FLOWTECH FLUIDPOWER PLC

INTERIM REPORT

for the six months ended 30 June 2015

www.flowtechfluidpower.com

Stock Code: FLO

Delivering Tailored Solutions

Nurturing Solid Partnerships

Continuing Strong Traditions

Welcome to our Interim Report

Who Are We?

Flowtech Fluidpower plc is the UK's leading distributor of technical fluid power products and has an international footprint with offices in the UK, ROI and Benelux with a buying, QC and logistics office in China.

The Group is headquartered in Skelmersdale, Lancashire and the business employs 270 people.

Our Mission

Guided by its principles to build and maintain strong customer relations, the Group will continue to invest in its people, products and servicing requirements.

Our Vision

To create a key leader and to be the 'best in industry' for the fluid power sector.

Our Values

What's Inside

Our Competitive Edge

- Unique position within the fluid power supply chain
- Scale – 'one-stop shop' for fluid power products – access to over 500,000 lines
- Aligned with both global supply base and distributor network
- Global brands complemented by 'Exclusive Brands'
- Bespoke fully integrated trading platform and IT system
- Dedicated distribution and logistics centres
- Technical 'know-how' and high service levels
- Strategy to deliver growth both organic and acquisition

Business Review

Our Financials

Investor Website

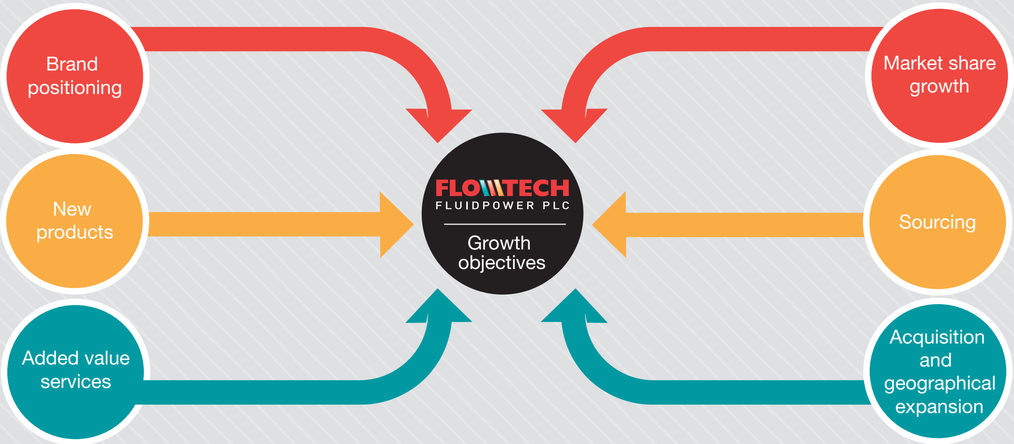
We maintain a corporate website at **www.flowtechfluidpower.com** containing a wide variety of information of interest to investors including:

- Latest news and press releases
- Annual Reports

Our Strategy

The Group has a clear view of its growth objectives — to create a specialist fluid power organisation that remains focused on its core competencies whilst servicing the varied industrial and manufacturing sectors through its delivery of 'class-leading' service and support. Our long term growth model is based on both organic growth coupled with complementary acquisitions in a very fragmented marketplace.

This will be achieved through:



Brand positioning

- Brand and the ability to maintain and build a reputation is critical to the long term development of the Group. Not only is this related to product but also to the operating units themselves such as our core "Flowtechnology" brand in distribution services and "Vitassem" in hose assembly and tube manipulation.
- Product brand expansion has been fundamental to the Group's progress, with the formulated approach to product placement and development to be expanded across the business units.
- As part of any acquisition process, brand and reputation will be paramount with the intention to maintain any local company branding and build on its existing position.

Market share growth

To maintain the growth strategy, the overall service that is delivered to the market needs to continually develop, creating an integrated service offer which is linked to both customer needs and to industry requirements:

- Wider product offer – continued development to align to market requirements and more technical content within the core product groups.
- Technical support – focused approach to increase reference data through the online platform as well as internal support.
- Training – programmes designed to develop expertise, improve the overall customer experience and develop a culture of customer support.
- Accreditation – delivering 'excellence' to the fluid power marketplace requires the business to continually revisit its processes and ensure that it has full accreditation for the products and services it delivers.

New products

Having over recent years successfully introduced new hydraulic and industrial hosing ranges to its pneumatics focused product offer, further development will support our market position as a one-stop shop supplier of fluid power products. The ongoing expansion of ranges will see the Group capture a greater percentage of current customer spend and also open up new business opportunities in the wider market.

Sourcing

Linked directly to the need to optimise the product offering, the business nurtures its relationships with its OEM suppliers whilst developing its complementary Exclusive Brands; this process has been accelerated with the creation of a sourcing team based in the Far East, which will be extended as the business grows.

Added value services

As part of the business development programme, new added-value services are being introduced to complement the Group's product ranges.

