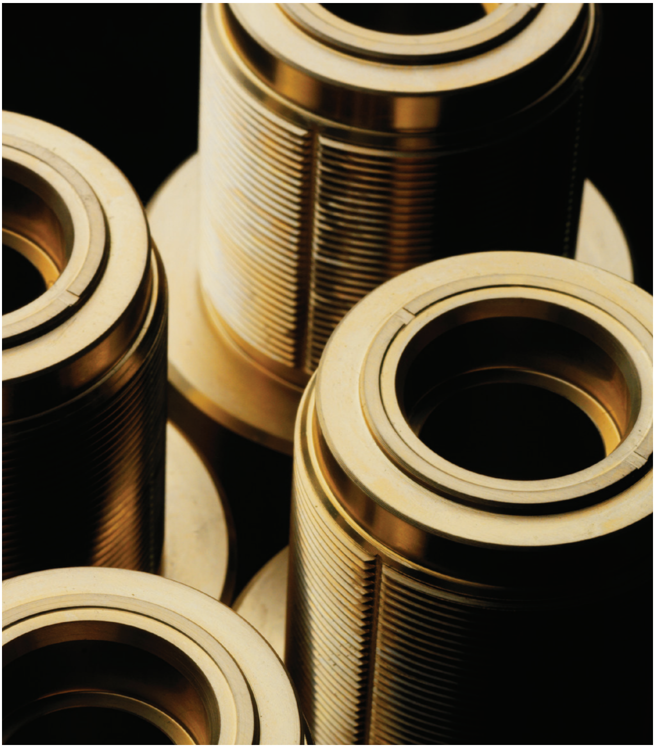
A leading designer and manufacturer of engineering solutions for high pressure markets

Pressure Technologies plc
Interim Report 2012



Our two main Divisions are on upward trajectories with improving order books and no shortage of ideas and initiatives to grow the businesses. I am pleased to report that order books for the year 2012/13 are already starting to fill. All our businesses are better balanced and better managed than they were two years ago. This provides optimism that we will secure significant organic growth over the next three to five years.

Richard L. Shacklady

Contents

Financials

- Revenue of £12.6 million (2011: £10.3 million)
- Pre-tax profit of £0.46 million (2011: loss of £0.31 million)
- Basic earnings per share of 3.1p (2011: loss of 1.9p)
- Progressive dividend policy continued: interim dividend of 2.5p per share (2011: 2.4p)
- Strong balance sheet maintained - £3.5 million net cash (2011 half year: £2.7 million, 2011 year end: £2.9 million)

Key Points

- Return to profitability achieved
- Group order book significantly strengthened, as a result of strong demand from the oil and gas sector
- Defence sector sales, as predicted, lower due to phasing of projects
- Improving market visibility in the Cylinder Division – now 12 months
- Confidence for a strong second half performance and further growth in 2013

Chairman's Statement

Richard Shacklady, Chairman

The strength of our order books gives the Board confidence for a strong second half performance and further growth in year 2012/13.

I am pleased to report that the Group's first half results are in line with market expectations. An improving forward order book has given our divisions much better visibility which, in turn, is feeding through to better planning and operational gearing. Our largest market sector, deepwater oil and gas drilling, exploration and production, which has endured a protracted recession since 2009, is now moving forward strongly. Rigs and drillships that were lying idle 12 months ago are now fully booked, triggering new build activity at rates not seen since 2008/9. Oil and gas production activity has accelerated, both onshore and offshore, benefitting our Engineered Products Division. The only weak spot in this sector has been subsea well head controls which we predicted would be flat in the first half, which is now on the move again as new offshore fields move into the production phase.

Results

Revenue for the 26 weeks to 31 March 2012 was £12.6 million (2011: £10.3 million). The increase in sales is a result of increased export activity to the oil and gas market by the Cylinders and Engineered Products Divisions. As anticipated, sales to the defence sector were lower than 2011 due to the phasing of deliveries on defence projects. Sales to domestic industrial gases markets were flat through the period.

