Pressure Technologies

INTERIM REPORT 2017

High quality engineering
for demanding markets

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

Pressure Technologies was founded on its leading market position as a designer and manufacturer of high pressure systems serving the global energy, defence and industrial gases markets. Today it continues to serve those markets from a broader engineering base with specialist precision engineering businesses and has a worldwide presence in Alternative Energy as a global leader in biogas upgrading.

Visit our website for the latest news and information
pressuretechnologies.com

HIGHLIGHTS

Revenue
£17.7m
(2016*: £16.2m)

Adjusted operating loss**
£(0.8)m
(2016*: £(0.7)m)

Reported loss before tax
£(2.6)m
(2016*: £0.9m profit)

Adjusted loss per share
(6.3)p
(2016*: (7.1)p)

Reported basic (loss)/ earnings per share
(15.9)p
(2016*: 8.3p)

Operational cash generation***
£2.2m
(2016: £2.4m)

Net debt
£8.6m
(2016: £6.1m)

* re-presented to show results of the Engineered Products US operation as discontinued
** before acquisition costs, amortisation and exceptional charges and credits
*** before payment of redundancy and reorganisation costs

- Further improved gross margin in the PMC division as investment in productivity efficiencies come to fruition, which coupled with a slightly stronger order book, give confidence for the full-year results
- Martract Ltd acquired on 7 December 2016, integration on plan and contributing as expected
- Secured order book for Alternative Energy biogas upgrading projects totalling £10.1 million
- Cylinders defence order book increases to £11.2 million to 2020 and a record profit contribution from Integrity Management Services

CONTENTS

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

Our Manufacturing Divisions are now experiencing an upward trajectory in sales revenue and profits. Several strands of market and product development should provide the momentum to maintain this progress."

Overview

Against a backdrop of an improved, but still challenging macro oil and gas environment, we are pleased to report encouraging progress in our Manufacturing and Alternative Energy Divisions.

Action taken by OPEC in cutting production has stabilised oil prices which has created sufficient confidence within the market for some growth in investment, albeit small. This is now filtering through to our Manufacturing Divisions, particularly Precision Machined Components.

Alternative Energy has had a much improved first half, buoyed by its opening order book and, overall in the Group, despite a number of challenges, there is a feeling of gathering momentum.

Group revenues for the 26 weeks to 1 April 2017 were improved by £1.5 million to £17.7 million (2016: £16.2 million). This reflects a period-on-period increase in Alternative Energy and an improvement in the Manufacturing Divisions, over the low point in the second half of 2016.

The adjusted operating loss was broadly flat at £0.8 million (2016: £(0.7) million) as the revenue increase from Alternative Energy is at a lower margin.

Manufacturing Divisions

Our three Manufacturing Divisions: Precision Machined Components, Engineered Products and Cylinders are now emerging from a sustained period of retrenchment and re-organisation arising from the oil and gas market downturn.

For Precision Machined Components and Engineered Products, the drivers of development in the business remain principally tied to the oil and gas sector. For Cylinders, development is driven by the defence market and the provision of value added services, particularly Integrity Management.

Precision Machined Components Division

	2017 H1 £m	2016 H2 £m	2016 H1 £m	2016 FY £m
Revenue	**5.0**	4.8	6.5	11.3
Operating profit*	**0.9**	0.4	1.0	1.4

This division comprises Al-Met, Roota Engineering, Quadscot Precision Engineers and Martract, which was acquired in December 2016. Al-Met produces wear resistant components in a range of high-alloy steels and tungsten carbides for use in high-pressure choke and flow control valves, designed to regulate flow volumes in extremely demanding applications in the subsea and surface oil and gas industries. Roota and Quadscot make a wide range of components for oil and gas pressure systems and downhole tools, with Roota generally focusing on larger, longer products and Quadscot on smaller products manufactured in a range of high-alloy materials. Martract specialises in grinding and lapping ball and seat assemblies and gate valves which is highly complementary to the division enabling it to offer a product that is unmatched by any known competitor.

The first-half of the financial year witnessed a change in trend in customer ordering patterns. The previous unpredictable pattern has been replaced by some level of consistency, particularly at Roota and Al-Met, where there has been no further deterioration in volumes. Sales revenues, excluding Martract, were 1.7% ahead of the second-half of 2016.