- Hose assembly and tube manipulation
- Power packs
- Web system integration
- Contract sourcing
- Training
- Technical support and design

Acquisition and geographical expansion

- The Group has an acquisition strategy with a clear focus – complementary fluid power businesses operating in specific channels. Commercially independent operations delivering quality customer service at all times.
- Primary Fluid Power & Nelson Fluid Power have created a significant distribution operation and new technical capabilities in design and assembly of hydraulic systems and purifiers, which are complemented by a service and repair function.
- The Directors believe that the Flowtechnology model can be replicated outside of the UK and this has been evidenced by the Benelux operation creating a blueprint process driven sales and service operation in fluid power.
- Our growing presence in China is ideally positioned to be used as a hub from which to potentially supply Exclusive Brands to fast growing economies around the world

Half Year Highlights

Financial Highlights

At a glance
From continuing operations

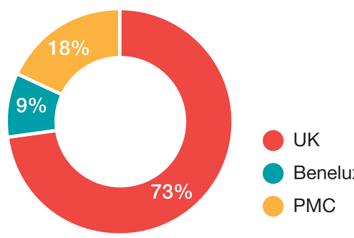
	Change HY2015 v HY2014	**HY2015 30.6.15**	HY2014 30.6.14	Full year 31.12.14
Group revenue	+24.6%	**£21.423m**	£17.191m	£37.791m
Gross profit	+17.7%	**£7.203m**	£6.119m	£13.176m
Underlying operating results*	+3.8%	**£3.404m**	£3.281m	£6.146m
Operating profit	+183.6%	**£3.012m**	£1.062m	£3.325m
Half-year dividend	+5.0%	**1.75p**	1.67p	5.00p
Earnings per share (basic)	–	**5.62p**	**	**
Net debt	+21.6%	**£7.459m**	£6.132m	£6.710m

* Underlying operating result is continuing operations operating profit before acquisition costs, amortisation of acquired intangibles, share-based payment costs, restructuring costs and IPO costs.
** Prior period earnings per share measures are calculated under previous financial structure and are therefore not comparable.

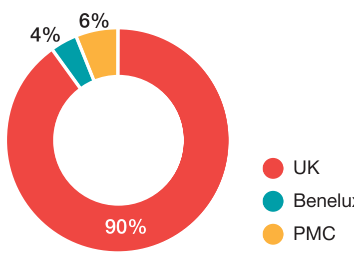
Highlights

- Solid performance across the business despite some sector weakness in UK and Eurozone which impacted the Maintenance, Repair and Overhaul market (MRO)
- Gross profit margins across all divisions remained consistent and strong for each sector with no erosion experienced despite market conditions
- Strategic acquisitions complement Primary acquired last year adding OEM scale, new markets and strengthen the Group's hydraulic offering
- Dividend increased 5%
- Market share increasing: new opportunities continue to be investigated
- Acquisition of Nelson Fluid Power on 3 July and creation of Power Motion Control Division

Sales



Profit*



* Before separately disclosed items and central costs which are shown in the financial statements note 3.

Directors' Statement

Bryce Brooks, Nigel Richens, Sean Fennon, Paul Watson and Malcolm Diamond MBE

"We are pleased to report a solid underlying first half performance which has seen our portfolio businesses trading well in their individual market places"

Malcolm Diamond MBE
Non-Executive Chairman

"We are fortunate at this time to have both strength and depth across our product portfolio and extensive customer exposure. Management remain optimistic about both the commercial opportunities and the prospects of the Group as a whole. The Board is confident that the Company can deliver another year of solid progress"

Sean Fennon
Chief Executive Officer

Introduction

We are pleased to report a solid underlying first half performance which has seen our portfolio businesses trading well in their individual market places against a backdrop where the economic conditions remain challenging in both the UK and Mainland Europe. The profile of the Group has also continued to increase over the last twelve months and this is assisting us in growing our market share and reinforcing our position as one of the leading players in the industrial fluid power sector. By refining our offer we ensure that the Group maintains its competitive advantage in each of the markets in which it trades.

Our Business Strategy for Growth

Our focus remains — to develop a specialist fluid power organisation focused on its core competencies and 'class-leading' service.

Flowtech has already demonstrated that it can deliver profitable, consistent levels of service to a diverse customer base. There is significant opportunity for the business to achieve further organic growth through a mix of product development and value added services.

In addition we believe there is also a strong opportunity to accelerate this growth through complementary channel development, geographic expansion and adding niche bolt-on acquisitions.

In 2014, our maiden year as a PLC, we were pleased to add Primary Fluid Holdings to the Group, strengthening the Flowtech offering in hydraulics. Against this backdrop, we were pleased to announce that in 2015 we added two successful businesses to the Group further enhancing our exposure to this important part of the industrials market sector.

Albroco, based in North Wales was acquired in May — it specialises in the distribution of hydraulic and electro-mechanical components to the mobile, on- and off-highway and construction markets.

Nelson Fluid Power (NFP) joined the Group in July – it is a distributor of hydraulic equipment, components and hose assemblies from its locations at Lisburn and Dungannon (Northern Ireland) and Dublin (Republic of Ireland).

The long established NFP business has a broad customer base in Ireland across the crushing and screening, agricultural and marine and fishing sectors.

Albroco is expected to be fully integrated into the Primary site in Knowsley by the end of this month while NFP will operate as an independent sister company within the Flowtech Group. Both will add significantly to the Group's procurement position in hydraulic components, hose and couplings. With our growing interest in this sector we have therefore formed a new division, Power Motion Control (PMC) incorporating Primary, Albroco and Nelson. We are optimistic that this division will benefit from the introduction of more sophisticated IT and stock systems (that are already used within Flowtech's Flowtechnology businesses), and coupled with commercial synergies and buying power, will deliver an increasing contribution in terms of revenue and profitability over the next twelve months.

