Pressure Technologies plc

Annual Report 2014

Engineered Products

Cylinders

Alternative Energy

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Welcome

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

Chesterfield Special Cylinders scoops top award at Made in Sheffield 2014

As the overall Made in Sheffield winner, CSC was deemed by the judges to have contributed most to maintaining the national and international renown of the Made in Sheffield Brand for the high quality craftsmanship so synonymous with the Sheffield city region.

Find out the latest online at
www.pressuretechnologies.com

Highlights

£54.0m
Record Revenue
(2013: £34.4m) – up 57%

28.5p
Basic Earnings per Share
(2013: 19.4p) – up 47%

£7.8m
Underlying Operating Profit*
(2013: £3.3m) – up 138%

8.4p per share
Total Dividend
(2013: 7.8p)

£5.6m
Operating Profit
(2013: £2.9m) – up 93%

£5.8m
Net Funds
(2013: £4.0m)

*Before acquisition costs, amortisation on acquired businesses and exceptional costs

Welcome to Pressure Technologies
"The Group will continue its growth strategy of combining acquisitions and organic growth. The priority with recent acquisitions is to complete their successful integration, but we may pursue further acquisitions if the right opportunities present themselves."

Alan Wilson
Chairman

- Record revenues and profits with all divisions growing in the year
- Successful share placing in March, raising £16.1 million net
- Strategy of product and market diversification to reduce impact of cyclicality in the oil and gas industry continues apace:
  – Acquisition of Roota Engineering, March
  – Acquisition of Greenlane Biogas and Quadscot, post year-end
- Engineered Products division is now the largest contributor to revenue and profit
- New organisational structure with four divisions and divisional MDs to be introduced in 2015
- Strong management teams and market positions across all the Group's businesses driving growth
- New financial year began with underlying order book 14% higher than the prior year

Strategic Report

Chairman's Statement

"This has been an excellent year for Pressure Technologies in all respects, with the Group delivering record sales and profits."

This has been an excellent year for Pressure Technologies in all respects, with the Group delivering record sales and profits. The Group received strong support from existing and new investors, who backed a successful share placing which raised £16.1 million in March. The Board has already put these funds to work in support of its strategy to continue broadening the Group's market presence in selective growth markets. Roota Engineering was acquired in March, using £10.5 million of the placing proceeds and we completed the groundwork for the acquisitions of Greenlane and Quadscot immediately after close of the financial year. A strategic investment in Kelley GTM, a US-based manufacturer and developer of composite cylinder technology, was also completed in January to widen our market and knowledge base in one of our core technologies.

Results

The Group ended the year strongly with revenue at £54.0 million (2013: £34.4 million). Underlying operating profits more than doubled to £7.8 million (2013: £3.3 million), yielding a strong return on sales of 14.5% (2013: 9.5%). As a measure of consistency and solidity throughout the Group, it is encouraging to note that all three operating Divisions recorded improved sales and profits.

The Group's balance sheet continued to strengthen on the back of improved trading results and acquisitions, with a year-end net asset value of £36.5 million (2013: £17.5 million) and £5.8 million of net cash (2012: £4.0 million). The Board is continuing its progressive dividend policy and proposes an 8% increase in the final dividend to 5.6p per share (2013: 5.2p), giving a total dividend for the year of 8.4p (2013: 7.8p), which will be paid to shareholders on 17 March 2015.

Trading and Market Conditions

We started the year with strong order books and overall market conditions were mostly favourable for Pressure Technologies' companies. Our two Divisions that are dominated by the upstream oil & gas industry, Cylinders and Engineered Products, enjoyed an increasing order intake trend during the first three quarters, with a gradual decline in order intake thereafter in line with market changes. Nonetheless, both Divisions finished the year with order books higher, or similar, to last year-end levels.

Our Alternative Energy division generated a strong order intake, particularly during the second-quarter, ending the year with an order book 30% higher than the comparable figures from last year. There are substantial market opportunities for expansion, particularly now that we have secured Greenlane Biogas as part of the Group.

Following the addition of Roota, Greenlane Biogas and Quadscot to the Group, we are changing our organisation structure and adding a Precision Machined Components Division, which comprises Al-Met, Roota and Quadscot. The two Hydratron companies will form the Engineered Products Division, whilst Alternative Energy will include Chesterfield Biogas ("CBG") and Greenlane. The Cylinders Division remains unchanged.

The Board's strategy to reduce the impact of cyclicality in the oil and gas industry, primarily via acquisition, has lessened the historic dependence on large contracts for major capital assets. The Group's diverse product portfolio and broader industrial focus now encompasses smaller capital projects and consumables. Pressure Technologies is now a more

£54.0m
Revenue (2013: £34.4m)

£7.8m
Underlying Operating Profits (2013: £3.3m)

14.5%
Return on Sales (2013: 9.5%)

balanced Group and the contribution from each Division will be quite different in this new financial year, in comparison to last year, where revenues were dominated by Cylinders and Engineered Products. In the future, we expect that each of Precision Machined Components, Engineered Products and Alternative Energy will drive the Group's growth, with Cylinders enhancing Group profitability.

The Group has grown rapidly in the last year. We have increased Group staff to manage this growth, introducing a Director of Strategy Development and supporting commercial and financial expertise to maintain appropriate corporate governance and control. The Board has been careful to acquire companies with strong management teams and we are very pleased with the quality of senior management that has been added to the Group since the Spring.

Outlook

The Group will continue its growth strategy of combining acquisitions and organic growth. The priority with recent acquisitions is to complete their successful integration, but we may pursue further acquisitions if the right opportunities present themselves.

Continued organic growth must be viewed against a background of low global economic growth, geopolitical tensions and oil price uncertainty. Whilst it is pleasing to report that the Group ended the year with a like for like order book 14% higher than last year, we expect a reduction in sales into the deepwater oil and gas market in Cylinders, but continued growth through our other divisions as a result of our market position and the full year contribution of recent acquisitions. The Board views current market conditions with caution, but we start 2015 in a much stronger and more balanced position overall, so I am optimistic about the year ahead.

Alan Wilson
Chairman
9 December 2014

Vision and Strategy

Vision

Our vision is to create a highly profitable group of companies, specialising in technology for the containment and control of liquids and gases in pressure systems.

Strategy

Our strategy to achieve this is to identify and develop, profitable niche opportunities in growth sectors for pressure products through a combination of organic initiatives and by acquisition.

Opportunities are identified through a combination of internal knowledge gained from collective Group awareness of our markets, primarily gained from our customers, agents, distributors and suppliers. This is further underpinned by detailed market research prepared both internally and through third parties. The strategy is designed to minimise risk to the Group by overconcentration in any one product line or market, whilst at the same time minimising the risk of expansion by focusing on markets and technologies immediately adjacent to our current ones. As a result of this, we build a better balanced Group.

Organic growth opportunities are identified by the individual businesses within the Group, reviewed and supported by the Group executive. Technology risk is minimised by focusing on evolutionary development, building on our existing capabilities and knowledge base.

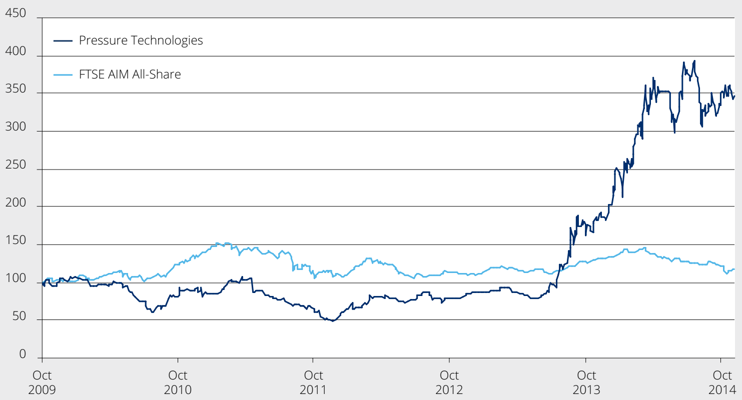
Profitability is underpinned by a continuous process of cost and waste minimisation, controlled by the individual Group businesses.

Acquisition opportunities are kept under review by the Board, working together with the Group businesses. The Group has structured acquisition criteria to maintain the focus on the vision and to minimise risk.

Acquisitions are generally of businesses with closely related technologies and manufacturing capabilities to our existing businesses, in markets where the Group has a developed presence. They should be profitable or at a stage of development where profitability is close to being achieved and there is a clear path for the growth of the business. Management teams of the acquisition target should be stable, talented and capable of delivering growth with support from Group.

Share Price

Total Shareholder Return (TSR) is calculated to show the theoretical growth in the value of a shareholding over a specified period assuming that dividends are reinvested to purchase additional shares.



Strategic Report

Group Structure and Markets

10 years of progress

2004 Management buy out of the Special Products Division of Chesterfield Cylinders

2005 Moved to Sheffield

2007 Floated on the AIM market

2008 Set up Chesterfield BioGas

During the period under review the Group was organised into three divisions: Engineered Products, Cylinders and Alternative Energy.

These divisions serve four markets: Oil and Gas, Defence, Industrial Gases and Alternative Energy.

Historically, the divisions have been heavily directed from Group Head Office. The growth of the Group in recent months means this is no longer viable and a new four division structure has been developed to tackle this. Each division will be headed by a Managing Director, supported by a dedicated Finance Director. The move towards a new divisional structure has already begun and will be fully implemented during the 2015 financial year. Some of the new positions created will be filled by talented managers from within the Group, augmented by external hires where necessary. Divisional Managing Directors will report to the Chief Executive.

Engineered Products

Al-Met | ROOTA Engineering Ltd | hydratron | QUADSCOT Precision Engineers Ltd

The Engineered Products division has been constructed from acquisitions made since 2010. During the period under review, this comprised precision machining companies, Al-Met, based near Cardiff and Roota Engineering, based in Rotherham, and pump and pressure test and control systems manufacturer Hydratron based in Altrincham and Houston, Texas, USA. Al-Met was acquired in the 2010 financial year, Hydratron in 2011 and Roota Engineering in March 2014.

Immediately after the year-end, a further precision machining company, Quadscot, based near Glasgow, was acquired. As a result of this latest acquisition, the division will be split into two, Precision Machined Components and Engineered Products and the Group will report as four divisions with effect from the start of the current financial year.

Read more information on **our acquisition of Roota Engineering on p12**

2010
Acquisition of Al-Met & Hydratron to form the Engineered Products Division

2010
First Biogas to Grid plant in the UK

2013
Kelley GTM strategic investment

2014
Secondary raise on AIM & Acquisition of Roota Engineering

2014
Acquisition of Greenlane Biogas and Quadscot

Cylinders

The Cylinder division is comprised of wholly owned subsidiary, Chesterfield Special Cylinders Ltd ("CSC") based in Sheffield and associate company Kelley GTM based in Amarillo, Texas, USA. Chesterfield Special Cylinders was the core of the Group at IPO on AIM in 2007.

This division supplies a range of high pressure cylinder systems into the oil and gas, defence and industrial gases markets.

Read more information on **our acquisition of Kelley GTM on p11**

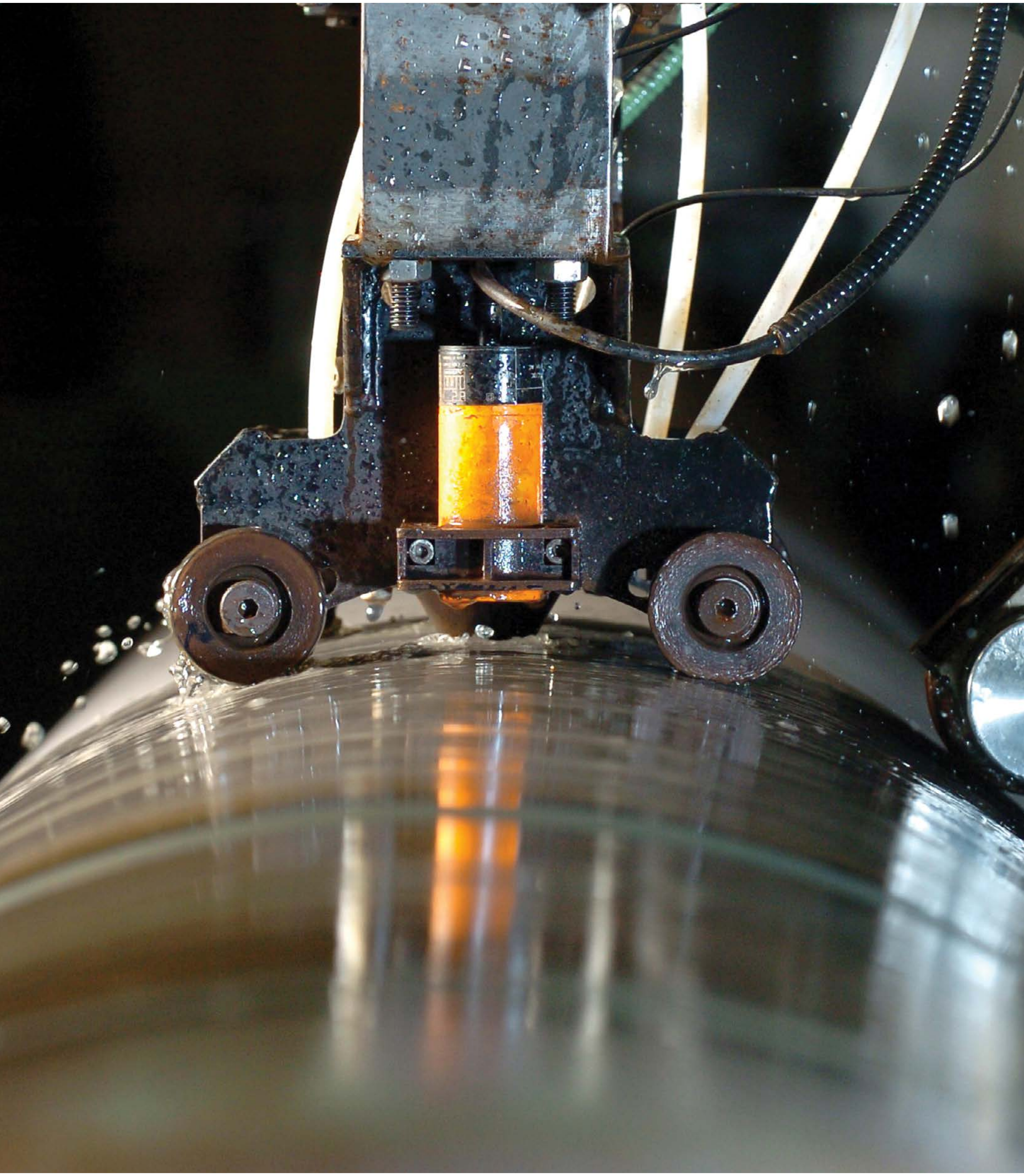
Alternative Energy

During the period under review the Alternative Energy division was solely comprised of Chesterfield BioGas, an organically grown business started by the Group in 2008 using licensed technology to enter the emerging market for equipment to upgrade biogas to create biomethane in the UK (see Markets on page 09).

Immediately after the period end, the Group acquired the business and assets of Greenlane Biogas creating a global presence in the biogas upgrading market with subsidiaries in the UK, Canada and New Zealand.

Read more information on **BioGas on p13**

Strategic Report
Group Structure and Markets continued



Overview of our Markets

Oil and Gas

Market served by:
Cylinders / Engineered Products

	2013	2012	2011	2010
£39.6m 2014 Revenue	£27.6m	£24.0m	£15.4m	£13.8m
73% 2014 % of Group Revenues	80%	79%	67%	64%

As the largest market for the Group, the oil and gas market provides the prime focus for both the Cylinder and Engineered Products divisions. In the Cylinders division, CSC supplies a range of ultra-large high-pressure cylinders for motion compensation systems on drill-ships, semi-submersible drilling rigs, floating cranes and diving support vessels. It has also developed inspection services to inspect cylinders in-situ on rigs and vessels, marketed under the Integrity Management brand.

In the Engineered Products division, Al-Met and Roota supply a range of components for flow control and downhole tools. Hydratron supplies a range of high-pressure pumps, power units, control panels and test rigs.

The five-year revenue profile shows the positive impact of diversification through acquisition. In 2010, CSC accounted for 85% of turnover, centred on the supply of equipment into large capital infrastructure projects. In 2014, CSC's sales only accounted for 32% of the Group total, with the balance being generated by the Engineered Products division, supplying into much smaller capital projects and consumable equipment.

Overall market conditions were favourable for Pressure Technologies companies during most of the year. The price of Brent crude oil, our primary market indicator, remained above US$100 per barrel until mid-June 2014, underpinned by a forecast increase of 0.8% in global oil demand during 2014, reaching 91.53 million barrels per day. Declining demand from quarter-three onwards, as a result of lower than expected global economic growth, has since caused a significant reduction in the oil price, reaching a four-year low in December. As a result of our strong order backlog, the oil price dip did not materially impact sales during our second-half year of trading.

The reduction in spending by major oil companies, mentioned in the interim report, continued into the second half of 2014, with firms such as Royal Dutch Shell and Exxon Mobil turning to asset sales and spending cuts, thereby delivering higher shareholder returns as opposed to production growth.

