Pressure Technologies plc
Interim Report 2010

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

This has been a very demanding six months for management and employees. Whilst we are pleased to have made progress in our diversification strategy, the long order book visibility which the Group has enjoyed in recent years has reduced significantly with the downturn in oil and gas activity. Customers in this sector are now placing orders much nearer the required delivery dates. This presents new challenges for the Group.

However, independent sector forecasts, as well as our own research, indicate that the future prospects for the sector and, therefore, the Group remain strong. Our balance sheet is robust; the Group is well positioned to manage the cycle and to gear-up rapidly when the upturn comes.

Richard L Shacklady

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Cover image of the Stena Forth by Thomas Aanundsen, National Oilwell Varco

Cover image of HMS Astute by BAE Systems

Financial Highlights

- **Revenue of £9.7 million (2009: £12.7 million)**
- **Pre-tax profit of £1.5 million (2009: £2.4 million)**
- **Basic earnings per share of 9.6p (2009: 15.5p)**
- **Interim dividend increased by 9% to 2.4p per share (2009: 2.2p) in line with the Board's progressive dividend policy**
- **Strong balance sheet maintained, £5.2 million net cash in bank after acquisition of Al-Met Limited**
- **On target to meet market expectations for the full year**

Business Highlights

- **Diversification strategy progressed**
  - Al-Met Limited acquired for £2.3 million
  - Chesterfield BioGas secured £0.6m order from Centrica post half year end
- **Well positioned to manage cyclical nature of Group's core business**
- **Independent sector forecasts for new deepwater rig construction are optimistic with strong medium to long term prospects**

Chairman's statement

Pressure Technologies is on track to achieve results in line with market expectations for the full year. The current order book supports this and the Board is confident that the medium term prospects for the business remain strong.

Richard L Shacklady

I am pleased to report that the Group displayed resilience in the first half of the financial year, producing results in line with expectations despite ongoing uncertainty and changing order book patterns in its core markets.

Material progress was made in the Board's business diversification strategy. The Group acquired Al-Met Limited, a niche manufacturer of specialised, precision engineered valve wear parts, in February 2010 and, after the half year end, Chesterfield BioGas secured an order to build and commission one of the UK's first biogas upgrading plants for injection of biomethane to the natural gas grid.

The Results

Revenue in the 26 weeks to 3 April 2010 was £9.7 million (2009: £12.7 million), reflecting the lower levels of activity in the semi-submersible rig and drillship build programme. Operating profits, which are skewed towards the second half this year due to the delivery profile on the Group's higher margin defence work, were £1.5 million (2009: £2.4 million). Development costs related to Chesterfield BioGas amounted to just over £0.1 million in the period. Overall, profit before taxation was £1.5 million, giving earnings per share of 9.6p (2009: 15.5p).

The results included a small contribution from the recently acquired Al-Met business.

The Group's balance sheet remains in robust health. Net cash at 3 April 2010 was £5.2 million, after expending £2.3 million net on Al-Met.

Given our strong balance sheet and our confidence in the prospects for the Group, the Board is pleased to announce a 9% increase in the interim dividend to 2.4p per share (2009: 2.2p). This increase is in line with our stated intention to have a progressive dividend policy, which is based on the sound financing of the business. The dividend will be paid on 10 August 2010 to shareholders on the register at the close of business on 9 July 2010. The ex dividend date will be 7 July 2010.

Review of Operations

Chesterfield Special Cylinders

Activity at CSC, which services our main market sector, offshore oil and gas, remained subdued throughout the period under review and we do not expect this to change significantly in the second half of the year. Customer ordering patterns have changed substantially from providing forward schedules up to two years ahead and placing orders 12 months prior to delivery to giving no schedule visibility and placing "just in time" orders. This has shortened the forward view in the offshore sector to five or six months.

As previously stated, the Board anticipates an upturn in 2011 and independent forecasts for global offshore hydrocarbons have been optimistic about the medium and long term prospects. However, the current problems in the Gulf of Mexico have created uncertainty worldwide and will, almost inevitably, lead to a slowdown in development of deepwater fields in US waters in the short term. The Board anticipate that the impact on other areas for major offshore deepwater development such as South America and West Africa will be limited.