As a business we are in a unique position within the fluid power supply chain, as we are aligned to both the global supply base and its distributor network. We are in an exciting phase; Flowtech's progress continues apace to the varied industrial and manufacturing customers it supplies everyday around the UK and overseas. We remain confident in the future of the business — we have a clear strategy to develop the opportunities that will deliver future growth and returns to shareholders.

Half Year Financial Performance

Although not defined under IFRS, the Directors believe that the underlying operating results give a better understanding of the business' performance. The table below details this is in summary and further information is contained in note 3 of this Interim Report.

Continuing operations Underlying operating result*	**Six months ended 30 June 2015 £000**	Six months ended 30 June 2014 £000	Change	%	Year ended 31 December 2014 £000
Flowtechnology:					
UK	**3,916**	3,689	227	+6.2%	6,899
Benelux	**170**	308	(138)	-44.8%	497
	4,086	3,997	89	+2.2%	7,396
Primary	**284**	—	284	—	369
Central costs	**(966)**	(716)	(250)	-34.9%	(1,619)
Underlying operating result*	**3,404**	3,281	123	+3.7%	6,146

* Underlying operating result is continuing operations' operating profit before acquisition costs, amortisation of acquired intangibles, share-based payment costs, restructuring costs, and IPO costs. Underlying operating result is reconciled to statutory profit before tax in note 3 to the Interim Report.

Directors' Statement continued

In the Flowtechnology division, UK revenue in the first half grew by 2.7% to £15.617m, while in the Benelux a reduction of 5.8% was experienced, albeit this includes a negative impact of 9.6% due to movements in the Euro conversion rate and therefore, local currency growth remains positive at 5.8%.

As previously reported Primary experienced a rapid reduction in demand from the oil and gas related sectors in late 2014 and as has been widely seen in similar companies the related drag on revenues has remained present throughout H1 2015. However, a sensible cost management focus has ensured profitability was retained and with recent evidence indicating growth in other sectors.

Gross profit margins across all divisions remained consistent and strong for each sector with no erosion experienced despite market conditions. The Group is therefore able to report an underlying operating profit of £3.404m (2014: £3.281m), an increase of 3.7% year on year.

On an annual basis the Group purchases a foreign currency 'hedge' to fix the Euro rate for the anticipated profitability of its overseas operations (i.e. Flowtechnology Benelux and in part the Republic of Ireland operations of NFP). The net change in value of this hedge is accounted for as financial income under IFRS and is shown as Financial income of £33,000 (2014: £1,000).

Financial Position

With the soft market conditions experienced during the early part of 2015, the Group has focused to ensure that working capital continues to be managed effectively. Inventories at 30 June 2015 were £10.466m, a reduction of £0.697m from 31 December 2014, although to some degree this has been offset by a reduction in trade payables of £0.264m.

Net cash collection remains excellent and net debt at 30 June 2015 of £7.459m (2014: £6.133m) is ahead of expectations. This allowed the Group to complete both the acquisitions of Albroco and NFP from within current cash and debt resources. The NFP transaction, completed post the period end (3 July 2015) was part satisfied by £4.460m in cash. However, this included the purchase of £1.500m of cash held by NFP and therefore, the net cash outlay was £2.960m funded through our own resources at completion.

Two further contingent payments are due in 2016 and 2017 which are based on the profitability of NFP post acquisition. The maximum payable as contingent consideration is £2.375m. Further details are given in note 8 of this report.

Banking

In September 2015, in addition to its term loan, the Group secured enhanced facilities from its bankers, Barclays Bank PLC. These replace the £6.00m Confidential Invoice Discounting (CID) facility that was in place with a new Revolving Credit Facility (RCF) of £8.00m, with an agreed further extension (so called "Accordian") of up to £7.00m as required in order to assist with further growth both organically and by acquisition. This new facility has a three year commitment.

Our People

Implementing the Group's strategy is also down to our people, their skills and expertise. The Board thank everyone around the business for their continuous hard work, dedication and loyalty, which underpins both the high level customer relationships and the Group's overall performance.

We also take this opportunity to welcome NFP's Managing Director, Mark Nelson to Flowtech's Operational Board. Also, all new colleagues who have joined Flowtech in the period or the Group as part of Albroco and NFP.

The Group today employs 270 people through its seven locations across four countries.

Current Trading and Outlook

We are fortunate at this time to have both strength and depth across our product portfolio and extensive customer exposure. Our recent acquisitions also widen the geographical areas and the industrial fluid power markets we serve.

The formation of a Power Motion Control Division showcases our significant technical expertise as well as opening up a new important OEM channel in hydraulics; combined with our high service levels we have a solid platform for ongoing growth.

Management remain optimistic about both the commercial opportunities and the prospects of the Group as a whole, despite some headwinds from the ongoing weakness and competitive pressures being witnessed within certain sectors of the industrial and manufacturing arena, both in the UK and across Europe. However, the Board is confident that the Company can deliver another year of solid progress.

Dividend

The focus is on capital growth through investment in the business and increasing ROCE. As a Board, we are also committed to a progressive dividend policy based on the year's performance as a whole whilst balancing our investment in the business for the future benefit of all stakeholders, customers and colleagues.