The medium and long-term outlook remains favourable. There is general agreement amongst market commentators that the world demand for energy is set to grow by over 50% between 2010 and 2035. According to OPEC projections, energy from renewable sources is forecast to provide around 3% of global demand by 2035, whilst biomass and nuclear could account for 9% and 6% respectively. Consequently, energy derived from fossil fuels will continue to make up over 80% of world demand by 2035.

Whilst the long-term demand for more energy seems beyond doubt, the short-term picture is uncertain. At the present time, there are three major factors that make market forecasting rather difficult: the much reported oil price war between the USA and Saudi Arabia, lower global economic growth than expected and geopolitical tensions in several countries such as: Iraq, Iran, Libya, Egypt, Tunisia, Nigeria, Syria, Yemen, Somalia and Ukraine.

This general air of uncertainty has resulted in major development projects being postponed, or re-engineered to reduce costs. Day rates and utilisation of semi-submersible drilling rigs have been in decline for the past year, as new rigs come to market and oil companies delay drilling programmes until there is more market certainty. At year-end, there was a 10% reduction in the number of semi-submersibles and drillships due for delivery in the next 3-4 years compared to last year.

The impact of these developments in the market differs across the Group and is discussed in the business review.

Strategic Report

Group Structure and Markets continued

Overview of our Markets continued

Defence

Market served by:
Cylinders / Engineered Products

£3.5m 2014 Revenue	2013	2012	2011	2010
	£3.8m	£2.2m	£4.5m	£3.7m

7% 2014 % of Group Revenues	2013	2012	2011	2010
	11%	7%	19%	17%

This is the second largest market for CSC, which has specialist capability in the manufacture of high-pressure cylinders for submarines, surface vessels and military aircraft. Work done over the last decade to expand the customer base for naval applications has reduced the "lumpiness" of defence revenue and there is a good forward visibility on projects in Germany, South Korea and the UK. Although defence budgets around the world are under pressure, submarine build programmes have continued.

The market is less sensitive to competition due to the complexity of products, quality requirements and the bureaucratic overhead. However, countries, such as the USA, have regulations which protect indigenous suppliers. CSC is the major supplier in the naval market to NATO and NATO friendly nations with the exception of the USA.

There are significant medium term opportunities, the largest of which is the UK's Trident replacement programme for which we are working with defence OEMs on initial, small-scale prototypes.

Integrity Management services are widely used in the UK naval sector and are now being offered on overseas naval contracts.

Industrial Gases

Market served by:
Cylinders / Engineered Products

£2.3m 2014 Revenue	2013	2012	2011	2010
	£1.8m	£3.9m	£2.3m	£3.5m

4% 2014 % of Group Revenues	2013	2012	2011	2010
	5%	13%	10%	16%

The major driver for the Industrial Gases market is GDP growth. Our principal markets are Europe and the UK, so recent years have seen low capital expenditure from the gas majors and little infrastructure development. CSC supplies a range of high-pressure trailers and bulk storage packs into the market. Hydratron supplies test systems for pressure components (e.g. valves, hoses, transducers).

In the medium term, significant growth is expected in the market for Hydrogen as a fuel source. This market will be at pressures significantly above the normal 200 to 300 bar range for standard industrial gases. Demands of this market suit the product range of both CSC and Hydratron and, for cylinders, are at pressures that most competitors lack proven capability.

Alternative Energy

Market served by:
Chesterfield BioGas

	2013	2012	2011	2010
£8.6m 2014 Revenue	£1.2m	£0.3m	£0.9m	£0.7m
16% 2014 % of Group Revenues	4%	1%	4%	3%

Through its subsidiary CBG, the Group specialises in technology for the upgrading of biogas produced from the anaerobic digestion of organic waste. A typical composition for biogas could be 65% methane, 35% carbon dioxide and traces of Hydrogen Sulphide and Siloxanes. A biogas upgrader removes the majority of carbon dioxide and trace gases to give 98%-99% pure methane, termed biomethane. Biomethane can then be injected into the natural gas grid, or may be used as a vehicle fuel as a substitute for diesel or petrol. The principal market in the UK is for upgraded biogas to be put into the gas grid, termed Biogas to Grid ("BtG").

CBG was an early entrant into the BtG market having the licence to provide proven upgrading technology from Greenlane Biogas, New Zealand, for the UK market. CBG completed the first BtG project in the 2011 financial year at Didcot in Oxfordshire. The UK market has been slow to develop for three major reasons:

1) The Gas industry is very cautious and was unwilling to accept evidence from successful European projects as proof that the technology was suitable for the UK. The installation at Didcot helped to dispel this caution.

2) BtG competes against Combined Heat and Power ("CHP") as a use of biogas. Although burning raw biogas in a CHP engine to create electricity is a less energy efficient process, CHP had the advantage that it was heavily subsidised, therefore there was little incentive to invest in BtG. The Renewable Heat Incentive ("RHI") corrected this situation, but took over two years from inception to passing into law in 2012. Following the release of the RHI, a second BtG project was completed at the beginning of the 2013 financial year.

3) The Health and Safety Executive ("HSE") was concerned over the allowable levels of oxygen in biomethane and insisted on a full review which resulted in levels being brought into line with the rest of Europe in 2013. Prior to this all projects were approved on a case by case basis.

The HSE action in 2013 opened up the market as demonstrated by the 2014 step up in sales. However, the market is still highly sensitive to the level of incentive/subsidy and a recent delay in publishing the results of a review of the RHI has slowed down the receipt of new orders in the UK.

Immediately after the 2014 financial year-end, the Group purchased the business and assets of Greenlane Biogas, giving us a global presence in the biogas upgrading market. Greenlane's experience mirrors that of CBG in that high activity markets are generally incentivised. Particularly active markets for Greenlane are USA, Canada, Brazil and France.

Strategic Report

Business Review

"The past year has seen another material step change in our businesses. Once again the Group delivered improved results and diversification continued apace."

Cylinders

£21.4m

2014 Revenue

2013	2012	2011	2010
£17.3m	£16.3m	£11.3m	£19.1m

£3.8m

2014 Operating Profits

2013	2012	2011	2010
£3.6m	£2.3m	£1.4m	£4.8m

The past year has seen another material step change in our businesses. Once again the Group delivered improved results and diversification continued apace. Our three divisions, Cylinders, Engineered Products and Alternative Energy, experienced growth in revenue and operating profit. The Group is much better balanced and with a significant contribution from the Alternative Energy division reducing the dependence on the oil and gas market. The March 2014 acquisition of Roota Engineering, coupled with growth at Al-Met and Hydratron, ensured that the Engineered Products division overtook Cylinders on revenue and operating profit, giving a much better balance in Group revenue across the oil and gas sector cycle.

With a placing on AIM in the year and two major acquisitions immediately after year end, this has been an incredibly busy year for the Group.

The key points for the year are:

Cylinders Division

Chesterfield Special Cylinders ("CSC") had another good year, underpinned by significant volume growth in its principal market, the supply of Air Pressure Vessels ("APVs") for motion compensation systems in the deep water oil and gas market. This volume growth was achieved after agreeing significant price reductions to maintain a market presence against stiff competition from South Korea. The impact of competition in this market is amply demonstrated by the reduction in margins in 2014, where revenues were 38% higher compared to 2010 at which time CSC had almost a 100% share of the market.

The general air of uncertainty in the oil and gas sector has resulted in major development projects being postponed, or re-engineered to reduce costs. Day rates and utilisation of semi-submersible drilling rigs have been in decline for the past year, as new rigs come to market and oil companies delay drilling programmes until there is more market certainty. At year end, there was a 10% reduction in the number of semi-submersibles and drillships due for delivery in the next 3-4 years compared to last year. Order intake for this market has slowed markedly and we continue to expect lower revenues in the current financial year as a result.

Defence sales were slightly down on the prior year due to the phasing of submarine build programmes. Further contracts were won in the UK, Germany and South Korea, which give a solid foundation to the defence order book for the next two years.

Sales of services were in line with last year with an increase in Integrity Management sales being masked by a reduction in factory based retest work due to a slower industrial gases market and a reduction in specialist cleaning due to phasing of the Astute submarine programme. Integrity Management is now being offered on overseas naval contracts and has built steadily in the UK defence and the oil and gas markets.

The market for new high pressure gas trailers has continued to be depressed. We did, however, complete orders for two new state-of-the-art compressed natural gas ("CNG") trailers. These trailers, developed with a major industrial gases company, were designed and built by CSC using lightweight, composite cylinders supplied by Worthington. As previously stated, as the use of alternative fuels such as CNG and hydrogen increases, we expect the market for this type of trailer and large high pressure storage facilities to increase. This view is backed by third-party market research. CSC remains actively engaged in this market through its German subsidiary, CSC Deutschland GmbH.

Capital spend in the year of £1 million was centred on forging equipment for ultra-large cylinders. This is due to enter production in January 2015. A further £0.7 million is planned for 2015 to complete this investment.

In January 2014, the Group took a 40% stake in Kelley GTM ("KGTM") a manufacturer of packaged, type II composite, welded ultra-large cylinders known as GTMs (Gas Transportation Modules). This start-up business is focused on the sale of GTMs into the onshore oil and gas market, for the delivery of CNG to displace diesel fuel on drilling rigs and for the capture of gas currently burned in flares at oil wells. US environmental legislation will eventually lead to a total ban of flaring at oil wells. That said, development of the market has been slower than anticipated and the Group has taken a cautious approach to the valuation of its £2.4 million investment in KGTM.

The Group has the option in 2015 to increase its stake in the business to 80%. The decision to exercise and the cost of doing so is dependent on the performance of KGTM in calendar years 2014 and 2015. For further details, see the Financial Review on page 16.

Strategic Report

Business Review continued

Engineered Products

£24.1m

2014 Revenue

2013	2012	2011	2010
£16.0m	£13.9m	£11.2m	£2.0m

£4.0m

2014 Operating Profits

2013	2012	2011	2010
£1.6m	£1.0m	£1.0m	£0.0m

Engineered Products Division

As forecast, the division became the largest in the Group both in terms of revenue and operating profits. Progress is illustrated by the five-year performance with Al-Met acquired part-way through 2010, Hydratron at the beginning of 2011 and Roota Engineering acquired in March 2014. A further acquisition, Quadscot, was made shortly after the year end and the division will be split in 2015 with Al-Met, Roota and Quadscot forming the Precision Machined Components division and the Hydratron businesses in the UK and USA in the Engineered Products division. It is pleasing to note that Hydratron and Al-Met achieved a payback on initial investment during 2014; both have now contributed more in terms of profit before taxation and amortisation charges than they cost to buy.

Hydratron manufactures a range of 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. 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 focusing on smaller product in a range of high alloy materials.

Market conditions for the division started the year well, with OEMs reporting record order intake and profits during 2013. However, the market became somewhat subdued during the second-half of 2014 as oil companies began to delay major projects for the reasons stated earlier. Nonetheless, the underlying order book for Engineered Products ended the year at the same level as last year.

The Hydratron businesses had record sales and profits with its US subsidiary making a full-year profit for the first time. The project to reduce the level of in-house manufacture of components in the UK to free up additional space for assembly of pumps and systems was completed in the year and increased the space available by 50%, whilst giving a saving on the cost of components.

Hydratron is an order of magnitude smaller than its major competitors, so growth is possible even in a slowing market by taking market share. This will be the focus for 2015, particularly in the USA, where our market presence is very small. There will also be a continued focus on product development particularly in automation of control panels and component test systems.

The precision machining businesses have an advantage over both Hydratron and CSC as many of the products they manufacture are consumables, so there is an ongoing requirement for replacement parts from oil and gas production. This, coupled with the full year effect of ownership of Roota and Quadscot, should give further progress in the current year. Critical to this is on-time, in-full delivery on sales orders, which all the businesses have a focus on. Capital expenditure on new machining equipment will almost double in 2015, from just over £1 million in 2014 to around £2 million. This will be mainly financed through leasing, on attractive terms, to smooth cash flows.

Once again, we have significant organic growth potential which we will vigorously pursue and we need to ensure we bed-in the latest acquisitions, but we will also continue looking for acquisition opportunities to expand the range of products in both Precision Machined Components and Engineered Products.

Alternative Energy

£8.4m

2014 Revenue

2013	2012	2011	2010
£1.1m	£0.2m	£0.9m	£0.7m

£1.1m

2014 Operating Profit/ (Loss)

2013	2012	2011	2010
(£0.5)m	£(0.5)m	£(0.5)m	£(0.3)m

Alternative Energy Division

2014 was the year when Chesterfield BioGas ("CBG") delivered on its long-term goal. CBG sells a range of equipment for cleaning raw biogas produced by anaerobic digestion of organic waste. The cleaning process uses water to strip out unwanted gases, such as carbon dioxide, producing almost pure methane, known as biomethane, which is then injected into the UK natural gas grid. In the energy sector, this is termed Biogas to Grid ("BtG"). The technology was licensed from Greenlane Biogas, a leading developer and global supplier of patented technology for upgrading raw biogas to high purity biomethane.

CBG was the first company in the UK to provide equipment for BtG at Didcot in 2010. In October 2012, CBG delivered its second BtG project to a waste processing site in Stockport and this was the reason for the increase in sales over 2012. The market was slow to grow due to a combination of delays in releasing the Renewable Heat Incentive ("RHI") and regulatory hurdles to large scale injection of biomethane into the UK gas grid. These were overcome in 2013, resulting in the transformational increase in the business in 2014.

As well as delivering on revenue and profits, CBG enjoyed a strong order intake, particularly during the second-quarter, ending the year with an order book 30% higher than the comparable figure from last year.

The Board continue to see substantial market opportunities for CBG, which justified our acquisition of the business and assets of Greenlane Biogas when the opportunity occurred at the end of the financial year. This move significantly strengthens our market position, by giving us access to the full range of project execution skills from design through to plant hook-up and commissioning and a world-wide market. Greenlane has subsidiaries in New Zealand, Canada and Europe. The European business covers Europe and the Middle East. It is now managed out of the UK by CBG and will rebrand to Greenlane during 2015. The Canadian business covers North and South America. The New Zealand business will focus on sales into new markets in Australasia, South East Asia and China.

People

The depth and breadth of senior management in the Group has been significantly enhanced by recent acquisitions. This, together with our ongoing commitment to strengthening our existing senior management through training, development and targeted recruitment is key to the successful progress of the Group. Introduction of the new structure in 2015, with divisional Managing Directors is necessary to maintain the progress of Group companies due to the size and complexity of the Group.

In support of changes at the senior levels, our graduate and apprentice recruitment programmes move forward rapidly. At the financial year-end the Group had six graduate trainees and 14 apprentices out of a total work force of 278. The acquisition of Quadscot brings a further 11 apprentices into the Group. Greenlane does not have any apprentices but it has the highest concentration of graduate and post-graduate qualified staff in the Group.

Summary and Outlook

This was a notable year for the Group, not just because of the record revenue and operating profit, but growth in Engineered Products and Alternative Energy, coupled with recent acquisitions means, that the Group is much better balanced both in its oil and gas market sales and across its wider markets. The current financial year will be tougher due to the slowdown in the oil and gas market, but we still expect to see growth in the Group as a whole due to this diversification. This is a very exciting time for Pressure Technologies.

John Hayward
Chief Executive
9 December 2014

Strategic Report

Financial Review

"Revenue grew by 57% to £54.0 million (2013: £34.4 million) with growth seen across all three divisions."

Revenue

Revenue grew by 57% to £54.0 million (2013: £34.4 million) with growth seen across all three divisions. Revenue in the Alternative Energy division grew by £7.3 million as a result of work on four (2013: one) projects for biomethane upgrade units. Revenue in the Engineered Products division includes £5.8 million following the acquisition of Roota Engineering in March.

Profitability

The movement in profitability between the two years was as follows:

	2014 £m	2013 £m
Earnings before interest, taxation, depreciation and amortisation ("EBITDA") (Stated before charging acquisition costs of £0.9m (2013: £0.2m) and provisions associated with the Group's investment in KGTM of £0.7m (2013: £nil)	**8.7**	4.0
Depreciation	**(0.8)**	(0.6)
Amortisation – Chesterfield BioGas licence	**(0.1)**	(0.1)
Operating profit before acquisition costs, amortisation re: acquired businesses and provisions associated with the Group's investment in KGTM	**7.8**	3.3
Amortisation charges arising from the acquisition of Al-Met and Hydratron	**(0.2)**	(0.2)
Amortisation charge arising from the acquisition of Roota Engineering	**(0.5)**	–
Acquisition costs	**(0.9)**	(0.2)
Provisions associated with the Group's investment in KGTM	**(0.7)**	–
Share of KGTM's results	**(0.2)**	–
Profit before taxation	**5.3**	2.9

The Group seeks to target niche markets which offer the prospect of both high margins and significant growth.

The Group uses return on revenue as a key performance indicator. This indicator is set before taking into account the cost of acquiring businesses and the subsequent amortisation charge on the intangible assets so acquired, and this year, the provisions associated with the Group's option in and loan to KGTM as detailed more fully on page 46.

Disclosure of acquisition related costs and amortisation charges for acquired businesses

Growth is expected to be achieved both by organic means and by acquiring businesses which are themselves then capable of achieving significant growth. As a consequence, acquisition costs, goodwill and intangible assets are expected to be a recurring theme within the Group's financial statements.

