FLOWTECH
FLUIDPOWER PLC

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

www.flowtechfluidpower.com
Stock Code: FLO

FLOWTECH FLUIDPOWER PLC

WELCOME

Welcome to Flowtech Fluidpower plc's third Annual Report for the year ended 31 December 2016

Who are we?

Flowtech Fluidpower plc, founded as Flowtech in 1983, is a leading specialist distributor of fluid power products. It has an international footprint with operations in the UK, ROI, Benelux and China.

The Group's largest site, including a Shared Logistics Centre, is in Skelmersdale, Lancashire and the business employed 319 people at the reporting date.

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 values

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

See how we live our values on pages 26, 27 and 28

Contents

Chairman's letter

Malcolm Diamond MBE, Chairman

Dear Shareholder

Welcome to our 2016 Annual Report and Accounts for what is our second full year of listing on AIM.

I think it is widely acknowledged amongst our investor community that the majority of UK based listed companies have found 2016 to be not only a challenging period, but also a period of opportunity for sector consolidation.

When Flowtech came to market, our Board presented their investment case on the basis of not only a strong commitment to organic growth, whilst resolutely maintaining their proven track record of margin retention, but also to take advantage of acquisition opportunities within what is an extremely fragmented UK and European market within the fluid power sector.

The founding core business within the Group, the Flowtechnology division, devotes itself to supplying a vast range of high quality equipment and components, both branded and generic, with a market beating technical and delivery service to specialist trade distributors and resellers. This stock range is managed dynamically in relation to demand, and in the past year alone has enlarged customer choice by a further 3,500 new items, thus sustaining its reputation for being the UK market leader.

It is a key policy of the Group to isolate end user business from trade distribution in order to maintain customer loyalty and stability. This has led to the formation of the Power Motion Control ("PMC") division by acquiring a growing number of small, profitable specialist businesses managed by our new senior colleague Nick Fossey.

PMC provides a wide capability from custom made hydraulic hoses and fittings to sophisticated high value digitally controlled power packs for use by assembly and process industry customers. The PMC division markets itself to end user customers as a technical solutions provider via its in house engineering, sourcing and assembly resources; therefore, making a clear sector distinction from Flowtechnology's distribution activities.

In addition to three important acquisitions made in 2016 (along with a busy target pipeline extending into 2017), there have been investments made in marketing, product range extensions and product data consolidation to facilitate cross selling within the rapidly expanding Group and new plant to support the burgeoning customised hydraulic hose production output.

To summarise, it is clear that the Group is now entering an exciting stage of its development as its ambitions for growth increasingly improve its market share within the UK and the Republic of Ireland, whilst being vigilant for opportunities to spread further into Europe, having managed the Benelux business into a healthy level of consistent performance.

Brexit consequences remain a relative unknown at this time, whilst forex movements and UK import prices have been well managed to date by our highly experienced and focused commercial management teams.

I continue to be impressed by the commitment and energy of not only our senior management, but also of our growing workforce and our business team leaders, and their ability to adapt to new and dynamic market opportunities that are arising constantly within our industry.

"Our business has shown resilience in a difficult market, with our most recent acquisitions beginning to deliver organic growth. The Board remains confident in the strategy, commercial opportunities and the prospects of the Group as a whole, and expects to deliver ongoing solid growth over the coming years building on the performance seen in 2016."

Malcolm Diamond MBE
Chairman

Finally, it was very pleasing to be given such valuable and widespread support for both the Board and the Executive Management team during the recent successful process to raise £10 million (before expenses) in new capital for the Group. I am certain this will provide a very important springboard for the next stage of our development.

The Board looks forward to updating you on our progress on a regular basis going forward this year.

Yours sincerely

Malcolm Diamond

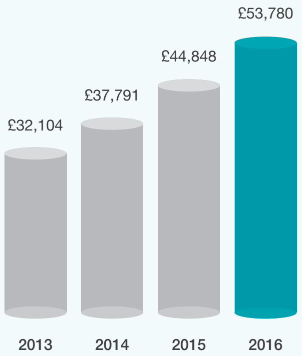
Malcolm Diamond MBE
Chairman
4 April 2017

Read more in Governance on page 50

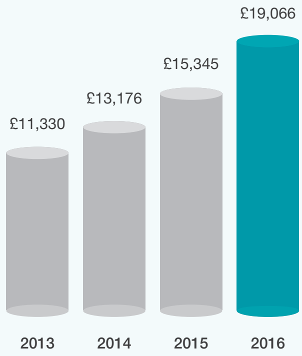
Financial and operational highlights

Financial highlights

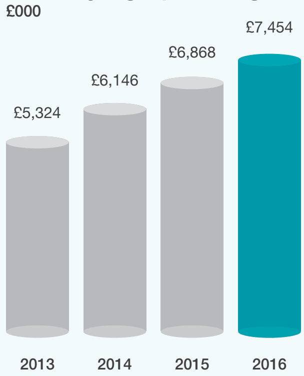
Revenue
£000



Gross profit
£000

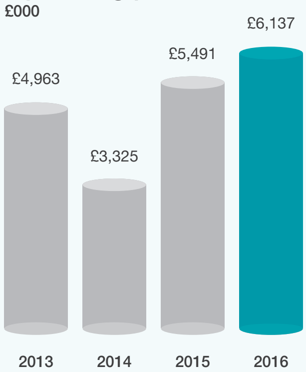


Underlying operating result*
£000



* Before separately disclosed items which are shown in the financial statements

Operating profit
£000



Total dividend
Pence

5.51p

Final Dividend 3.67p
Interim Dividend 1.84p

Net debt

£13.1m

2015: £9.0m
2014: £6.7m

Operational highlights

- Revenue growth of 20% on previous year
- Underlying operating profit growth of 9.5% on previous year
- Operating profit margin 11.4%
- Gross margin has increased 130bps
- Gross margins maintained despite negative currency pressures
- Three acquisitions in 2016 in line with strategy, with another already completed in 2017
- New Process division established
- Nick Fossey appointed as first "Divisional Director"
- Investment in people, infrastructure and IT to support future growth

"Our business has shown resilience in a difficult market, with our most recent acquisitions beginning to deliver growth. The Board remains confident in the strategy, commercial opportunities and the prospects of the Group as a whole, and expects to deliver further solid growth over the coming years building on the performance seen in 2016."

Malcolm Diamond MBE
Chairman

Reasons to invest

1 Our Business
A focused Fluid Power Group delivering technical products, design, manufacturing and support to distributors, Industrial users and OEMs in the UK and Europe.

2 Growth
Developing a strong and focused offering across many channels and sectors, driven by organic growth and an acquisition strategy of adding technically based businesses from within the fluid power market in the UK and Europe.

3 Margins
Strong consistent GP% margins are the cornerstone, driven by a clear focus on the fluid power sector, this focus translates to consistent EBITA growth.

4 Workforce
The management team is highly experienced and works in an environment driven by collaboration, this is mirrored through the organisation delivering a market leading workforce committed to delivering excellence.

5 Market
The market is highly fragmented, with multi-branded businesses operating across multi-channels delivering market leading technical services, products and support across many sectors.

6 Customers
We operate across a wide and varied range of sectors through a diverse customer base.

7 Products
Through a strong technical product set, purchasing synergies and technical sales, the Group has been able to develop a reputation for delivering high quality and market leading services linked to wider added value offerings across many sectors.

8 Capabilities
Our organisational structure has been designed for growth, business units focused on Sales and service supported by a strong central support team, allowing quick integration and consolidation.

Our competitive edge

Three divisional streams allowing a multi-channel approach to customer service:

Power Motion Control (PMC)

Adding value through design and assembly capabilities for specialist hydraulics

- Know-how – differentiated technical design, assembly and marketing
- Complementary business units creating wider and deeper added value services
- Centre of Engineering Excellence for hydraulic assembly
- Design, manufacture and installation of complete hydraulic systems

Flowtechnology

Best in industry providers of hydraulic, pneumatic and industrial components and service in the fluid power industry

- Scale – “one-stop shop” for fluid power products
- Stock availability – unrivalled width and depth of product range
- Outstanding Service quality – order by 10:00 pm for next-day delivery. 99% in stock availability
- 67% of orders are placed online B2B

Process

Focused on delivering quality branded and generic solutions across process industry sectors

- Established March 2016
- In-house valve actuation assembly facility
- Extended range of valves and associated products

Enhancing our offering through acquisition

- February 2016, Indequip, a UK distributor of pneumatic and hydraulic components and a leading catalogue brand was acquired by the Flowtechnology division
- March 2016, Hydravalve Ltd, a UK distributor of valves and associated products which will form the Group’s initial investment in its new “Process” division
- July 2016, TSL Fluid Power, a UK specialist in hydraulic cylinders and semi rotary actuators, was acquired by the Power Motion Control division
- January 2017, HTL a UK distributor of hydraulic equipment and components predominantly to the mobile market, was acquired by the Power Motion Control division
- Active acquisition pipeline