The Board is pleased to declare a 5% increase in the half year dividend to 1.75p per share (2014: 1.67p). This will be paid on 23 October 2015 to shareholders on the Register at the close of business on 2 October 2015. The shares will become ex-dividend on 1 October 2015. The dividend is covered 3.11 times by earnings.

Principal Risks and Uncertainties

In common with all organisations, Flowtech faces risks which may affect its performance. The Group operates a system of internal control and risk management in order to provide assurance that we are managing risk whilst achieving our business objectives. No system can fully eliminate risk and therefore the understanding of operational risk is central to management processes. The long term success of the Group depends on the continual review, assessment and control of the key business risks it faces. In view of this the Board has recently engaged with a team of risk specialists to ensure risk identification and mitigation is a key strategy focus for the Group.

The Directors set out in the 2014 Annual Report and Financial Statements the principal risks identified during this exercise, including quality control, systems and site disruption and employee retention. The Board does not consider that these risks have changed materially in the last six months.

By order of the Board

Malcolm Diamond MBE
Non-Executive Chairman

Sean Fennon
Chief Executive Officer
7 September 2015

Consolidated Income Statement
for the six months ended 30 June 2015

	Notes	**Unaudited Six months ended 30 June 2015 £000**	Unaudited Six months ended 30 June 2014 £000	Audited Year ended 31 December 2014 £000
Continuing operations				
Revenue	3	**21,423**	17,191	37,791
Cost of sales		**(14,220)**	(11,072)	(24,615)
Gross profit		**7,203**	6,119	13,176
Distribution expenses		**(1,065)**	(897)	(2,034)
Administrative expenses before separately disclosed items:		**(2,734)**	(1,941)	(4,996)
— Acquisition costs	3	**(50)**	—	(206)
— Amortisation of acquired intangibles	3	**(160)**	—	(130)
— Share based payment costs	3	**(172)**	(20)	(148)
— Restructuring costs	3	**(10)**	—	(45)
— IPO costs	3	**—**	(2,199)	(2,292)
Total administrative expenses		**(3,126)**	(4,160)	(7,817)
Operating profit	3	**3,012**	1,062	3,325
Financial income		**33**	1	33
Financial expenses		**(96)**	(1,959)	(1,990)
Gain on settlement of debt		**—**	29,043	29,043
Net financing (costs)/income		**(63)**	27,085	27,086
Profit from continuing operations before tax	3	**2,949**	28,147	30,411
Taxation	4	**(542)**	(636)	(1,184)
Profit from continuing operations		**2,407**	27,511	29,227
Loss from discontinued operations, net of tax		**(73)**	(473)	(496)
Profit for the period attributable to the owners of the parent		**2,334**	27,038	28,731
Earnings per share				
Basic earnings/(loss) per share				
Continuing operations		**5.62p**	311.03p	114.42p
Discontinued operations		**(0.17p)**	(5.34p)	(1.94p)
Basic earnings per share	6	**5.45p**	305.69p	112.48p
Diluted earnings/(loss) per share				
Continuing operations		**5.45p**	306.39p	112.86p
Discontinued operations		**(0.17p)**	(5.34p)	(1.92p)
Diluted earnings per share	6	**5.38p**	301.05p	110.94p

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2015

	Unaudited Six months ended 30 June 2015 £000	Unaudited Six months ended 30 June 2014 £000	Audited Year ended 31 December 2014 £000
Profit for the period	**2,334**	27,038	28,731
Other comprehensive expense			
— items that will be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	**(95)**	(27)	(141)
Total comprehensive income in the period attributable to the owners of the parent	**2,239**	27,011	28,590

Consolidated Statement of Financial Position
as at 30 June 2015

	Unaudited 30 June 2015 £000	Unaudited 30 June 2014 £000	Audited 31 December 2014 £000
Assets			
Non-current assets			
Goodwill	**44,962**	42,524	44,583
Other intangible assets	**3,342**	—	2,995
Property, plant and equipment	**3,014**	1,662	2,887
Total non-current assets	**51,318**	44,186	50,465
Current assets			
Inventories	**10,466**	9,230	11,163
Trade and other receivables	**11,601**	8,792	9,529
Prepayments	**224**	368	270
Other financial assets	**31**	—	24
Cash and cash equivalents	**784**	3,067	1,979
Total current assets	**23,106**	21,457	22,965
Liabilities			
Current liabilities			
Interest-bearing loans and borrowings	**2,957**	3,051	2,973
Trade and other payables	**5,151**	3,780	5,415
Deferred and contingent consideration	**2,277**	—	1,603
Tax payable	**904**	707	881
Provisions	**63**	208	71
Other financial liabilities	**—**	7	27
Total current liabilities	**11,352**	7,753	10,970
Net current assets	**11,754**	13,704	11,995
Non-current liabilities			
Deferred and contingent consideration	**85**	—	—
Interest-bearing loans and borrowings	**5,286**	6,149	5,716
Provisions	**121**	105	162
Deferred tax liabilities	**702**	77	676
Total non-current liabilities	**6,194**	6,331	6,554
Net assets	**56,878**	51,559	55,906
Equity directly attributable to owners of the parent			
Share capital	**21,414**	20,000	21,414
Share premium	**46,664**	46,809	46,664
Share-based payment reserve	**307**	20	148
Merger reserve	**293**	293	293
Merger relief reserve	**2,086**	—	2,086
Currency translation reserve	**(273)**	(64)	(178)
Retained losses	**(13,613)**	(15,499)	(14,521)
Total equity	**56,878**	51,559	55,906