Quadscot remains affected by reduced investment levels in the subsea sector and low-ball competitor pricing, but is beginning to benefit by winning orders from new customers outside its core oil services customer base.

In a risk averse market, the strength of the Pressure Technologies Group is seen as an asset by the division's customers. A number of competitors have gone out of business and there is clear evidence of major customers placing orders with the division due to the Group's financial stability and the ability to supply out of multiple locations, thereby minimising supply chain risk.

A divisional Business Development Director was appointed in March to expand the customer base and has immediately focused on higher added value components for specialist manufacturers within the oil and gas supply chain. This approach is already yielding positive results.

Integration of Martract is proceeding to plan. This acquisition has strengthened the division's position in the supply of High Velocity Oxygen Fuel ("HVOF") coated balls for very high pressure ball valve applications. The service we provide is unmatched in terms of product quality and lead-time. The diverse nature of Martract's customer base, with over 60% of turnover outside the oil and gas market, gives significant medium-term opportunity to cross-sell the capabilities of the rest of the division into these new markets.

Operationally, more predictable volumes have resulted in improvements in gross margin as the benefits of the latent capacity created by investment in new technology and improved productivity are being realised. Capital investment is focused on supporting customer quality requirements and production efficiencies, with asset finance continuing to be an attractive cash neutral method of financing the purchase of new equipment.

The immediate outlook for the division remains positive and, following the significant restructuring in recent years, we are now recruiting additional skilled millers and turners to take advantage of incremental volumes.

Engineered Products Division

	2017 H1 £m	2016 H2 £m	2016 H1 £m	2016 FY £m
Revenue	**1.7**	2.0	2.1	4.1
Operating profit*	**(0.3)**	0.0	(0.3)	(0.3)

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 division continues to be impacted by reduced capital expenditure and discretionary spend from its core oil and gas market customers and sales in the first-half were 15% lower than in the second-half of 2016. Losses were limited by the action taken to reduce costs and the implementation of "lean" management systems in 2016. It is encouraging to note that high sales in March proved the predicted monthly break-even level of around £380,000. This represents a 45% reduction in break-even level achieved in 18 months with improvements in both gross margin and overhead costs.

Critical to the future success of the division is the expansion of the distributor network and product range, both of which are progressing well. The product range has been extended to higher pressure valve test systems through a partnership with Italcontrol, a specialist in high-pressure clamping systems and a first order has recently been completed. New distributors have been appointed to cover South and West Africa, Italy, India, Russia, Azerbaijan and Thailand. Further expansion of the distributor network is anticipated in the second-half.

In response to an increase in the level of enquiries the engineered systems sales team has been expanded and the current order intake for the third-quarter is at break-even levels. Operations have a significant level of latent capacity and increases in sales above break-even level should result in the generation of high incremental profits.

As the division outsourced component manufacture in 2016, capital equipment expenditure requirements are low. There is, however, a requirement for continuing product development in the order of 5% to 7% of sales per year.

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT CONTINUED

Cylinders Division

	2017 H1 £m	2016 H2 £m	2016 H1 £m	2016 FY £m
Revenue	**3.1**	4.7	4.8	9.5
Operating profit*	**(0.6)**	0.9	0.2	1.1

Chesterfield Special Cylinders ("CSC"), supplies a range of high-pressure cylinder systems into the defence, oil and gas and industrial gases markets.

The defence market is now the mainstay of the business with a firm order book of £11.2 million through to 2020. Further orders are anticipated in the near future for the Dreadnought class submarine build programme (Trident replacement). Work continues to break into the US defence and commercial markets trading through Chesterfield Cylinders Inc. The first-half result has been, as expected, impacted by the phasing of the delivery of large defence orders, pushing both revenue and profit into the second-half.

The requirement for cylinders in the oil and gas market remains subdued, but we continue to take small orders for floating crane and diving support projects. There is no expectation of an increase in drillship or semi-submersible rigs in the near future and our efforts in this market remain focused on Integrity Management ("IM") services. Other commercial markets present opportunities for "one-off" projects which require the division's design and build capabilities. Recent contract wins have included an order for the Indian Space programme.

Our IM and retest services are now extensively employed in the UK defence sector and the division has also experienced an upturn in orders for the retest of high-pressure gases trailers in the UK industrial gases market. It made a record profit contribution in the period and further progress is expected in the second-half.