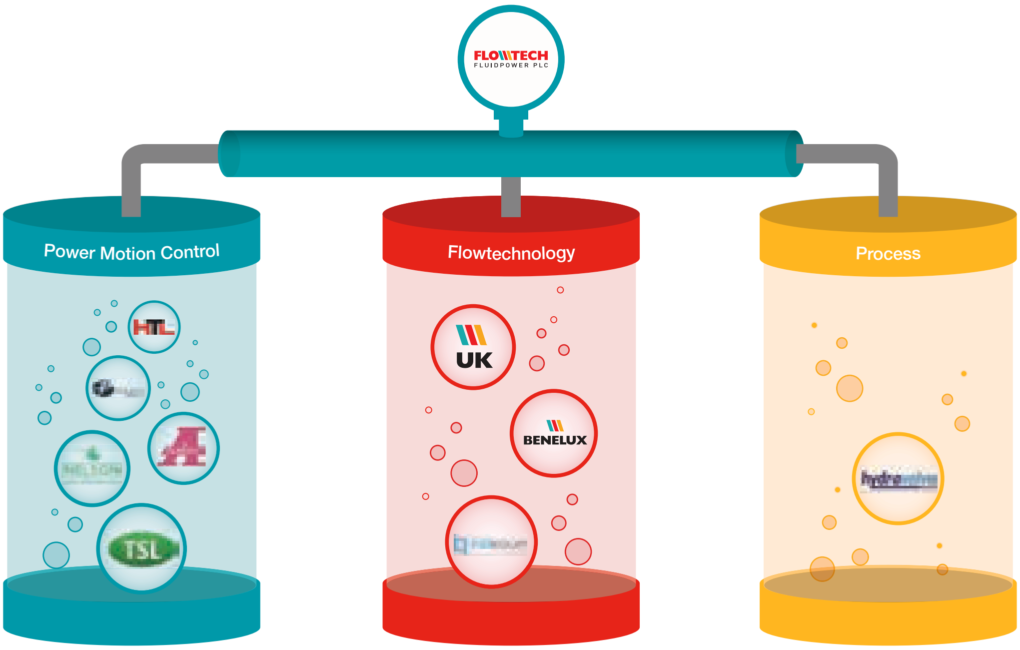
Group at a glance

The Group

Flowtech Fluidpower plc ("Flowtech" or "the Group") is the leading distributor of technical fluid power products to over 6,000 customers in the UK and Northern Europe. With modern distribution facilities in the UK, ROI and Benelux we offer an unrivalled range of both Original Equipment Manufacturer ("OEM") products, as well as our own ranges sourced exclusively to the Group ("Exclusive Brands").

During the year the Group had three operating divisions:

- Flowtechnology operating in the UK, Ireland and the Benelux
- Power Motion Control ("PMC") operating in the UK and Ireland
- Process operating in the UK



Power Motion Control (PMC)

The Power Motion Control division specialises in the design and assembly of engineering components and hydraulic systems, and further enhanced by component supply and a service and repair function. It is formed from **Primary Fluid Power**, **Nelson Fluid Power**, **Albroco**, **Triplesix (TSL)** and **Hydraulics and Transmissions (HTL)**. Primary Fluid Power is a technically based hydraulics business and holds a strong market position, focusing on the delivery of components and power packs to the OEM marketplace. Nelson Fluid Power is a distributor of hydraulic equipment, components and hose assemblies. Albroco supplies hydraulic components and electro-mechanical products to the on and off highway markets. TSL is a specialist designer and distributor of hydraulic cylinders and semi rotary actuators. Acquired in January 2017, HTL distributes hydraulic equipment and components predominantly to the mobile market.

Flowtechnology

The Flowtechnology division is formed from **Flowtechnology UK**, **Flowtechnology Benelux** and **Indequip**. All have the same business model and focus on supplying technical fluid power distributors and resellers, primarily serving urgent orders rather than bulk offerings. Flowtechnology offers an unrivalled range of OEM and Exclusive Brand products. Indequip is a UK distributor of pneumatic and hydraulic components and a leading catalogue brand.

Process

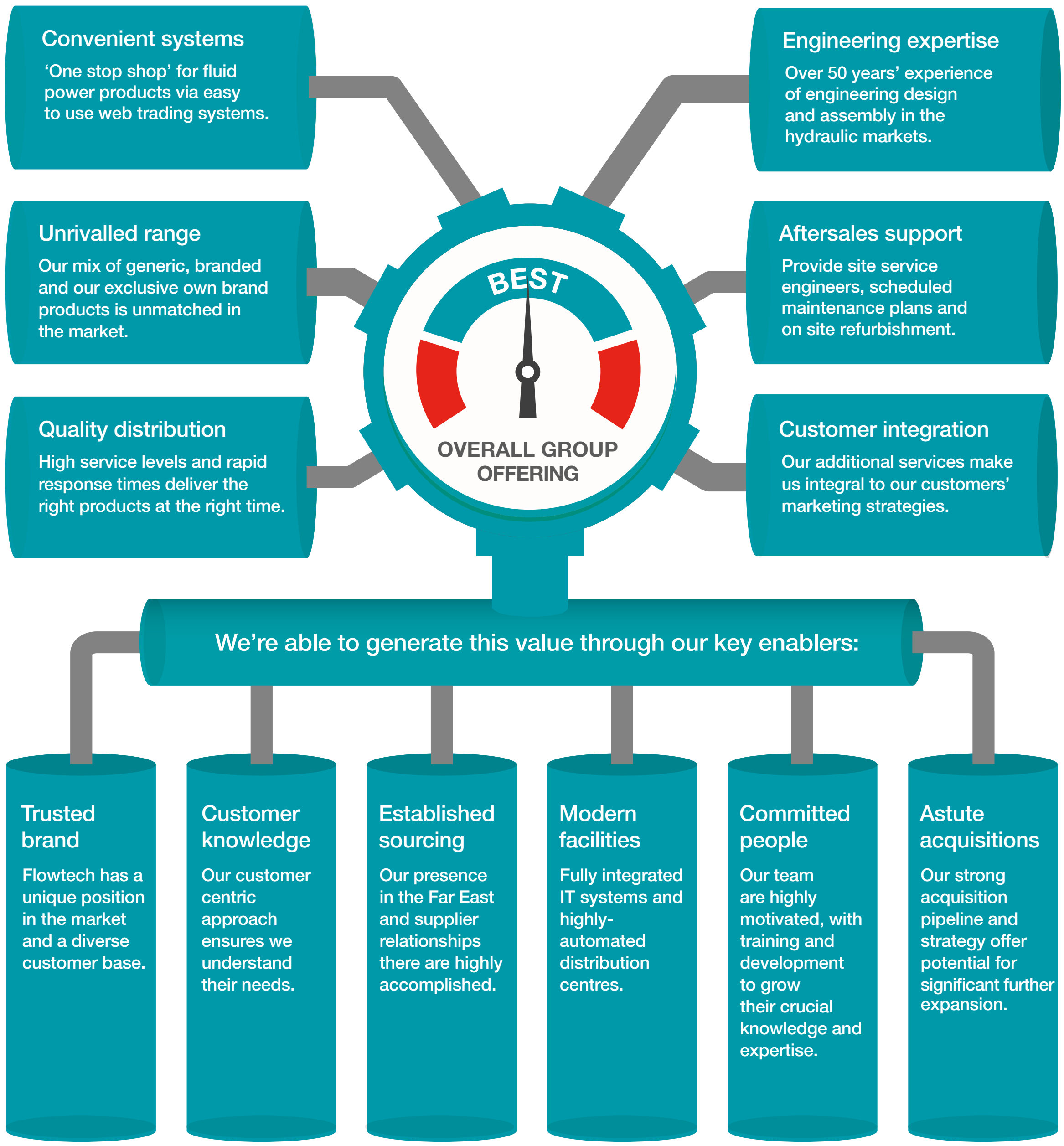
The Process division focuses on the distribution of valves and industrial components to the process sectors. This is the newest division in the Group, formed as a result of the acquisition of **Hydravalve**. This business specialises in the distribution of a wide range of products from pneumatics and hydraulics to electric and pneumatic actuated valves to process industries, including original equipment manufacturers in paint production, paint spraying, mixing, foundry, food and beverage, industrial washing and environmental.

Our complementary divisions

The Group has three operating divisions: Flowtechnology; Power Motion Control ("PMC"); and Process. Flowtechnology operates the same business model in the UK and Northern Europe and focuses on supplying technical distributors and resellers, primarily serving urgent orders rather than bulk offerings. The PMC division specialises in the design and assembly of engineering components and hydraulic systems, which are further enhanced by component supply along with a service and repair function. The PMC division's aftersales supplies can be fulfilled by Flowtechnology which offers 99% service levels for next day delivery and ensures facility usage is optimised across the Group. With an overlapping product group, Process also benefits from Flowtechnology fulfilment and improved purchasing synergies.

The divisions are supported by a centralised back office team at the Skelmersdale site and a procurement and quality control team in Shanghai.

Overall group offering



Group at a glance continued

FLOWTECHNOLOGY

Key facts

156
Employees

100,000
Sq ft modern distribution centre

99%
of orders despatched in full same day

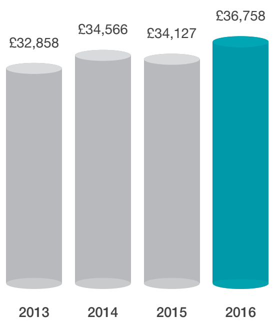
4,635
Average picks per day with an error rate of less than 0.23%

Flowtechnology UK was founded in 1983. It is a highly efficient business unit with a fully integrated end-to-end process delivering high service levels to its marketplace, and a deep stockholding to support its wide and varied customer base. Flowtechnology Benelux was acquired in 2007. Since 2010 significant restructuring has been undertaken and by 2014 it was fully integrated into the Group's operating systems. The change process has delivered a business with solid foundations which is now establishing a strong reputation in its marketplace. Indequip, a UK distributor of pneumatic and hydraulic components and a leading catalogue brand was acquired in February 2016 by the Flowtechnology division. Indequip continues to operate as an independent brand under local management, whilst benefiting from the synergies created by sharing warehousing and procurement at the Skelmersdale site.