In accordance with International Financial Reporting Standard (IFRS) 3, the cost of market research and professional fees in relation to possible acquisitions is expensed in the year in which it is incurred.

The remaining carrying value of the intangible assets with respect to the 2010 acquisitions of Al-Met and Hydratron of £0.1 million (2013: £0.3 million) will be fully amortised in 2014/15. It is pleasing to report that in the four years since these businesses were bought they have now contributed more in terms of profit before taxation and amortisation charges than they cost to buy.

The annual amortisation charge in respect of Roota Engineering is expected to be £0.9 million per annum for the next seven years.

	2014 £'000	2013 £'000	**2014 Earnings per share**	2013 Earnings per share
Earnings as reported	**3,711**	2,200	**28.5p**	19.4p
Adjustment for:				
Acquisition costs	**862**	220	**6.6p**	1.9p
Amortisation charge on acquired businesses	**694**	187	**5.3p**	1.6p
Deferred tax release on amortisation charge	**(138)**	(37)	**(1.0p)**	(0.3p)
Provisions made against investment in KGTM	**718**	–	**5.5p**	–
Adjusted ("Normalised") earnings	**5,847**	2,570	**44.9p**	22.6p
Weighted average number of shares in issue in the period			**13,025,349**	11,361,221

The effect of acquisition costs, the amortisation charge that relates to acquired businesses and provisions associated with the Group's investment in KGTM had a significant effect on earnings per share as the table above shows.

Given the significance to the Group of the acquisition of Roota Engineering and of the acquisitions completed shortly after the financial year end, the Board intends to publish both reported and normalised earnings per share figures in future.

Taxation

The effective tax rate for the Group in 2014 was 30.6% (2013: 23.6%). Adjusting to exclude acquisition related costs of £0.9 million and the provisions made against the investment in KGTM of £0.7 million for which no tax relief is available, the effective tax rate would have been 23.6%.

Corporation tax (all of which relates to the UK), paid during 2014 totalled £1.7 million.

Accounting policies

The Group adopted International Accounting Standard (IAS) 11 on accounting for "Construction contracts" for the first time this year. Revenue and profits on such projects are now taken in proportion to the stage of completion of each contract. Adoption of the standard had no effect on the comparative figures as there were no such projects in existence at that time. At the end of the current financial year three projects were in progress and following the acquisition of Greenlane immediately after the financial year end, such contracts will henceforth form a much larger part of Group revenue.

Management of foreign exchange exposure

The Group has two major exposures to movements in foreign exchange rates. Historically these have mainly related to trading in international markets but increasingly and particularly with the Greenlane acquisition which was completed post the year end, the Group is now also exposed to currency movements with respect to the value of its overseas investments.

In the year under review, the principal exposure, which arose from trading activities, was to movements in the value of the Euro and US Dollar relative to Sterling. As Group companies both buy and sell in overseas currencies, particularly the Euro, there is a degree of natural hedge already in place. At the transactional level, where exchange movements are quickly realised, foreign exchange contracts are taken out to cover the majority of this exposure. As at the 27 September contracts were in place to cover the forward sale of Euro's 2.9 million and US$0.7 million.

At the present time no cover is held against the value of overseas investments as these are expected to be held for the long term and over the next year dividend flows are not expected to be significant.

Strategic Report

Financial Review continued

Corporate activity during 2013/14

The Group completed two investments during the year with the first being funded from existing cash resources and the second via a share placing.

Investment in and loan provided to KGTM

In December the Group announced that it would, effective from 1 January 2014, be making a strategic investment to acquire a 40% stake in KGTM at a cost of US$0.5 million (£0.3 million). As part of the investment package the Group also agreed to provide a working capital loan of US$3.5 million (£2.1 million) and was granted an option to acquire a further 40% stake. Pressure Technologies has a "one off" ability to exercise this option within a period of 90 days from receipt of the audited results for 2014.

The price of exercising the option is dependent on the level of profitability in calendar years 2014 and 2015 with a minimum exercise price of US$5 million and maximum of US$16 million if key profitability targets are met. As detailed below, the target for 2014 will not be met so the maximum exercise price, based on hitting the performance target for 2015, is now US$11 million.

KGTM is a leading manufacturer of gas transportation modules ("GTMs") which utilise a standard 20 foot ISO container to transport gas cost effectively. The business is based in Amarillo, Texas. Whilst the rate of order enquiries is steadily increasing, the rate of conversion of these into firm orders has, to date, been behind expectations. The Group's share of KGTM's losses for the nine months to the end of September of £0.2 million is included within the Group's Consolidated Statement of Comprehensive Income.

In light of the above trading performance and the knock on effect on future year's profitability from the delay in building up production levels, the Board has taken a cautious view in assessing the carrying value of its investment in KGTM. A provision of £0.4 million has been made against the value placed on the option at inception and a provision of £0.3 million has been made against the carrying value of the loan provided to KGTM. These provisions, which in aggregate total £0.7 million, represent one third of the total value of the loan provided to KGTM. In addition, as detailed in note 2 to the financial statements, no credit has been taken for any interest receivable on the loans made.

Purchase of Roota Engineering

In March the Group purchased 100% of the share capital of Roota Engineering Ltd for an initial consideration of £9.0 million (plus surplus cash balances of £1.5 million) with additional deferred consideration of up to £4.5 million based on the financial performance of the business over the two year period following acquisition. Further details on this acquisition can be found in note 28.

Share placing

The initial purchase consideration for the acquisition of Roota Engineering was financed by a vendor placing of 1,856,174 new ordinary shares at a price of 575 pence per share. At the same time 1,048,174 new ordinary shares were also placed, again at a price of 575 pence per share, to raise £6.0 million Gross for corporate purposes. Net of expenses, the Group raised £16.1 million from the share placing.

Cash flow

The Group started the year with cash of £4.0m and ended the year with cash (net of borrowings) of £5.8m.

The table below sets out the main movements during the year in the net cash position of the Group:

	2014 £m	2013 £m
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**7.1**	3.8
Movement in working capital	**(3.8)**	(0.2)
Capital expenditure (net of disposals)	**(2.2)**	(0.8)
Operating cash flow	**1.1**	2.8
UK Corporation tax paid	**(1.7)**	(0.6)
Dividend paid	**(1.0)**	(0.9)
Share issues	**16.2**	–
Investment in KGTM	**(2.4)**	–
Purchase of Roota Engineering (net of cash acquired)	**(7.6)**	–
Loan advanced to Greenlane Biogas Holdings Limited	**(2.8)**	–
Net movement	**1.8**	1.3

The Group delivered a strong trading performance with EBITDA of £7.1 million. Revenue in the final quarter of the financial year at £18.5m was particularly strong with £5.7 million of revenue recognised in the Alternative Energy division. As a result of this strong trading performance, year-end trade receivables are at a much higher level than normal, resulting in an adverse movement in working capital during the year.

Capital expenditure at £2.2 million (net of disposals) was higher than in recent years with expenditure of £1.0 million in the Cylinders division and £1.3 million in the Engineered Products division.

The Group raised £16.1 million in a placing of shares to finance both the acquisition of Roota Engineering and to provide resources to finance future acquisitions and internal growth opportunities. The Group invested £2.4 million in KGTM in January 2014 and advanced £2.8 million to Greenlane Biogas Holdings Limited by way of a secured loan prior to completion of the acquisition on 1 October.

Events after the reporting period

Banking facilities

Immediately after the financial year-end the Group concluded a new four year banking facility with Bank of Scotland (part of the Lloyds banking group). The facility which is available until 30 September 2018 comprises a £15 million multi-currency revolving credit facility and an accordion feature that allows the total revolving credit facility to be expanded by a further £10 million.

Acquisition of Greenlane

On 1 October 2014 the Group completed the acquisition of the business and assets of Greenlane Biogas Holdings Ltd and its various subsidiaries. The maximum total consideration is NZ$25 million (£12.4 million) comprising an initial consideration of NZ$12.0 million (£6.0 million) with additional deferred payments split over four years of up to a maximum of NZ$13.0 million (£6.4 million). The initial consideration is being met from the Group's existing cash resources.

Acquisition of Quadscot Holdings Ltd

On 1 October 2014 the Group acquired 100% of the share capital of Quadscot Holdings Ltd for an initial consideration of £7.3m (plus cash balances acquired) and deferred consideration up to a maximum of £3.0 million based on the financial performance of the business over the two years immediately following acquisition.

The acquisition was funded by drawing on £7.0m from the Group's new banking facility with the balance funded from the Group's existing cash resources.

Ongoing financial management of the Group

Following recent corporate activity the Group has grown considerably in size and further growth is planned. Against this background, the finance function in each division is being strengthened with the appointment of an operationally focused finance director. The small head office finance team will concentrate on corporate reporting, the review of divisional performance, acquisitions appraisal, treasury and taxation matters.

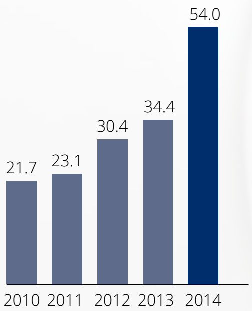
James Lister
Group Finance Director
9 December 2014

Strategic Report

Key Performance Indicators ("KPIs")

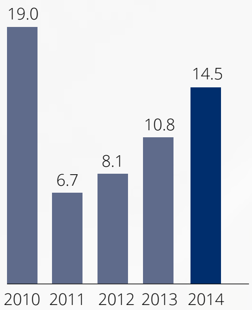
The Board uses key performance indicators when assessing the performance of the Group. These KPIs are divided into three sections:

Revenue – £ million



54.0m
Revenue

Return on revenue – %

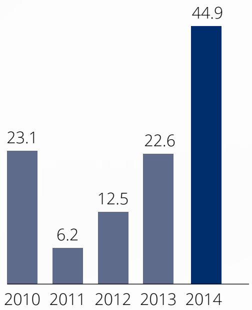


14.5%
Return on Revenue

Financial Performance
Growth is measured in terms of sales revenue.

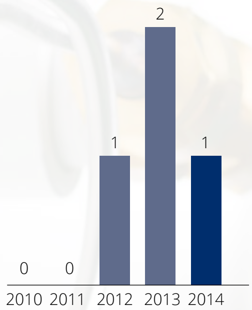
The efficiency of converting sales into profits is measured in terms of return on revenue. Return on revenue is calculated as operating profit pre acquisition costs and related amortisation, the results of associated companies and the effect of the provisions associated with the investment in KGTM, divided by revenue. In previous years it was stated after excluding Chesterfield BioGas which was still considered to be in start-up mode. However, this is not the case in the current year and as such the return on revenue includes all subsidiaries. The Group target return on revenue is 15%.

Adjusted earnings per share – pence



44.9p
Adjusted Earnings per Share

Reportable accidents



1
Reportable Accident

Shareholders
Adjusted earnings per share is used as a measure of shareholder return.

Details of the calculation of adjusted earnings per share can be found in the Finance Director's report.

Corporate Social Responsibility (CSR)
This is sub-divided into two areas:

Health & Safety
The measure used is reportable accidents where the target is zero across the Group.

Environment
The measure used is number of reportable environmental incidents. Again, the target is zero across the Group.

A full-time health, safety and environmental manager is employed by Chesterfield BioGas but has responsibility for these matters across the Group and reports directly to the Group Chief Executive on these matters.

Graphs of progress for each KPI are shown opposite.

Environmental incidents are not graphed as there has been no reportable incident for the five year period.

Strategic Report

Risks and Uncertainties

Specific principal risks identified by management are described below together with management actions to minimise these risks:

Risk and Impact	Management Strategy
Strategic risks	
Economic / Market downturn *The Group has a significant exposure to large capital infrastructure projects in the deep water oil and gas market sector.* A downturn in the deep water oil and gas market may have a significant impact on results of the Cylinder division.	The Group has development programmes for new products and services to dilute the proportion of total revenues into these markets and are growing other activities of the Group, both organically and by acquisition. The acquisition of Roota Engineering and Quadscot has increased revenue in the oil and gas consumable equipment market which the Board believes is less sensitive to oil price fluctuations. CBG and the recent acquisition of Greenlane Biogas has helped balance the Group's portfolio away from the traditional oil and gas sector.
Competition *The Group has a number of suppliers who are also competitors.* The Group has a number of major competitors in some of its key markets who offer a wider range of products. Some of these competitors are also suppliers to various Group businesses. This exposes the Group to a risk that they might seek to displace Pressure Technologies position in the market.	To reduce the inherent risk of supply from competitors, requirements are split across the available supplier base. A constant review is maintained to identify alternative suppliers subject to constraints on pricing and quality. As part of the longer term strategy, the Group continues to expand into high value, niche markets, where there are fewer competitors and the barriers to entry are higher. Product development is pursued in order to maintain and grow the product range and reduce reliance on competitive suppliers.
Operational risks	
Management resource *The Group has a small management team.* The Group is a relatively small, but fast-growing business and relies on a number of key directors, senior managers and specialists. A loss of a small number of such staff could have a major impact on Group revenues and development.	As the Group grows, increasing staff numbers makes succession planning easier and recruitment is already in hand to ensure that management skills and expertise is broadened. The introduction of divisional Managing Directors will increase the pool of senior managers in the Group.
Key employee knowledge / skill base *The Group relies on skilled artisans who are often difficult to find in the market.* For certain business units, skills required on the shop floor are difficult to acquire and the age profile of the workforce means that there is a risk that knowledge will be lost or there will not be enough staff available to support ongoing business and planned expansion.	Individual business units are tasked with ensuring adequate cover to maintain operations. There is a programme of training around the Group businesses to ensure the company develops the skills required via apprenticeship programmes, graduate training schemes and internal development. The Group provides attractive employment terms and conditions to ensure it attracts and retains suitable skill sets.

Risk and Impact	Management Strategy
Customer concentration / disruption *The Group has a number of businesses with a high dependence on a very small number of customers.* The Cylinder and Precision Engineering divisions both have businesses where a small number of customers account for a large proportion of their respective revenue. The loss of one these customers would materially affect Group results.	The Group actively manages the customer selection and retention process. Key customers have long-standing (> 10 years) relationships with the businesses and considerable effort goes into maintaining these relationships. The Group's strategic plan focuses on increasing the customer base to mitigate this risk through acquisition and diversification.
Financial risks	
Liquidity and funding management *The Group's growth requires higher funding requirements.* The Group may not be able to generate sufficient funds internally to finance all opportunities to profitably grow.	The Group agreed new banking facilities extending until end September 2018 which provides up to £25 million for investment. The Group has a long-standing shareholder base from which additional capital may be raised for larger opportunities. The Group's liquidity and funding requirements are monitored and reviewed at Board meetings.
Foreign currency *Movements in exchange rates could potentially impact Group revenue.* The Group has operations and contracts in a number of overseas countries and purchases some of its raw materials and receives payment for some of its products in a number of currencies.	The Group has natural hedges for much of its foreign currency exposure. Regular reviews of the net exposure are performed and where it is deemed necessary the exposure is reduced by the use of forward exchange contracts.
Compliance risks	
Compliance and corruption risks *The Group is subject to risk from a failure to comply with laws and regulations.* The Group has contracts and operations in many parts of the world and operates in a highly regulated environment. The Group must ensure that all of its businesses, its employees and third party parties providing services on its behalf comply with all relevant legal obligations as non-compliance would expose the Group to fines, penalties, suspension, debarment and reputational damage.	The Group operates under the principles defined in the UK Bribery and Corruption Act which stipulates the standards of acceptable business conduct required from all employees and third parties acting on the Group's behalf. A program of training in relation to ethics and corruption, based on the UK Bribery and Corruption Act has been implemented.

Approval of the Strategic report

The Strategic Report, as set out on pages 01 to 21, has been approved by the Board.
By order of the Board

John Hayward
Chief Executive
9 December 2014

Governance

Directors and Advisers

1. AJS Wilson

Non-executive Chairman

Alan is a degree-qualified Chartered Engineer with 33 years of experience from working in the oil & gas industry, the majority of which has been served at senior management and board level. His experience spans most aspects of the industry life cycle including; oil company operations, major capital projects, support services and product manufacturing. Alan joined the board of Pressure Technologies in February 2013 and also serves as Chairman and Non-executive Director of other private equity-backed and privately owned companies within the oil & gas sector.

2. JTS Hayward

Chief Executive

John joined the Company in 1997 when it was part of United Engineering Forgings. He led the MBO in 2004 that created Chesterfield Special Cylinders and then assumed the role of Chief Executive of Pressure Technologies on admission to AIM. John is a qualified accountant and has finance and general management experience in the steel, chemicals and engineering sectors. In 2008 he was the UK Ernst and Young Entrepreneur of the Year® for manufacturing. He holds a degree in Physics from Oxford University.

3. TJ Lister

Finance Director

James has been Finance Director since 2008. Previous engineering industry experience includes seven years with The 600 Group in roles both as Group Financial Controller and as Finance Director of 600 Lathes. Prior experience included 15 years with Bridon in a variety of roles including Group Development Manager where he acted as the in-house mergers and acquisitions manager. James is a qualified Chartered Accountant.