Capital expenditure is focused on completion of the ultra-large forge project and process improvements.

The current year is underpinned by the second-half defence order book and growth in sales of services. The medium-term outlook remains strong without a recovery in orders from the oil and gas market.

Alternative Energy Division

	2017 H1 £m	2016 H2 £m	2016 H1 £m	2016 FY £m
Revenue	**8.0**	8.1	3.2	11.3
Operating profit/loss*	**0.1**	(0.2)	(0.9)	(1.1)

The division is a designer and supplier of equipment used to upgrade biogas produced by the anaerobic digestion of organic waste to high-quality methane, which is suitable either for injection into the gas grid, or used as vehicle fuel.

The division entered the year with an order book for biogas upgraders of £14 million, around half of which has been delivered in the period and a return to profit has been achieved. Gross margins improved from the second-half of 2016, which was affected by legacy contract losses. The first order was received for our Kauri upgrader, the world's largest single upgrader plant capable of processing 5,000 m3/hr of biogas, an extension to an existing Totara+ upgrader order. Also, the first order for the second generation, entry level, Kanuka upgrader, for processing up to 300 m3/hr of biogas, is in final commissioning.

There remains a significant pipeline of good quality sales opportunities but order placement has been frustratingly slow due to external factors. In the UK, a proposed change to Renewable Heat Incentive which favoured biogas upgrading, was initially delayed by a drafting error in the legislation and is now delayed by the general election. In North America, several potential orders are delayed due to customer issues around project funding. The secured order book for Alternative Energy biogas upgrading projects totals £10.1 million for delivery over the second-half and into 2018. As ever, the final result for the year will depend on the timing of securing further orders in the second-half. What is certain, is that the division will post a result considerably better than in 2016.

During the first half of this year a full review of the management structure was conducted. The existing regional structure resulted in duplication of several roles and was creating ineffectiveness across the division. An immediate headcount reduction of 12 people has been achieved and redundancy costs are shown as exceptional items in the results.

Beyond the immediate pipeline, there is strong evidence of growing demand for biogas production and upgrading. This is particularly marked in the US, where government departments estimate that nearly 11,000 sites are ripe for development. Whilst only a proportion of these will be suitable for large-scale biogas upgrading it is a clear indication of the growth potential over the remainder of the decade.

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT CONTINUED

Financial Review

The comparison figures for 2016 have been re-presented to show results of the Engineered Products US operation as discontinued.

Redundancy and reorganisation costs of £0.4 million relate to Alternative Energy, as detailed above, and changes to the team structure at head office. Total annualised payroll savings of £6.1m have been achieved from restructuring over the last two and a half years.

Cash generated in the period from operations (before the cost of redundancy) was £2.2 million (2016: £2.4 million) and closing net debt was £8.6 million (2016: £6.1 million). The most significant non-trading cash item was the acquisition of Martract Limited which was a £3.6 million net cash outflow made in part from cash and further utilisation of the existing revolving credit facility. All banking covenants were complied with.

While there are signs of improvements in our core oil and gas markets and some positive momentum in Alternative Energy, the Board's view is, that until the trends are more established, it is still too early to reinstate the dividend.

Outlook

A combination of improvements in market dynamics and the benefits of the restructuring the Group carried out over recent years are beginning to show in the financial results.

Our manufacturing divisions are now experiencing an upward trajectory in sales revenue and profits. Several strands of market and product development should provide the momentum to maintain this progress.

The restructured Alternative Energy Division has a solid platform on which to grow. Whilst timing of orders continues to be a source of frustration there are clear signs, particularly in North America, that significant market growth can be expected over the remainder of the decade.

The Board is pleased with progress to date and remains confident in the prospects for the Group.

Alan Wilson
Chairman

John Hayward
Chief Executive

13 June 2017

* before acquisition costs, amortisation and exceptional charges and credits

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 26 weeks ended 1 April 2017