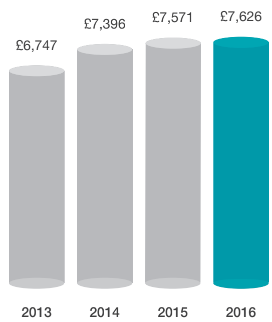
- Highly motivated staff and management are committed to delivering excellence to the customer base
- Continues to implement systems aimed at creating an 'ease of transaction' for its customers allowing a one-stop shop for fluid power products
- The ongoing focus on sales development, service levels and increased customer support has seen the business increase its market penetration
- Sophisticated planning software
- Over 67% of orders are placed online, through a fully integrated web trading system
- Orders taken up until 10pm can be delivered next day in the UK and 8pm for mainland Europe
- Extensive stockholding of over 80,000 product lines supports a class-leading service offering
- Successfully retained Indequip's customers bringing 250 new customers to the group and 8,500 product lines

Our exclusive brands

Flowtechnology revenue
£000



Flowtechnology underlying operating result
£000



Our locations

UK

The Group's 80,000 sq.ft. Shared Logistics Centre in Skelmersdale, Lancashire, houses its modern, highly automated distribution, operations centre and support functions. FTUK has a sales and technical support team responsible for order receipt and processing, marketing and business development, procurement, contract services and technical support.

Netherlands

FTB services approximately 1,000 distributors, resellers and end user customers in Northern Europe. FTB operates from a 20,000 sq.ft. warehouse in Deventer and uses the same integrated IT platform as the UK business, with back office functions also provided from the UK.

China

The Group's Chinese operations consist of a procurement team in Shanghai and a 18,000 sq.ft. logistics centre in Guangzhou. The operation was established in 2014 and is used as a centre point for quality control and container load optimisation.

Our products

Global OEM brands

Flowtechnology offers an unrivalled range of both Original Equipment Manufacturer ("OEM") products, as well as our own ranges sourced exclusively to the Group ("Exclusive Brands"). This gives end users the benefits of purchasing from a one-stop shop supplier compared to buying from multiple OEMs.

Group at a glance continued

POWER MOTION CONTROL ("PMC")

Key facts

104
Employees

66,500
SQ FT operating facility

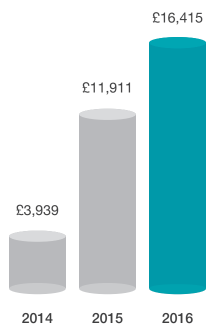
97%
Delivery targets achieved

70%
Tenders won

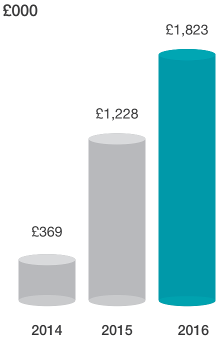
The PMC division incorporates Primary Fluid Power ("PFP") acquired 2014, Albroco and Nelson Fluid Power ("NFP") acquired 2015 and this year's acquisition TSL Fluid Power ("TSL"). HTL was added January 2017.

- Technically-based hydraulics division, with a strong market position, focusing on the delivery of components, hydraulic equipment, hose assemblies and power packs to the OEM marketplace
- Long-standing reputation for assembly and service excellence, servicing a wide range of industrial sectors including: mobile, oil and gas, environmental, industrial and life sciences, agriculture, marine and fishing
- Know-how – differentiated technical design, assembly and marketing
- Centre of Engineering Excellence for hydraulic assembly at Knowsley
- Complementary businesses delivering operational and product synergies

PMC revenue
£000



PMC underlying operating result
£000



Our locations

UK

PFP's 25,000 sq.ft. facility in Knowsley, Merseyside, houses our main engineering centre as well as sales, technical design, procurement and business development teams. PFP design, manufacture and assemble their own brand products including manifold blocks, valves, tube couplings and adaptors.

NFP has three sites in Lisburn and Dungannon totalling 27,000 sq.ft. housing six hose assembly lines, power pack assembly facilities and warehousing.

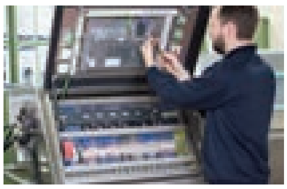
TSL has one site in Mytholmroyd, West Yorkshire, totalling 4,500 sq.ft. housing assembly, test and inspection facilities. HTL is based in Ludlow, Shropshire, totalling 10,000 sq.ft.

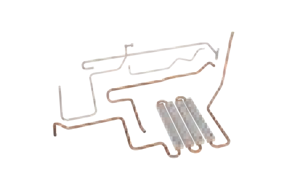
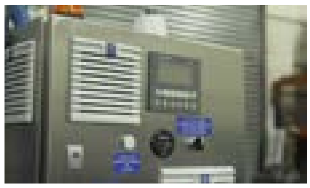
Republic of Ireland

NFP has one site in Dublin of 10,000 sq.ft. accommodating one hose assembly line, small power pack assembly and distribution of OEM branded product.

Our products

- Hydraulic rubber and thermoplastic hose assembly kits
- Design and supply of bespoke power units and power packs
- Hydraulic cylinders and semi rotary actuators
- Electrical control panels
- Transmission, steering and electrical control for mobile hydraulic equipment
- Purification and filtration systems
- Manipulated pipe and individual machined components



PROCESS

Key facts

17
Employees

12,000
Sq Ft operating facility

22%
Orders delivered by own fleet

6,000
Product lines

The Process division was established in 2016 following the acquisition of Hydravalve. Established in 1988, it is a second generation family business and a leading stockist and distributor of valves, pneumatic and electric actuators, hose and fittings. Hydravalve continues to operate independently under local management.

- Wide range of branded and own brand valves and actuators
- Established relationships with OEMs in paint production, paint spraying, mixing, foundry, food and beverage, industrial washing and hydraulic industries
- Wide range of customers from diverse process industries
- Additional services include technical assistance on bespoke solutions to customer problems
- Focused range of process valves, solenoids, pneumatic and electric actuators complementing the Group product set
- Increasing market penetration into waste water treatment and biogas sectors
- Steam application training underway to develop sales streams in this sector

Process Revenue
£000

£3,036

Process Underlying Operating Result
£000

£401

Our locations

UK

Hydravalve's 12,000 sq.ft. facility in Willenhall, West Midlands houses its warehousing and commercial staff. Prior to acquisition Hydravalve made a significant investment in warehousing capacity through the purchase of five Kadex machines for the efficient storage and retrieval of smaller stock items. Hydravalve supplies 22% of its deliveries through its own fleet ensuring same day service when required covering approximately a 50km radius delivery area in the West Midlands.

Our products

- Flanged stainless steel ball valves
- Haitima Actuators
- Prisma Actuators
- J&J Actuators
- Butterfly valves
- Brass valves
- Steam valves
- Waterworks valves






Our marketplace

Flowtech Fluidpower plc, is the UK's leading specialist supplier of technical fluid power products. Employing over 300 people, the Group has established a key position in the fluid power supply chain with a focused product range in three main categories:

- Pneumatics (products that enable the use of gases to provide mechanical motion)
- Hydraulics (products that enable the use of fluids to provide mechanical motion)
- Industrial hose (products and accessories that act as conduits for gases and liquids)

The focus on core competencies within the fluid power market has been central to our success and this focus will support the Group's long term strategy. The Flowtech Group continues to deliver and develop its added value services to support its customers through organic development of its product ranges and acquisition of complementary businesses.

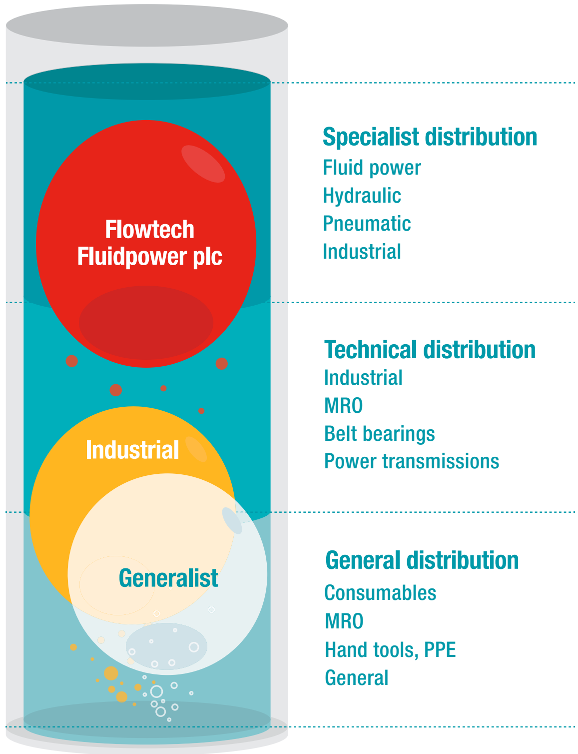
All three of the Group's divisions have overlapping product sets, allowing procurement synergies to be exploited.

Flowtech Fluidpower is focused on being a specialist products and services provider. Our aim is to exploit our position and become the market leader in the specialist fluid power sector.

The Flowtech Group is developing both strength and depth across its product portfolio, customer reach and, following recent acquisitions, it has been able to widen the geographical areas and the industrial fluid power markets it serves. We continue to develop a theme based on being a "specialist" rather than a "generalist" and the margin opportunities this allows.