The Group's operating profit was £0.5 million, representing a £0.8 million turnaround from the loss of £0.3 million incurred in the corresponding period of 2011. The Cylinder and Engineered Products Divisions reported increased profits and Alternative Energy incurred a small loss. We fully expect the upward trend in profits at Cylinders and Engineered Products to continue in the second half, resulting from increasing demand and improved operating efficiencies.

Profit before tax was £0.5 million (2011: Pre-tax loss £0.3 million).

Our balance sheet remains strong with net cash at 31 March of £3.5 million compared to £2.7 million in 2011 and the Group continues to maintain sound control of working capital. Given the continued strength in our balance sheet and our confidence in the prospects for the Group, the Board is pleased to continue its progressive dividend policy with an increase in the interim dividend to 2.5 pence net per share (2011: 2.4 pence). The dividend will be paid on 10 August 2012 to shareholders on the register at the close of business on 6 July 2012. The ex-dividend date will be 4 July 2012.

Review of Operations

Cylinder Division

Revenue: £6.0 million (2011: £4.3 million)
Operating profit: £0.7 million (2011: £0.3 million)

The Cylinder Division is experiencing a substantial upturn in its largest product market, ultra-large cylinders for the deep sea offshore sector of the oil and gas market. Nine drillship orders have been secured for delivery in the current financial year (only three were delivered in 2011). Visibility in this market has improved to around 12 months and we already have five drillship orders for delivery in the next financial year, in a rising but more competitive market. Historically, the Cylinder Division's results have been weighted heavily to the second half. As a result of increased demand from the oil and gas sector and in line with this historic pattern, operational activity is expected to increase by some 50% in the second half.

As indicated in our last annual report, sales of new cylinders to the defence naval market are lower this year due to the phasing of projects. However, outside of the USA, which has the world's largest submarine fleet, we can claim to be the global market leader. In the UK, we have secured contracts from the MoD to become its sole supplier of "through life" maintenance for the Royal Navy's high pressure cylinders. As such, we hold and are responsible for maintaining their entire stock of ultra-large high pressure cylinders for submarines and surface vessels. This is a reflection of our integrity and technological leadership in high pressure cylinders.

The small cylinder market continues to be a good cash generator and it is encouraging to see BAE winning a major contract to provide the Hawk Trainer to Saudi Arabia. This will extend the product life cycle of the cylinders that we manufacture and retest for this aircraft and, whilst this is not in itself material to the Group results, it helps underpin the wide portfolio of profitable, cash generative business in this section of the Cylinder Division.

We have made good progress in the In-Situ inspection market and, following the first significant order in 2011, further orders have been secured for repeat work and with new customers. Due to our manufacturing capability and service experience, the Cylinder Division is uniquely able to offer "through life" support to customers and this service is starting to gain recognition in the industry.

Our Industrial Gases trailer business has also continued to make good progress. By working with specialist partners in the trailer supply chain, we are able to offer a full out-source facility to the major industrial gases producers and customers have placed contracts to take advantage of this opportunity. We have recently strengthened our drive into this market and the CNG and hydrogen storage and transportation markets by recruiting an experienced and capable European Sales Manager, based in Germany.

Underpinning our commercial successes is a major transformation in the way we run our operations. Recognising that when the upturn came it would be rapid, we set out to ensure that the Division had the right structure, people and factory layout to manage the increased work load efficiently. The working environment has visibly improved, as seen by investors who attended our AGM in Sheffield, and we are seeing the benefits in terms of higher productivity and lower waste.

Engineered Products Division

Revenue: £6.4 million (2011: £5.1 million)
Operating profit: £0.4 million (2011: £0.2 million)

The Engineered Products Division has performed generally in line with first half expectations. As expected, Al-Met experienced a flat demand pattern in the first half, reflecting the current status of major projects in subsea production. Second quarter and early third quarter order intake indicate that the predicted upturn in demand is taking place and the business has been restructured to improve efficiency and support this growth. The medium to long term outlook for this business is very positive as production moves into ever deeper water requiring the use of Al-Met's high integrity valve chokes. Progress is being made in securing contracts with new customers to reduce the dependence on the traditional customer base.