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2015

	Share capital £000	Share premium £000	Share-based payment reserve £000	Merger reserve £000	Merger relief reserve £000	Currency translation reserve £000	Retained losses £000	Total equity £000
Six months ended 30 June 2014 – unaudited								
Balance at 1 January 2014	50	—	—	293	—	(37)	(13,494)	(13,188)
Profit for the period	—	—	—	—	—	—	27,038	27,038
Other comprehensive expense	—	—	—	—	—	(27)	—	(27)
Total comprehensive (expense)/income for the period	—	—	—	—	—	(27)	27,038	27,011
Transaction with owners								
Issue of share capital	19,950	19,950	—	—	—	—	—	39,900
Share issue expenses	—	(2,184)	—	—	—	—	—	(2,184)
Gain on settlement of debt capitalised as share premium on issue of ordinary shares	—	29,043	—	—	—	—	(29,043)	—
Share-based payment charge	—	—	20	—	—	—	—	20
Total transactions with owners	19,950	46,809	20	—	—	—	(29,043)	37,736
Balance at 30 June 2014	**20,000**	**46,809**	**20**	**293**	**—**	**(64)**	**(15,499)**	**51,559**
Year ended 31 December 2014 – audited								
Balance at 1 January 2014	50	—	—	293	—	(37)	(13,494)	(13,188)
Profit for the year	—	—	—	—	—	—	28,731	28,731
Other comprehensive expense	—	—	—	—	—	(141)	—	(141)
Total comprehensive (expense)/income for the year	—	—	—	—	—	(141)	28,731	28,590
Transaction with owners								
Issue of share capital	21,364	19,950	—	—	—	—	—	41,314
Share issue expenses	—	(2,329)	—	—	—	—	—	(2,329)
Merger relief arising on acquisition of subsidiary	—	—	—	—	2,086	—	—	2,086
Gain on settlement of debt capitalised as share premium on issue of ordinary shares	—	29,043	—	—	—	—	(29,043)	—
Share-based payment charge	—	—	148	—	—	—	—	148
Equity dividends paid (note 5)	—	—	—	—	—	—	(715)	(715)
Total transactions with owners	21,364	46,664	148	—	2,086	—	(29,758)	40,504
Balance at 31 December 2014	**21,414**	**46,664**	**148**	**293**	**2,086**	**(178)**	**(14,521)**	**55,906**
Six months ended 30 June 2015 — unaudited								
Balance at 1 January 2015	21,414	46,664	148	293	2,086	(178)	(14,521)	55,906
Profit for the period	—	—	—	—	—	—	2,334	2,334
Other comprehensive expense	—	—	—	—	—	(95)	—	(95)
Total comprehensive (expense)/income for the period	—	—	—	—	—	(95)	2,334	2,239
Transaction with owners								
Share-based payment charge	—	—	159	—	—	—	—	**159**
Equity dividends paid (note 5)	—	—	—	—	—	—	(1,426)	**(1,426)**
Total transactions with owners	—	—	159	—	—	—	(1,426)	(1,267)
Balance at 30 June 2015	**21,414**	**46,664**	**307**	**293**	**2,086**	**(273)**	**(13,613)**	**56,878**

Consolidated Statement of Cash Flows

for the six months ended 30 June 2015

	Note	**Unaudited Six months ended 30 June 2015 £000**	Unaudited Six months ended 30 June 2014 £000	Audited Year ended 31 December 2014 £000
Cash flow from operating activities				
Net cash from operating activities	9	**1,659**	(1,040)	2,275
Cash flow from investing activities				
Acquisition of subsidiary, net of cash acquired		**(477)**	—	(2,683)
Disposal of subsidiary, net of cash disposed of		**—**	103	103
Acquisition of property, plant and equipment		**(351)**	(211)	(496)
Proceeds from sale of property, plant and equipment		**7**	—	—
Net cash used in investing activities		**(821)**	(108)	(3,076)
Cash flows from financing activities				
Net proceeds from the issue of share capital		**—**	37,767	37,571
Proceeds from new loan		**—**	7,000	7,000
Repayment of long term borrowings		**(430)**	(37,151)	(37,532)
Net change in short term borrowings		**(269)**	(5,324)	(5,409)
Repayment of finance lease liabilities		**(11)**	(6)	(16)
Share based payment options exercised		**(12)**	—	—
Interest received		**—**	—	3
Interest paid		**(99)**	(336)	(341)
Dividends paid		**(1,426)**	—	(715)
Net cash (used in)/generated from financing activities		**(2,247)**	1,950	561
Net change in cash and cash equivalents		**(1,409)**	802	(240)
Cash and cash equivalents at start of period		**1,979**	2,265	2,265
Exchange differences on cash and cash equivalents		**(50)**	—	(46)
Cash and cash equivalents at end of period		**520**	3,067	1,979

Notes to the Interim Report

for the six months ended 30 June 2015

1. General Information

The principal activity of Flowtech Fluidpower plc (the “Company”) and its subsidiaries (together, the “Group”) is the distribution of engineering components, concentrating on the fluid power industry. The Company is incorporated and domiciled in the UK. The address of its registered office is Pimbo Road, Skelmersdale, Lancashire WN8 9RB. The registered number is 09010518.