Since joining AIM in 2014 the Group has:

- Expanded its portfolio through the launch of over 10,000 new lines across existing and new product categories
- Completed seven acquisitions: Primary, Albroco, Nelson, Indequip, Hydravalve, TSL and HTL
- Established three clearly-focused divisions: Flowtechnology, Power Motion Control and Process
- Developed new strategic sales refinements and data processing resources which will deliver improved operating efficiencies across the organisation in the long term



Our competitive edge in the market place

- Unique position within the fluid power supply chain
- Scale – one-stop shop supplier, access to over 500,000 products
- Aligned with both the global supply base and the distributor network
- Global brands complemented by Exclusive Brands
- Bespoke fully integrated trading platform and IT systems
- Dedicated distribution and logistics centres
- Technical 'know-how' and high service levels
- Multi-channel development strategy, extended through to OEM and end users
- Strong acquisition strategy

MACROECONOMIC LANDSCAPE AND BREXIT

The Group has shown its resilience during recent economic turbulence focused around the Brexit vote and still delivered growth through careful planning and stock buying and its strong relationships with both customers and suppliers. As our acquisition programme continues the Group continues to broaden its markets and is not overly exposed to any one customer or sector.

OUR KEY TRENDS

The British Fluid Power Association (BFPA) economic forecast is predicting continued growth, albeit slow, in the UK hydraulic and pneumatic markets with an average annual growth rate of 2.4% for hydraulics and 1.8% for pneumatics during 2017 to 2020. This is a reduction from last year's forecasts of 2.5% hydraulic and 3.0% pneumatic, with hydraulics been expected to suffer from the knock-on impact of oil prices in sensitive industries such as automotive. Positive factors in the UK economy include the strength of the service sector as customer demand remains robust and strong export opportunities whilst currency weaknesses improve the UK's competitiveness.

£176m
Estimated UK pneumatic equipment market

£169m
Estimated UK export market

£605m
Estimated UK hydraulic component market

£617m
Estimated UK export market

"The British Fluid Power Association economic forecast is predicting continued growth in the UK hydraulic and pneumatic markets with an average annual growth rate of 2.4% for hydraulics and 1.8% for pneumatics during 2017 to 2020."

Pneumatic

Traditionally the pneumatics market has been more resilient to downward global trends than hydraulics and was expected to show some growth, however the BFPA are now expecting a much slower rate of growth, mainly due to reduced automotive spending in the UK. However, the BFPA are predicting growth in the food processing industry which is a core sector for the Group's new Process division. UK pneumatic distributors have performed above industry expectations and this trend is expected to continue through the next four years.

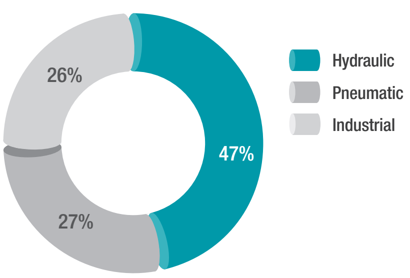
Hydraulic

As with the pneumatic sector the BFPA are now expecting a much slower rate of growth remaining at 2.2% until 2020. The impact of Brexit uncertainty is expected to affect the UK domestic construction market for the next few years. Offsetting this there are indications of increased government infrastructure spend which will boost demand for industrial hydraulics. Whilst the Chinese economy and demand for imports has shown a slowdown in 2016 they are expecting to start increasing imports of construction and off road machinery this year, a key sector for our PMC division. Like the pneumatic sector, hydraulic distributors continue to perform above industry expectations and this trend is expected to continue, particularly where MRO services are offered.

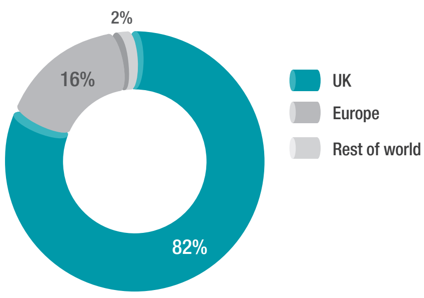
Industrial

The Group has a wide and varied customer base which in turn services an extensive range of industrial sectors, spreading the risk of adverse market conditions. The engineering sector is predicted to experience slower growth rates than the first half of the decade, but is expecting growth in key pneumatics-using sectors. In contrast, the construction sectors, of residential, non-residential and civils are all demonstrating a positive outlook supported by ongoing government initiatives. Extensive projects such as Crossrail and the likely upcoming expansion of London's airport capacity should ensure that transportation construction will remain robust over the coming years. This has direct benefits to the PMC and Process divisions and FTUK is impacted indirectly through its customer base.

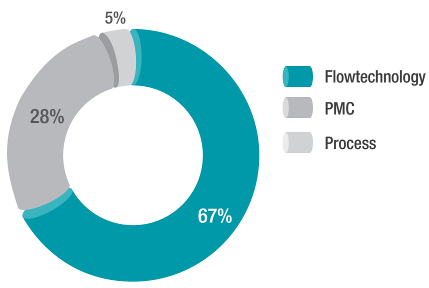
Sales split by sector



Sales split by area



Sales split by division



Our marketplace continued

Our supply chain

Supplier relationships

The Group prides itself on building long-standing partnerships with its OEM suppliers and has significantly improved its Parker Hannifin product offering through two new ranges: Parker Triple-Lok™, a fluid conveyance tube fitting and Parker Fluid Control Solenoid Valves. Parker Hannifin is one of the largest motion control technology companies in the world and operate in sectors including aerospace, climate control, electromechanical, filtration, fluid and gas handling, hydraulics, pneumatics, process control, sealing and shielding. FTUK are extremely pleased to be working with Parker Hannifin on these ranges. The addition of Indequip has brought their lengthy relationship with Metal Work Pneumatic products; Indequip are the UK and Ireland's biggest distributor of Metal Work products.

Whilst the Group aims to exploit procurement synergies wherever possible as we grow by acquisition, individual business units still operate independently in purchasing decisions. Group benefits are still achievable in this situation; Hydravalve have negotiated significantly improved prices since acquisition due to supplier consolidation and overlapping product set.

Exclusive brands

The Group constantly looks to optimise its product offering. The business therefore nurtures its relationships with UK and European OEM suppliers whilst developing its complementary Exclusive Brands. The ability to develop and extend the range of Exclusive Brands in line with industry requirements has been accomplished by developing stronger relationships and working closely with the Far East supply base. This ensures targets in consistency of quality, high technical specification and product performance are achieved. Two new Exclusive Brands were launched in 2016, bringing the total to 28.

Strategic procurement

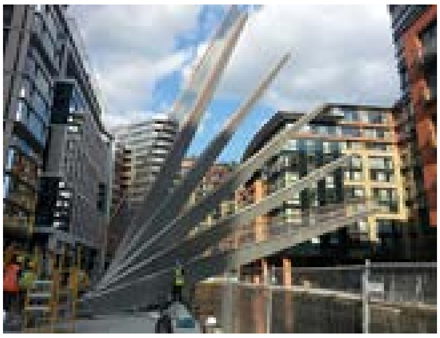
Recognising the importance of our Far East supply base we have established a small logistics facility in Guangdong province, Southern China, this is the first step in a long term plan to extend resources in the region and support future growth across the Group. This will facilitate a more efficient stockholding strategy in time reducing the UK footprint and cost base, and streamline the overall Far East supply chain.

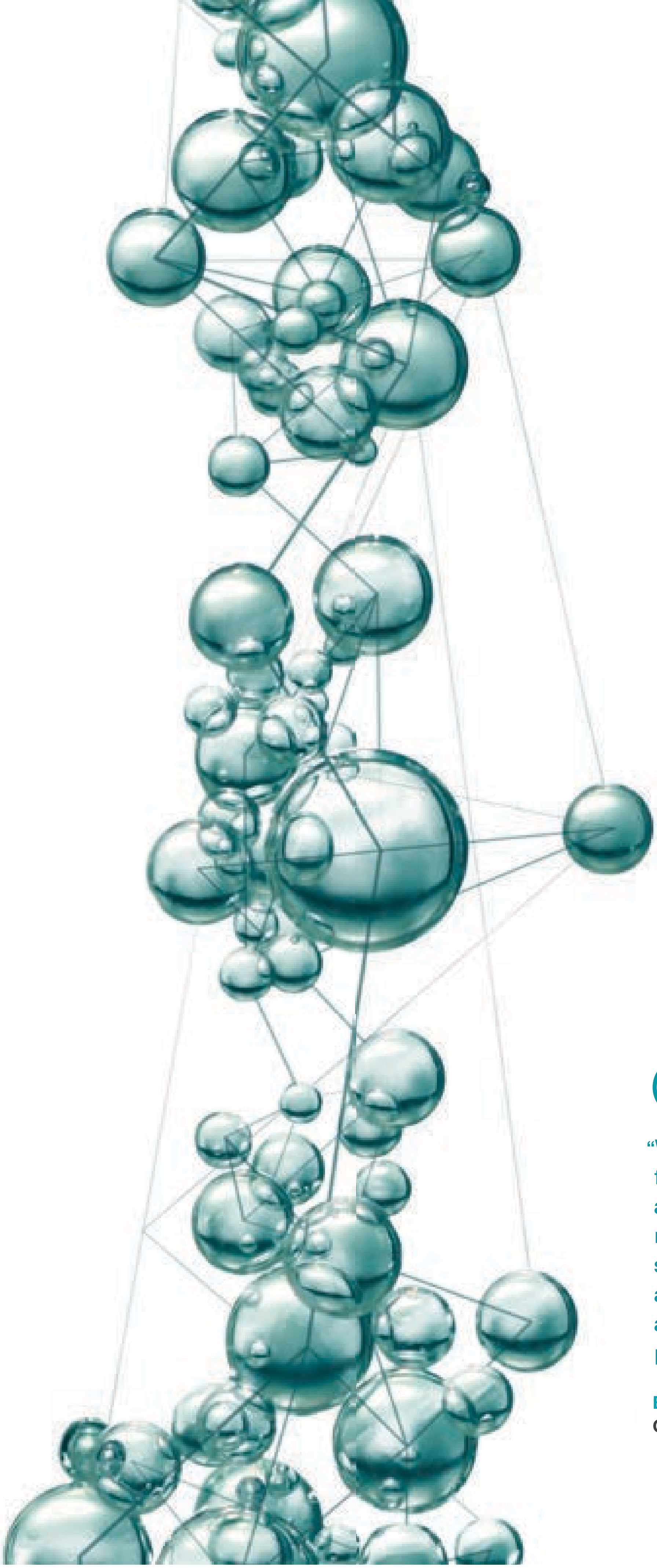
We have a small team based in Shanghai who visit existing suppliers to review quality control procedures and visit potential new suppliers to check that they reach the required standard expected by the Group. They support a Group Strategic Buying Team which includes representatives from each division. Their aim is to ensure that our supply base operates on the same principles that drive the Flowtech Fluidpower Group and to ensure the ability of these suppliers to deliver "Excellence" in both supply chain and manufactured product. The Group Strategic Buying Team are fully involved in the Group quality control process and work closely with our chosen suppliers to develop and improve the product quality and ranges they supply.