Hydratron's revenues increased by some 50% in the first half with the UK operations being well supported by the rapidly expanding Hydratron Inc facility located in Houston, Texas. The business in Houston operated at break even in the first half and is forecast to move into profit during the second half. The new facility in Altrincham UK has expanded rapidly and the business now has a structure and supervisory team in place to support future high growth. Production Engineering, Design Engineering and Research and Development are key to the planned growth at Hydratron and these functions are being further strengthened.

Chairman's Statement

As oilfield down-hole control mechanisms become more sophisticated, due to the demands of ever greater depths in highly corrosive and pressured environments, it will be only those few companies with appropriate technical resources that are able to support this industry.

The market outlook for the Engineered Products Division is particularly positive for the period through to 2014 as new oil and gas fields come on stream.

Alternative Energy
Revenue: £0.2 million (2011: £0.9 million)
Operating loss: £0.2 million (2011: £0.1 million)

Following the successful installation, start-up and operation of our first biogas upgrade plant in the UK at Didcot, operated by Thames Water, the follow on has been disappointingly slow. A larger upgrade plant has been ordered for installation at Stockport in the fourth quarter of this year and there is a strong pipeline of projects for which we are in the process of quoting. The late introduction of the Renewable Heat Incentive ("RHI") delayed growth in this market but, ironically, this now appears to be a key driver for a rapid build of capacity ahead of a review of the RHI in 2014/15. Many of the issues around the quality standards for the gas being injected into the grid have now been resolved and new, significantly lower cost monitoring equipment is in the final stage of approval which improves the competitiveness of Biogas to Grid ("BtG") projects.

We have continued to invest in developing the technology and equipment to make available small scale gas upgraders for use in the food and farming industries to provide compressed biomethane for use as a vehicle fuel. A prototype unit has been built and is in the process of testing ahead of being demonstrated to potential customers in the second half.

The Board regularly reviews progress in this Division. We remain confident that the long term potential for this technology justifies the support of the specialist team we have in place to develop the biogas upgrading market.

Strategy

The Board believes that its commitment to the strategy to penetrate key growth sectors in the Energy, Defence Equipment and Industrial Gases markets is proving sound. We have a robust business model, which has enabled the Group to withstand a major recession whilst, at the same time, continuing to invest in and restructure the operational businesses.

This has positioned the Group to exploit the emerging growth opportunities in our chosen markets. There is no doubt that the world's dependence on energy to drive economic growth means that the price of finite commodities, such as hydrocarbons, will fuel the continued exploitation of these resources. It is difficult to imagine a return to a sustained period of low oil prices.

In support of our strategy, we have continued to invest in research and development programmes, often in partnership with academics or "experts in their chosen fields". It is critical to the Group's future success that we retain technical leadership in our key products and markets.

Having firmly bedded in our first two acquisitions, we continue to monitor the markets for opportunities and we have the resources in place to act when the circumstances are appropriate.

Prospects

Our two main Divisions are on upward trajectories with improving order books and no shortage of ideas and initiatives to grow the businesses. I am pleased to report that order books for the year 2012/13 are already starting to fill. All our businesses are better balanced and better managed than they were two years ago. This provides optimism that we will secure significant organic growth over the next three to five years.

The Board continues to seek appropriate acquisitions, which will fit into and enhance the Engineered Products Division. This Division has already established itself at the centre of the world's oil and gas field equipment design and manufacture industry in the USA. It is proving to be a successful vehicle for growth in this market and is a tree that is sufficiently strong to support more growth and new branches.

We have a proven management team, a strong balance sheet with significant cash balances and unused working capital facilities. This provides the comfort and support for our investment plans and also the continued progressive dividend policy. The strength of our order books gives the Board confidence for a strong second half performance and further growth in year 2012/13.