Directors

AJS Wilson
Non-executive Chairman
JTS Hayward
Chief Executive
PS Cammerman
Non-executive Director
TJ Lister
Finance Director
NF Luckett
Non-executive Director
NA MacDonald
Non-executive Director

Secretary
TJ Lister

Membership of Board Committees

	Nomination Committee	Remuneration Committee	Audit and Risk Committee
AJS Wilson	Chairman	✓	✓
PS Cammerman	✓	Chairman	✓
NF Luckett	✓	✓	✓
NA MacDonald	✓	✓	Chairman

4. PS Cammerman

Non-executive Director

Philip has over 20 years' industrial experience in engineering and hi-tech industries and has worked in both the UK and USA. He spent 23 years in the venture capital industry, playing a major part in the development of the YFM Group into the most active investor in UK SMEs. Following his retirement from the YFM Group in 2008, he has developed a small but proactive portfolio of non-executive directorships in the engineering and finance sectors.

5. NF Luckett

Non-executive Director

A qualified Chartered Accountant, Nigel is a former partner of Thomson McLintock & Co and latterly KPMG and has over 40 years of extensive corporate finance, insolvency and auditing experience. Since his retirement from KPMG in 1995, he has had a number of Non-executive Director and Chairman positions in the broad engineering sector.

6. NA MacDonald

Non-executive Director

Neil is a Chartered Accountant with 25 years of experience in the oil and gas and engineering industries. He was Group Finance Director of AES Engineering Limited (AES), a successful, fast growing, privately owned mechanical seals manufacturer, until September 2012. Prior to this, he was Group Finance Director of the international aerospace company, Firth Rixson. Neil has valuable experience of fast growth in the oil and gas sector and general M&A.

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HD8 0LA

Governance

Report of the Remuneration Committee

The Remuneration Committee comprises four non-executive Directors and is chaired by Philip Cammerman. The committee meets when necessary, usually at least three times annually, and is responsible for determining the remuneration packages of the executive Directors and the Chairman. The remuneration of the non-executive Directors is set by the board annually.

Policy on remuneration of executive Directors
The committee aims to ensure that the remuneration packages offered are designed to attract, maintain and motivate high calibre Directors without paying more than necessary for this purpose. The remuneration policy and packages attempt to match the interest of the executive with those of shareholders by providing:

a) Basic salary and benefits
Executive Directors' basic salaries are reviewed each year, taking into account the performance of the individual and rates of salary and benefits for similar jobs in companies of comparable size.

Benefits include all assessable tax benefits arising from employment by the Company and relate mainly to the provision of private medical and life assurance cover.

The Company pays 5% of basic salary into individual money purchase pension schemes so long as this is matched, by salary sacrifice, by the individual.

b) Annual performance related cash bonus scheme
In order to link executive remuneration to Group performance, executive Directors participate in a cash bonus scheme which, in the event of exceptional performance, can pay out up to a maximum of 50% of basic salary.

c) Long Term Incentive Plan
The Company has introduced a long term incentive plan whereby, at the discretion of the Remuneration Committee, share options are granted to executive Directors and senior managers on a rolling annual basis.

The extent to which options granted vest is dependent on the cumulative growth in earnings per share (EPS) over the three year period following the grant relative to the EPS in the period immediately prior to grant as follow:

Increase in EPS over three year period	% of annual salary over which options granted vest
33%	25%
50%	50%
100%	100%

The maximum grant of options in any one year is fixed at 100% of basic salary for executive Directors of Pressure Technologies plc and 50% of salaries for other senior managers in the Group.

The option price is set at the outset and is in line with the share price at that time. Executives who leave the Group before the expiry of the three year vesting period will lose their right to exercise their options.

d) Service Contracts
All executive Directors have rolling service contracts terminable on no more than one year's notice.

Directors' Remuneration

Particulars of Directors' emoluments are as follows:

	Salary and fees £'000	**Benefits £'000**	**Bonus £'000**	**Pension £'000**	**Total 2014 £'000**	Total 2013 £'000	**Employers' national insurance 2014 £'000**	Employers' national insurance 2013 £'000
Non-Executive:								
AJS Wilson	**48**	**—**	**—**	**—**	**48**	38	**—**	—
PS Cammerman	**30**	**—**	**—**	**—**	**30**	28	**3**	3
NF Luckett	**30**	**—**	**—**	**—**	**30**	28	**1**	2
NA MacDonald	**45**	**—**	**—**	**—**	**45**	10	**5**	—
RL Shacklady (Resigned 21 March 2013)	**—**	**—**	**—**	**—**	**—**	19	**—**	—
Executive:								
JTS Hayward	**166**	**1**	**90**	**18**	**275**	202	**34**	24
TJ Lister	**134**	**2**	**73**	**14**	**223**	183	**27**	22
Total emoluments	**453**	**3**	**163**	**32**	**651**	508	**70**	51

The remuneration of AJS Wilson and, from April 2013 to March 2014, for NF Luckett, was paid to management companies which they control. All the payments shown for RL Shacklady were paid to RLS Associates, a partnership which he controlled.

The number of Directors who are accruing benefits under money purchase pension arrangements is two (2013: two).

The Group believes that the Directors of Pressure Technologies plc are the only key management personnel under the definition of IAS 24 'Related party disclosures'.

In addition to the above, Directors have received dividends during the year as follows:

	Total 2014 £'000	Total 2013 £'000
Non-Executive:		
PS Cammerman	**3**	3
NF Luckett	**6**	4
RL Shacklady (Resigned 21 March 2013)	**—**	3
Executive:		
JTS Hayward	**80**	76
TJ Lister	**2**	1
Total dividends paid to Directors	**91**	87

Governance

Report of the Remuneration Committee continued

Directors' Options

The Directors' interests in share options are as follows:

	Scheme	Date granted	Number	Option price
JTS Hayward	Long Term Incentive Plan	3 April 2014	24,972	720.8p
TJ Lister	Share Options Plan	23 February 2012	73,089	150.5p
TJ Lister	Save-as-you-earn Scheme	6 August 2012	6,000	150.0p
TJ Lister	Enterprise Management Plan	9 August 2013	53,000	242.5p
TJ Lister	Long Term Incentive Plan	3 April 2014	20,116	720.8p
TJ Lister	Save-as-you-earn Scheme	31 July 2014	1,517	593.0p

On 11 July 2014, one Director exercised 51,612 share options in the year. The options were exercised at a price of 232.5p per share. The market value of shares on the date of exercise was 727.5p.

The movements in share options held by Directors in the period is as follows:

	JTS Hayward No.	TJ Lister No.
Outstanding at the beginning of the period	—	183,701
Granted during the period	24,972	21,633
Exercised during the period	—	(51,612)
Outstanding at the end of the period	**24,972**	**153,722**

On behalf of the Board

Philip Cammerman

Chairman, Remuneration Committee

9 December 2014

Directors' Report

The Directors present their report and the audited financial statements for the period from 29 September 2013 to 27 September 2014.

Principal activities
During the period, Pressure Technologies plc ("PT") was the holding Company for the following Group operations:

Cylinders
Chesterfield Special Cylinders Limited ("CSC") whose principal activities are the design, manufacture, testing and reconditioning of seamless steel high pressure gas cylinders. CSC has one subsidiary, CSC Deutschland GmbH, based in Germany.

On 1 January 2013, the Group acquired a 40% strategic investment in Kelley GTM, LLC, whose principal activity is the manufacture of high pressure vessels for gas transport solutions. The company is based in Amarillo, Texas. Further details of the investment are given in note 16 to the financial statements.

Engineered Products
Al-Met Limited ('Al-Met') whose principal activity is the manufacture of precision engineered valve components for use in the oil and gas industry.

The Hydratron Group of Companies', ('Hydratron Ltd' and 'Hydratron Inc') whose principal activity is the design, manufacture and sale of a range of air operated high pressure hydraulic pumps, gas boosters, power packs, hydraulic control panels and test rigs.

On 5 March 2014, the Group acquired 100% of the issued share capital of Roota Engineering Limited, whose principal activity is the manufacture of precision engineered products for use in the oil and gas industry. Further details of the investment are given in note 28 to the financial statements.

Alternative Energy
Chesterfield BioGas Limited ("CBG") which was formed to market, sell and manufacture biogas upgrading equipment to produce high purity biomethane for use as a vehicle fuel or injection into the natural gas grid using technology licensed in perpetuity from Greenlane® Biogas of New Zealand.

Results and dividends
The consolidated statement of comprehensive income is set out on page 31. The profit on ordinary activities before taxation of the Group for the period ended 27 September 2014 amounted to £5.3 million (2013: £2.9 million).

An interim dividend of 2.8p per share was paid during the period (2013: 2.6p). The Directors recommend the payment of a final dividend of 5.6p per share (2013: 5.2p).

Environment
Pressure Technologies recognises that its activities have an impact on the environment. Managing this impact is an integral part of responsible corporate governance and good management practice. The Group has developed environmental policies and the main points are listed below:

- Overall responsibility for the implementation of these policies is the responsibility of the main Board and the senior management at each Group Company. The Group will comply with both the letter and the spirit of relevant environmental regulations. Additionally, the Group will actively participate in industry and Governmental environmental consultative processes.
- The Group is committed to the continuous improvement of its environmental management system. Specifically the Group seeks to reduce waste and energy use and prevent pollution.
- As part of continuous improvement, it is the policy of the Group to establish measurable environmental objectives and communicate these to all employees. These documented objectives will be periodically reviewed as part of the management review process. The necessary personnel and financial resources will be provided to meet these objectives.
- Employees are given such information, training and equipment as is necessary to enable them to undertake their work with the minimum impact on the environment.

The Group had no notifiable environment incidents in 2014 (2013: nil).

Directors' Report continued

Substantial shareholdings

As at 31 October 2014, the following held or were beneficially interested in 3% or more of the Company's issued ordinary share capital:

	Number of shares	Percentage of issued share capital owned
Liontrust Asset Management	1,306,783	9.1%
JTS Hayward	1,002,221	7.0%
Hargreave Hale	750,850	5.2%
Investec Asset Management	703,000	4.9%
Foreign and Colonial Asset Management	651,531	4.5%
Charles Stanley	640,633	4.5%
Standard Life Investments	572,594	4.0%
Artemis Investment Management	525,000	3.7%
River & Mercantile Asset Management	497,500	3.5%
Schroder Investment Management	483,130	3.4%
Unicorn Asset Management	467,167	3.3%
Hargreaves Lansdown	460,021	3.2%
Slater Investments	450,000	3.1%
Aviva Investors	435,662	3.0%

Directors and their interests

The present Directors of the Company are set out on page 23.

All Directors were Directors throughout the period.

Ordinary shares	**27 September 2014 No.**	28 September 2013 No.
JTS Hayward	**1,002,221**	1,002,221
PS Cammerman	**33,395**	33,395
TJ Lister	**66,000**	30,000
NF Luckett (including 7,667 shares held by his wife)	**70,000**	70,000
NA MacDonald	**5,200**	—

Share options

On 3 April 2014, options were granted over 77,493 ordinary shares under the rules of the Company's long term incentive plan. The options have an exercise price of 720.8p. The options are exercisable between three and six years following the date of grant.

On 31 July 2014 options were granted over 98,143 ordinary shares under the rules of the Pressure Technologies plc Save-As-You-Earn Scheme at an exercise price of 593p. The options are exercisable after three years and lapse six months after this date if they are not exercised.

The Directors' interests in share options are disclosed in the report of the Remuneration Committee.

Financial instruments

The Group's operations expose it to a variety of financial risks including the effects of changes in interest rates, foreign currency exchange rates, credit risk and liquidity risk.

The Group's principal financial instruments comprise cash and bank deposits together with trade receivables and trade payables that arise directly from its operations. The Group has entered into derivative transactions in the normal course of trade. It does not trade in financial instruments as a matter of policy.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 23 to the consolidated financial statements.

Directors' indemnities

The Company maintains director and officer insurance cover for the benefit of its Directors which remained in force at the date of this report.

Employee involvement

It is the policy of the Group to communicate with employees by regular briefing meetings conducted by senior management. Career development is encouraged through suitable training and annual appraisals. The Group takes the approach of maximising performance through the heightening of awareness of corporate objectives and policies.

Disabled persons

The Group gives full and fair consideration to applications for employment from disabled persons, where they have the necessary abilities and skills for that position, and, wherever possible, will retrain employees who become disabled so that they can continue their employment in another position. The Group engages, promotes, and trains staff on the basis of their capabilities, qualifications and experience, without discrimination, giving all employees an equal opportunity to progress.

Going concern

Management has produced forecasts for all business units which have been reviewed by the Directors. These demonstrate that the Group is forecast to generate profits and cash in 2014/2015 and beyond and that the Group has sufficient cash reserves and bank facilities to enable the Group to meet its obligations as they fall due for a period of at least 12 months from when these financial statements have been signed.

As such, the Directors are satisfied that the Company and Group have adequate resources to continue to operate for the foreseeable future. For this reason they continue to adopt the going concern basis for preparing the financial statements.

Statement of Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group financial statements for each financial year. Under that law the Directors have to prepare the Group's financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The Directors have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Group and parent Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group financial statements, state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Governance

Directors' Report continued

Statement of Directors' responsibilities for the financial statements continued
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor
Grant Thornton UK LLP are willing to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

Cautionary statement on forward-looking statements and related information
The annual report contains a number of forward-looking statements relating to the Group. The Group considers any statements that are not historical facts as "forward-looking statements". They relate to events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Group to differ materially from the information presented. Readers are cautioned not to place undue reliance on these forward-looking statements which are relevant only as at the date of this document.

By order of the Board
TJ Lister
Secretary
9 December 2014

Report of the Independent Auditor to the members of Pressure Technologies plc

We have audited the financial statements of Pressure Technologies plc for the period ended 27 September 2014 which comprise the consolidated statement of comprehensive income, the consolidated balance sheet and parent company balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors
As explained more fully in the Statement of Directors Responsibilities set out on page 29, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 27 September 2014 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andrew Wood
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds
9 December 2014

Financial Statements

Consolidated Statement of Comprehensive Income

For the 52 week period ended 27 September 2014

	Notes	**52 weeks ended 27 September 2014 £'000**	52 weeks ended 28 September 2013 £'000
Revenue	1	**54,015**	34,383
Cost of sales		**(38,277)**	(24,088)
Gross profit		**15,738**	10,295
Administration expenses		**(7,904)**	(7,012)
Operating profit pre acquisition costs, amortisation on acquired businesses and exceptional costs	1	**7,834**	3,283
Separately disclosed items of administrative expenses:			
Acquisition costs and amortisation on acquired businesses	5	**(1,556)**	(407)
Exceptional costs in relation to the option on and loan to KGTM	4	**(718)**	—
Operating profit		**5,560**	2,876
Finance income	2	**32**	11
Finance costs	3	**(60)**	(9)
Share of losses of associate	16	**(183)**	—
Profit before taxation	4	**5,349**	2,878
Taxation	9	**(1,638)**	(678)
Profit for the period attributable to owners of the parent		**3,711**	2,200
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences on translation of foreign operations		**10**	19
Total comprehensive income for the period attributable to the owners of the parent		**3,721**	2,219
Earnings per share – basic	10	**28.5p**	19.4p
– diluted	10	**27.9p**	19.2p

All of the above results are from continuing operations.

The accounting policies and notes on pages 36 to 65 form part of these financial statements.

Consolidated Balance Sheet

As at 27 September 2014

	Notes	**27 September 2014 £'000**	28 September 2013 £'000
Non-current assets			
Goodwill	12	**7,081**	1,964
Intangible assets	13	**6,960**	1,221
Property, plant and equipment	14	**7,802**	4,767
Deferred tax asset	24	**155**	138
Trade and other receivables	18	**1,575**	163
Investment in associates	16	**123**	—
		23,696	8,253
Current assets			
Inventories	17	**8,819**	7,206
Trade and other receivables	18	**20,561**	8,705
Cash and cash equivalents		**6,356**	4,044
Derivative financial instruments	19	**43**	71
		35,779	20,026
Total assets		**59,475**	28,279
Current liabilities			
Trade and other payables	20	**(16,453)**	(9,236)
Borrowings	21	**(180)**	—
Current tax liabilities		**(1,183)**	(448)
		(17,816)	(9,684)
Non-current liabilities			
Other payables	20	**(2,909)**	(593)
Borrowings	21	**(324)**	—
Deferred tax liabilities	24	**(1,897)**	(538)
		(5,130)	(1,131)
Total liabilities		**(22,946)**	(10,815)
Net assets		**36,529**	17,464
Equity			
Share capital	25	**718**	568
Share premium account		**21,463**	5,387
Translation reserve		**35**	25
Retained earnings		**14,313**	11,484
Total equity		**36,529**	17,464

The accounting policies and notes on pages 36 to 65 form part of these financial statements.