However, to offset this general market pessimism, I am pleased to report that we have seen a marked increase in requests for quotations and feedback from our two major customers in recent weeks. This leads the Board to believe that this market will grow at some point in 2011. As cylinders are one of the earliest required parts on a rig build, this would suggest that the next cycle of rig building, including the Petrobras programme, is close. Continued improvements to our product finishing capability for this market should ensure that CSC retains its market leadership in this sector.

CSC has built a solid order book in naval defence contracts with projects reaching into 2011. We have acknowledged worldwide expertise and experience in this exceptionally demanding market. In March 2010, the Ministry of Defence confirmed the procurement of Astute Submarine 5 and early forward procurement of Astute 6 from BAE Systems. We anticipate orders will follow for Astute 5 in the near term.

The development of our small cylinder business progressed in the first half. A number of aerospace initiatives are well underway and a number of new customers have already booked orders.

Momentum in the industrial gas trailer and refurbishment market continues to grow and we are increasingly offering integrated packages of work involving trailers, cylinders and all related valves and pipe work. Our offering in this market is unique in the UK and we plan further growth as the gases companies increasingly outsource.

Across all areas of the CSC business there has been an increased requirement for design and system engineering. To that end, we have further strengthened our design department. CSC is looking increasingly like an engineering business that also makes specialist cylinders rather than, first and foremost, a cylinder manufacturer with a small engineering capability. Designers and engineers are vital to providing our competitive edge in global, higher margin markets and we will continue both to train and recruit appropriately to develop this valuable resource.

Chesterfield BioGas

I am very pleased to report two major breakthroughs at our new Chesterfield BioGas business, which constitutes a key element in the Board's business diversification programme:

Chesterfield BioGas designed and delivered a transportable compressed natural gas ("CNG") storage skid, which was manufactured by CSC, to Sheffield City Council. The Council aims to replace its environmentally damaging diesel vehicles and is currently trialling CNG powered vehicles. In addition, a grant has been awarded under the Department of Transport's Infrastructure Grants Programme ("IGP") to provide compressed gas fuelling facilities to the London Borough of Greenwich. We are currently in negotiations with a number of local authorities, public utilities and transport operators for similar projects. We believe that there is considerable potential in this market if the UK follows Germany and Scandinavia's lead and adopts CNG as the fuel of choice to facilitate greenhouse gas reduction and achieve air quality improvement targets.

Post half year end, Chesterfield BioGas secured its first order to supply a biomethane upgrade plant to Centrica for use in a water treatment plant owned by Thames Water. This contract, which is worth in excess of £0.6 million, is due for delivery within the current financial year. Centrica's order follows the publication of the injection to grid tariffs under the UK Government's Renewable Heat Incentive ("RHI"), which will begin operating in April 2011. Under the RHI, feed-in tariffs will reward generators of renewable energy from a variety of sources. Subject to Government confirmation of the future level of RHI subsidies, we expect this to provide a significant stimulus to the market for Chesterfield BioGas' gas upgrading technology and the Group is actively working on a number of other potential biomethane to grid projects.

Chairman's statement continued

Al-Met
We are excited about the potential for our newly acquired Al-Met business, located in South Wales. This is one of a small number of businesses worldwide which offer precision-finish machined combination carbide and high alloy steel components to the highly specialised oilfield valve producers. Al-Met has specialist, high-capability, machine tools, operated by a skilled workforce. The Board is confident that this business can be grown significantly through increased marketing focus and resource.

Investment and cost control
Pressure Technologies will continue to invest in all the aforementioned market areas for the medium and long term. We believe the global demand for energy, in particular, offers exciting opportunities. In the short term, we are managing the cycle effectively, preserving and investing in our core skills and competencies, whilst at the same time maintaining tight control over costs to maintain competitiveness in world markets.

Strategy
The Board confirms the Group's commitment to penetrate key growth sectors of the global energy, defence and industrial gases markets by organic growth and investment in new niche products, supplemented by the acquisition of businesses which provide synergistic benefits in related niche products.

To this end, we continue to support the Group's R&D activities, most notably in ultra-large composite cylinders and high pressure all composite small cylinders for the aerospace and defence markets and are actively pursuing a number of potential acquisition opportunities. We are fortunate to have sound support from local universities with world class materials and engineering faculties and, also, locally based engineering and metals institutions, all of which have qualified and capable scientific staff.

