineers and Martract, all focused on high quality, low volume and high added value components. The strategy for the Division is to expand the existing business initially through increased collaboration, cross-selling, product and key account expansion as well as the development of new markets that are in line with our core competences.

Revenues benefitted from more favourable oil and gas market conditions, although margins in the first-half were affected by a combination of product mix and ongoing investment in people and equipment as we align the Division for growth. In time margins should improve due to a combination of increased volumes of higher margin subsea components and the effects of operational gearing arising from a general rise in volumes.

The oil and gas market environment has realigned itself during the downturn, whereby customers have introduced automotive sector type disciplines with a reduced list of preferred suppliers capable of responding to demanding, shorter lead times. Key drivers for success in this environment are quality, cost and delivery, all of which play to our strengths. It is therefore pleasing to report that we have appointed a Divisional Managing Director, Martin Wood. Martin brings significant experience of the automotive component sector, as well as relevant experience in the oil and gas market.

Whilst the oil and gas market is improving, PMC continues to experience some variability in the order intake. For the last three half-years, PMC has consistently seen order intake rising. At the half-year, the closing order book was 29% higher than the comparative period and order intake for the period 33% higher.

Order intake at the start of the third-quarter has been a little muted, but requests for quotations have accelerated, particularly at Quadscot, and are at the highest level since the start of the market downturn in late 2014. The recent slowing of order intake makes us slightly more cautious about the Division’s full-year outlook but with short order to delivery lead-times now the market norm, this can change within a quarter.

Chairman and Chief Executive Officer's Statement continued

Cylinders Division

	2018 H1 £m	2017 H2 £m	2017 H1 £m	2017 FY £m
Revenue	**3.9**	5.3	3.1	8.4
Operating profit*	**0.0**	1.6	(0.6)	1.0

Cylinders Division

CSC supplies a range of high-pressure gas cylinder systems into the defence, oil and gas and industrial gases markets. The defence market is currently the key focus for CSC, with orderbook visibility to 2021, underpinned by the supply of cylinders for the first Dreadnought submarine (Trident replacement) during 2018 and 2019. The Division has over 80 years of experience in providing cylinders and services to the naval and military aerospace markets. This heritage in a highly demanding market, makes CSC the natural choice for cutting edge product development.

First-half results were underpinned by an increase in defence contracts. Manufacturing of standard design naval cylinders has commenced for the Dreadnought project, but we await the order to start manufacture of the programme specific cylinders. As reported in the recent trading update, timing of this will move revenue and profit between financial years, with any shortfall in 2018 recovered in 2019. Encouragingly, a number of other UK and overseas defence projects have been won, including an order for cylinders for the MoD's Type 26 Frigate programme for supply from 2019.

Whilst the oil and gas market has reduced in importance for the Division, it is pleasing to note that two orders for the supply of air pressure vessels for drillship projects have been secured; the only two new projects placed globally in the last three years. This demonstrates the Division's reputation and continuing cost competitiveness in this market.

Revenues derived from our service offerings, including Integrity Management ("IM"), were relatively flat year on year (2018: £1.3 million, 2017: £1.4 million) due to a final oxygen cylinder cleaning order in 2017 for the Astute submarine programme and delays in the award of the next MoD naval support contract in 2018. The IM team has a strong presence in the UK defence market and further short-term opportunities exist in Europe, where they were recently awarded their first overseas defence project.

Medium-term growth for this Division will come from further global defence opportunities. Beyond that, the Board believes opportunities exist in the hydrogen market, where the Division recently won a first order to supply hydrogen storage cylinders.

The Division is in a robust position with good visibility of future defence contracts, together with opportunities from the recovering oil and gas market and immediate and growing prospects in renewable fuels.

Engineered Products Division

	2018 H1 £m	2017 H2 £m	2017 H1 £m	2017 FY £m
Revenue	**1.7**	2.2	1.7	3.9
Operating loss*	**(0.2)**	(0.2)	(0.3)	(0.5)

Alternative Energy Division

	2018 H1 £m	2017 H2 £m	2017 H1 £m	2017 FY £m
Revenue	**2.8**	7.8	8.0	15.8
Operating profit*	**(0.8)**	(0.1)	0.1	0.0

Engineered Products

The Division manufactures a range of Hydratron-branded air-operated, high-pressure hydraulic pumps, gas boosters, power packs, hydraulic control panels and test rigs, mainly for use in the oil and gas sector.