The financial statements were approved by the Board on 9 December 2014 and signed on its behalf by:

JTS Hayward
Director
Company number: 06135104

Financial Statements

Consolidated Statement of Changes in Equity

For the 52 week period ended 27 September 2014

	Notes	Share capital £'000	Share premium account £'000	Translation reserve £'000	Profit and loss account £'000	Total equity £'000
Balance at 29 September 2012		568	5,378	6	10,103	16,055
Dividends	11	—	—	—	(863)	(863)
Share based payments		—	—	—	44	44
Shares issued		—	9	—	—	9
Transactions with owners		—	9	—	(819)	(810)
Profit for the period		—	—	—	2,200	2,200
Other comprehensive income:						
Exchange differences on translating foreign operations		—	—	19	—	19
Total comprehensive income		—	—	19	2,200	2,219
Balance at 28 September 2013		568	5,387	25	11,484	17,464
Dividends	11	—	—	—	(991)	(991)
Share based payments	26	—	—	—	109	109
Shares issued	25	150	16,076	—	—	16,226
Transactions with owners		150	16,076	—	(882)	15,344
Profit for the period		—	—	—	3,711	3,711
Other comprehensive income:						
Exchange differences on translating foreign operations		—	—	10	—	10
Total comprehensive income		—	—	10	3,711	3,721
Balance at 27 September 2014		**718**	**21,463**	**35**	**14,313**	**36,529**

The accounting policies and notes on pages 36 to 65 form part of these financial statements.

Consolidated Statement of Cash Flows

For the 52 week period ended 27 September 2014

	Notes	**52 weeks ended 27 September 2014 £'000**	52 weeks ended 28 September 2013 £'000
Operating activities			
Cash flows from operating activities	27	**3,411**	3,544
Finance costs paid		**(7)**	(8)
Income tax paid		**(1,766)**	(558)
Net cash inflow from operating activities		**1,638**	2,978
Investing activities			
Interest received		**19**	—
Proceeds from sale of fixed assets		**155**	9
Purchase of property, plant and equipment		**(1,792)**	(776)
Cash outflow on purchase of subsidiary net of cash acquired		**(7,630)**	—
Cash outflow on investment in associate		**(306)**	—
Cash outflow on loans made to associate		**(2,147)**	—
Cash outflow on third party loans		**(2,782)**	—
Net cash used in investing activities		**(14,483)**	(767)
Financing activities			
Repayment of borrowings		**(78)**	(6)
Dividends paid		**(991)**	(863)
Shares issued		**16,226**	9
Net cash inflow/(outflow) from financing activities		**15,157**	(860)
Net increase in cash and cash equivalents		**2,312**	1,351
Cash and cash equivalents at beginning of period		**4,044**	2,693
Cash and cash equivalents at end of period		**6,356**	4,044

The accounting policies and notes on pages 36 to 65 form part of these financial statements.

Financial Statements

Accounting Policies

Basis of preparation
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and IFRIC interpretations issued by the International Accounting Standards Board and the Companies Act 2006. The Company has elected to prepare its parent Company financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP). These are presented on pages 66 to 71.

Pressure Technologies plc, company number 06135104, is incorporated and domiciled in the United Kingdom.

The Group has applied all accounting standards and interpretations issued relevant to its operations for the period ended 27 September 2014. The consolidated financial statements have been prepared on a going concern basis.

Management has produced forecasts for all business units which have been reviewed by the Directors. These demonstrate the Group is forecast to generate profits and cash in 2014/2015 and beyond and that the Group has sufficient cash reserves to enable the Group to meet its obligations as they fall due for a period of at least 12 months from when these financial statements have been signed.

As such, the Directors are satisfied that the Company and Group have adequate resources to continue to operate for the foreseeable future. For this reason they continue to adopt the going concern basis for preparing the financial statements.

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments which are carried at fair value.

Standards and interpretations not yet applied by the Group
There are a number of standards and interpretations issued by the International Accounting Standards Board that are effective for financial statements beginning on or after the dates given below and are expected to be relevant to the financial statements. These standards will be effective in future periods. All standards listed below are effective for accounting periods commencing on or after 1 January 2014.

- IFRS 7 (amendments) Disclosures – Offsetting Financial assets and liabilities
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 (Revised), Separate Financial Statements
- IAS 28 (Revised), Investments in Associates and Joint Ventures
- IAS 32 (amendments) Offsetting Financial assets and liabilities
- IAS 36 (amendments) Impairment of assets
- IAS 39 (amendments) Novation of derivatives and continuation of hedge accounting

The application of these standards and interpretations is not expected to have a material impact on the Group's reported financial performance or position. However, they may give rise to additional disclosures being made in the financial statements.

Changes in accounting policies
In the period, the Group adopted IFRS 13, "Fair value measurement". The impact of this has been to include increased disclosure on the measurement basis of items initially recognised, or carried, at fair value.

In prior years, the Group did not have any material construction contracts in place at the reporting date. Given the contracts in place in the Alternative Energy division as at the reporting date, IAS 11 has been applied for the first time in the current financial period.

Critical accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, which are described below, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and assumptions that have a material risk to the carrying value of assets and liabilities within the next financial year are discussed below:

Critical accounting judgements

Revenue recognition – Cylinders

The Group recognises revenue when the goods in question have finished production and passed any applicable factory and customer acceptance tests. Where goods remain on the Group's premises at the year-end at the request of the customer, management consider the detailed criteria for the recognition of revenue from the sale of the goods as set out in IAS 18 'Revenue'. In particular, consideration is given as to whether the significant risks and rewards of ownership are considered to have transferred to the buyer.

Capitalisation of development costs

The Group capitalises costs in relation to development projects where the specific recognition criteria are met. The key judgement required to capitalise costs is whether future revenues will exceed total forecast capitalised costs. Management make this judgement based on their knowledge of the project, the size of the market into which it can be sold and the expected demand for the project. Once capitalised, the assets are reviewed for impairment at each reporting date as explained below.

Impairment reviews – intangible assets

The Group has acquired, through business combinations and through other acquisitions, intangible assets and capitalised certain assets, such as licence agreements and development costs, which are expected to generate revenue in the future but at a reporting period end may not have generated significant income at that time. At each reporting period date, the Directors review the likelihood of indefinite life assets generating income, the period over which this is likely to be achieved and the potential income that can be generated. Where it is probable the future recoverable amount will be in excess of capitalised costs the assets are held within the balance sheet at cost. Where this is not the case, an impairment charge will be recorded to adjust the assets to their recoverable amount.

Stage of completion on construction contracts

The Group assess the stage of completion on construction contracts based on key contract milestones which are determined by internal inspections.

Key sources of estimation uncertainty

Inventory provisions

The Directors have reviewed the level of inventory provisions carried against inventory in the light of outstanding current and anticipated customer orders. The future realisation of carrying amounts is affected by whether the anticipated level of orders is achieved. The level of inventory provisions is disclosed in note 17 to the financial statements.

Discount rate on the loan to Kelley GTM

The loan receivable from Kelley GTM bears interest at a rate of 4.5%. It is discounted with reference to a theoretical market rate of interest of 12%. The carrying value of this loan can be seen in note 18 to the financial statements.

Valuation of intangible assets acquired through business combinations

As far as possible, professional advice is sought on the valuation of intangible assets. The Directors estimate the value of intangible assets with reference to any advice received, based on their experience of the value of such assets in similar businesses and under similar market conditions. The carrying value of intangible assets can be seen in note 13 to the financial statements.

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 27 September 2014 (2013: to 28 September 2013). Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through voting rights. The consolidated financial statements of the Group incorporate the financial statements of the parent Company as well as those entities controlled by the Group by full consolidation. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Business combinations and goodwill

The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed, including contingent liabilities, in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are measured at their acquisition-date fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

Financial Statements

Accounting Policies continued

Business combinations and goodwill continued

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of:

- fair value of consideration transferred;
- the recognised amount of any non-controlling interest in the acquiree; and
- acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets.

If the fair values of identifiable net assets exceed the consideration transferred, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

Contingent consideration is recognised at its acquisition date fair value. Subsequent changes to this fair value resulting from events after the acquisition date are recognised through profit or loss.

Revenue

Revenue is measured by reference to the fair value of consideration received or receivable and arises from the sales of goods and services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, which may be the date the goods are despatched to the customer, completion of the product or the product being ready for delivery based on specific contract terms; when the amount of revenue can be measured reliably; and when it is probable that the economic benefits associated with the transaction will flow to the Group.

Cylinders

In respect of revenue recognition within the Cylinders segment, revenue is recognised when the goods in question have finished production and passed any applicable factory and customer acceptance tests. Goods may not always have been despatched for revenue to be recognised provided the above criteria have been met.

Revenue from services is recognised when the outcome of the transaction can be estimated reliably and the Group has performed its obligations and, in exchange, obtained the right to consideration.

Engineered Products

In applying the above policy, revenue is recognised in the Engineered Products segment when production is complete, the goods are ready to be despatched and substantially all the risks and rewards associated with the product have passed to the customer. In the vast majority of cases, despatch takes place as soon as production has been completed.

Alternative Energy

Revenue is recognised in the Alternative Energy segment in accordance with IAS 11, 'Construction contracts'.

Chesterfield BioGas Limited ('CBG') designs and constructs biogas upgrading units for the production of biomethane for supply to the gas grid. CBG holds the exclusive license to distribute and install equipment designed by Greenlane in the UK and Ireland. This equipment can either be bought from Greenlane or manufactured under license by CBG. To date, CBG has chosen to buy in key components and conduct final assembly in the UK under its supervision.

As a result, no costs or revenue are recognised in the consolidated statement of comprehensive income in relation to contracts until such time as the key components in question have been received and inspected by CBG. Stage payments received from customers and made to suppliers up to this point are recorded in the consolidated balance sheet as trade and other receivables and trade and other payables as appropriate.

Once these key components have been received and the outcome of the construction contract can be measured reliably, contract revenue, costs and profits are recognised over the period of the contract by reference to the stage of completion of each contract. The stage of completion of a contract is determined by internal inspections. Revenue is recognised in proportion to the total revenue expected on the contract.

If contract costs are expected to exceed contract revenue, then the expected loss is recognised immediately in the consolidated statement of comprehensive income.

Contract revenue includes an assessment of the amounts agreed in the contract, plus or less any variations in contract work and claims to the extent that they are approved and can be measured reliably.

Once revenue has started to be recognised on an individual contract, the Group reports the position for each contract as either an asset or a liability. In instances where costs incurred plus recognised profits exceed billings to date an asset is recognised. Similarly, a liability is recognised where billings to date exceed costs incurred and profits recognised.

Share-based employee remuneration
The Group operates equity-settled share-based remuneration plans for some of its employees. The Group's plan does not feature any options for a cash settlement.

All services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the share options granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All share-based remuneration is ultimately recognised as an expense in the consolidated statement of comprehensive income with a corresponding credit to the profit and loss reserve.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting. Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as additional paid-in capital.

The cancellation of equity-settled share based payments is accounted for as an acceleration of vesting.

Dividends
Interim dividends are charged in the period in which they are paid. Final dividends are only provided when approved by the shareholders.

Property, plant and equipment
Plant and equipment is stated at cost, net of depreciation and any provision for impairment. Property, plant and equipment is held at historical cost with the exception of assets acquired on business combinations. These are added at their fair value and depreciated accordingly. Depreciation is applied on a straight-line basis so as to reduce the assets to their residual values over their estimated useful lives. The rates of depreciation used are:

Plant and machinery	4 – 15 years
Buildings	50 years

The estimates used for residual values and useful lives are reviewed as required, but at least annually. The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

Intangible assets
Licence and distribution agreement
Intangible assets are recorded at cost, net of amortisation and any provision for impairment. The Group's licence and distribution agreement is being amortised on a straight line basis over 15 years, being the period over which the Directors have assessed that significant revenues will be generated.

Development costs
Development costs are recognised at cost, net of amortisation or provision for impairment, where the recognition requirements under IAS38 Intangible assets are met. These are:

- it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise;
- the project is technically and commercially feasible;
- the Group intends to and has sufficient resources to complete the projects;
- the Group has the ability to use or sell the asset; and
- the cost of the asset can be measured reliably.

These costs are capitalised up to the point development is complete and the asset is then amortised over the period which the asset is expected to generate income. If at any point the development costs fail to meet the recognition requirements of IAS 38, the costs are expensed through the consolidated statement of comprehensive income.

Financial Statements

Accounting Policies continued

Intangible assets continued

Intangible assets acquired as part of a business combination

In accordance with IFRS 3 'Business Combinations', an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of an intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group.

Amortisation on intangible assets is charged in cost of sales, with the exception of that on intangible assets acquired on business combinations, which is disclosed separately in the consolidated statement of comprehensive income.

Such intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

Customer order book	Over life of the order book – typically one year
Non-contractual customer relationships	5 – 10 years

Impairment testing of non-current assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which management monitors goodwill. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation.

Leased assets

In accordance with IAS 17 'Leases', the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the asset. The related asset is recognised at the inception of the lease at its fair value or, if lower, the present value of the lease payments. A corresponding liability is recognised where the interest element of the lease payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are treated as operating leases. Payments under operating leases are charged to profit or loss on a straight-line basis over the term of the lease. Lease incentives are spread over the term of the lease. Benefits received as an incentive to enter into an operating lease are spread over the lease term on a straight line basis.

Inventories

Inventories are stated at the lower of cost and net realisable value, on a first in first out basis. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on the estimated sales price after allowing for all further costs of completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Income taxes

The tax expense represents the sum of the tax currently payable and deferred tax. Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective periods of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets and liabilities are recognised as a component of tax expense in the consolidated statement of comprehensive income, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

Accounting for financial assets
The Group has financial assets in the following categories:

- loans and receivables (trade and other receivables, cash and cash equivalents); and
- financial assets at fair value through profit or loss (derivative financial instruments).

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognised in profit or loss or other comprehensive income.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through profit or loss. Changes in fair value due to subsequent measurement are recognised in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value plus transaction costs, and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are considered for impairment on a case-by-case basis, and impairment is recognised where the balances are past due or where there is other evidence that a counterparty may default. Any gains or losses arising as a result of the impairment review are recognised in profit or loss. Pressure Technologies plc's trade and most other receivables fall into this category of financial instrument. Discounting on loans and receivables is omitted where the effect is immaterial. However, where it is required, the asset is initially held at fair value (including transaction costs) after discounting and the difference is recognised in the consolidated statement of comprehensive income under financing costs, or asset. Long term retentions due on contracts are the main balances where such treatment is required.

Receivables are considered for impairment on a case-by-case basis.

Accounting for financial liabilities
Financial liabilities represent a contractual obligation for the Group to deliver cash or other financial assets. Financial liabilities are initially recognised at fair value, net of issue costs, when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the consolidated statement of comprehensive income line items "finance costs" or "finance income". The Group's financial liabilities include borrowings, trade and other payables, and derivative financial instruments. After initial recognition, all but the latter are measured at amortised cost using the effective interest rate method. Discounting on financial liabilities is omitted where the effect is immaterial. However, where it is required, the liability is initially recognised at fair value after discounting and the difference is recognised in the consolidated statement of comprehensive income under financing costs. Deferred consideration on acquisitions are the main balances where such treatment is required.

Measurement of fair value financial instruments
The Group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. The finance team reports directly to the Finance Director and to the audit committee. Valuation processes and fair value changes are discussed at least every year, in line with the Group's reporting dates.

Derivative financial instruments
The Group has derivative financial instruments that are carried at fair value through profit or loss. The Group does not hedge account for these items. Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists. The Group has foreign currency forward contracts that fall into this category.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts, where they form an integral part of the Group's cash management.

Financial Statements

Accounting Policies continued

Equity and reserves

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs. Share premium represents premiums received on issuing of share capital. Retained earnings include all current and prior year results as disclosed in the consolidated statement of comprehensive income and reserves note.

The translation reserve is used to record foreign exchange translation differences that occur as a result of the translation of overseas subsidiary undertakings' financial statements into the presentation currency of the consolidated financial statements.

Foreign currency translation

Foreign currency transactions are translated into the functional currency (being the currency of the primary economic environment in which the entity operates) of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary balance sheet items at year-end exchange rates are recognised in the consolidated statement of comprehensive income. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The consolidated financial statements are presented in Pounds Sterling, which is also the functional currency of the parent company.

The results of overseas subsidiary undertakings are translated at the average exchange rate (being an approximation to the rate at the date of transactions throughout the year) and the balance sheets of such undertakings are translated at the year-end exchange rates. Exchange differences arising on the retranslation of opening net assets of overseas subsidiary undertakings are charged/credited to other comprehensive income and recognised in the translation reserve in equity. On disposal of a foreign operation the cumulative translation differences are transferred to profit or loss as part of the gain or loss on disposal.

Grants

Grants are recognised where there is reasonable assurance that the entity complies with the conditions attached to them. Grants relating to property, plant and equipment are treated as deferred income and released to profit or loss over the expected useful lives of the assets concerned. Other grants are credited to profit or loss in the same period as the related expenditure is incurred.

Pensions

The Group operates defined contribution schemes with costs being charged to profit or loss in the period to which they relate.

Segment reporting

IFRS 8 requires operating segments to be identified on the basis of the internal reports about operating units of the Group that are regularly reviewed by the Chief Executive to allocate resources and to assess their performance. The Group operates three operating segments which represent the main products and services provided by the Group:

- Cylinders: the design, manufacture and reconditioning of seamless high pressure gas cylinders. The Group's share of the results of KGTM are included within the cylinders segment.
- Engineered products: the manufacture of precision engineered products, air operated high pressure hydraulic pumps, gas boosters, power packs, hydraulic control panels and test rigs.
- Alternative energy: marketing, selling and manufacture of biogas upgrading equipment to produce high purity biomethane.

Each of these operating segments is managed separately as each requires different technologies, resources and marketing approaches.