Prospects
The Group's forward order book, while much reduced, stretches into early 2011 and we entered the second half of the financial year with orders totalling £11.4 million. Whilst we anticipate that the recovery from the recent downturn in our deepwater oil and gas markets will be gradual and subject to some local political volatility, CSC has a significant pipeline of open quotations for projects worldwide. The Board expects these to start converting into orders in the latter part of the year. At the same time, we remain committed to our acquisition strategy and investment in new products and businesses. Chesterfield BioGas also has a healthy pipeline of project interest, some of which are expected to progress into new business over the next 18 months.

Pressure Technologies is on track to achieve results in line with market expectations for the full year. The current order book supports this and the Board is confident that the medium term prospects for the business remain strong. Our balance sheet is robust with significant cash balances and we have a substantial, unused working capital facility.

Overall, the Group is well positioned to manage the cycle and to gear-up its operations rapidly for organic growth as markets improve.

Richard L Shacklady
Chairman
14 June 2010

Condensed consolidated income statement

	Note	**Unaudited 26 weeks ended 3 April 2010 £'000**	Unaudited 26 weeks ended 28 March 2009 £'000	Audited 53 weeks ended 3 October 2009 £'000
Revenue	2	**9,663**	12,735	26,186
Cost of sales		**(6,391)**	(8,789)	(17,899)
Gross profit		**3,272**	3,946	8,287
Administration expenses		**(1,770)**	(1,568)	(3,315)
Operating profit		**1,502**	2,378	4,972
Finance income		**17**	74	94
Finance costs		**(4)**	(8)	(13)
Profit before taxation		**1,515**	2,444	5,053
Taxation	3	**(429)**	(685)	(1,414)
Profit for the financial period		**1,086**	1,759	3,639
Earnings per share basic	4	**9.6p**	15.5p	32.1p
Earnings per share – diluted	4	**9.5p**	15.5p	32.0p

There are no items of other comprehensive income and therefore no statement of comprehensive income is presented.

Condensed consolidated balance sheet

	Unaudited 3 April 2010 £'000	Unaudited 28 March 2009 £'000	Audited 3 October 2009 £'000
Non-current assets			
Intangible assets	**965**	—	380
Property, plant and equipment	**3,618**	2,146	2,195
Deferred tax asset	**171**	80	92
	4,754	2,226	2,667
Current assets			
Inventories	**5,097**	7,284	4,722
Trade and other receivables	**6,231**	4,802	4,337
Derivative financial instruments	**—**	55	4
Cash and cash equivalents	**5,512**	6,100	8,046
	16,840	18,241	17,109
Total assets	**21,594**	20,467	19,776
Current liabilities			
Trade and other payables	**(4,624)**	(6,200)	(3,841)
Current portion of long-term borrowings	**(232)**	(80)	(80)
Current tax liabilities	**(642)**	(704)	(740)
	(5,498)	(6,984)	(4,661)
Non-current liabilities			
Other payables	**(668)**	(618)	(643)
Long-term borrowings	**(102)**	(120)	(80)
Deferred tax liabilities	**(606)**	(272)	(278)
	(1,376)	(1,010)	(1,001)
Total liabilities	**(6,874)**	(7,994)	(5,662)
Net assets	**14,720**	12,473	14,114
Equity			
Share capital	**567**	567	567
Share premium account	**5,341**	5,341	5,341
Profit and loss account	**8,812**	6,565	8,206
Total equity	**14,720**	12,473	14,114

Condensed consolidated statement of changes in equity

for the 26 weeks ending 3 April 2010

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Total equity £'000
Balance at 4 October 2009 (audited)	567	5,341	8,206	14,114
Dividends	—	—	(499)	(499)
Share based payments	—	—	19	19
Transactions with owners	—	—	(480)	(480)
Profit for the period	—	—	1,086	1,086
Balance at 3 April 2010 (unaudited)	567	5,341	8,812	14,720

for the 26 weeks ending 28 March 2009

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Total equity £'000
Balance at 28 September 2008 (audited)	567	5,341	5,259	11,167
Dividends	—	—	(453)	(453)
Transactions with owners	—	—	(453)	(453)
Profit for the period	—	—	1,759	1,759
Balance at 28 March 2009 (unaudited)	567	5,341	6,565	12,473

for the 53 weeks ending 3 October 2009

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Total equity £'000
Balance at 28 September 2008 (audited)	567	5,341	5,259	11,167
Dividends	—	—	(703)	(703)
Share based payments	—	—	11	11
Transactions with owners	—	—	(692)	(692)
Profit for the period	—	—	3,639	3,639
Balance at 3 October 2009 (audited)	567	5,341	8,206	14,114