The first-half of the financial year saw a continuation of the gradual improving performance that started in 2017, with a more profitable mix of projects, but unpredictable order intake patterns.

The prolonged downturn in the oil and gas market has impacted Hydratron more so than the Group's Precision Machined Components Division. Successful steps had been taken to re-align the business with its core markets and establish the foundations for future growth. However, the Board concluded that Hydratron would be better served as part of a group that can enhance its critical mass and market position and it was sold to Pryme Group Limited on 7 June 2018.

Alternative Energy

AE is a designer and supplier of equipment used to upgrade biogas produced by the anaerobic digestion of organic waste, to high-quality methane suitable for either injection into the natural gas grid direct use as vehicle fuel. The Division trades under the brand name of Greenlane Biogas, the long-established market leader in water-wash biogas upgrader equipment.

The Division started the year with an order book of £5.0 million (2017: £14. 0 million). During the first-half, three new upgrader contracts were awarded. Additional projects were anticipated but delayed for reasons outside the control of the Division. In North and South America, delays arose from a combination of environmental permitting, complexity of contracts and clients' funding arrangements. In the UK, the major reason for delays has been extremely slow progress of the Renewable Heat Incentive (RHI) legislation through Parliament. It is pleasing to note that this was finally approved on 22 May 2018, some four months later than the energy market had anticipated.

Profit recognition on our upgrading projects is necessarily skewed towards completion, so delays in contract awards experienced to date will negatively impact our full-year results and the Division will be loss making for the year.

Chairman and Chief Executive Officer's Statement continued

As detailed in our 2017 annual report the Division undertook a major reorganisation. As a result, the Division is now centred in Vancouver, Canada, close to the US market where we see the greatest opportunity for biogas upgrading projects, while retaining presence in the important European market with staff in the UK, France, Sweden and Germany. In November 2017, as part of the restructuring, we appointed a Divisional President, Brad Douville, with experience of growing a renewable energy business and he has brought renewed focus to realising the potential of the business.

During the period, the Division scored a number of notable successes which demonstrate its continued leadership in the biogas upgrading market, such as; meeting of the world's tightest gas grid standards in California and the introduction of the world's largest single upgrader currently undergoing commissioning in Arizona. Further progress has been made in establishing commercial partnerships to expand project opportunities worldwide. Strategic relationships have been formed, one of which will give access to Pressure Swing Adsorption ("PSA") technology, thereby expanding our product portfolio and broadening our market access.

The biogas market offers substantial potential, particularly in North America and Europe, backed by a range of government targets, incentives and subsidies. However, the market has been frustratingly slow to deliver, prompting a review of strategic options for the Division to unlock better value for shareholders.

Outlook

As outlined in our recent trading update, first-half financial performance has been somewhat subdued due to customers delaying placement of new orders; a market dynamic that we've seen in all Divisions. However, the underlying strength of our Divisions is robust and our capability to execute projects effectively and profitably remains sound.

With the disposal of EP, our remaining Manufacturing Divisions, Cylinders and PMC, will continue to focus on our core competence: supplying low volume, high added value, safety critical, complex components, where the cost of a component is orders of magnitude smaller than the opportunity cost of failure.

Dynamics in the defence and oil and gas markets are showing considerable momentum, so the outlook for CSC and PMC is encouraging, but time dependent. There is significant potential in AE, and the Board is considering a number of strategic options for this Division that will hopefully increase market opportunities and lead to enhanced shareholder value.

Alan Wilson
Chairman

John Hayward
Chief Executive Officer

12 June 2018

* before M&A costs, amortisation and exceptional charges

** before exceptional cash costs

Condensed Consolidated Statement of Comprehensive Income

For the 26 weeks ended 31 March 2018

	Notes	**Unaudited 26 weeks ended 31 March 2018 £'000**	Unaudited 26 weeks ended 1 April 2017 £'000	Audited 52 weeks ended 30 September 2017 £'000
Revenue	2	**13,631**	17,733	38,418
Cost of sales		**(9,424)**	(13,509)	(27,710)
Gross profit		**4,207**	4,224	10,708
Administration expenses		**(5,466)**	(4,985)	(9,611)
Operating (loss)/profit before M&A costs, amortisation and exceptional charges		**(1,259)**	(761)	1,097
Separately disclosed items of administrative expenses:				
Amortisation and M&A related exceptional items	3	**(2,978)**	(1,285)	(1,968)
Other exceptional charges	4	**(558)**	(421)	(703)
Operating loss		**(4,795)**	(2,467)	(1,574)
Finance income		**—**	—	4
Finance costs		**(182)**	(124)	(343)
Loss before taxation		**(4,977)**	(2,591)	(1,913)
Taxation	5	**533**	284	766
Loss for the period attributable to owners of the parent		**(4,444)**	(2,307)	(1,147)
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Currency transaction differences on translation of foreign operations		**10**	—	(4)
Total comprehensive income for the period attributable to the owners of the parent		**(4,434)**	(2,307)	(1,151)
Loss per share from continuing operations				
Loss per share basic	6	**(25.0)p**	(15.9)p	(7.9)p
Loss per share diluted	6	**(25.0)p**	(15.9)p	(7.9)p