The measurement policies used by the Group for segment reporting are the same as those used in its financial statements. Amortisation of intangible assets arising from business combinations and fair value adjustments arising from business combinations are allocated to the operating segment to which they relate.

In addition, corporate overheads and assets not directly related to the business activities of any operating segment are not allocated to a segment.

Investments in associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investments are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's share of post-acquisition profit or loss is recognised in the income statement. When the Group's share of losses in an associate equals or exceeds this interest in the associate, the Group does not recognise further losses unless is has incurred legal or constructive obligation or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates' in the consolidated statement of comprehensive income.

Exceptional items
One off, non-trading items with a material effect on results are disclosed separately on the face of the Consolidated Statement of Comprehensive Income. The Directors apply judgement in assessing the particular items, which by virtue of their scale and nature, should be classified as exceptional items. The Directors consider that separate disclosure of these items is relevant to an understanding of the Group's financial performance.

Financial Statements

Notes to the Consolidated Financial Statements

1. Segment analysis

The financial information by segment detailed below is frequently reviewed by the Chief Executive who has been identified as the Chief Operating Decision Maker (CODM).

For the 52 week period ended 27 September 2014	Cylinders £'000	Engineered Products £'000	Alternative Energy £'000	Unallocated Amounts** £'000	Total £'000
Revenue					
– from external customers	21,443	24,133	8,439	—	54,015
Operating profit/(loss) before acquisition costs, amortisation on acquired businesses and exceptional costs	3,791	4,649	1,094	(1,700)	7,834
Acquisition costs*	—	—	—	(862)	(862)
Amortisation in relation to intangible assets acquired on business combinations	—	(694)	—	—	(694)
Provisions in relation to the option on and loans to KGTM	—	—	—	(718)	(718)
Operating profit/(loss)	3,791	3,955	1,094	(3,280)	5,560
Share of losses of associate	(183)	—	—	—	(183)
Net finance income/(costs)	11	(2)	2	(39)	(28)
Profit/(loss) before tax	3,619	3,953	1,096	(3,319)	5,349
Segmental net assets* **	7,336	22,716	2,767	3,710	36,529
Other segment information:					
Capital expenditure	1,040	1,266	40	28	2,374
Depreciation	312	451	37	4	804
Amortisation	—	694	70	—	764

52 week period ended 28 September 2013	Cylinders £'000	Engineered Products £'000	Alternative Energy £'000	Unallocated Amounts** £'000	Total £'000
Revenue					
– from external customers	17,306	15,942	1,135	—	34,383
Operating profit/(loss) before acquisition costs, amortisation on acquired businesses and exceptional costs	3,558	1,562	(480)	(1,357)	3,283
Acquisition costs*	—	—	—	(220)	(220)
Amortisation in relation to intangible assets acquired on business combinations	—	(187)	—	—	(187)
Operating profit/(loss)	3,558	1,375	(480)	(1,577)	2,876
Net finance income/(costs)	7	(2)	—	(3)	2
Profit/(loss) before tax	3,565	1,373	(480)	(1,580)	2,878
Segmental net assets* **	6,940	7,728	153	2,643	17,464
Other segment information:					
Capital expenditure	396	362	6	12	776
Depreciation	295	309	34	8	646
Amortisation	—	187	70	—	257

* Acquisition costs include fees associated with making acquisitions.

** Unallocated amounts include central costs, central assets and unallocated consolidation adjustments.

*** Segmental net assets comprise the net assets of each division adjusted to reflect the elimination of the cost of investment in subsidiaries and the provision of financing loans provided by Pressure Technologies plc.

1. Segment analysis continued

The following table provides an analysis of the Group's revenue by geographical destination.

Revenue	2014 £'000	2013 £'000
United Kingdom	**25,730**	10,639
Europe	**7,658**	5,690
Rest of the World	**20,627**	18,054
	54,015	34,383

The UK is the entity's country of domicile with revenue of £25,730,000 (2013: £10,639,000) being obtained during the period.

Revenue of £28,285,000 (2013: £23,744,000) has been generated overseas.

The Group's largest customer contributed 23% to the Group's revenue (2013: 34%) which is reported within the Cylinders segment. No other customer contributed more than 10% in the year to 27 September 2014 (2013: nil).

The following table provides an analysis of the Group's revenue by market.

Revenue	2014 £'000	2013 £'000
Oil and gas	**39,607**	27,640
Defence	**3,478**	3,793
Industrial gases	**2,309**	1,793
Alternative energy	**8,621**	1,157
	54,015	34,383

The above table is provided for the benefit of shareholders. It is not provided to the PT board on a regular monthly basis and consequently does not form part of the divisional segmental analysis.

The following table provides an analysis of the carrying amount of non-current assets, additions to property, plant and equipment.

	2014			2013		
	United Kingdom £'000	**Rest of the World £'000**	**Total £'000**	United Kingdom £'000	Rest of the World £'000	Total £'000
Non-current assets	**23,645**	**51**	**23,696**	8,188	65	8,253
Additions to property, plant and equipment	**2,369**	**5**	**2,374**	724	52	776

2. Finance income

	2014 £'000	2013 £'000
Interest receivable on bank deposits	**19**	—
Discounting adjustment on loans and receivables (note 18)	**11**	11
Interest receivable on assets under finance leases	**2**	—
	32	11

Interest of £73,000 receivable on the loan made to associated company, KGTM has been provided for in full and therefore is not disclosed above.

Financial Statements

Notes to the Consolidated Financial Statements continued

3. Finance costs

	2014 £'000	2013 £'000
Interest payable on bank loans and overdrafts	**—**	5
Interest payable on finance leases	**7**	1
Discounting adjustment on trade and other payables	**53**	3
	60	9

4. Profit before taxation

Profit before taxation is stated after charging/(crediting):

	2014 £'000	2013 £'000
Depreciation of property, plant and equipment – owned assets	**783**	646
Depreciation of property, plant and equipment – assets under finance lease and hire purchase agreements	**21**	—
(Profit)/loss on disposal of fixed assets	**(7)**	8
Amortisation of intangible assets – licence and distribution agreement	**70**	70
Amortisation of grants receivable	**(107)**	(39)
Staff costs (see note 7)	**9,670**	6,904
Cost of inventories recognised as an expense	**28,581**	16,327
Operating lease rentals:		
– Land and buildings	**644**	627
– Machinery and equipment	**67**	66
Foreign currency (profit)/loss	**(26)**	275

Exceptional costs

The exceptional costs of £718,000 relate to a provision made against the value of the option held to acquire a further 40% of KGTM of £388,000 and a provision made against the loan issued to KGTM of £330,000. Further details of the investment in KGTM can be seen in note 16 of the financial statements, details of the option in note 16 to the financial statements and details of the loan in note 18 to the financial statements.

The Group calculated at inception that the option had a maximum value of £388,000, being the difference between the fair value of the equity investment, the loan receivable and the amount paid to KGTM. The Board consider that due to uncertainty around take up of the option, the option has a £nil value at the reporting date. As such, the provision against the value in the option is recorded in the consolidated statement of comprehensive income. See page 16 in the Financial review for further details on the determination of the valuation.

In addition, the Directors have taken a cautious view on the carrying value of the loan receivable from KGTM. An additional £330,000 has been charged to the consolidated statement of comprehensive income as a provision against the loan.

Given the magnitude of the amounts and the fact that they are non-trading items, they are disclosed separately on the face of the consolidated statement of comprehensive income as exceptional items.

5. Acquisition costs and amortisation on acquired businesses

	2014 £'000	2013 £'000
Amortisation of intangible assets arising on a business combination	**694**	187
Acquisition costs	**862**	220
	1,556	407

6. Auditor's remuneration

	2014 **£'000**	2013 £'000
Fees payable to the Company's Auditor for the audit of the company and consolidated financial statements	**27**	13
Fees payable to the Company's Auditor and its associates for other services:		
– Audit of the Company's subsidiaries pursuant to legislation	**51**	36
Fees payable to the Group's Auditor for non-audit services:		
– Tax services	**17**	21
– Other services	**11**	10

7. Employee costs

Particulars of employees, including executive Directors:

	2014 **£'000**	2013 £'000
Wages and salaries	**8,520**	6,080
Social security costs	**819**	608
Pension costs	**222**	172
Share based payments	**109**	44
	9,670	6,904

The average monthly number of employees (including executive Directors) during the period was as follows:

	2014 **No.**	2013 No.
Production	**185**	151
Selling and distribution	**24**	17
Administration	**36**	23
	245	191

8. Directors' emoluments

Particulars of Directors' emoluments are as follows:

	2014 **£'000**	2013 £'000
Emoluments – short term employee benefits	**619**	480
Pension costs – post employment benefits	**32**	28
Employers' national insurance	**70**	51
	721	559

Please see the Report of the Remuneration Committee on pages 24 to 26 for full details of Directors' emoluments which have been audited.

Included in the aggregate emoluments for the period ended 27 September 2014 are payments of £63,000 (2013: £72,000) made by the Company to third parties. The highest paid Director received total emoluments of £275,000 including pension contributions of £18,000 (2013: total emoluments of £202,000 including pension contributions of £15,000).

On 11 July 2014, one Director exercised 51,612 share options. The options were exercised at a price of 232.5p per share. The market value of shares on the date of exercise was 727.5p.

The Group believe that the Directors of Pressure Technologies plc are the only key management personnel under the definition of IAS 24 'Related party disclosures'.

Financial Statements

Notes to the Consolidated Financial Statements continued

9. Taxation

	2014 £'000	2013 £'000
Current tax		
Current tax expense	**1,737**	775
Over provision in respect of prior years	**(34)**	(19)
	1,703	756
Deferred tax		
Origination and reversal of temporary differences	**(65)**	(74)
(Over)/under provision in respect of prior years	**—**	(4)
Total taxation charge	**1,638**	678

Corporation tax is calculated at 22% (2013: 23.5%) of the estimated assessable profit for the period. Deferred tax is calculated at 20% (2013: 20%).

The charge for the period can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2014 £'000	2013 £'000
Profit before taxation	**5,349**	2,878
Theoretical tax at UK corporation tax rate 22% (2013: 23.5%)	**1,177**	676
Effects of:		
– non-deductible expenses	**301**	39
– disallowable acquisition costs	**190**	52
– research and development allowance	**—**	(115)
– adjustments in respect of prior years	**(34)**	(23)
– effect of unrealised overseas (profits)/losses	**(12)**	121
– change in taxation rates	**16**	(72)
Total taxation charge	**1,638**	678

10. Earnings per ordinary share

Basic and diluted earnings per share have been calculated based on the net profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares in issue during the period.

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 period.

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.

	2014 £'000	2013 £'000
Profit after tax	**3,711**	2,200

	No.	No.
Weighted average number of shares – basic	**13,025,349**	11,361,221
Dilutive effect of share options	**263,283**	78,069
Weighted average number of shares – diluted	**13,288,632**	11,439,290
Basic earnings per share	**28.5p**	19.4p
Diluted earnings per share	**27.9p**	19.2p

11. Dividends

The following dividend payments have been made on the ordinary 5p shares in issue:

	Rate	Date	Shares in issue	**2014 £'000**	2013 £'000
Final 2011/12	5.0p	8 March 2013	11,362,249	**—**	568
Interim 2012/13	2.6p	8 August 2013	11,362,249	**—**	295
Final 2012/13	5.2p	7 March 2014	11,362,249	**591**	—
Interim 2013/14	2.8p	8 August 2014	14,268,733	**400**	—
				991	863

At 27 September 2014 the 2013/14 final dividend had not been approved by Shareholders and consequently this has not been included as a liability. The proposed dividend of 5.6p per share will, if approved at the AGM, be paid on 17 March 2015 at a total cost of £804,000.

12. Goodwill

	Total £'000
Cost and gross carrying amount	
At 29 September 2012 and 28 September 2013	**1,964**
Acquired through business combinations (note 28)	**5,117**
As at 27 September 2014	**7,081**

Engineered Product division	Date of acquisition	Original cost £'000
Al-Met Limited	February 2010	272
The Hydratron Group	October 2010	1,692
Roota Engineering Limited	March 2014	5,117
		7,081

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. The Group has three separate cash generating units (CGUs) all held within the Engineered Products division, Al Met Limited, The Hydratron Group and Roota Engineering Limited.

The Group tests annually for impairment, or more frequently if there are indicators that goodwill might be impaired.

The recoverable amounts of the cash generating units (CGUs) are determined from value in use calculations, covering a four year forecast and applying a discount rate of 3.1% which equates to the Group's weighted average cost of capital. The same discount rate is used for all CGUs due to the similarities of the businesses.

The forecast for year one is the forecast approved by management and used within the Group. The forecasts used for years two to four are conservative, with no assumed growth on year one cash flow figures and have been based on the extrapolated year one forecast. No terminal value has been assumed in this calculation.

Management's key assumptions are based on their past experience and future expectations of the market over the longer term. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes to selling prices and direct costs.

Apart from the considerations described in determining the value-in-use of the cash generating unit above, the Group management does not believe that possible changes on the assumptions underlying the value in use calculation would have an impact on the carrying value of goodwill.

After applying sensitivity analysis in respect of the results and future cash flows, in particular for presumed growth rates and discount rates, management believe that no impairment is required. Management is not aware of any other changes that would necessitate changes to its key estimates. At 27 September 2014, no reasonable expected change in the key assumptions would give rise to an impairment charge for any CGU and the assumptions accordingly are not sensitive.

Financial Statements

Notes to the Consolidated Financial Statements continued

13. Intangible assets

	Licence and distribution agreement £'000	Development expenditure £'000	Customer order book £'000	Non contractual customer relationships £'000	Total £'000
Cost					
At 29 September 2012 and 28 September 2013	1,200	234	197	937	2,568
Acquired through business combination	—	—	—	6,503	6,503
Disposed of in the period	—	(234)	(197)	—	(431)
At 27 September 2014	**1,200**	**—**	**—**	**7,440**	**8,640**
Amortisation					
At 30 September 2012	253	234	197	406	1,090
Charge for the period	70	—	—	187	257
At 28 September 2013	323	234	197	593	1,347
Charge for the period	70	—	—	694	764
Disposed of in the period	—	(234)	(197)	—	(431)
At 27 September 2014	**393**	**—**	**—**	**1,287**	**1,680**
Net book value					
At 27 September 2014	**807**	**—**	**—**	**6,153**	**6,960**
At 28 September 2013	877	—	—	344	1,221
Remaining useful economic life at 27 September 2014	12 years	—	—	7 years	

14. Property, plant and equipment

	Land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 30 September 2012	—	7,772	7,772
Additions	—	776	776
Disposals	—	(391)	(391)
At 29 September 2013	—	8,157	8,157
Additions	—	2,374	2,374
Acquisition through business combinations	800	815	1,615
Disposals	—	(444)	(444)
Net exchange differences	—	(2)	(2)
At 27 September 2014	**800**	**10,900**	**11,700**
Depreciation			
At 30 September 2012	—	3,118	3,118
Charge for the period	—	646	646
Disposed of in the period	—	(374)	(374)
At 29 September 2013	—	3,390	3,390
Charge for the period	9	795	804
Disposed of in the period	—	(296)	(296)
At 27 September 2014	**9**	**3,889**	**3,898**
Net book value			
At 27 September 2014	**791**	**7,011**	**7,802**
At 28 September 2013	—	4,767	4,767

Included within the net book value of £7,802,000 is £607,000 (2013: £nil) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the period in respect of such assets amounted to £21,000 (2013: £nil).

15. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 4 to the Parent Company's separate financial statements as listed on page 68.

16. Investments in associates

	£'000
As at 29 September 2013	—
Investments made in the year	306
Share of profits/(losses)	(183)
As at 27 September 2014	**123**

On 1 January 2014, the Group made a strategic investment to acquire 40 per cent of the common stock of GTM Manufacturing, LLC, a leading manufacturer of high-pressure vessels for gas transport solutions based in Amarillo, Texas. The company subsequently changed its name to Kelley GTM, LLC. The Group also acquired an option to purchase a further 40% of the company. This option can only be exercised by the Group and is exercisable for 90 days after the publication of the audited accounts for KGTM for the financial year end 31 December 2014. See page 16 of the Financial Review for further details.

The Group's share (being 40%) of the revenues and losses of KGTM are £1,374,000 and (£183,000) respectively. As at the reporting date, the Group's share of the non-current assets is £281,000, and its share of the current assets is £331,000. The Group's share of the current liabilities is £281,000 and its share of the non-current liabilities is £4,143,000. The non-current liabilities held by KGTM relate chiefly to loans provided by the Group and other shareholders.

KGTM has a year-end date of 31 December. The period for which the results of KGTM have been included in the Group's financial statements is from 1 January 2014 to 27 September 2014.

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Notes to the Consolidated Financial Statements continued

17. Inventories

	2014 £'000	2013 £'000
Raw materials and consumables	**4,081**	3,649
Work in progress	**4,738**	3,557
	8,819	7,206

Included in the total net value above are gross inventories of £624,000 (2013: £1,668,000) over which provisions have been made of £623,000 (2013: £707,000).