The Group Strategic Buying Team visits the Far East twice a year with additional visits by individual buyers in specific product areas as and when required. The aim of these visits is to set and monitor a programme of continuous improvements with existing suppliers and to seek out new suppliers that will fit the Group purchasing requirements.

Modern Slavery Act

We do not use child labour, nor do we use forced labour. We make regular supplier visits worldwide to ensure our supply chain maintains the same standards of integrity and is free from modern slavery.





"We believe that the result achieved is further justification that our focused approach in maintaining strong gross margins, while developing market share and commercial synergy by acquisition, is creating an expanding and resilient platform for long-term profitable growth."

Bryce Brooks
Chief Financial Officer

Our group business model

Our Group key enablers:

- Established sourcing
- Modern facilities
- Committed people
- Astute acquisitions
- Trusted brands
- Customer knowledge

Our customers' needs:

A wide range of fluid power products, which can be ordered at any time, day or night.

With delivery of those fluid power products on short lead times, these items must be held, as ordering from other suppliers may take too long.

Specialist, technical advice and knowledge to help identify bespoke solutions that the Group can realise.

We satisfy these needs with our key enablers:

Established sourcing in the Far East provides us with access to over half a million products.

Our state-of-the-art facilities allow us to store, design and manufacture items in the most efficient way.

Our committed people and knowledge of the customer enable us to understand the customer's needs, and either supply or manufacture the solution.

Our acquisitive nature enables us to bring new talent into the Group, and offer specialist technical advice and products to our customers.

The continual adding of capabilities enables us to solve broader problems for our customers.

Increasing our capabilities and furthering trust in our branded businesses to deliver

Which we add to our key enablers, making us bigger and better at what we do

Read more on page 16

Which positions us as specialists

Our strong supplier relationships, enable us to source bespoke products that generalists cannot.

Fully integrated IT systems and automated distribution centres ensure operational efficiency, as well as special relationships with couriers enable us to deliver products to our customers on shorter lead-times.

We continually add capabilities to the business, our acquisitions increase our value proposition through the inclusion of more capabilities.

As a result, we are able to provide a wider range of solutions within the market, either sourced or specifically designed and manufactured.

Delivering value for our stakeholders

For our shareholders
Our position as specialists enables us to maintain margins for products sourced or manufactured and delivered quickly. From this we deliver strong cash and dividend flow.

For our customers
We keep our customers' businesses going, providing vital parts within the manufacturing process, helping them solve problems quicker, minimising disruption.

For our people
Working for a progressive organisation that retains its roots at local level whilst using all the benefits of being part of a larger group of companies - securing long term jobs with a share in the wealth they create.

For our suppliers
Access to a widening network of technical distributors, specialists that they can rely on to professionally manage their product and pay them on time.

For our society
Managing our activities responsibly, both at home and overseas, and delivering wealth creation for the long term.

Ensuring the value we deliver is sustainable through:

Investing in acquisitions to further consolidate our fragmented market; and

Read about our strategy on pages 18 and 19

See more about our acquisitions at www.flowtechfluidpower.com/acquisitions

Our group business model continued

The Group's business is directed by the Board and managed by the Executive Directors, led by the Chief Executive. To support the development and alignment of the Group's business objectives, an Operational Board has been introduced to control and deliver the strategic goals as defined by the plc Board. This Operational Board includes the Managing Director from each business unit as well as the Group's CEO and CFO. This team will maintain a clear focus on developing the business in line with market requirements.

Operational Board 1 pictured left to right: **John Farmer**, Managing Director, Flowtechnology UK, **Ian Simpson**, Managing Director, Indequip, **Sean Fennon**, CEO, **Mark Richardson**, Managing Director, Flowtechnology Benelux, **Andy Newham**, Managing Director, Hydravalve

UK Shared Logistics Centre

Overlapping product groups across the business units mean that many orders can be fulfilled achieving 99% service levels for next day delivery and ensures facility usage is optimised across the Group. Currently 10% of the distribution centre's orders relate to the rest of the Group, including 2% to mainland Europe.

Strategic procurement

The Group Strategic Buying Team includes representatives from each division and is supported by a small team based in Shanghai. This team visits the Far East twice a year with additional visits by individual buyers in specific product areas as and when required. The aim of these visits is to set and monitor a programme of continuous improvement with existing suppliers and to seek out new suppliers that will fit the Group purchasing requirements.

Read more about strategic procurement in our supply chain on page 12

Shared services

We acquire established, specialist businesses that extend our Group capability, but we believe in maintaining their heritage, individuality and specialism. Ensuring consistency for their customers is important to us, so we simply improve these businesses with our Group central services.

Service Centre team

Based in Skelmersdale, Lancashire, the Service Centre team covers the disciplines of finance, human resources and IT for the Group. As Group IT systems and working practices are introduced into new acquisitions with standardised methods of working, we believe growth can be successfully supported by the existing small team.

Operational Board 2 pictured left to right: **Mark Nelson**, Managing Director, Nelson Hydraulics, **Paul McGrady**, Managing Director, Primary Fluid power, **Nick Fossey**, Group Managing Director PMC, **Steve Rushworth**, Managing Director, TSL Fluidpower

Acquisitions team

Sean Fennon, Bryce Brooks and Nick Fossey are responsible for target identification and lead negotiation, supported by Chris Kershaw who has previously worked in a series of M&A roles, including Group M&A Director at Spice plc.

The typical criteria our experienced strategic Acquisitions team look for include:

- Fluid power based business and fits with the Channel strategy
- Strategic – geographical or sector
- Technically biased and extension of the Group offering
- Strong business leader
- Knowledge and skills

Acquisitions team pictured left to right: **Anne Fogg**, Head of Business Process, **Chris Kershaw**, M&A Consultant, **Jon Burke**, Group Financial Controller, **Bryce Brooks**, Chief Financial Officer, **Helen Barratt**, Head of Corporate Governance

During the due diligence process Bryce and Chris are supported by professionals from the following organisations:

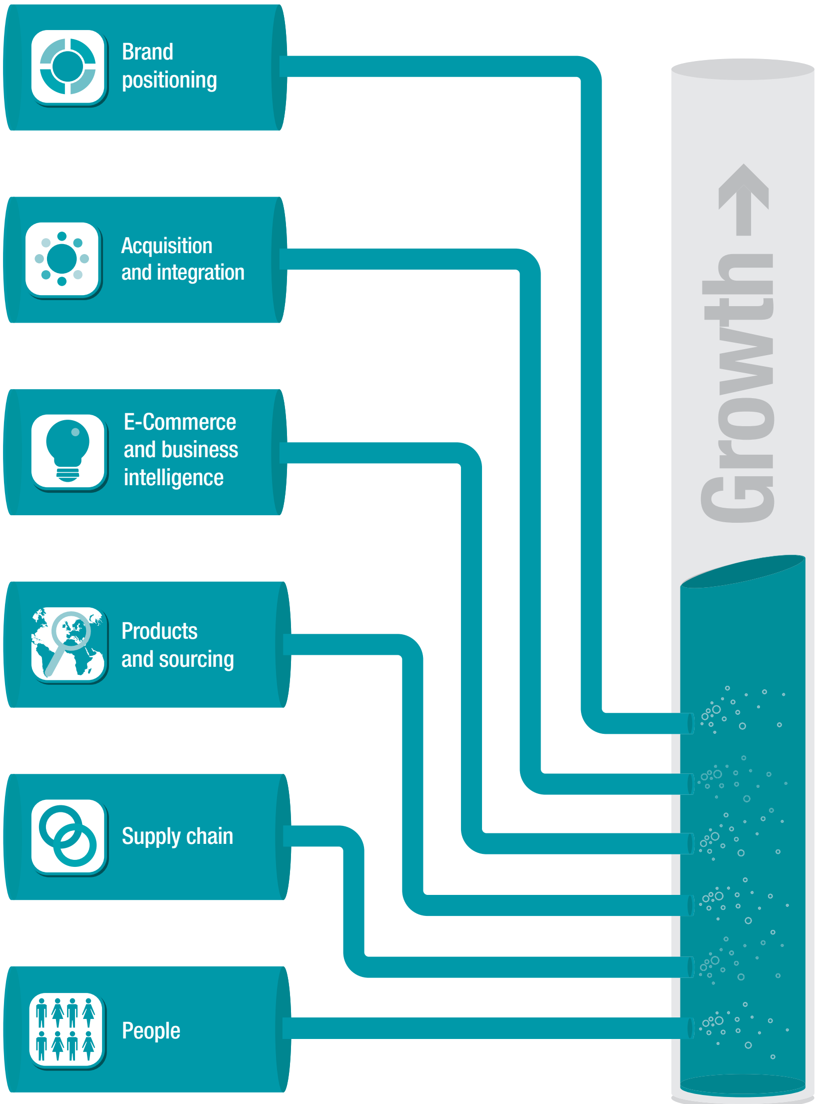
- Legals – DLA
- Tax, Accounting and Financial Due Diligence – KPMG, Grant Thornton, PwC
- HR and Management Consulting – Collinson Grant and Mercer
- Insurance – Marsh

The immediate post integration team covers Business Process, IT and Financial Control, with follow on work undertaken in Corporate Governance, Risk Management and Business Continuity Planning. This entire process is structured under a '100 Day' project management philosophy led by the CFO.