Condensed Consolidated Balance Sheet

As at 31 March 2018

	Notes	**Unaudited 26 weeks ended 31 March 2018 £'000**	Unaudited 26 weeks ended 1 April 2017 £'000	Audited 52 weeks ended 30 September 2017 £'000
Non-current assets				
Goodwill		**14,370**	16,062	16,062
Intangible assets		**12,652**	13,913	13,658
Property, plant and equipment		**12,233**	13,249	12,583
Deferred tax asset		**343**	502	343
		39,598	43,726	42,646
Current assets				
Inventories		**5,972**	5,245	4,986
Trade and other receivables		**10,042**	8,818	11,339
Cash and cash equivalents	7	**3,883**	7,415	4,791
Current tax asset		**421**	—	—
		20,318	21,478	21,116
Total assets		**59,916**	65,204	63,762
Current liabilities				
Trade and other payables		**(10,042)**	(12,854)	(11,748)
Deferred consideration		**—**	(589)	—
Borrowings	7	**(220)**	(210)	(219)
Current tax liabilities		**—**	(340)	(23)
		(10,262)	(13,993)	(11,990)
Non-current liabilities				
Other payables		**(218)**	(281)	(238)
Borrowings	7	**(13,009)**	(15,756)	(15,642)
Deferred tax liabilities		**(1,944)**	(2,496)	(2,089)
		(15,171)	(18,533)	(17,969)
Total liabilities		**(25,433)**	(32,526)	(29,959)
Net assets		**34,483**	32,678	33,803
Share capital		**931**	725	725
Share premium account		**26,451**	21,637	21,637
Translation reserve		**(395)**	(401)	(405)
Retained earnings		**7,496**	10,717	11,846
Total equity		**34,483**	32,678	33,803

Condensed Consolidated Statement of Changes in Equity

For the 26 weeks ended 31 March 2018

	Share capital £'000	Share premium account £'000	Translation reserve £'000	Profit and loss account £'000	Total equity £'000
Balance at 30 September 2017 (audited)	**725**	**21,637**	**(405)**	**11,846**	**33,803**
Share based payments	**—**	**—**	**—**	**94**	**94**
Shares issued	**206**	**4,814**	**—**	**—**	**5,020**
Transactions with owners	**206**	**4,814**	**—**	**94**	**5,114**
Loss for the period	**—**	**—**	**—**	**(4,444)**	**(4,444)**
Exchange differences arising on retranslation of foreign operations	**—**	**—**	**10**	**—**	**10**
Total comprehensive income	**—**	**—**	**10**	**(4,444)**	**(4,434)**
Balance at 31 March 2018 (unaudited)	**931**	**26,451**	**(395)**	**7,496**	**34,483**

For the 26 weeks ended 1 April 2017

	Share capital £'000	Share premium account £'000	Translation reserve £'000	Profit and loss account £'000	Total equity £'000
Balance at 1 October 2016 (audited)	724	21,620	(401)	12,872	34,815
Share based payments	—	—	—	152	152
Shares issued	1	17	—	—	18
Transactions with owners	1	17	—	152	170
Loss for the period	—	—	—	(2,307)	(2,307)
Exchange differences arising on retranslation of foreign operations	—	—	—	—	—
Total comprehensive income	—	—	—	(2,307)	(2,307)
Balance at 1 April 2017 (unaudited)	725	21,637	(401)	10,717	32,678