18. Trade and other receivables

	2014 £'000	2013 £'000
Current		
Trade receivables	**13,924**	6,796
Amounts due from customers for construction contract work	**383**	—
Other receivables	**5,012**	399
Prepayments and accrued income	**1,242**	1,510
	20,561	8,705

	2014 £'000	2013 £'000
Non-current		
Loans to associated companies	**1,436**	—
Accrued income	**139**	163
	1,575	163

Included in non-current and accrued income are debts not due for settlement for a number of years. Management have reviewed the book value of these assets and applied discounting to reduce the balances by £9,000 (2013: £20,000) to £148,000 (2013: £163,000). The release during the year was £11,000 (2013: £11,000).

The average credit period taken on the sale of goods and services was 63 days (2013: 63 days) in respect of the Group. Three debtors accounted for over 10% of trade receivables and represented 14%, 13% and 11% of the total balance. In 2013, one debtor accounted for over 10% of trade receivables and represented 24% of the total balance.

The loan to the associated company above relates to a loan made as part of the investment in KGTM. This loan is held within trade and other receivables. This is held at its discounted fair value of £1,766,000, less a provision made of £330,000. The discounting of the loan has been made over a three year period. The actual rate of interest is 4.5% and the discounting is made with reference to a theoretical market rate of 12%.

Other receivables due within one year includes £2,782,000 advanced to Greenlane Biogas Holdings Limited on a secured basis.

Ageing of past due but not impaired receivables:

	2014 £'000	2013 £'000
Days past due:		
0 – 30 days	**2,330**	825
31 – 60 days	**855**	365
61 – 90 days	**257**	106
91 – 120 days	**86**	20
121+ days	**47**	100
Total	**3,575**	1,416

19. Derivative financial instruments

	2014 £'000	2013 £'000
Derivatives carried at fair value not recognised for hedge accounting		
– Forward foreign currency contracts	**43**	71
Asset	**43**	71

20. Trade and other payables

	2014 £'000	2013 £'000
Amounts due within 12 months		
Trade payables	**4,930**	2,903
Progress billings on construction contracts in excess of work completed	**2,331**	—
Other tax and social security	**1,096**	329
Accruals, deferred income and other payables	**6,111**	6,004
Deferred consideration	**1,985**	—
Total due within 12 months	**16,453**	9,236
Amounts due after 12 months		
Deferred consideration	**2,432**	—
Other payables	**313**	337
Deferred income	**164**	256
Total due after 12 months	**2,909**	593

Other payables due after 12 months relate to rental lease incentives, the benefits of which are spread over the life of the lease.

Deferred income due after 12 months relates to grant income received. There are no unfulfilled conditions or other contingencies attached to these grants.

21. Borrowings

	2014 £'000	2013 £'000
Secured borrowings		
Net obligations under finance leases	**504**	—
Amounts due for settlement within 12 months	**180**	—
Amounts due for settlement after 12 months	**324**	—

The maturity profile of long-term loans is as follows:

	2014 £'000	2013 £'000
Due within one year	**180**	—
Due within two to five years	**324**	—

Obligations under finance leases are secured on the plant & machinery assets to which they relate.

Financial Statements

Notes to the Consolidated Financial Statements continued

22. Construction contracts

Construction contracts are accounted for in accordance with IAS 11, 'Construction Contracts'. The position on individual contracts is held as 'Amounts due from customers for contract work' within trade and other receivables or as 'Progress billings on construction contracts in excess of work completed' within trade and other payables as applicable.

	2014 £'000	2013 £'000
Costs incurred and profit recognised to date	**8,348**	—
Less: Progress billings	**(10,296)**	—
Net balance sheet position for ongoing contracts	**(1,948)**	—

23. Financial instruments

Capital risk management

Pressure Technologies plc's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders through the payment of dividends.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 21, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

	2014 £'000	2013 £'000
Debt	**(504)**	—
Cash and cash equivalents	**6,356**	4,044
Net cash	**5,852**	4,044
Equity	**36,529**	17,464

Debt is defined as long and short-term borrowings, as detailed in note 21. Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

The Group is not subject to externally imposed capital requirements, other than the minimum capital requirements and duties regarding a serious reduction of capital, as imposed by the Companies Act 2006 on all public limited companies.

The Group held the following categories of financial instruments:

	2014 £'000	2013 £'000
Financial assets		
Loans and receivables:		
– Trade receivables	**13,924**	6,796
– Other receivables	**5,012**	399
– Cash and cash equivalents	**6,032**	4,044
– Other receivables – greater than one year	**1,436**	—
Fair value through the profit and loss (FVTPL):		
– Derivative instrument – forward currency contract not recognised for hedge accounting	**43**	71
	26,447	11,310

	2014 £'000	2013 £'000
Financial liabilities		
Financial liabilities – held at amortised cost		
– Trade payables	**4,930**	2,903
– Accruals	**3,328**	2,129
– Deferred consideration payable	**4,416**	—
– Borrowings	**504**	—
	13,178	5,032

The fair value of the financial instruments set out above is not materially different from their book value, with the exception of the loan made to KGTM. This loan is discounted as set out in note 18.

23. Financial instruments continued

Financial risk management objectives

Management monitor and manage the financial risks relating to the operations of the Group through regular reports to the Board. These risks include currency risk, interest rate risk, credit risk and liquidity risk.

The Group seeks to minimise the effects of currency risk by using derivative financial instruments. The use of financial derivatives is governed by the Group's policies on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. Whilst the Group enters into forward currency contracts during the period to mitigate foreign currency risk, it does not apply hedge accounting.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, particularly in US Dollars and Euros, and interest rates. The Group enters into derivative financial instruments to manage its exposure to foreign currency risk.

Foreign currency risk management

The Group purchases its principal raw materials in US Dollars, Euros and Pounds Sterling and receives payment for its products in Euros, US Dollars and Pounds Sterling. After netting off foreign currency receipts and payments, there is a net exposure to the risk of currency movements both in US Dollars and Euros. Where necessary, the net exposure is hedged using forward contracts.

The carrying amounts of the Group's foreign currency denominated monetary financial assets and monetary financial liabilities at the reporting date are as follows:

	Financial assets 2014 £'000	Financial assets 2013 £'000	**Financial liabilities 2014 £'000**	Financial liabilities 2013 £'000
Euro	**2,859**	3,994	**320**	1,863
Norwegian Krone	**5**	6	**—**	30
US Dollar	**458**	522	**210**	215
	3,322	4,522	**530**	2,108

Foreign currency sensitivity analysis

The Group's exposure to a 10% exchange rate movement on its foreign currency denominated financial assets and financial liabilities is as follows:

	Euro currency impact 2014 £'000	Euro currency impact 2013 £'000	**Norwegian Krone currency impact 2014 £'000**	Norwegian Krone currency impact 2013 £'000	**US Dollar currency impact 2014 £'000**	US Dollar currency impact 2013 £'000
Profit or loss	**231**	194	**—**	2	**23**	28

The use of a 10% movement in exchange rates is considered appropriate given recent movements in exchange rates.

A substantial amount of the Group's sales and purchases are made in foreign currencies. The exposure to foreign exchange rates varies throughout the year depending on the volume and timing of transactions in foreign currencies.

Notes to the Consolidated Financial Statements continued

23. Financial instruments continued

Fair value hierarchy

Financial instruments carried at fair value are required to be measured by reference to the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is clarified is determined based on the lowest level of significant input to one fair value measurement. The Group holds level 2 and level 3 financial instruments as detailed below.

Forward foreign exchange contracts – Level 2

The Group enters into forward foreign exchange contracts to cover specific foreign currency payments and receipts. The Group also periodically enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to between 6-12 months. The Group does not hedge account for the forward currency exchange contracts.

At 27 September 2014, the Group had contracts outstanding to sell €2.850 million for £2.287 million and to sell $0.700 million for £0.421 million. (2013: sell €3.950 million for £3.393 million).

The fair value of forward foreign exchange contracts at 27 September 2014 gave rise to a loss of £28,000 (2013: gain of £71,000).

Option to acquire 40% of KGTM – Level 3

The Group holds an option to acquire a further 40% of KGTM, an associated company. This option was value at a maximum of £388,000 at outset and a provision is made against this value as at the year end. The fair value of this option at outset has been estimated with reference to expected future income streams of KGTM and the effective interest rate on the working capital loans which would be provided. A loss of £388,000 is recorded in the consolidated statement of comprehensive income. See page 16 of the Financial review for further details.

Interest rate risk management

If interest rates had been 0.5% higher/lower and all other variables were held constant, the impact on the results in the consolidated statement of comprehensive income and equity would be an increase/decrease of £35,000 (2013: £15,000).

Price risk management

Where possible the Group enters into contracts incorporating price escalation clauses to mitigate any significant exposure to material price risk.

Credit risk management

The Group's credit risk is primarily attributable to its trade receivables. The two largest customers within trade receivables account for 27% (2013: 33%) of debtors. Management continually monitor this dependence on the largest customers and are continuing to seek acquisitions and are also developing new products, customers and markets to reduce this dependence. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer. The Group's management estimate the level of allowances required for doubtful debts based on prior experience and their assessment of the current economic environment. The Group's maximum exposure to credit risk is limited to the carrying value of financial assets recognised at the period end. The Group's management considers that all financial assets that are not impaired or past due are of good credit quality. The credit risk on liquid funds is minimized by using counterparty banks with high credit-ratings assigned by international credit-rating agencies.

23. Financial instruments continued

Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

At 27 September 2014 the Group's liabilities have contractual maturities summarised below:

2014	**Current within 6 months £'000**	**Current 6 to 12 months £'000**	**Non-current 1 to 5 years £'000**	**Total net payable £'000**
Trade and other payables	**10,247**	**1,984**	**3,228**	**15,459**
Amounts due under hire purchase agreements	**90**	**90**	**324**	**504**
	10,337	**2,074**	**3,552**	**15,963**

2013	Current within 6 months £'000	Current 6 to 12 months £'000	Non-current 1 to 5 years £'000	Total net payable £'000
Trade and other payables	6,824	1,248	835	8,907

The following amounts have been recognised in the consolidated statement of comprehensive income in respect of derivative financial instruments:

	2014 £'000	2013 £'000
Fair value through profit and loss (FVTPL)		
– Derivative instrument – forward currency contract not recognised for hedge accounting	**28**	(71)
– Option held to acquire a further 40% of the issued share capital of KGTM	**388**	—
Amounts charged/(credited) to cost of sales within the consolidated statement of comprehensive income	**416**	(71)

Fair values

The fair values of financial assets and liabilities are determined as follows:

– Outstanding foreign currency exchange contracts are measured using quoted forward exchange rates at the reporting date.
The Group does not hedge account.

The carrying value and fair value of the financial assets and financial liabilities are considered to be the same.

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Notes to the Consolidated Financial Statements continued

24. Deferred tax

The following are the major deferred tax assets/(liabilities) recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £'000	Intangible assets £'000	Short term temporary differences £'000	Share option costs £'000	Operating lease incentives £'000	Total £'000
At 29 September 2012	(466)	(122)	17	13	80	(478)
Credit/(charge) to income	(4)	54	34	6	(12)	78
At 28 September 2013	(470)	(68)	51	19	68	(400)
Credit/(charge) to income	(81)	138	(19)	30	(3)	65
Acquired through business combinations	(106)	(1,301)	—	—	—	(1,407)
At 27 September 2014	**(657)**	**(1,231)**	**32**	**49**	**65**	**(1,742)**

The net deferred tax balance has been analysed as follows in the consolidated balance sheet:

	2014 £'000	2013 £'000
Non-current asset		
Deferred tax asset	**155**	138
Non-current liabilities		
Deferred tax liabilities	**(1,897)**	(538)
	(1,742)	(400)

25. Called up share capital

	2014 No.	2013 No.	**2014 £'000**	2013 £'000
Allotted, issued and fully paid				
Ordinary shares of 5p each	**14,362,813**	11,362,249	**718**	568

On 5 March 2014 the Company issued 2,904,348 ordinary shares at a price of 575p as part of a placing. The Company also issued 44,604 ordinary shares at a price 150p to employees exercising their rights to acquire shares under the Company's SAYE scheme throughout the year, and 51,612 shares at 232.5p to a Director exercising his right to acquire shares under the Company's share option plan on 11 July 2014. The effect of these issues has been to increase share capital by £150,000 and share premium by £16,737,000, less expenses of £661,000, giving a net increase in share premium of £16,076,000.

26. Share based payments

Save-as-you-earn Scheme

Pressure Technologies plc introduced a share option scheme for all employees of the Group in November 2007. A sixth grant of options was made in July 2014. If the options remain unexercised after a period of 3 years and 6 months from the date of the grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest. Members of the scheme are required to remain employees of the Group and make regular contributions.

Details of the share options outstanding during the period are as follows:

	2014 No.	**Weighted average exercise price**	2013 No.	Weighted average exercise price
Outstanding at the beginning of the period	**166,071**	**152p**	128,537	150p
Granted during the period	**98,143**	**593p**	57,213	156p
Lapsed during the period	**(17,147)**	**215p**	(9,757)	151p
Exercised during the period	**(44,604)**	**150p**	(6,050)	150p
Expired during the period	**—**	**—**	(3,872)	150p
Outstanding at the end of the period	**202,463**	**361p**	166,071	152p

14,317 of the outstanding options were exercisable at the end of the period. The options outstanding at 27 September 2014 had a weighted average remaining contractual life of 2.0 years (2013: 1.8 years). The terms of these options are as follows:

Date of grant	Options outstanding at 27 September 2014	Vesting period	Market value at date of grant (p)	Exercise price (p)	Exercise period
28 July 2011	14,317	3 years	160	150	6 months
6 August 2012	42,600	3 years	175	150	6 months
29 July 2013	49,831	3 years	247.5	156	6 months
31 July 2014	95,715	3 years	719	593	6 months
Total options outstanding at 27 September 2014	**202,463**				

There are no performance conditions that apply to these options other than continued employment.

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Notes to the Consolidated Financial Statements continued

26. Share based payments continued

Pressure Technologies plc Performance Share Plan – Enterprise Management Plan

Pressure Technologies plc introduced this share option scheme in October 2009. These options are exercisable between three and five years following the date of grant. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the period are as follows:

	2014 No.	**Weighted average exercise price**	2013 No.	Weighted average exercise price
Outstanding at the beginning of the period	**257,768**	**222p**	104,768	191p
Granted during the period	**—**	**—**	153,000	242.5p
Exercised during the period	**(51,612)**	**232.5p**	—	—
Outstanding at the end of the period	**206,156**	**219p**	257,768	222p

The options outstanding at 27 September 2014 had a weighted average remaining contractual life of 4.2 years (2013: 3.8 years). The terms of these options are as follows:

Date of grant	Options outstanding at 27 September 2014	Vesting period	Market value at date of grant (p)	Exercise price (p)
23 February 2012	53,156	3 years	150.5	150.5
9 August 2013	153,000	3 years	242.5	242.5
Total options outstanding at 27 September 2014	**206,156**			

There are no performance conditions that apply to these options other than continued employment. The options will lapse if not exercised by 5 years from the date of grant. No options were exercisable under this scheme as at the period end.

Pressure Technologies plc Performance Share Plan – Share Options Plan

Pressure Technologies plc introduced this share option scheme in February 2012. These options are exercisable between three and five years following the date of grant. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the period are as follows:

	2014 No.	2013 No.
Outstanding at the beginning and end of the period	**73,089**	73,089

The exercisable options outstanding at 27 September 2014 had a weighted average exercise price of 150.5p (2013: 150.5p) and a weighted average remaining contractual life of 2.4 years (2013: 3.4 years). The terms of these options are as follows:

Date of grant	Options outstanding at 27 September 2014	Vesting period	Market value at date of grant (p)	Exercise price (p)
23 February 2012	73,089	3 years	150.5	150.5

There are no performance conditions that apply to these options other than continued employment.

26. Share based payments continued

Pressure Technologies plc – Long Term Incentive Plan

Pressure Technologies plc introduced this share option scheme in April 2014. These options are exercisable between three and six years following the date of grant. Options are forfeited if the employee leaves the Group before the options vest, unless certain conditions are met.

Details of the share options outstanding during the period are as follows:

	2014 No.
Outstanding at the start of the period	**—**
Granted during the period	**77,493**
Outstanding at the end of the period	**77,493**

The outstanding options outstanding at 27 September 2014 had a weighted average exercise price of 720.8p and a weighted average remaining contractual life of 5.5 years. The terms of these options are as follows:

Date of grant	Options outstanding at 27 September 2014	Vesting period	Market value at date of grant (p)	Exercise price (p)
3 April 2014	77,493	3 years	720.8	720.8

There are performance related conditions that apply to these options. The figures disclosed above show the options exercisable if all performance conditions are met. Full details of the performance conditions can be found in the report to the remuneration committee. The options lapse if not exercised 6 years after the grant date. No options were exercisable as at the reporting date.

The options granted during the period have been valued using the Black-Scholes model. The inputs into the Black-Scholes model are as follows:

Scheme: Date granted:	Long Term Incentive Plan 03/04/2014	Save-As-You-Earn 31/07/2014
Share price at date of offer	721p	719p
Exercise price	721p	593p
Expected volatility	45%	34%
Expected life	5 years	3 years
Risk free rate	1.9%	1.4%
Expected dividend yield	2.2%	2.2%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the period since the Group was admitted to AIM. The expected option value used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The expected dividend yield was based on the Group's dividend pay out pattern at the date of issue of the options.