As permitted, this Interim Report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 “Interim Financial Reporting”.

The consolidated financial statements are prepared under the historical cost convention, as modified by the revaluation of certain financial instruments.

This consolidated Interim Report and the financial information for the six months ended 30 June 2015 does not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 and are unaudited. This unaudited Interim Report was approved by the Board of Directors on 7 September 2015.

The Group’s financial statements for the year ended 31 December 2014 have been filed with the Registrar of Companies. The Group’s auditor’s report on these financial statements was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Electronic Communications

The Company is not proposing to bulk print and distribute hard copies of this Interim Report for the six months ended 30 June 2015 unless specifically requested by individual shareholders.

The Board believes that by utilising electronic communication it delivers savings to the Company in terms of administration, printing and postage, and environmental benefits through reduced consumption of paper and inks, as well as speeding up the provision of information to shareholders.

News updates, Regulatory News, and Financial statements, can be viewed and downloaded from the Group’s website, www.flowtechfluidpower.com. Copies can also be requested from; The Company Secretary, Flowtech Fluidpower plc, Pimbo Road, Skelmersdale, Lancashire, WN8 9RB. email: info@flowtechfluidpower.com

2. Accounting Policies

Basis of Preparation

The financial information set out in this consolidated Interim Report has been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the accounting policies which will be adopted in presenting the Group’s Annual Report and Financial Statements for the year ended 31 December 2015. These are consistent with the accounting policies used in the Financial Statements for the year ended 31 December 2014, except as detailed below:

Going Concern

The Group meets it day-to-day working capital requirements through its bank facilities. The Directors have carefully considered the banking facilities and their future covenant compliance in light of the current and future cash flow forecasts and they believe that the Group is appropriately positioned to ensure the conditions of its funding will continue to be met and therefore enable the Group to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

Taxes

Taxes on income in the interim periods are accrued using the rate of tax that would be applicable to expected total annual earnings.

Notes to the Interim Report continued

for the six months ended 30 June 2015

3. Operating Segments

The Group comprises of the following three operating segments which are defined by geographic area and trading activity:

- **Flowtechnology UK** — distribution and assembly of engineering components, principally to distributors and end users in the UK and Eire.
- **Flowtechnology Benelux** — distribution of engineering components, to distributors and end users in the Netherlands and Belgium.
- **Power Motion Control Division** — distribution and assembly of engineering components and hydraulic systems to distributors and end users in the international market — based in the UK and Republic of Ireland.

The Board is considered to be the chief operating decision maker (CODM). The CODM manages the business using an underlying profit figure. Only finance income and costs secured on the assets of the operating segment are included in the segment results. Finance income and costs relating to loans held by the Company are not included in the segment result that is assessed by the CODM. Transfer prices between operating segments are on an arm's length basis.

The Directors believe that the underlying operating profit provides additional useful information on underlying trends to Shareholders. The term "underlying" is not a defined term under IFRS and may not be comparable with similarly titled profit measurements reported by other companies. A reconciliation of the underlying operating result to operating profit/(loss) from continuing operations is shown below. The principal adjustments made are in respect of the separately disclosed items are as detailed at the end of this note.

Segment information for the reporting periods is as follows:

	Flowtechnology UK £000	Flowtechnology Benelux £000	Power Motion Control £000	Inter-segmental transactions £000	Central Costs £000	**Total Continuing Operations £000**
Six months ended 30 June 2015						
Income statement — continuing operations:						
Revenue from external customers	15,617	1,871	3,935	—	—	**21,423**
Inter segment revenue	430	42	138	(610)	—	**—**
Total revenue	16,047	1,913	4,073	(610)	—	**21,423**
Underlying operating result	**3,916**	**170**	**284**	**—**	**(966)**	**3,404**
Net financing costs	4	—	—	—	(67)	**(63)**
Underlying segment result	**3,920**	**170**	**284**	**—**	**(1,033)**	**3,341**
Separately disclosed items	(47)	(12)	(172)	—	(161)	**(392)**
Profit/(loss) before tax	3,873	158	112	—	(1,194)	**2,949**
Specific disclosure items						
Depreciation	(184)	(13)	(39)	—	—	**(236)**
Amortisation	—	—	(160)	—	—	**(160)**
Reconciliation of underlying operating result to operating profit:						
Underlying operating result	**3,916**	**170**	**284**	**—**	**(966)**	**3,404**
Separately disclosed items	**(47)**	**(12)**	**(172)**	**—**	**(161)**	**(392)**
Operating profit/(loss)	**3,869**	**158**	**112**	**—**	**(1,127)**	**3,012**