Condensed Consolidated Statement of Changes in Equity continued

For the 52 weeks ended 30 September 2017

	Share capital £'000	Share premium account £'000	Translation reserve £'000	Profit and loss account £'000	Total equity £'000
Balance at 1 October 2016 (audited)	724	21,620	(401)	12,872	34,815
Share based payments	—	—	—	121	121
Shares issued	1	17	—	—	18
Transactions with owners	1	17	—	121	139
Loss for the period	—	—	—	(1,147)	(1,147)
Other comprehensive income:					
Exchange differences on translating foreign operations	—	—	(4)	—	(4)
Total comprehensive income	—	—	(4)	(1,147)	(1,151)
Balance at 30 September 2017 (audited)	725	21,637	(405)	11,846	33,803

Condensed Consolidated Cash Flow Statement

For the 26 weeks ended 31 March 2018

	Unaudited 26 weeks ended 31 March 2018 £'000	Unaudited 26 weeks ended 1 April 2017 £'000	Audited 52 weeks ended 30 September 2017 £'000
Cash flows from operating activities			
Loss after tax	**(4,444)**	(2,307)	(1,147)
Adjustments for:			
Depreciation of property, plant and equipment	**697**	683	1,438
Finance costs – net	**182**	124	339
Amortisation of intangible assets	**1,286**	1,202	2,407
Loss on disposal of property, plant and equipment	**2**	—	21
Share option costs	**94**	152	121
Income tax credit	**(533)**	(284)	(766)
Exceptional goodwill impairment	**1,692**	—	—
Exceptional deferred consideration released and revaluation	**—**	—	(597)
Exceptional impairment of assets	**—**	—	11
Changes in working capital:			
(Increase)/decrease in inventories	**(986)**	(16)	243
Decrease in trade and other receivables	**1,297**	2,617	413
Decrease in trade and other payables	**(1,802)**	(427)	(2,164)
Cash flows from operating activities	**(2,515)**	1,744	319
Finance costs paid	**(100)**	(124)	(324)
Income tax (paid)/refunded	**(56)**	185	216
Net cash from operating activities	**(2,671)**	1,805	211
Cash flows from investing activities			
Purchase of property, plant and equipment	**(441)**	(88)	(961)
Proceeds from sale of fixed assets	**26**	—	21
Cash outflow on purchase of subsidiaries net of cash acquired	**—**	(3,597)	(3,597)
Net cash used in investing activities	**(415)**	(3,685)	(4,537)
Financing activities			
New borrowings	**—**	3,350	3,350
Repayment of borrowings	**(2,842)**	(145)	(324)
Shares issued	**5,020**	17	18
Net cash used for financing activities	**2,178**	3,222	3,044
Net (decrease)/increase in cash and cash equivalents	**(908)**	1,342	(1,282)
Cash and cash equivalents at beginning of period	**4,791**	6,073	6,073
Cash and cash equivalents at end of period	**3,883**	7,415	4,791

Notes to the Condensed Consolidated Interim Financial Statements

1. Basis of preparation

The Group's interim results for the 26 weeks ended 31 March 2018 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 29 September 2018. As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 "Interim financial reporting" and therefore the interim information is not in full compliance with IFRS. The principal accounting policies of the Group have remained unchanged from those set out in the Group's 2017 annual report and financial statements.

The Group's 2017 financial statements for the 52 weeks ended 30 September 2017 were prepared under IFRS. The auditor's report on these financial statements was unmodified and did not contain statements under Sections 498(2) or (3) of the Companies Act 2006 and they have been filed with the Registrar of Companies.

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 31 March 2018 and 1 April 2017 has not been audited or reviewed 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 12 June 2018.

2. Segmental analysis

Revenue by destination

	Unaudited 26 weeks ended 31 March 2018 £'000	Unaudited 26 weeks ended 1 April 2017 £'000	Audited 52 weeks ended 30 September 2017 £'000
United Kingdom	**5,447**	6,785	15,451
Other EU	**3,953**	2,674	7,050
Rest of World	**4,231**	8,274	15,917
	13,631	17,733	38,418

Revenue by sector

	Unaudited 26 weeks ended 31 March 2018 £'000	Unaudited 26 weeks ended 1 April 2017 £'000	Audited 52 weeks ended 30 September 2017 £'000
Oil and gas	**7,097**	6,774	13,775
Defence	**2,520**	1,909	6,471
Industrial gases	**1,201**	1,017	2,347
Alternative energy	**2,813**	8,033	15,825
	13,631	17,733	38,418

Revenue by activity

	Unaudited 26 weeks ended 31 March 2018 £'000	Unaudited 26 weeks ended 1 April 2017 £'000	Audited 52 weeks ended 30 September 2017 £'000
Cylinders	**3,855**	3,108	8,403
Precision Machined Components	**5,512**	5,014	10,703
Engineered Products	**1,698**	1,731	3,861
Intra divisional	**(229)**	(136)	(349)
Manufacturing subtotal	**10,836**	9,717	22,618
Alternative Energy	**2,795**	8,016	15,800
	13,631	17,733	38,418