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 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 the UK and Europe in a very fragmented marketplace.

The successful integration of new businesses into the Group is critical, maintaining momentum and ensuring an ability to continue to trade with their customers seamlessly. To support this an experienced integration team has been created tasked with delivering a smooth and speedy transitions process. During 2016, Indequip, Hydravalve & TSL, were acquired and successfully integrated into the Group - these acquisitions fit within the defined strategy previously outlined of developing a Focused Fluid Power Group.



Our strategy continued

Strategic focus	Description	Highlights
Brand positioning	Brand and the ability to maintain and build a reputation is critical to our long term development. For all future acquisitions, brand and reputation will be paramount with the intention to maintain any local company branding and build on its existing position. Product brand expansion continues to be a key strategy for the Group.	• Acquisitions since flotation have strong brand names within their sectors and remain operationally independent under the original name and corporate branding • Successful rebranding of Indequip with a very technical inspired theme and an own brand range named "Techmatic" • Two new Exclusive Brands were added to our portfolio, now 28 brands in total
Acquisition and integration	The strategy is to acquire complementary businesses operating in specific channels, highly focused, commercially independent operations delivering quality customer service at all times. Integration projects are ongoing to streamline all processes across the Group to ensure every operation can minimise its administration burden and concentrate on delivering growth.	• Acquisitions since flotation have brought substantial new skills, knowledge, access to new markets for fluid power components and capable management teams • Finance and HR processes have been migrated to the Service Centre leaving local management free to focus on delivering their growth strategies
E-commerce and Business intelligence	The Flowtechnology operation has always been innovative in its use of e-commerce and our website is fully integrated to our stock control systems. With 70% of Flowtechnology customers ordering online in the UK, this model will be rolled out to the other business units in the Group. Business intelligence initiatives create insight which enables us to improve our products, our inventory management and pricing strategies.	• Substantial investment in super server to host ERP systems for all business units from the Skelmersdale site • Indepth review of IT systems as part of IASME certification process • Cyber awareness training for all employees • Continued development of product data repository
Products and sourcing	We aim to have a 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. The business nurtures its relationships with its OEM suppliers whilst developing its complementary Exclusive Brands.	• Acquisitions have given us an enhanced presence in the new product ranges: Indequip – pneumatic automation components, Hydravalve – process industry valves, TSL – specialist hydraulic cylinders and rotary actuators • Two new Parker Hannifin ranges - Parker Triple-Lok™, a fluid conveyance tube fittings and Parker Fluid Control Solenoid Valves • Stock demand increases due to the increasing size of the Group has allowed the newly formed Group Strategic Buying team to negotiate improved group terms for pneumatic silencers, brass hose tails, brass ball valves, stainless steel pipe fittings and stainless steel ball valves
Supply chain	We have built long term partnerships with our suppliers and quality logistics companies to enable us to provide the pace and responsiveness our customers demand. In the Flowtechnology segments we consistently achieve our service level targets of 99% orders delivered next day, this is underpinned by our strategy in products and sourcing and sound inventory management. Where acquisitions include distribution operations they will be integrated into the Flowtechnology segments to provide synergy savings for the benefit of all our stakeholders.	• Currently 60% of Group sales are delivered from our Skelmersdale site. To ensure service levels are never compromised we are constantly improving the business continuity plan, which included a test scenario for the FTUK team during the summer • The Skelmersdale warehouse now has the capability to supply 60% of Benelux sales, next day, in the event of an emergency • Within the PMC division should any one site be disrupted, there is sufficient capacity at the other sites to divert work and employees to ensure business continuity
People	People are one of our strongest assets. As well as recruiting new talent, we are keen to acquire companies who value the importance of their workforce and share our values of continuing strong traditions. Investing in our management teams brings the benefits of improved retention and talent identification for succession planning. We see training and development of employees as key to our strategy to achieving our overall goals.	• John Farmer appointed Managing Director of FTUK in July 2016, following sixteen years of service in sales and purchasing for the business • Three new appointments to the Operational Board, Ian Simpson, Indequip, Andy Newham, Hydravalve and Steve Rushworth, TSL • Apprenticeship programmes in Primary and FTUK • Thomas International training for managers from all business units • Indequip sales team all qualified as Aircom technicians

Priorities for the following year	Associated risks
• Strengthening the position of individual business unit brands within the group through the affiliation with the wider Group, whilst maintaining operational independence • Establishing an umbrella brand that focuses on hydraulic application solutions and technical expertise providing the customer with a specialist solution from a single source • Building on our relationship with global brands, providing our customers with an extensive selection of product options to cover many market sectors	• Quality control • Failure to integrate acquisitions and align strategies to existing business model
• Continued growth of the Group by acquisition to widen the geographical areas and the industrial fluid power markets it serves • Integration of acquired enterprise resource planning systems into one platform • Continued development of consistent working practices across the Group, Standard Practice Instructions (SPIs)	• Failure to integrate acquisitions and align strategies to existing business model
• Obtain IASME Gold certification for the Skelmersdale site and replicate best practice standards across all business units • Launch of new websites across the business units • Rationalisation of accounting systems to one provider	• Inability to recognise and control cyber exposures • System and site disruption
• Continued growth of the Group by acquisition to increase access to new product ranges and product knowledge • Annual programme of visits by the Group Strategic Buying Team to set and monitor a programme of continues improvements with existing suppliers and to seek out new suppliers that will fit the Group purchasing requirements	• Failure to integrate acquisitions and align strategies to existing business model • Quality control
• Preparation of business continuity plans for new acquisitions • Introduction of Standard Practice Instruction for business continuity planning • Annual programme for testing plans across the business units	• System and site disruption • Inability to recognise and control cyber exposures
• Adoption of apprenticeship programme in Hydravalve • Continued training on the SPIs to reduce administration processing costs and improve visibility and control of local business unit costs • Introduction of accredited Health and Safety training as part of SPI development	• Talent management and succession planning

Read about our acquisition of Indequip on page 20

See our people case study on page 22

Read about the influence of our strategy on KPIs on pages 24 and 25

Read about our risks on pages 38 and 39

Indequip – our strategy in action

Acquisition and integration

Our strategy is to acquire complementary businesses operating in specific channels, highly focused, commercially independent operations delivering quality customer service at all times.

Introduction to Indequip

Indequip was established in 2003 by Ian Simpson in St. Helens Lancashire. Lacking personal funding he set up Indequip as a UK branch of a European pneumatics distributor with their financial support. Specialising in technical pneumatics it serves a wide range of sectors including transport, pharmaceuticals and medical gases. In Indequip launched a catalogue in 2003 and a year later this was supplemented by a fully transactional website. The first in the market to offer customers the ability to pay by credit card, the Indequip site also had a unique personal branding featuring its employees to emphasise its commitment to personal customer service. The Indequip team pride themselves on having the skill set to work with OEMs to advise on providing cost effective solutions to technical problems as well as products.

Following acquisition Ian has remained with the business and sits on the Operational Board.

The opportunity we recognised

Whilst a successful brand in the market, Indequip was becoming severely constrained by an inability to extend stock levels with service levels dipping down to 70% for next day delivery pre-acquisition. With profit levels also dropping, the majority shareholders wished to divest to focus on their main European business. With some customer and product overlap and a locally based team Indequip was an ideal opportunity to simply move operations across to the SLC. Indequip's values of people and tradition and the passion for the industry resonated strongly with the division. Indequip is very much a family business with Ian's brother Stuart joining the team in 2006 as a salesman and Ian's daughter Chloe joining in 2011 shortly after completing her marketing degree.

How we have integrated Indequip into the Group

The stocks were predominantly transferred to the SLC over one weekend. For customers, this was a seamless changeover and Ian is pleased to report that service levels for next day orders are now over 90%. Order conversions have also increased due to the wide and deep stocks now available to Indequip as part of the Group. The team transferred to Skelmersdale. Whilst retaining their own branding the team feel very much part of the division sharing the canteen and other facilities. Ian feels the move has had a very positive impact on his team with the improved stock holdings and service levels restoring morale. Working together, the quality of resources and support from the Flowtechnology division has really helped Indequip grow.

£0.9m
Total cost of acquisition

£2.1m
Turnover

£0.4m
Profit before tax

£0.3m
Net assets

Family team: Chloe Simpson, Ian Simpson, Stuart Simpson

Indequip catalogue

One of the most pleasing outcomes for Ian has been the 2017 catalogue. Totally redesigned by the Flowtechnology creative services team the design concepts now emphasise the technical aspects of the product range. 9,000 new products have been added increasing the size by 30%. The catalogue will also have a European version priced in euros to facilitate export sales. For the first time the catalogue was produced and delivered on time with customers now able to pay in direct debit instalments. The creative services and marketing teams have also helped Indequip develop its own Exclusive Brand, Techmatic™.

TECHMATIC™

"Throughout our changing needs as a fast growing business, Indequip have been at the forefront consistently providing fast, solution driven, value added support. Indequip are valued within our supply chain and are synonymous with technical solutions, supporting our daily operational needs, and providing guidance to our longer term strategic activities."