Condensed consolidated cash flow statement

	Unaudited 26 weeks ended 3 April 2010 £'000	Unaudited 26 weeks ended 28 March 2009 £'000	Audited 53 weeks ended 3 October 2009 £'000
Cash flows from operating activities			
Profit after taxation	**1,086**	1,759	3,639
Adjustments for:			
Depreciation	**116**	114	230
Finance income – net	**(13)**	(66)	(81)
Amortisation of intangible asset	**55**	—	20
Gain on early settlement of deferred consideration	**—**	(20)	(20)
Share option costs	**19**	8	11
Taxation expense recognised in income statement	**429**	685	1,414
Loss on derivative financial instruments	**4**	55	106
(Increase)/decrease in inventories	**(106)**	(757)	1,805
Increase in trade and other receivables	**(983)**	(1,677)	(1,212)
Increase/(decrease) in trade and other payables	**441**	1,534	(799)
Cash generated from operations	**1,048**	1,635	5,113
Finance costs paid	**(4)**	(8)	(13)
Income tax paid	**(703)**	(852)	(1,544)
Net cash from operating activities	**341**	775	3,556
Cash flows from investing activities			
Finance income received	**17**	74	94
Purchase of property, plant and equipment	**(317)**	(217)	(382)
Payment of deferred consideration	**—**	(130)	(130)
Purchase of intangible asset	**—**	—	(400)
Purchase of subsidiary, net of cash acquired	**(2,010)**	—	—
Net cash flow used in investing activities	**(2,310)**	(273)	(818)
Cash flows from financing activities			
Repayment of borrowings	**(40)**	(40)	(80)
Repayment of finance leases	**(26)**	—	—
Dividends paid	**(499)**	(453)	(703)
Net cash used for financing activities	**(565)**	(493)	(783)
Net (decrease)/increase in cash and cash equivalents	**(2,534)**	9	1,955
Cash and cash equivalents at beginning of period	**8,046**	6,091	6,091
Cash and cash equivalents at end of period	**5,512**	6,100	8,046

Notes to the condensed consolidated interim financial statements

1. Basis of preparation

The Group's interim results for the 26 weeks ended 3 April 2010 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 2 October 2010. The principal accounting policies of the Group have remained unchanged from those set out in the Group's 2009 annual report and financial statements, except as explained below. 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 14 June 2010. 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 Group is required to adopt the following new accounting standards in the forthcoming annual report: IAS1 'Presentation of Financial Statements' (revised 2007), IFRS 3 'Business Combinations (revised 2008) and IFRS 8 'Operating Segments'.

The adoption of IAS1 (revised 2007) does not affect the financial position or profits of the Group, but gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged, however, some items that were recognised directly in equity are now recognised in other comprehensive income. IAS 1 (revised 2007) affects the presentation of owner changes in equity and introduces a 'Statement of Comprehensive Income'. This interim report reflects the new presentation requirements, however, the Group has no such comprehensive income and therefore no statement has been prepared. In accordance with the new standard, a 'Statement of Recognised Income and Expense' is no longer required and a 'Statement of Changes in Equity' is presented.

IFRS 3 'Business Combinations' (revised 2008) has resulted in a number of changes to the way that business combinations are measured and accounted for. The most notable changes impacting the Group result in certain acquisition costs being recorded directly in the Income Statement. Also, the difference between the actual and estimated amount of deferred consideration payable will now be recognised in the Income Statement rather than through goodwill. The Group has applied this new standard in accounting for the acquisition made during the period.

Under IFRS 8 'Operating Segments', the Group will adopt a 'management approach' to reporting on its segments. Therefore, the information reported is that used by management for internally evaluating segment performance and deciding how to allocate resources to operating segments. Note 2 gives some analysis based on the segments that will be reported on at the year end.

The statutory accounts for the 53 weeks ended 3 October 2009, 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.