Notes to the Condensed Consolidated Interim Financial Statements continued

2. Segmental analysis continued

Profit/(loss) from continuing operations before taxation by activity

	Unaudited 26 weeks ended 31 March 2018 £'000	Unaudited 26 weeks ended 1 April 2017 £'000	Audited 52 weeks ended 30 September 2017 £'000
Cylinders	**14**	(627)	1,062
Precision Machined Components	**625**	866	1,840
Engineered Products	**(150)**	(284)	(471)
Manufacturing subtotal	**489**	(45)	2,431
Alternative Energy	**(807)**	91	3
Unallocated central costs	**(941)**	(807)	(1,337)
Operating (loss)/profit pre amortisation and M&A related exceptional items	**(1,259)**	(761)	1,097
Amortisation and M&A related exceptional items	**(2,978)**	(1,285)	(1,968)
Other exceptional charges	**(558)**	(421)	(703)
Operating loss	**(4,795)**	(2,467)	(1,574)
Finance costs	**(182)**	(124)	(339)
Loss before tax	**(4,977)**	(2,591)	(1,913)

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

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

	Unaudited 26 weeks ended 31 March 2018 £'000	Unaudited 26 weeks ended 1 April 2017 £'000	Audited 52 weeks ended 30 September 2017 £'000
Adjusted EBITDA	**(562)**	(78)	2,535
M&A costs and related exceptional items	**(1,692)**	(83)	439
Other exceptional charges	**(558)**	(421)	(703)
EBITDA	**(2,812)**	(582)	2,271
Depreciation	**(697)**	(683)	(1,438)
Amortisation re: acquired businesses	**(1,286)**	(1,202)	(2,407)
Interest	**(182)**	(124)	(339)
Loss before tax	**(4,977)**	(2,591)	(1,913)

Amortisation on acquired businesses as set out above consists of the amortisation charged on intangible assets acquired as a result of business combinations in previous periods.

3. Amortisation and M&A related exceptional items

M&A related exceptional items and amortisation of intangible assets are shown separately in the Condensed Consolidated Statement of Comprehensive Income. A breakdown of those costs can be seen below.

	Unaudited 26 weeks ended 31 March 2018 £'000	Unaudited 26 weeks ended 1 April 2017 £'000	Audited 52 weeks ended 30 September 2017 £'000
Amortisation of intangible assets arising on a business combination	**(1,286)**	(1,202)	(2,407)
Goodwill impairment	**(1,692)**	—	—
M&A costs	**—**	(83)	(158)
Deferred consideration write back	**—**	—	597
	(2,978)	(1,285)	(1,968)

The Goodwill impairment relates to a full write down of the goodwill which arose on the acquisition of Hydratron Limited. The disposal of Hydratron Limited (note 10) provided an indicator of impairment, with the divestment crystallising a fair market value assessment and the Directors considered it appropriate to recognise the impairment in the 6 month period ended 31 March 2018.

The deferred consideration write back for the period ended 30 September 2017 related to the deferred consideration arising from the acquisition of Martract Limited. The payment of this consideration was contingent on the future results of Martract. Given the magnitude of the amount released and the fact that it was non-trading, the Directors considered it appropriate to disclose it as an exceptional item.

Notes to the Condensed Consolidated Interim Financial Statements continued

4. Other exceptional charges

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 Condensed 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 31 March 2018 £'000	Unaudited 26 weeks ended 1 April 2017 £'000	Audited 52 weeks ended 30 September 2017 £'000
Reorganisation and redundancy	**(290)**	(401)	(710)
Costs in relation to HSE investigation	**(6)**	(20)	(21)
Share placing costs	**(262)**	—	—
Write back of KGTM loan previously provided for	**—**	—	28
	(558)	(421)	(703)

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

Costs in relation to the HSE investigation are costs borne by the Group as a direct result of the accident at Chesterfield Special Cylinders which are not recoverable through insurance.

The write back of KGTM loan previously provided for, related to a receipt from KGTM for a loan amount that was previously provided for (reversal of the provision).

The share placing costs are transaction costs relating to the share issue on 6 November 2017.

Given the non-trading nature of these costs, the Directors consider it appropriate to disclose these as exceptional items.