David Williamson
Head of Supply Chain, Peak Scientific

People – our strategy in action

People

People are one of our strongest assets, they are the key to our strategy to achieving our overall goals. As well as recruiting new talent, we are keen to acquire companies who value the importance of their workforce and share our values of continuing strong traditions. We want to invest in our teams through training and development to improve retention and identify talent for succession planning.

FLOWTECHNOLOGY UK

John Farmer

Managing Director

Starting his career as a time served engineer for a foundry owned by Parker Hannifin, John has over 32 years' experience in the industry, previously working in a sales capacity for Energy Controls, then as a distributor for FTUK. After joining in 1999 John has held both customer and supplier focused positions; firstly as an Area Sales Manager before moving on as a Product Development Manager in 2002 and latterly as the Product Development Director in 2004. Following a six month period as acting MD of FTUK John was officially appointed MD in July 2016.

"We recognise John's outstanding contribution to the business. Specifically, over the last twelve months John has played a pivotal role in identifying and implementing firm foundations; looking at systems, processes and strengthening the team. He has a clear vision for the future and has a natural ability to both unify and build a strong and dedicated team. I cannot think of anyone better than John to lead Flowtechnology UK into the next chapter of business growth and am delighted that he has accepted the role of Managing Director. I wish John every success in continuing and strengthening Flowtechnology UK's position in the industry."

Sean Fennon
Chief Executive Officer

CASE STUDY

Debbie McCarthy

Credit Controller

Debbie joined the Service Centre team this year as part of the integration of the Indequip acquisition. Starting working life a receptionist, Debbie has always been keen to learn new skills and was well versed in all areas of office administration when she joined Indequip in 2006 as a credit controller. Very well respected for her abilities at Indequip she has made a real contribution to the Service Centre team. As well as continuing to manage Indequip's credit control, she provides credit control cover for holidays for the other profit centres and runs payments for the PMC division. Debbie will also be helping implement Sagepay throughout the business following her experience with this software at Indequip.

"I was very nervous about moving teams at first, being a new starter in an established team. Everyone was really friendly and helpful, giving me full support on training for the new systems. I really enjoy my role, it's diverse and no two days are the same. It's also great that the Indequip team are on site."

Debbie McCarthy

Bradley Fairchild

Apprentice – Purifier Production

Bradley Fairchild joined Primary on the modern day apprentice scheme on 1 February 2014 which was in partnership with the Knowsley Apprentice Programme. Bradley was invited along with other applicants to sit our basic in house hydraulics course which he passed and after an interview he was offered an Apprenticeship in our Systems Division.

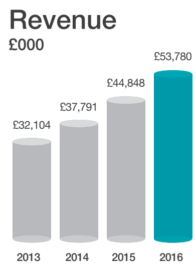
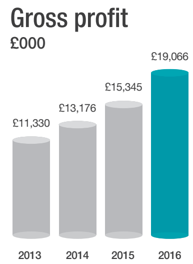
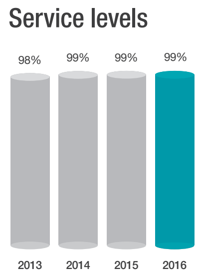
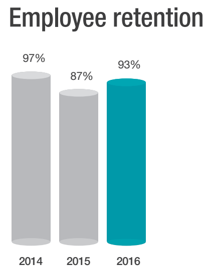
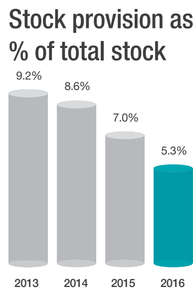
Bradley originally worked four days on the shop floor and was office based on Friday learning CAD design. He now works between the two departments developing his buying skills in the office and wiring on the shop floor. Bradley has completed CETOP1 at the National Fluid Power Centre and is working towards his goal of CETOP3.

"I am really enjoying my apprenticeship, I can design an assembly using CAD then follow through the design when I'm building it on the shop floor."

Bradley Fairchild

Our key performance indicators (KPIs)

The Operational Board regularly monitors a range of financial and non-financial performance indicators to allow it to measure performance against expected targets. The following represents a selection of these indicators.

KPI	Definition	Performance
Daily gross profit generated	The accurate daily reporting of gross profit achieved by each operating division across the Group with comparison to prior year or plan is our fundamental performance measure. This is further supported by additional calculations giving indicative full month estimates on a daily basis. The daily gross profit report is issued to all business units by 9am daily.	  
Monthly sales and gross profit by customer account and product	We have a clear focus on the management of profitability at customer and product levels. Within the Group's IT systems, appropriate Business Intelligence modules are maintained to allow ease of analysis on a timely basis to both underpin sales development initiatives at a strategic and tactical level, and to quickly identify underperformance.	 
Service levels	This is the percentage of orders despatched same day in the Flowtechnology division.	
Employee retention	Retention is measured as the number of employees retained at the end of the year as a percentage of the number at the start of the year.	
Stock provisions calculated at item level	The Group maintains accurate stock provision measures down to item level on a minimum twice monthly basis.	

Strategic key

- Brand positioning
- Acquisition and integration
- E-commerce and Business intelligence
- Products and sourcing
- Supply chain
- People

Commentary on performance	Strategic link	How these measures support our strategic focus
Performance across all segments remain strong.	Acquisition and integration	As part of any acquisition programme, new businesses that join the Group will be required to comply with this daily reporting requirement as soon as it is practicable. The primary benefit is to allow the Operational Board to reinforce close scrutiny of trading performance, provide local management focus and an early indication of any negative growth, if evident.
Granular KPI review has led to overall growth targets being achieved.	Brand positioning	The regular measurement of performance enables us to identify broader issues impacting a brand post acquisition. Continued focus on product performance allows us to identify product brand expansion opportunities.
Supply chain and logistics continue to deliver consistent performance.	Supply chain	The aim of the Group is to provide a wide and deep product range, competitive pricing, consistently high service levels and a unique dependable next day delivery for stock items. These attributes are all linked to optimised inventory levels to provide an unparalleled customer support service.
Overall retention has improved and remains above national average.	People	People are one of our strongest assets, they are the key to our strategy to achieving our overall goals. Measuring retention across the business units enables us to identify both good practices and also where corrective action may be needed.
Regular review of KPIs and remedial action has reduced provision requirements.	Products and sourcing	Stock provision analysis by individual product group or supplier ensures that action to alleviate any potential costs associated with slow-moving or redundant items can be made at the earliest point in a product life-cycle. Continual review helps us ensure we are stocking the right product.

Living our values

Delivering tailored solutions

TSL Fluidpower – British Antarctic Survey

The Halley Research Station is an internationally important platform for global earth, atmospheric and space weather observation in a climate sensitive zone. Built on a floating ice shelf in the Weddell Sea, Halley VI is the world's first re-locatable research facility. This award-winning and innovative research station provides scientists with state-of-the-art laboratories and living accommodation, enabling them to study pressing global problems from climate change and sea-level rise to space weather and the ozone hole – first discovered at Halley in 1985.

The problem

Following the earlier demise of the British Antarctic Survey's (BAS) first four Halley research stations which had become buried in ice, the organisation realised that their current station Halley V was on the wrong side of a potential fault line which was expected to merge into the ice sheet. With the station's legs buried in ice with no realistic chance of chance of moving it, BAS took the decision to commission a new research station which would be unique in its ability to be relocated should future need arise.

The solution

TSL Fluidpower has a long established reputation for providing sophisticated and innovative hydraulic solutions. TSL Fluid Power were instrumental in the design, development and manufacture of the legs and hydraulic system on which the new research station modules would be mounted. Due to the severe environmental conditions where the station was located there were many technical issues to overcome and several new techniques had to be developed to successfully meet the requirements needed to operate the station.

Halley VI consists of eight modules covering the research, energy and living area requirements of the scientists and engineers who spend long periods on the ice. The modules which weigh up to 220 tonnes each are sat on four ski-fitted legs (the largest social hub module is on six legs). The legs are operated by hydraulic cylinders mounted inside the legs and are used to raise the modules to their working height and keep above the drifting snow level. The hydraulics cylinder also provides the ability to lower the modules should the need arise to re-locate them. Each module can be independently towed to a new site on its skis.

Halley VI was sited on what was believed to be the safe side of the potential fault line and after successful commissioning of the new station, Haley V was decommissioned and removed by ship from Antarctica. Halley VI had been operating successfully for several years when it was discovered the crack in the ice was beginning and heading towards the Haley VI site necessitating the lowering and relocation of the entire station.

This work is currently being carried out and the hydraulic system is now being used as it was designed for, the entire station relocating to 23 Km from the original site.

TSL are still closely involved with the project and have recently supplied a large spares order prior to the relocation site should any parts be damaged or become necessary during the move.

Living our values – Hydravalve

Continuing strong traditions

Our acquisition strategy is to acquire complementary businesses operating in specific channels; highly focused, commercially independent operations delivering quality customer service at all times. The acquisition of Hydravalve exemplifies the type of business we want to bring into the Group and we were especially impressed by the strength of its relationships with both customers and suppliers, built from the strong traditions of a family business and the experienced, long serving management team.

Company background

Hydravalve (UK) Ltd is a family run business with over 27 years of experience supplying valves and actuation to the process pipework market. Headed up by founder Andy Newham, together with his daughter and two sons, the family have developed an experienced team at Hydravalve, together with strong strategic relationships with leading industry brands. Their mission has always been to provide customers with unrivalled levels of service, technical expertise and high quality products, a mission shared by the Group.