	Notes	**Unaudited 26 weeks ended 1 April 2017 £'000**	Unaudited 26 weeks ended 2 April 2016 £'000	Audited 52 weeks ended 1 October 2016 £'000
Revenue	2	**17,733**	16,217	35,753
Cost of sales		**(13,509)**	(11,431)	(26,211)
Gross profit		**4,224**	4,786	9,542
Administration expenses		**(4,985)**	(5,528)	(9,923)
Operating loss before acquisition costs, amortisation and exceptional charges and credits		**(761)**	(742)	(381)
Separately disclosed items of administrative expenses:				
Amortisation and acquisition related exceptional items	3	**(1,285)**	2,195	1,123
Other exceptional charges	4	**(421)**	(326)	(798)
Operating (loss)/profit		**(2,467)**	1,127	(56)
Finance income		**—**	—	32
Finance costs		**(124)**	(208)	(335)
(Loss)/profit before taxation		**(2,591)**	919	(359)
Taxation	5	**284**	281	1,002
(Loss)/profit for the period from continuing operations		**(2,307)**	1,200	643
Discontinued operations				
Loss for the year from discontinued operations		**—**	(197)	(1,331)
(Loss)/profit for the period attributable to owners of the parent		**(2,307)**	1,003	(688)
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Currency transaction differences on translation of foreign operations		**—**	(157)	(426)
Total comprehensive income for the period attributable to the owners of the parent		**(2,307)**	846	(1,114)
(Loss)/earnings per share from continuing operations				
(Loss)/earnings per share basic	6	**(15.9)p**	8.3p	4.4p
(Loss)/earnings per share diluted	6	**(15.9)p**	8.1p	4.4p

CONDENSED CONSOLIDATED BALANCE SHEET
As at 1 April 2017

	Notes	**Unaudited 26 weeks ended 1 April 2017 £'000**	Unaudited 26 weeks ended 2 April 2016 £'000	Audited 52 weeks ended 1 October 2016 £'000
Non-current assets				
Goodwill		**16,062**	15,020	15,020
Intangible assets		**13,913**	12,368	11,329
Property, plant and equipment		**13,249**	14,043	13,765
Deferred tax asset		**502**	271	544
		43,726	41,702	40,658
Current assets				
Inventories		**5,245**	6,622	5,210
Trade and other receivables		**8,818**	9,485	11,279
Cash and cash equivalents	7	**7,415**	4,333	6,073
		21,478	20,440	22,562
Total assets		**65,204**	62,142	63,220
Current liabilities				
Trade and other payables		**(12,854)**	(9,322)	(12,069)
Deferred consideration		**(589)**	(2,500)	—
Borrowings	7	**(210)**	(293)	(242)
Current tax liabilities		**(340)**	(45)	(258)
		(13,993)	(12,160)	(12,569)
Non-current liabilities				
Other payables		**(281)**	(832)	(1,398)
Borrowings	7	**(15,756)**	(10,105)	(12,411)
Deferred tax liabilities		**(2,496)**	(2,440)	(2,027)
		(18,533)	(13,377)	(15,836)
Total liabilities		**(32,526)**	(25,537)	(28,405)
Net assets		**32,678**	36,605	34,815
Share capital		**725**	724	724
Share premium account		**21,637**	21,620	21,620
Translation reserve		**(401)**	(132)	(401)
Profit and loss account		**10,717**	14,393	12,872
Total equity		**32,678**	36,605	34,815

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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**
Dividends	**—**	**—**	**—**	**—**	**—**
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**

For the 26 weeks ended 2 April 2016

	Share capital £'000	Share premium account £'000	Translation reserve £'000	Profit and loss account £'000	Total equity £'000
Balance at 3 October 2015 (audited)	721	21,539	25	14,056	36,341
Dividends	—	—	—	(810)	(810)
Share based payments	—	—	—	144	144
Shares issued	3	81	—	—	84
Transactions with owners	3	81	—	(666)	(582)
Profit for the period	—	—	—	1,003	1,003
Exchange differences arising on retranslation of foreign operations	—	—	(157)	—	(157)
Total comprehensive income	—	—	(157)	1,003	846
Balance at 2 April 2016 (unaudited)	724	21,620	(132)	14,393	36,605

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED
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 3 October 2015 (audited)	721	21,539	25	14,056	36,341
Dividends	—	—	—	(810)	(810)
Share based payments	—	—	—	314	314
Shares issued	3	81	—	—	84
Transactions with owners	3	81	—	(496)	(412)
Loss for the period	—	—	—	(688)	(688)
Other comprehensive income:					
Exchange differences on translating foreign operations	—	—	(426)	—	(426)
Total comprehensive income	—	—	(426)	(688)	(1,114)
Balance at 1 October 2016 (audited)	724	21,620	(401)	12,872	34,815