Notes to the condensed consolidated interim financial statements continued

2. Segmental analysis

Revenue by destination

	Unaudited 26 weeks ended 3 April 2010 £'000	Unaudited 26 weeks ended 28 March 2009 £'000	Audited 53 weeks ended 3 October 2009 £'000
United Kingdom	**1,255**	3,761	5,571
Other EU	**1,471**	6	894
Rest of World	**6,937**	8,968	19,721
	9,663	12,735	26,186

All turnover originates in the United Kingdom.

Revenue by activity

	Unaudited 26 weeks ended 3 April 2010 £'000	Unaudited 26 weeks ended 28 March 2009 £'000	Audited 53 weeks ended 3 October 2009 £'000
Cylinders	**9,142**	12,735	26,186
Alternative energy	**4**	—	—
Valves	**517**	—	—
	9,663	12,735	26,186

Profit/(loss) before taxation by activity

	Unaudited 26 weeks ended 3 April 2010 £'000	Unaudited 26 weeks ended 28 March 2009 £'000	Audited 53 weeks ended 3 October 2009 £'000
Cylinders	**1,878**	2,510	5,335
Alternative energy	**(169)**	(111)	(269)
Valves	**16**	—	—
Unallocated central costs	**(210)**	45	(13)
	1,515	2,444	5,053

3. Taxation

	Unaudited 26 weeks ended 3 April 2010 £'000	Unaudited 26 weeks ended 28 March 2009 £'000	Audited 53 weeks ended 3 October 2009 £'000
Current tax	**475**	710	1,445
Deferred taxation	**(46)**	(25)	(31)
Taxation charged to the income statement	**429**	685	1,414

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.

The calculation of diluted earnings per share 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 3 April 2010 £'000	Unaudited 26 weeks ended 28 March 2009 £'000	Audited 53 weeks ended 3 October 2009 £'000
Profit after tax	**1,086**	1,759	3,639
	Number of shares	Number of shares	Number of shares
Weighted average number of shares in issue (used for basic earnings per share)	**11,333,620**	11,333,620	11,333,620
Dilutive effect of options	**76,650**	47,635	51,455
Diluted weighted average number of shares (used for diluted earnings per share)	**11,410,270**	11,381,255	11,385,075
Earnings per share - basic	**9.6p**	15.5p	32.1p
Earnings per share - diluted	**9.5p**	15.5p	32.0p

5. Dividends

The final dividend for the 53 weeks ended 3 October 2009 of 4.4p per share was paid on 12 March 2010.

An interim dividend of 2.4p per share will be paid on 10 August 2010 to shareholders on the register at the close of business on 9 July 2010.

Notes to the condensed consolidated interim financial statements continued

6. Acquisition of subsidiary

On 5 February 2010, the Group acquired 100% of the issued share capital of Al-Met Limited for a maximum cash consideration of £2.25 million. Al-Met Limited manufactures precision engineered valve components. The transaction has been accounted for by the purchase method of accounting.

	Book value £'000	Revaluation of property, plant and equipment £'000	Intangible assets recognised on acquisition £'000	Fair value £'000
Net assets acquired:				
Property, plant and equipment	414	807	—	1,221
Intangibles	—	—	368	368
Inventories	269	—	—	269
Trade and other receivables	912	—	—	912
Cash and cash equivalents	240	—	—	240
Borrowings	(240)	—	—	(240)
Trade and other payables	(367)	—	—	(367)
Current tax liabilities	(132)	—	—	(132)
Deferred tax asset/(liabilities)	36	(226)	(103)	(293)
	1,132	581	265	1,978
Goodwill				272
Total consideration				2,250

Satisfied by:	
Cash	2,000
Deferred contingent cash consideration	250
	2,250

Net cash outflow arising on acquisition	
Cash consideration	2,250
Cash and cash equivalents acquired	(240)
	2,010

The intangible assets acquired with the business comprise £261,000 for non-contractual customer relationships and £107,000 for the order book.

The goodwill arising on the acquisition of Al-Met Limited is mainly attributable to the skills and talent of the workforce and the anticipated value of new business that the operation is capable of securing.

The deferred contingent cash consideration is payable if orders received by Al-Met in calendar year 2010 exceed £4,000,000. The amount is held in an escrow account independent from the Group.

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 3 April 2010 which comprises the condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and the related explanatory notes 1 to 6. 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 3 April 2010 is not prepared, in all material respects, in accordance with the basis of accounting described in Note 1.

Grant Thornton UK LLP
Chartered Accountants
Birmingham, England
14 June 2010

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