Richard L. Shacklady
Chairman
12 June 2012

Condensed Consolidated Statement of Comprehensive Income

for the 26 weeks ended 31 March 2012

	Note	**Unaudited 26 weeks ended 31 March 2012 £'000**	Unaudited 26 weeks ended 2 April 2011 £'000	Audited 52 weeks ended 1 October 2011 £'000
Revenue	2	**12,639**	10,319	23,129
Cost of sales		**(9,391)**	(7,711)	(16,835)
Gross profit		**3,248**	2,608	6,294
Administration expenses		**(2,803)**	(2,918)	(5,645)
Operating profit/(loss)		**445**	(310)	649
Finance income		**16**	6	8
Finance cost		**(5)**	(5)	(79)
Profit/(loss) before taxation		**456**	(309)	578
Taxation	3	**(109)**	88	(177)
Profit/(loss) for the financial period		**347**	(221)	401
Other comprehensive income		**5**	3	(3)
Total comprehensive income/(expense) for the period		**352**	(218)	398
Earnings/(loss) per share – basic	4	**3.1p**	(1.9)p	3.5p
Earnings/(loss) per share – diluted	4	**3.1p**	(1.9)p	3.5p

Condensed Consolidated Balance Sheet

for the 26 weeks ended 31 March 2012

	Unaudited 31 March 2012 £'000	Unaudited 2 April 2011 £'000	Audited 1 October 2011 £'000
Non-current assets			
Goodwill	**1,964**	1,964	1,964
Intangible assets	**1,805**	2,093	1,962
Property, plant and equipment	**4,458**	4,465	4,649
Deferred tax asset	**224**	216	245
Trade and other receivables	**327**	321	324
	8,778	9,059	9,144
Current assets			
Inventories	**6,053**	5,808	5,012
Trade and other receivables	**6,036**	6,805	6,471
Cash and cash equivalents	**3,505**	2,772	2,939
	15,594	15,385	14,422
Total assets	**24,372**	24,444	23,566
Current liabilities			
Trade and other payables	**(7,489)**	(7,610)	(6,260)
Borrowings	**(19)**	(92)	(33)
Current tax liabilities	**(71)**	(19)	(190)
	(7,579)	(7,721)	(6,483)
Non-current liabilities			
Other payables	**(703)**	(786)	(744)
Borrowings	**—**	(20)	(9)
Deferred tax liabilities	**(722)**	(737)	(792)
	(1,425)	(1,543)	(1,545)
Total liabilities	**(9,004)**	(9,264)	(8,028)
Net assets	**15,368**	15,180	15,538
Equity			
Share capital	**567**	567	567
Share premium account	**5,369**	5,365	5,369
Translation reserve	**2**	3	(3)
Profit and loss account	**9,430**	9,245	9,605
Total equity	**15,368**	15,180	15,538

Condensed Consolidated Statement of Changes in Equity

for the 26 weeks ended 31 March 2012

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Translation reserve £'000	Total equity £'000
Balance at 1 October 2011 (audited)	567	5,369	9,605	(3)	15,538
Dividends	—	—	(545)	—	(545)
Share based payments	—	—	23	—	23
Transactions with owners	—	—	(522)	—	(522)
Profit for the period	—	—	347	—	347
Exchange gains arising on retranslation of foreign operations	—	—	—	5	5
Balance at 31 March 2012 (unaudited)	**567**	**5,369**	**9,430**	**2**	**15,368**

for the 26 weeks ended 2 April 2011

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Translation reserve £'000	Total equity £'000
Balance at 2 October 2010 (audited)	567	5,341	9,999	—	15,907
Dividends	—	—	(544)	—	(544)
Issue of shares	—	24	—	—	24
Share based payments	—	—	11	—	11
Transactions with owners	—	24	(533)	—	(509)
Loss for the period	—	—	(221)	—	(221)
Exchange differences arising on retranslation of foreign operations	—	—	—	3	3
Balance at 2 April 2011 (unaudited)	**567**	**5,365**	**9,245**	**3**	**15,180**

for the 52 weeks ended 1 October 2011

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Translation reserve £'000	Total equity £'000
Balance at 2 October 2010 (audited)	567	5,341	9,999	—	15,907
Dividends	—	—	(816)	—	(816)
Issue of shares	—	28	—	—	28
Share based payments	—	—	21	—	21
Transactions with owners	—	28	(795)	—	(767)
Profit for the period	—	—	401	—	401
Exchange differences arising on retranslation of foreign operations	—	—	—	(3)	(3)
Balance at 1 October 2011 (audited)	**567**	**5,369**	**9,605**	**(3)**	**15,538**