In line with HMRC approved schemes, share options under the Save-As-You-Earn scheme may be exercisable at a discount of up to 20% of the market value of the shares at the time of issue.

The total charge to the consolidated statement of comprehensive income in the period in respect of share-based payments was £109,000 (2013: £44,000). A deferred tax credit of £30,000 (2013: £6,000) was recognised in the consolidated statement of comprehensive income during the period in respect of share based payments.

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Notes to the Consolidated Financial Statements continued

27. Consolidated cash flow statement

	2014 £'000	2013 £'000
Profit after tax	**3,711**	2,200
Adjustments for:		
Finance costs/(income) – net	**28**	(2)
Depreciation of property, plant and equipment	**804**	646
Amortisation of intangible assets	**764**	257
Share option costs	**109**	44
Income tax expense	**1,638**	678
Loss/(profit) on derivative financial instruments	**28**	(71)
(Profit)/loss on disposal of property, plant and equipment	**(7)**	8
Exceptional charges associated with Kelley GTM	**718**	—
Loss on investment in associate	**183**	—
Changes in working capital:		
(Increase) in inventories	**(440)**	(284)
(Increase) in trade and other receivables	**(7,449)**	(1,448)
Increase in trade and other payables	**3,324**	1,516
Cash flows from operating activities	**3,411**	3,544

28. Business combinations

On 5 March 2014, Pressure Technologies plc acquired 100% of the issued share capital of Roota Engineering Limited ("Roota") for an initial consideration of £10,673,000, plus contingent consideration with an undiscounted value of £4,500,000, as reflected in the consolidated statement of cash flows. Following the finalisation of the completion accounts, the initial consideration was adjusted to £10,478,000. The difference between these amounts of £195,000 was repaid to Pressure Technologies by the vendors in the year.

The fair value of contingent consideration related to the acquisition of Roota is estimated using a present value technique. The £4,364,000 fair value is estimated by probability-weighting the estimated future cash outflows, adjusting for risk and discounting at 2%. The probability-weighted cash outflows before discounting are £4,500,000 and reflect management's estimate that all profit targets are expected to be met. The effects on the fair value of risk and uncertainty in the future cash flows are dealt with by adjusting the estimated cash flows rather than adjusting the discount rate.

Roota specialises in the manufacture of bespoke engineered products for the oil and gas industry, such as components for high added value ball valves, mandrels, connectors and well-head cleaning tools and is based in Rotherham. The transaction has been accounted for using the acquisition method of accounting.

The Directors believe that Roota is complementary to the Group's other subsidiary businesses and provides cross selling opportunities between the respective customer bases.

28. Business combinations continued

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

	Book value £'000	Intangible assets recognised on acquisition £'000	Fair value uplift on acquisition £'000	Fair value £'000
Recognised amounts of identifiable assets acquired and liabilities assumed:				
Property plant and equipment	1,424	—	191	1,615
Intangible assets	—	6,503	—	6,503
Inventories	1,173	—	—	1,173
Trade and other receivables	1,583	—	—	1,583
Cash and cash equivalents	2,848	—	—	2,848
Trade and other payables	(1,792)	—	—	(1,792)
Current tax liabilities	(798)	—	—	(798)
Deferred tax liabilities	(68)	(1,301)	(38)	(1,407)
	4,370	5,202	153	9,725
Goodwill				5,117
Total consideration				14,842
Satisfied by:				
Cash				10,478
Deferred cash consideration				4,364
				14,842
Net cash outflow arising on acquisition				
Initial cash consideration				10,478
Cash and cash equivalents acquired				(2,848)
				7,630

The intangible assets acquired with the business comprise £6,503,000 in relation to non-contractual customer relationships.

The goodwill arising on the acquisition of Roota 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 revenue included in the consolidated statement of comprehensive income since 5 March 2014 contributed by Roota was £5,814,000. Roota also contributed profit of £1,612,000 over the same period.

Had Roota been consolidated since 28 September 2013, the consolidated statement of income would show pro-forma revenue of £57,608,000 and profit before taxation of £6,345,000.

The amount of contingent consideration recognised at the acquisition date was £4,500,000, discounted to fair value. This contingent consideration is payable should Roota meet profit targets as set out in the agreement. The Directors expect that all profit targets will be met and that the maximum consideration of £4,500,000 will become payable.

Details of acquisition costs paid in the year are given in note 5 to the financial statements.

Notes to the Consolidated Financial Statements continued

29. Financial commitments

(a) Capital commitments

Commitments for capital expenditure entered into were as follows:

	2014 £'000	2013 £'000
Contracted for, but not provided in the accounts	**—**	—

(b) Operating lease commitments

The Group has entered into commercial leases on certain properties, motor vehicles and items of plant and equipment. At the balance sheet date, the Group had outstanding commitments for minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2014 £'000	2013 £'000
Land and buildings:		
Within one year	**673**	641
In the second to fifth years inclusive	**2,831**	2,711
After more than five years	**830**	1,517
	4,334	4,869
Other assets:		
Within one year	**57**	53
In the second to fifth years inclusive	**59**	56
	116	109

The operating lease commitment on land and buildings includes the following significant commitments:

- a 15 year lease commenced on 1 July 2005 with rent reviews every five years on the Group factory and offices at Meadowhall, Sheffield;
- a secondary 15 year lease commenced on the same date with rent reviews every five years for the end bays at Meadowhall, Sheffield;
- a third lease was entered into on 7 February 2010, expiring on the same date as the two leases above, for new offices at the above address;
- a 15 year lease for Al-Met Limited's property commenced on 10 November 2010 with rent reviews at the end of year 5 and year 10 of the term;
- Hydratron Limited's 10 year property lease commenced on 28 October 2010 and has a rent review at the end of year 5; and
- A 5 year lease for the Group's head office commenced on 31 July 2014, at Chapeltown, Sheffield.

30. Related party transactions

The interests of Directors in dividends paid during the year are disclosed in the Report of the Remuneration Committee which has been audited.

During the period the Group issued a loan of $3,500,000 to an associate company, KGTM. This loan was made at an interest rate of 4.5% which is considered to be below the market rate of a company such as KGTM. As such, the loan is discounted to determine fair value on initial recognition. More details of the loan and the discounting provided can be seen in note 18. The fair value of the loan after discounting is £1,766,000. A provision has also been applied against this loan of £330,000 bringing the carrying value to £1,436,000.

31. Events after the reporting period

The Group entered into three key transaction after the reporting date of 27 September 2014.

1) The Group agreed new bank facilities with Bank of Scotland, part of Lloyds Banking Group the Company's current bankers on the 30 September 2014. The facilities comprise a £15.0 million multi-currency revolving credit facility, available to the Company until 30 September 2018. In addition, the new facility also contains an accordion feature that allows the total revolving credit facility to expand by a further £10.0 million.

2) On 1 October 2014, Pressure Technologies plc completed the purchase of the business and certain assets of New Zealand based Greenlane Biogas Holdings Limited and those of its various subsidiary companies. The maximum total consideration for the Acquisition is NZ$25 million (£12.4 million), comprising an initial consideration of NZ$12.0 million (£6.0 million) with additional deferred payments, split over four years, of up to a maximum of NZ$13.0 million (£6.4 million), based on the future financial performance of Greenlane. The Directors consider that the business combination is highly complementary to its existing subsidiary in the Alternative Energy division.

3) On 1 October 2014, Pressure Technologies plc purchased the entire issued share capital of Quadscot Holdings Limited, a provider of high quality computer controlled and conventional precision engineering and machining services primarily to the oil, gas and petrochemical industries. The maximum total consideration for the Acquisition is £10.3 million (plus cash balances), comprising an initial cash consideration of £7.3 million (plus cash balances) with additional deferred payments, split over two years, of up to a maximum of £3.0 million, based on the future financial performance of Quadscot. The Directors believe that Quadscot has significant opportunities to expand and extend its customer base following a recent large scale expansion of its manufacturing facilities.

Due to the proximity of the above business combinations to the reporting date, the initial accounting for these transactions has still to be completed, and consequently details of the amounts of assets and liabilities acquired and fair value of contingent consideration are not disclosed within these financial statements.

Company Balance Sheet

As at 27 September 2014

	Notes	2014 £'000	2013 £'000
Fixed assets			
Investments	4	**21,447**	6,373
Tangible fixed assets	5	**28**	4
Investment in associate	6	**221**	—
Debtors	7	**7,151**	—
		28,847	6,377
Current assets			
Debtors	7	**3,483**	4,536
Cash at bank and in hand		**3,476**	2,181
		6,959	6,717
Total assets		**35,806**	13,094
Creditors: amounts falling due within one year	8	**(2,639)**	(530)
		(2,639)	(530)
Creditors: amounts falling due after more than one year	8	**(2,432)**	—
		(2,432)	—
Total liabilities		**(5,071)**	—
Net assets		**30,735**	12,564
Capital and reserves			
Called up share capital	10	**718**	568
Share premium account	12	**21,463**	5,387
Equity – non distributable	12	**182**	114
Profit and loss account	12	**8,372**	6,495
Equity shareholders' funds	13	**30,735**	12,564

The accounting policies and notes on pages 67 to 71 form part of these financial statements.

Approved by the Board on 9 December 2014 and signed on its behalf by:

JTS Hayward
Director

Notes to the Company Financial Statements

1. Accounting policies

These financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and the Companies Act 2006. Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The profit for the financial year dealt within the financial statements of the holding Company was £2,827,000 (2013: £1,765,000) after applying a tax credit (note 9) of £13,000 (2013: £8,000) to the profit before tax of £2,814,000 (2013: £1,757,000).

Investments

Investments in subsidiary undertakings are stated at cost subject to provision for impairment where the underlying business does not support the carrying value of the investment.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any reduction for recognised impairment in value with a corresponding charge to the profit and loss account. Cost reflects purchase price or construction cost of the asset together with any incidental costs of bringing the asset into use. Depreciation is applied on a straight-line basis so as to reduce the assets to their residual values over their estimated useful lives. The rates of depreciation used are:

Plant and machinery	Four years

Pensions

The Company makes contributions to a defined contribution scheme with costs being charged to the profit and loss account in the period to which they relate.

Share based payments

The share option programme allows Pressure Technologies plc to grant options to Group employees to acquire shares in Pressure Technologies plc. The fair value is measured at the date of granting the options and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as fair value is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting. Deferred taxation is recognised over the vesting period.

Where the individuals are employed by the parent Company, the fair value of options granted is recognised as an employee expense with a corresponding increase in equity. Where the individuals are employed by a subsidiary undertaking, the fair value of options to purchase shares in the Company that have been issued to employees of subsidiary companies is recognised as an additional cost of investment by the parent Company. An equal amount is credited to other equity reserves.

Investments in associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investments are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor’s share of the profit or loss of the investee after the date of acquisition.

The Company’s share of post-acquisition profit or loss is recognised in profit and loss. When the Group’s share of losses in an associate equals or exceeds this interest in the associate, the Group does not recognise further losses unless is has incurred legal or constructive obligation or made payments on behalf of the associate.

Deferred tax

Deferred income taxes are calculated using the liability method on timing differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. Deferred tax on timing differences associated with shares in subsidiaries is not provided if reversal of these timing differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible timing differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective periods of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Financial Statements

Notes to the Company Financial Statements continued

2. Employees

Average weekly number of employees, including executive Directors:

	2014 Number	2013 Number
Administration	**6**	5

Staff costs, including Directors:

	2014 £'000	2013 £'000
Wages and salaries	**563**	455
Social security costs	**68**	59
Other pension costs	**45**	43
Share based payments	**41**	15
	717	572

Further details of Directors' remuneration are provided in the Report of the Remuneration Committee.

3. Operating profit

The Auditor's remuneration for the audit and other services is disclosed in note 6 to the consolidated financial statements.

4. Investments in subsidiary companies

	Investment in subsidiary companies £'000
Cost	
At 29 September 2013	6,373
Investments made in the year	15,006
Share options granted to subsidiary company employees	68
At 27 September 2014	**21,447**

Further details of the investments made in the year are given in note 28 to the Group financial statements. In the holding company financial statements certain acquisition costs are capitalised alongside the consideration paid. These costs are written off in full in the Group Consolidated Statement of Comprehensive Income, which is prepared under IFRS.

The principal subsidiaries as at the balance sheet date, which are all 100% owned, are:

Name	Country of incorporation	Principal activity
Al-Met Limited	England & Wales	Manufacturing
Chesterfield BioGas Limited ("CBG")	England & Wales	Manufacturing
Chesterfield Special Cylinders Limited ("CSC")	England & Wales	Manufacturing
CSC Deutschland GmbH	Germany	Sales and marketing
Hydratron Limited	England & Wales	Manufacturing
Hydratron Inc	USA	Manufacturing
Roota Engineering Limited	England & Wales	Manufacturing
Pressure Technologies US, Inc	USA	Holding company

The Company also has an indirect holding of 40% in Kelley GTM, LLC, a manufacturing company based in the USA.

5. Tangible fixed assets

	Plant and machinery £'000
Cost	
At 28 September 2013	12
Additions	28
At 27 September 2014	**40**
Depreciation	
At 28 September 2013	8
Charge for the period	4
At 27 September 2014	**12**
Net book value	
At 27 September 2014	**28**
At 28 September 2013	4

6. Investments in associated companies

	£'000
Investments made in the year	**404**
Share of losses	**(183)**
At 27 September 2014	**221**

Further details of the investments in associated companies, including the Group's share of assets and liabilities, are set out in note 16 to the consolidated financial statements.

In the holding company financial statements certain acquisition costs are capitalised alongside the consideration paid. These costs are written off in full in the Group Consolidated Statement of Comprehensive Income, which is prepared under IFRS.

7. Debtors

	2014 £'000	2013 £'000
Amounts: falling due within one year		
Prepayments and accrued income	**45**	194
Other debtors	**2,874**	100
Amounts owed by Group companies	**543**	4,234
Deferred tax (note 11)	**21**	8
	3,483	4,536

	2014 £'000	2013 £'000
Amounts: falling due after one year		
Loans to associated companies	**1,436**	—
Amounts owed by Group companies	**5,715**	—
	7,151	—

Financial Statements

Notes to the Company Financial Statements continued

8. Creditors

	2014 £'000	2013 £'000
Amounts: falling due within one year		
Trade creditors	**41**	87
Other tax and social security	**32**	16
Corporation tax	**—**	1
Accruals and deferred income	**581**	426
Deferred consideration	**1,985**	—
	2,639	530

	2014 £'000	2013 £'000
Amounts: falling due after one year		
Deferred consideration	**2,432**	—
	2,432	—

9. Taxation

	2014 £'000	2013 £'000
Current tax		
Current tax expense	**—**	1
Over provision in respect of prior years	**—**	(1)
	—	—
Deferred tax		
Origination and reversal of temporary differences	**(13)**	(8)
Total taxation charge	**(13)**	(8)

Corporation tax is calculated at 22% (2013: 23.5%) of the estimated assessable profit for the period. Deferred tax is calculated at 20% (2013: 20%).

10. Share capital

Details of the Company's authorised and issued share capital and of movements in the year are given in note 25 to the consolidated financial statements.

11. Deferred tax

	2014 £'000	2013 £'000
Opening balance for the period	**8**	—
Credit for the period	**13**	8
Closing balance for the period	**21**	8

The provision for the deferred taxation asset is made up as follows:

	2014 £'000	2013 £'000
Cost of share options	**20**	7
Accelerated capital allowance	**1**	1
	21	8

12. Reserves

	Share premium account 2014 £'000	**Equity – non distributable 2014 £'000**	**Profit and loss account 2014 £'000**	Share premium account 2013 £'000	Equity – non distributable 2013 £'000	Profit and loss account 2013 £'000
At beginning of period	**5,387**	**114**	**6,495**	5,378	85	5,578
Profit for the financial period	**—**	**—**	**2,827**	—	—	1,765
Share option cost	**—**	**—**	**41**	—	—	15
Share options granted to subsidiary employees	**—**	**68**	**—**	—	29	—
Shares issued	**16,076**	**—**	**—**	9	—	—
Dividends	**—**	**—**	**(991)**	—	—	(863)
At end of period	**21,463**	**182**	**8,372**	5,387	114	6,495

See note 25 in the Group financial statements for details of the movements on share capital and share premium in the year.

13. Reconciliation of movements in equity shareholders' funds

	2014 £'000	2013 £'000
Equity shareholders' funds at beginning of period	**12,564**	11,609
Profit for the financial period	**2,827**	1,765
Dividends paid	**(991)**	(863)
Share option cost	**41**	15
Share options granted to subsidiary employees	**68**	29
Shares issued	**16,226**	9
Equity shareholders' funds at end of period	**30,735**	12,564

14. Related party transactions

The Company has taken advantage of the exemption available under FRS 8 not to disclose transactions with fellow members of the Pressure Technologies plc Group.

The interests of Directors in dividends paid during the year are disclosed in the Report of the Remuneration Committee.

During the period the Group issued a loan of $3,500,000 to an associate company, Kelley GTM, LLC. This loan was made at a rate of 4.5% which is considered to be below the market rate of a company such as Kelley GTM. As such, the loan is discounted to determine fair value on initial recognition. More details of the loan and the discounting provided can be seen in note 18 of the Group financial statements.

15. Ultimate controlling party

The Directors consider that there is no ultimate controlling party.

Notes

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