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the 26 weeks ended 1 April 2017

	Unaudited 26 weeks ended 1 April 2017 £'000	Unaudited 26 weeks ended 2 April 2016 £'000	Audited 52 weeks ended 1 October 2016 £'000
Cash flows from operating activities			
(Loss)/profit after tax	**(2,307)**	1,003	(688)
Adjustments for:			
Depreciation of property, plant and equipment	**683**	686	1,477
Finance costs – net	**124**	208	303
Amortisation of intangible assets	**1,202**	1,094	2,166
(Profit)/loss on disposal of property, plant and equipment	**—**	(4)	8
Share option costs	**152**	144	314
Income tax credit	**(284)**	(281)	(1,002)
Loss on derivative financial instruments	**—**	26	26
Exceptional deferred consideration released and revaluation	**—**	(3,289)	(3,289)
Exceptional impairment of assets	**—**	—	464
Changes in working capital:			
(Increase)/decrease in inventories	**(16)**	792	1,749
Decrease in trade and other receivables	**2,617**	1,325	1,948
(Decrease)/increase in trade and other payables	**(427)**	393	929
Cash flows from operating activities	**1,744**	2,097	4,405
Finance costs paid	**(124)**	(133)	(228)
Income tax refunded	**185**	247	504
Net cash from operating activities	**1,805**	2,211	4,681
Cash flows from investing activities			
Purchase of property, plant and equipment	**(88)**	(443)	(883)
Proceeds from sale of fixed assets	**—**	7	84
Cash outflow on purchase of subsidiaries net of cash acquired	**(3,597)**	—	—
Cash outflow on payment of deferred consideration	**—**	—	(2500)
Net cash used in investing activities	**(3,685)**	(436)	(3,299)
Financing activities			
New borrowings	**3,350**	—	2,300
Repayment of borrowings	**(145)**	(175)	(342)
Shares issued	**17**	84	84
Dividends paid	**—**	(810)	(810)
Net cash used for financing activities	**3,222**	(901)	1,232
Net increase in cash and cash equivalents	**1,342**	874	2,614
Cash and cash equivalents at beginning of period	**6,073**	3,459	3,459
Cash and cash equivalents at end of period	**7,415**	4,333	6,073

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The Group's interim results for the 26 weeks ended 1 April 2017 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 30 September 2017. As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS34 "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 2016 annual report and financial statements.

The Group's 2016 financial statements for the 52 weeks ended 1 October 2016 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 1 April 2017 and 2 April 2016 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 13 June 2017.

2. Segmental analysis

Revenue by destination

	Unaudited 26 weeks ended 1 April 2017 £'000	Unaudited 26 weeks ended 2 April 2016 £'000	Audited 52 weeks ended 1 October 2016 £'000
United Kingdom	**6,785**	8,178	17,235
Other EU	**2,674**	2,183	7,817
Rest of World	**8,274**	5,856	10,701
	17,733	16,217	35,753

Revenue by sector

	Unaudited 26 weeks ended 1 April 2017 £'000	Unaudited 26 weeks ended 2 April 2016 £'000	Audited 52 weeks ended 1 October 2016 £'000
Oil and gas	**6,774**	9,279	15,527
Defence	**1,909**	2,930	6,469
Industrial gases	**1,017**	828	2,372
Alternative energy	**8,033**	3,180	11,385
	17,733	16,217	35,753

Revenue by activity

	Unaudited 26 weeks ended 1 April 2017 £'000	Unaudited 26 weeks ended 2 April 2016 £'000	Audited 52 weeks ended 1 October 2016 £'000
Cylinders	**3,108**	4,768	9,538
Precision Machined Components	**5,014**	6,564	11,319
Engineered Products	**1,731**	2,132	4,163
Intra divisional	**(136)**	(398)	(602)
Manufacturing subtotal	**9,717**	13,066	24,418
Alternative energy	**8,016**	3,151	11,335
	17,733	16,217	35,753