3. Operating Segments continued

	Flowtechnology UK £000	Flowtechnology Benelux £000	Power Motion Control £000	Inter-segmental transactions £000	Central Costs £000	**Total Continuing Operations £000**
Six months ended 30 June 2014						
Income statement – continuing operations:						
Revenue from external customers	15,204	1,987	—	—	—	**17,191**
Inter segment revenue	420	31	—	(451)	—	**—**
Total revenue	15,624	2,018	—	(451)	—	**17,191**
Underlying operating result	**3,689**	**308**	**—**	**—**	**(716)**	**3,281**
Net financing (costs)/income	(122)	(1)	—	—	27,208	**27,085**
Underlying segment result	**3,567**	**307**	**—**	**—**	**26,492**	**30,366**
Separately disclosed items	—	—	—	—	(2,219)	**(2,219)**
Profit before tax	3,567	307	—	—	24,273	**28,147**
Specific disclosure items						
Depreciation	205	21	—	—	—	**226**
Reconciliation of underlying operating result to operating profit:						
Underlying operating result	3,689	308	—	—	(716)	**3,281**
Separately disclosed items	—	—	—	—	(2,219)	**(2,219)**
Operating profit/(loss)	**3,689**	**308**	**—**	**—**	**(2,935)**	**1,062**

Segmental Reporting by Geographic Location	Flowtechnology UK £000	Flowtechnology Benelux £000	Power Motion Control £000	Inter-segmental transactions £000	Central Costs £000	**Total Continuing Operations £000**
Year ended 31 December 2014						
Income statement – continuing operations:						
Revenue from external customers	30,052	3,800	3,939	—	—	**37,791**
Inter segment revenue	654	60	—	(714)	—	**—**
Total revenue	30,706	3,860	3,939	(714)	—	**37,791**
Underlying operating result	**6,899**	**497**	**369**	**—**	**(1,619)**	**6,146**
Net financing (costs)/income	(141)	(2)	—	—	27,229	**27,086**
Underlying segment result	**6,758**	**495**	**369**	**—**	**27,229**	**33,232**
Separately disclosed items	(166)	(30)	(135)	—	(2,490)	**(2,821)**
Profit before tax	6,592	465	234	—	23,120	**30,411**
Specific disclosure items						
Depreciation	424	40	39	—	—	**503**
Amortisation	—	—	130	—	—	**130**
Reconciliation of underlying operating result to operating profit:						
Underlying operating result	6,899	497	369	—	(1,619)	**6,146**
Separately disclosed items	(166)	(30)	(135)	—	(2,490)	**(2,821)**
Operating profit/(loss)	**6,733**	**467**	**234**	**—**	**(4,109)**	**3,325**

Notes to the Interim Report continued
for the six months ended 30 June 2015

3. Operating Segments continued
Separately Disclosed Items

- Acquisition costs relate to stamp duty, due diligence, legal fees and other professional costs incurred in the acquisition of Group subsidiaries
- Share-based payment costs relate to the provision made in accordance with IFRS 2 "Share-based payment" following the issue of share options issued to employees subsequent to admission to AIM
- Restructuring costs relate to restructuring activities of both an operational and financial nature. Operational restructuring covers the closure of business units; costs include employee redundancies within these units, continuing property costs post closure and other onerous lease obligations. The costs of financial restructuring includes bank arrangement fees and associated legal costs
- IPO costs comprise the professional and other fees related to the IPO and costs of settlement of certain cash-settled Directors' share obligations arising on the IPO accounted for in accordance with IFRS 2 "Shared-based payment".

	Six months ended 30 June 2015 £000	Six month ended 30 June 2014 £000	Year ended 31 December 2014 £000
Separately disclosed items within administration expenses:			
— Acquisition costs	**50**	—	206
— Amortisation of acquired intangibles	**160**	—	130
— Share based payment costs	**172**	20	148
— Restructuring	**10**	—	45
— IPO costs	**—**	2,199	2,292
Total separately disclosed items	**392**	2,219	2,821

4. Taxation

	Six months ended 30 June 2015 £000	Six month ended 30 June 2014 £000	Year ended 31 December 2014 £000
Current tax on income for the period — continuing operations:			
UK tax	**618**	435	1,058
Foreign tax	**—**	31	21
Deferred tax (credit)/expense	**(76)**	20	38
Adjustments in respect of prior years	**—**	150	67
Total taxation	**542**	636	1,184

The taxation for the period has been calculated by applying the estimated tax rate for the financial year ending 31 December 2015 adjusted for the reduction in the rate of corporation tax to 20% from 21%. Deferred tax liabilities have also been adjusted to £702,000 to reflect capital allowances in excess of depreciation and other short term timing differences.

5. Dividends

	Six months ended 30 June 2015 £000	Six months ended 30 June 2014 £000	Year ended 31 December 2014 £000
Interim dividend of 1.67p per share	—	—	715
Final dividend of 3.33p per share	1,426	—	—
	1,426	—	715

In addition the Directors are proposing a half-year dividend in respect of the financial year ended 31 December 2015 of 1.75p per share which will absorb an estimated £0.75 million of shareholders' funds. It will be paid on the 23 October 2015 to Shareholders who are on the Register of Members on 2 October 2014.

6. Earnings Per Share

Basic earnings/(loss) per share is calculated by dividing the earnings/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

For diluted earnings/(loss) per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The dilutive shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period.