Condensed Consolidated Cash Flow Statement

	Unaudited 26 weeks ended 31 March 2012 £'000	Unaudited 26 weeks ended 2 April 2011 £'000	Audited 52 weeks ended 1 October 2011 £'000
Cash flows from operating activities			
Profit/(loss) after taxation	**347**	(221)	401
Adjustments for:			
Depreciation	**277**	261	518
Finance (income)/costs – net	**(11)**	(1)	71
Amortisation of intangible assets	**157**	248	381
Loss on disposal	**15**	—	—
Share option costs	**23**	11	21
Taxation expense recognised in income statement	**109**	(88)	177
Loss on derivative financial instruments	**—**	(21)	(21)
Increase in inventories	**(1,041)**	(1,031)	(235)
Decrease in trade and other receivables	**448**	960	1,235
Increase in trade and other payables	**1,593**	1,145	547
Cash generated from operations	**1,917**	1,263	3,095
Finance costs paid	**(5)**	(5)	(23)
Income tax paid	**(277)**	(828)	(896)
Net cash from operating activities	**1,635**	430	2,176
Cash flows from investing activities			
Finance income received	**—**	6	8
Purchase of property, plant and equipment	**(161)**	(706)	(1,147)
Proceeds from sale of fixed assets	**60**	—	—
Purchase of licence and distribution agreement	**—**	—	(800)
Development expenditure	**—**	(232)	(234)
Purchase of subsidiary, net of cash acquired	**(400)**	(2,164)	(2,164)
Net cash flow used in investing activities	**(501)**	(3,096)	(4,337)
Cash flows from financing activities			
Repayment of borrowings	**—**	(574)	(574)
Repayment of finance leases	**(23)**	(81)	(151)
Shares issued	**—**	24	28
Dividends paid	**(545)**	(544)	(816)
Net cash used for financing activities	**(568)**	(1,175)	(1,513)
Net increase/(decrease) in cash and cash equivalents	**566**	(3,841)	(3,674)
Cash and cash equivalents at beginning of period	**2,939**	6,613	6,613
Cash and cash equivalents at end of period	**3,505**	2,772	2,939

Notes to the Condensed Consolidated Interim Financial Statements

1. Basis of preparation

The Group's interim results for the 26 weeks ended 31 March 2012 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 2012. The principal accounting policies of the Group have remained unchanged from those set out in the Group's 2011 annual report and financial statements. As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS34 "Interim financial reporting".

These interim results do not constitute full statutory accounts as defined by the Companies Act 2006 and are unaudited. The unaudited interim financial statements were approved by the Board of Directors on 12 June 2012. The interim financial statements have been reviewed by the company's auditors. A copy of the auditor's review report is attached to this interim report.

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

The statutory accounts for the 52 weeks ended 1 October 2011, which were prepared under IFRS, have been filed with the Registrar of Companies. These statutory accounts carried an unqualified auditor's report and did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006.

2. Segmental analysis

Revenue by destination

	Unaudited 26 weeks ended 31 March 2012 £'000	Unaudited 26 weeks ended 2 April 2011 £'000	Audited 52 weeks ended 1 October 2011 £'000
United Kingdom	**4,185**	5,439	11,828
Other EU	**2,979**	2,106	4,850
Rest of World	**5,475**	2,774	6,451
	12,639	10,319	23,129

All turnover originates in the United Kingdom except for £897,000 (2011 interim - £659,000, 2011 year end - £1,364,000) which originates in America and £68,000 (2011 interim - £76,000, 2011 year end - £95,000) in Australia.