2. Segmental analysis continued

(Loss)/profit from continuing operations before taxation by activity

	Unaudited 26 weeks ended 1 April 2017 £'000	Unaudited 26 weeks ended 2 April 2016 £'000	Audited 52 weeks ended 1 October 2016 £'000
Cylinders	**(627)**	204	1,053
Precision Machined Components	**866**	1,001	1,398
Engineered Products	**(284)**	(297)	(291)
Manufacturing subtotal	**(45)**	908	2,160
Alternative energy	**91**	(880)	(1,060)
Unallocated central costs	**(807)**	(770)	(1,481)
Operating loss pre acquisition costs and related amortisation	**(761)**	(742)	(381)
Acquisition related exceptional items and amortisation	**(1,285)**	2,195	1,123
Other exceptional charges (see note 4)	**(421)**	(326)	(798)
Operating (Loss)/profit	**(2,467)**	1,127	(56)
Finance costs	**(124)**	(208)	(303)
(Loss)/profit before tax	**(2,591)**	919	(359)

The (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 1 April 2017 £'000	Unaudited 26 weeks ended 2 April 2016 £'000	Audited 52 weeks ended 1 October 2016 £'000
Adjusted EBITDA	**(78)**	(74)	1,066
Acquisition costs and related exceptional items	**(83)**	3,289	3,289
Other exceptional charges (see note 4)	**(421)**	(326)	(798)
EBITDA	**(582)**	2,889	3,557
Depreciation	**(683)**	(668)	(1,447)
Amortisation re: acquired businesses	**(1,202)**	(1,094)	(2,166)
Interest	**(124)**	(208)	(303)
(Loss)/profit before tax	**(2,591)**	919	(359)

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.

3. Acquisition related exceptional items and amortisation

Acquisition 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 1 April 2017 £'000	Unaudited 26 weeks ended 2 April 2016 £'000	Audited 52 weeks ended 1 October 2016 £'000
Amortisation of intangible assets arising on a business combination	**(1,202)**	(1,094)	(2,166)
Acquisition costs	**(83)**	—	—
Deferred consideration write back	**—**	3,766	3,766
Foreign currency loss on revaluation of deferred consideration liability	**—**	(477)	(477)
	(1,285)	2,195	1,123

The deferred consideration write back for the 26 weeks ended 2 April 2016 related to the deferred consideration arising from the acquisition of The Greenlane Group. The payment of this consideration is contingent on the future results of the acquired entities. The Directors reviewed forecasts in relation to The Greenlane Group and considered that it was unlikely that the consideration would be paid, and as such it was released. Given the magnitude of the release and the fact that it is non-trading, the Directors considered it appropriate to disclose this as an exceptional item.

The revaluation of deferred consideration liability related to the exchange differences calculated on the deferred consideration arising from the acquisition of The Greenlane Group, which was denominated in NZ$ before it was written back. Given the large balance and therefore the effect on the results of the Group, the Directors considered it appropriate to disclose this foreign exchange movement as an exceptional item.

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 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 1 April 2017 £'000	Unaudited 26 weeks ended 2 April 2016 £'000	Audited 52 weeks ended 1 October 2016 £'000
Reorganisation and redundancy	**(401)**	(257)	(732)
Costs in relation to HSE investigation	**(20)**	(69)	(66)
	(421)	(326)	(798)

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

5. Taxation

	Unaudited 26 weeks ended 1 April 2017 £'000	Unaudited 26 weeks ended 2 April 2016 £'000	Audited 52 weeks ended 1 October 2016 £'000
Current tax	**(125)**	(127)	(163)
Deferred taxation	**(159)**	(154)	(839)
Taxation credited to the income statement	**(284)**	(281)	(1,002)

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 from continuing operations

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 1 April 2017 £'000	Unaudited 26 weeks ended 2 April 2016 £'000	Audited 52 weeks ended 1 October 2016 £'000
(Loss)/profit after tax for basic and diluted earnings per share	**(2,307)**	1,200	643

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

(Loss)/profit after tax as above	**(2,307)**	1,200	643
Acquisition costs	**83**	—	—
Amortisation in relation to intangible assets acquired on business combinations	**1,202**	1,094	2,166
Deferred consideration write back	**—**	(3,766)	(3,766)
Foreign currency loss on revaluation of deferred consideration liability	**—**	477	477
Other exceptional charges	**421**	326	798
Tax movement thereon	**(317)**	(358)	(688)
Loss after tax for adjusted earnings per share	**(918)**	(1,027)	(370)

	Number of shares	Number of shares	Number of shares
Weighted average number of shares in issue	**14,474,848**	14,427,199	14,449,195
Dilutive effect of options	**3,766**	353,996	1,983
Diluted weighted average number of shares	**14,478,614**	14,781,195	14,451,178