	Six months ended 30 June 2015			Six months ended 30 June 2014			Year ended 31 December 2014		
	Earnings £000	Weighted average number of shares 000's	Earnings per share Pence	Earnings £000	Weighted average number of shares 000's	Earnings per share Pence	Earnings £000	Weighted average number of shares 000's	Earnings per share Pence
Basic earnings/(loss) per share									
Continuing operations	2,407	42,828	5.62	27,511	8,845	311.03	29,227	25,542	114.42
Discontinued operations	(73)	42,828	(0.17)	(473)	8,845	(5.34)	(496)	25,542	(1.94)
Basic earnings per share	2,334	42,828	5.45	27,038	8,845	305.69	28,731	25,542	112.48
Diluted earnings/(loss) per share									
Continuing operations	2,407	43,413	5.54	27,511	8,979	306.39	29,227	25,897	112.86
Discontinued operations	(73)	43,413	(0.17)	(473)	8,979	(5.34)	(496)	25,897	(1.92)
Diluted earnings per share	2,334	43,413	5.38	27,038	8,979	301.05	28,731	25,897	110.94

	Six months ended 30 June 2015 £000	Six months ended 30 June 2014 £000	Year ended 31 December 2014 £000
Weighted average number of ordinary shares for basic and diluted earnings per share	42,828	8,845	25,542
Impact of share options	585	134	355
Weighted average number of ordinary shares for diluted earnings per share	43,413	8,979	25,897

Notes to the Interim Report continued

for the six months ended 30 June 2015

7. Acquisitions

On 29 May 2015, the Group acquired 100% of the share capital of Albroco Limited, a UK-based business, thereby obtaining control. The acquisition was made to enhance the Group's position in the hydraulic market. The total consideration was provisionally £1,669,000, subject to finalisation of the completion accounts. This comprised £910,000 in cash and £759,000 contingent cash consideration. The additional consideration is based on gross profit targets for the Company's customer base and is payable on the first and second anniversary of the acquisition. The fair value of £759,000 has been calculated using management forecasts of Albroco Limited's performance discounted at the weighted average cost of capital.

Acquisition costs and stamp duty amounting to £25,000 have been recognised as an expense in the consolidated income statement as part of separately disclosed administration costs.

Goodwill

Goodwill of £379,000 is primarily related to expected future profitability and expected cost synergies. Goodwill has been allocated to the Power Motion Control operating segment and is not expected to be deductible for tax purposes.

Intangible Asset

An intangible asset of £508,000 has been provisionally identified related to customer relationships. The estimated useful life has been determined as ten years based on the expected future cash flows that they would generate in arriving at their fair value. The customer relationships considered in the valuation comprise customers buying the Honeywell product group, this product group was not offered by the Power Motion Control operating segment prior to the acquisition. Sales growth over the ten year period has been assumed to be 1.5% with an attrition rate of 5% for customers. Growth and attrition rates are based on management experience and expectations. Amortisation of customer relationships is not expected to be deductible for tax purposes.

Details of the provisional fair value of identifiable assets and liabilities acquired, purchase consideration, goodwill and intangible assets are as follows:

	Book value £000	Fair value adjustment £000	Intangible asset recognised on acquisition £000	Provisional fair value £000
Property, plant and equipment	20	—	—	20
Intangible assets	—	—	508	508
Inventories	414	—	—	414
Trade and other receivables	306	—	—	306
Cash and cash equivalents	433	—	—	433
Trade and other payables	(252)	—	—	(252)
Current tax balances	(37)	—	—	(37)
Deferred tax liability	—	—	(102)	(102)
Total net assets	**884**	**—**	**406**	**1,290**

	£000
Fair value of consideration paid	
Amount settled in cash	910
Fair value of contingent consideration	759
Total consideration	**1,669**
Less net assets acquired	1,290
Goodwill on acquisition	**379**

8. Subsequent Events

Nelson Fluid Power Limited and its subsidiaries were acquired on 3 July 2015 for a total consideration of £5.946m comprising £4.460m in cash and £1.486m contingent cash consideration. This is a provisional figure subject to the finalisation of the completion accounts. Contingent consideration is based on the profitability of the company post acquisition and is due for payment on the acquisition anniversaries in 2016 and 2017. The maximum contingent consideration payable is £2.375m. The acquisition was made to enhance the Group's position in the hydraulic market. Included within the net assets of Nelson Hydraulics Limited was £1.7m of cash retained within the business on acquisition. The cash consideration was funded out of existing cash resources.

The Group will disclose the book value of the identifiable assets and liabilities and their fair values in the 2015 full year financial statements as required under IFRS 3 "Business Combinations". The initial accounting and fair value exercise is incomplete at the time of this announcement due to the proximity of the accounting date.

9. Net Cash From Operating Activities

	Six months ended 30 June 2015 £000	Six months ended 30 June 2014 £000	Year ended 31 December 2014 £000
Reconciliation of profit before taxation to net cash flows from operations:			
Profit from continuing operations before tax	**2,949**	28,147	30,411
Loss from discontinued operations before tax	**(73)**	(325)	(348)
Depreciation	**236**	228	503
Financial income	**(33)**	(1)	(33)
Financial expense	**96**	1,959	1,990
Gain on settlement of debt	**—**	(29,043)	(29,043)
Amortisation	**160**	—	130
Equity settled share-based payment charge	**172**	20	148
Operating cash inflow before changes in working capital and provisions	**3,507**	985	3,758
Change in trade and other receivables	**(1,720)**	(1,596)	408
Change in stocks	**1,068**	515	12
Change in trade and other payables	**(499)**	(680)	(752)
Change in provisions	**(48)**	142	62
Cash generated from operations	**2,308**	(634)	3,448
Tax paid	**(649)**	(406)	(1,213)
Net cash generated from operating activities	**1,659**	(1,040)	2,275

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