5. Taxation

	Unaudited 26 weeks ended 31 March 2018 £'000	Unaudited 26 weeks ended 1 April 2017 £'000	Audited 52 weeks ended 30 September 2017 £'000
Current tax credit	**386**	125	356
Deferred taxation credit	**147**	159	410
Taxation credit to the income statement	**533**	284	766

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.

6. Earnings/(loss) 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 M&A 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 31 March 2018 £'000	Unaudited 26 weeks ended 1 April 2017 £'000	Audited 52 weeks ended 30 September 2017 £'000
Loss after tax for basic and diluted earnings per share	**(4,444)**	(2,307)	(1,147)

(Loss)/profit after tax for adjusted earnings per share:

Loss after tax as above	**(4,444)**	(2,307)	(1,147)
Amortisation and M&A related exceptional items	**2,978**	1,285	1,968
Other exceptional charges	**558**	421	703
Tax movement thereon	**(325)**	(317)	(606)
(Loss)/profit after tax for adjusted earnings per share	**(1,233)**	(918)	918

	Number of shares	Number of shares	Number of shares
Weighted average number of shares in issue	**17,779,695**	14,474,848	14,485,099
Dilutive effect of options	**—**	3,766	75
Diluted weighted average number of shares	**17,779,695**	14,478,614	14,485,174

Loss per share – basic	**(25.0)p**	(15.9)p	(7.9)p
Loss per share – diluted	**(25.0)p**	(15.9)p	(7.9)p
Adjusted (loss)/earnings per share – basic	**(6.9)p**	(6.3)p	6.3p

In the current period the Group has recorded a loss after tax and therefore the options are antidilutive.

Notes to the Condensed Consolidated Interim Financial Statements continued

7. Reconciliation of net borrowings

	Unaudited 26 weeks ended 31 March 2018 £'000	Unaudited 26 weeks ended 1 April 2017 £'000	Audited 52 weeks ended 30 September 2017 £'000
Cash and cash equivalents	**3,883**	7,415	4,791
Bank borrowings	**(12,300)**	(15,000)	(15,000)
Finance leases	**(929)**	(966)	(861)
Net borrowings	**(9,346)**	(8,551)	(11,070)

At the balance sheet date, the above bank borrowings were due for repayment on 31 March 2019, being exactly 12 months from the balance sheet date. On 11 June the bank committed to extend the repayment date to 31 January 2020. Accordingly the directors have concluded that it is appropriate to present the loan as due for repayment after one year.

8. Contingent liabilities

Following the fatal accident at Chesterfield Special Cylinders ("CSC") in June 2015, other than the submission by CSC of written responses to questions from the Health and Safety Executive ("HSE"), there have been no further developments since the preliminary statement on 12 December 2017 and the HSE investigation into this accident remains ongoing. On 1 February 2016 the Sentencing Council's new "Health and Safety Offences, Corporate Manslaughter and Food Safety and Hygiene Offences Definitive Guideline" (2016) came into force.

The guidelines set a range of fines dependent on the levels of harm and culpability. These levels are assessed by the Judge when sentencing and not at the time of charges being brought. We continue to cooperate fully with the HSE. Until the HSE investigation is complete CSC's management and legal adviser are not in a position to assess what charges may be brought. As a result of this and the nature of the sentencing guidelines it is not possible to determine with any degree of certainty what, if any, financial penalties may be levied on CSC or any other group company as a result of this investigation. At such time as the quantum and likelihood of any penalty is able to be reliably determined further disclosure or provision will be made in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

9. Dividends

No final or interim dividend was paid for 52 week periods ended 1 October 2016 or 30 September 2017. No interim dividend for the 52 week period ending 29 September 2018 is proposed.

A copy of the Interim Report will be sent to shareholders shortly and will be available on the Company's website: www.pressuretechnologies.com.

10. Post Balance Sheet event

On 7 June 2018, and as separately communicated to Shareholders on that date, the Group completed the disposal of the entire issued share capital of its subsidiary, Hydratron Limited, to Pryme Group Limited, majority owned by Simmons Private Equity LP. This business is reported by the Group as the Engineered Products segment.

The initial consideration is £1.1 million (less costs and retentions), along with potential deferred contingent consideration up to a maximum of £2.3 million, dependent on revenue in the twelve months post completion. As detailed in Note 3 to these financial statements a goodwill impairment of £1.7 million was recognised as an exceptional charge in the 6 month period ended 31 March 2018.

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