(Loss)/earnings per share – basic	**(15.9)p**	8.3p	4.4p
(Loss)/earnings per share – diluted	**(15.9)p**	8.1p	4.4p
Adjusted loss per share – basic	**(6.3)p**	(7.1)p	(2.6)p

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 1 April 2017 £'000	Unaudited 26 weeks ended 2 April 2016 £'000	Audited 52 weeks ended 1 October 2016 £'000
Cash and cash equivalents	**7,415**	4,333	6,073
Bank borrowings	**(15,000)**	(10,000)	(12,300)
Finance leases	**(966)**	(398)	(353)
Net borrowings	**(8,551)**	(6,065)	(6,580)

8. Contingent liabilities

Following the fatal accident at Chesterfield Special Cylinders ("CSC") in June 2015, whilst the police have confirmed no charges for manslaughter will be brought, the HSE investigation remains ongoing. On 1st 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 and we have engaged an independent expert to investigate the root cause of the accident. Until this investigation is complete neither CSC's legal adviser nor the HSE are 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 IAS37 "Provisions, Contingent Liabilities and Contingent Assets".

9. Business combinations

On 7 December 2016, the Group acquired 100% of the issued share capital of Martract Limited for an initial consideration of £3,997,056, plus maximum deferred consideration of £600,000.

In calculating goodwill below, the contingent consideration is held at fair value of £583,000. This has been estimated based on future earnings. The fair value estimate is based on a discount rate of 3% and assumes that £583,000 of deferred consideration is payable.

Martract specialises in spherical grinding that ensures the perfect sphericality of a ball valve, such that it will seal in any position, through the opening and closing process and is based in Barton-upon-Humber. The transaction has been accounted for by the acquisition method of accounting.

9. Business combinations continued

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

	Book value £'000	Intangible assets recognised on acquisition £'000	Fair value adjustment £'000	Fair value £'000
Recognised amounts of identifiable assets acquired and liabilities assumed:				
Property plant and equipment	16	—	—	16
Intangible assets	—	3,740	—	3,740
Inventories	19	—	—	19
Trade and other receivables	162	—	363	525
Cash and cash equivalents	400	—	—	400
Trade and other payables	(101)	—	(363)	(464)
Current tax liabilities	(25)	—	—	(25)
Deferred tax liabilities	—	(673)	—	(673)
	471	3,067	—	3,538
Goodwill				1,042
Total consideration				4,580
Satisfied by:				
Initial Cash				3,634
Retention cash				363
Deferred cash consideration				583
				4,580
Net cash outflow arising on acquisition				
Initial & retention cash consideration				3,997
Cash and cash equivalents acquired				(400)
Initial consideration less net cash acquired				3,597

The intangible assets acquired with the business comprise £944,000 in relation to non-contractual customer relationships and £2,796,000 in relation to the manufacturing intellectual property.

The fair value adjustment relates to an Employment Related Securities liability that arose as a result of the vendors shareholder restructuring immediately prior to completion. This liability was funded by the vendors of Martract Limited.

10. Dividends

The final dividend for the 53 weeks ended 3 October 2015 of 5.6p per share was paid on 18 March 2016.

No interim dividend for the 52 week period ended 1 October 2016 was paid.

No final dividend for the 52 week period ended 1 October 2016 was paid.

No interim dividend for the 52 week period ending 30 September 2017 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.

NOTES

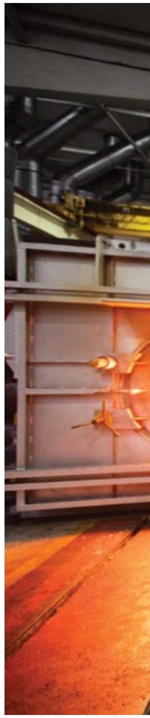
NOTES

Design & Production
www.carrkamasa.co.uk

MIX
Paper from responsible sources
FSC® C022913
www.fsc.org

Photography:
www.charliefawell.com

This report is printed on Chorus Lux silk which is FSC® certified as well as having ISO14001 EMS, EMAS and the European EcoLabel.



Pressure Technologies
Newton Business Centre
Newton Chambers Road
Chapeltown
Sheffield
South Yorkshire
S35 2PH
UK

Telephone +44 (0) 114 257 3616
pressuretechnologies.com