Notes to the Condensed Consolidated Interim Financial Statements continued

2. Segmental analysis continued

Revenue by sector

	Unaudited 26 weeks ended 31 March 2012 £'000	Unaudited 26 weeks ended 2 April 2011 £'000	Audited 52 weeks ended 1 October 2011 £'000
Defence	**933**	1,130	4,472
Oil and gas	**10,260**	6,964	15,402
Industrial gases	**1,297**	1,355	2,339
Alternative Energy	**149**	870	916
	12,639	10,319	23,129

Revenue by activity

	Unaudited 26 weeks ended 31 March 2012 £'000	Unaudited 26 weeks ended 2 April 2011 £'000	Audited 52 weeks ended 1 October 2011 £'000
Cylinders	**6,020**	4,321	11,052
Alternative Energy	**149**	870	916
Engineered Products	**6,470**	5,128	11,161
	12,639	10,319	23,129

Profit/(loss) before taxation by activity

	Unaudited 26 weeks ended 31 March 2012 £'000	Unaudited 26 weeks ended 2 April 2011 £'000	Audited 52 weeks ended 1 October 2011 £'000
Cylinders	**720**	278	1,385
Alternative Energy	**(197)**	(113)	(455)
Engineered Products	**374**	169	645
Unallocated central costs	**(441)**	(643)	(997)
	456	(309)	578

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

3. Taxation

	Unaudited 26 weeks ended 31 March 2012 £'000	Unaudited 26 weeks ended 2 April 2011 £'000	Audited 52 weeks ended 1 October 2011 £'000
Current tax	**158**	10	246
Deferred taxation	**(49)**	(98)	(69)
Taxation charged/(credited) to the income statement	**109**	(88)	177

4. Earnings per ordinary share

The calculation of the 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 year.

Given the loss incurred in the 26 weeks ended 2 April 2011, the effect of the share options are anti-dilutive and as such have not been included within the diluted earnings per share calculation for this period.

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

	Unaudited 26 weeks ended 31 March 2012 £'000	Unaudited 26 weeks ended 2 April 2011 £'000	Audited 52 weeks ended 1 October 2011 £'000
Profit/(loss) after tax	**347**	(221)	401

	Number of shares	Number of shares	Number of shares
Weighted average number of shares in issue	**11,349,540**	11,388,715	11,342,907
Dilutive effect of options	**14,570**	—	21,215
Diluted weighted average number of shares	**11,364,110**	11,388,715	11,364,122
Earnings/(loss) per share – basic	**3.1p**	(1.9)p	3.5p
Earnings/(loss) per share – diluted	**3.1p**	(1.9)p	3.5p

5. Dividends

The final dividend for the 52 weeks ended 2 October 2010 of 4.8p per share was paid on 11 March 2011.
The interim dividend for the 52 weeks ended 1 October 2011 of 2.4p per share was paid on 10 August 2011.
The final dividend for the 52 weeks ended 1 October 2011 of 4.8p per share was paid on 9 March 2012.

An interim dividend for the 52 weeks period ending on 29 September 2012 of 2.5p per share will be paid on 10 August 2012 to shareholders on the share register at the close of business on 6 July 2012.

Independent Review Report to Pressure Technologies plc

Introduction

We have been engaged by the Company to review the financial information in the half-yearly financial report for the 26 weeks ended 31 March 2012 which comprises the condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and the related explanatory notes 1 to 5. We have read the other information contained in the half-yearly financial report which comprises only the chairman's statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the financial information in the half-yearly financial report are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The financial information in the half-yearly financial report has been prepared in accordance with the basis of preparation as set out in Note 1.

Our responsibility

Our responsibility is to express to the Company a conclusion on the financial information in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the half-yearly financial report for the 26 weeks ended 31 March 2012 is not prepared, in all material respects, in accordance with the basis of accounting described in Note 1.

Grant Thornton UK LLP
Auditor
Leeds
12 June 2012

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Print
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Printed on Revive 50:50. This paper comes from sustainable forests and is fully recyclable and biodegradable. Made from 50% recovered waste and 50% virgin fibre. The manufacturers of the paper and the printer are accredited with ISO 14001 environmental management system.

Pressure Technologies plc
Meadowhall Road
Sheffield
S9 1BT
UK

Telephone +44 (0) 114 242 7500
Fax +44 (0) 114 242 7502
www.pressuretechnologies.co.uk