The team at Hydravalve are extremely proud of their customer satisfaction levels and since joining the Flowtech Fluidpower Group in 2016, they want to strengthen their position in the market and further enhance:

- Training and development: enabling the team to provide outstanding technical assistance and bespoke solutions.
- Product ranges: provide customers with the widest ever choice of process valves, pneumatic and electric actuators.
- Stock levels: recent investment in five Kardex Remstar machines is allowing significant expansion of stock holdings.
- Service levels: prompt shipping of orders to customers which is supported by the Group logistics relationships and additional capacity provided by the FTUK Distribution Centre.

Hydravalve are official distributors for major brands in the manual valve and actuation industry, including Brandoni, CMO, Crane, Genebre, Haitima, itap, Prisma, RuB valves. Due to their commitment to continuously developing product ranges with ISO approved suppliers they are a long standing supplier partner to major companies across numerous industries including; original equipment manufacturers, in paint production, paint spraying, mixing, foundry, food and beverage, industrial washing and hydraulic industries.

Their technical expertise, in-house valve actuation assembly facility and ability to provide the full one-stop shop for process valve needs, is very much in line with the Group ethos.

Traditions of customer service

Going the extra miles

Hydravalve won an order to supply an offshore marine platform with a 4" 3 port valve made from Super Duplex material, fitted with a Prisma spring return actuator. On delivery the customer found that his order had specified the operation of the valve in the wrong orientation. The valve wasn't an "off the shelf" product, it was worth in excess of £12,000 and the lead time for a correctly orientated valve was 16 weeks. To ensure our customer's operations were not disrupted we decided to drive there and replace the actuator within the valve with a reverse acting one. The customer's site was in Peterhead, a total of 890 miles in 2 days.

Added value services

Hydravalve have always tried to find unique ways of winning new business, especially in the manufacturing sector. For one customer, a manufacturer of non-destructive testing equipment, we offer a stock holding option, keeping two months of all their required components in stock. These are delivered twice a week. We have steadily increased the number of products we supply to the customer, using our sourcing abilities to save the customer money, and now import specialist pneumatic cylinders and valves from the Far East, to meet their requirements. In 2007 this customer had sales of £3,700, and through building our relationship and working together this year we supplied almost £250,000 of components with a 96% availability on time.

> "Our team has a strong customer focus and their commitment and teamwork make them one of our strongest assets and underpin Hydravalve's exceptional customer satisfaction levels. In addition, the Group now provides us with a significant extended family who have a plethora of experience in various disciplines across the fluid power industry. I would like to take the opportunity to thank all of our customers for their loyalty, valued custom, feedback and support. Without this, we would not be able to share our exciting new future with the Group."

Andy Newham
Managing Director

CASE STUDY

Living our values

Nurturing solid partnerships

SUPPORTING OUR CUSTOMERS ROUND THE CLOCK...

Multiple orders, one carriage charge
Secure stock, order multiple times throughout the day and pay only one carriage charge.

Mobile responsive website, use in meetings
Access website via mobile/tablet, view products, technical information negotiate terms, compile baskets and place orders all in the same meeting.

01 pm

Exclusive brand programme
Brands exclusively delivered by FTUK. This enables us to give you better terms and ensures no direct deals are made with your own customers.

12

Technical support
Experienced team on hand for specific product support; try Skype to easily and quickly identify parts.

Easy online ordering
Quick basket, save baskets, use own part codes, import/export part codes. Use as quote facility or to reduce admin into your own system.

11

Online technical support
Product information, educational videos, downloads and technical information sheets.

Dedicated account manager
We help grow your business through account analysis, advice on product choices, providing quotations and dealing with bespoke product enquiries.

10

Stock/lead time information
Check stock online or call our supply chain team if information is not given online.

Promotions
From time to time we send you product promotions. Check emails and our online promotion pages for latest offers.

09

Place orders offline
Open from 8am until 6pm, our friendly experienced call centre can place your orders which cannot be placed online. Our distribution centre can take telephone orders until 10pm.

Important communications
Stock enhancements, new products and service updates through our regular email circulations, website news section and quarterly publication.

08 am

CASE STUDY

02 03 04 05 06 10 pm

Hose assembly service
Assemblies, tube manipulation and welding, swaging, pressure testing, kitting, pin pricked hose and Walform services.

Marketing & design
Create the catalogue marketing materials, website, print management; email marketing promotions.

Reduced carriage free threshold online
Spend only £290 online to obtain free carriage or £390 offline.

Product sourcing
Widest selection of products, brands and stock levels sourced by our product development team who focus on customer requirements, innovation and product trends.

Direct to customer delivery
Shorten lead times, use our FTUK express service to ship direct to your customer, copies of despatch notes included.

Personal online support
'My account section' - track orders, outstanding orders, add net contacts, check discount structure, manage favourites, review marketing material.

Instant order information
Order confirmations, invoices, back order confirmations, direct to customer delivery confirmations.

Online barcode scanner
Useful for stock replenishment. Scan and add items straight to basket. Stockroom label support. Ask for further information.

Longest opening times
24-7 online, orders up to 10pm at night guaranteed next day delivery. Easily mobile site, highly convenient for emergency orders.

Independent technical website
Direct your customers to technical information online. Visit **www.techdatasheets.co.uk**

Distribution centre
Out of hours support. Streamlined, super efficient stock management systems and processes enable unrivalled delivery performance.

Flowtechnology UK aim to help their customers grow their businesses. They proactively enhance systems and services to help save customers time and money.

Operational and financial review

Bryce Brooks, Chief Financial Officer, Sean Fennon, Chief Executive Officer,

"We have a relentless attitude to growth by organic and acquisitive means, backed up by our four-layered approach to extracting synergy gain over the short, medium and long term. Our targeted approach ensures we can achieve both a concentration and enhancement to our product set – which lies at the centre of our business model – entirely focused on fluid power."

Sean Fennon
Chief Executive Officer

Operational review

	2016	2015	Change %
Group revenue*	£53.8m	£44.8m	+20%
Gross profit*	£19.1m	£15.3m	+25%
Gross profit %	35.5%	34.2%	+1.3%
Group operating profit*	£6.14m	£5.49m	+11.8%
Underlying operating profit†	£7.45m	£6.87m	+9.5%

* All results relate to continuing operations
† Underlying operating result is continuing operations' operating profit before acquisition costs, amortisation of intangible assets, share-based payment costs and restructuring costs.

We are very pleased to again report a period of significant progress in the scope of our activities as a Group, with an uplift in revenue of 20% (2015: 19%), a 11.8% increase in operating profit, and 9.5% improvement in underlying operating profit (2015: 12%). The movements in underlying operating result by segment are detailed on page 33. A reconciliation of underlying operating profit to operating profit in the consolidated income statement is detailed in the segmental analysis note (see note 4). The separately disclosed items which represent the bridge between the two amounts have remained consistent at £1.3m.

A year ago, we announced strong growth figures underpinned by an active acquisition programme, against a backdrop of a market with headwinds making organic progress challenging. Twelve months down the line we have a similar message, but this time we can add material currency movements which rapidly increased input prices across our product portfolio when sourced from Europe or the Far East, and a further knock on effect into market confidence.

We therefore believe that the result achieved is further justification that our focused approach in maintaining strong gross margins, while developing market share and commercial synergy by acquisition, is creating an expanding and resilient platform for long-term profitable growth.

Gross profit margins

One of our most important KPIs remains Gross Profit %, and it is also pleasing to report that in 2016 we were able to increase margins in each of our divisions, with an overall improvement of 130 bps as shown below:

Gross profit %	2016 %	2015 %
Flowtechnology	37.2	35.3
Power Motion Control	29.2	28.3
Process	42.6	—
Group	35.5	34.2

Following the Brexit result in June 2016, the latter part of the year was dominated by the movement in currencies and the subsequent issues around pricing. In this regard, the Group is split into two separate and distinct pricing models:

- "Distribution" businesses – A "flexible" pricing model: Flowtechnology and Process – these operate pricing policies based around smaller parcel size, a broader mix of Global Brand and Own-Brand products, and a "list less discount" model. During 2016 these businesses set out a clear pricing strategy to increase selling prices as required and culminating in a more general uplift by 1 January 2017. In addition, the depth of our relationships with factory owners in China has helped with some medium-term pricing support, coupled with volume related discounts, that have meant we have now come through a potentially difficult period with our gross profit % intact, and I am pleased to report that in Q1 2017 we have achieved a similar margin position when compared with Q1 2016.
- In contrast, our PMC businesses work in both pure component sales, that overlap with our distribution model, but also in markets where the precedent is for a more fixed approach to pricing to Original Equipment Manufacturers (OEMs), and therefore have more challenging pricing issues to address. At the same time, we know that much of our competitor landscape is less able to withstand such pressures for any length of time, and we have consequently chosen to take a more watchful approach to this customer segment. As we enter 2017, the early signs of this approach are broadly encouraging with good volumes on parts of our OEM business coming through that are more than offsetting any margin compression.


Flowtechnology Benelux Team


Nelson Hydraulics


Nelson Hydraulics

Hydravalve Trade Counter

Operational and financial review continued

Acquisitions

Since 2014 we have developed a capacity to identify, acquire and integrate complementary businesses in line with our channel strategy, both in the UK and Europe. This strategy has included the development of a Service Centre team structured to support the operations and remove back-office processes, as well as the new development of a Shared Logistics Centre.

All the acquisitions to date (totalling 7) have been integrated quickly into the Group, with retention of brand identity, reputation and customer relationships being critical. The Group philosophy therefore is to maintain the acquired business' branding and help enhance it.

Following this simple initial integration, a focus on synergy gain has a four-layered approach:

- **Back office**
  Typically, quick wins in 'soft' areas such as accounting, insurance, banking, HR and IT. Our Service Centre team covering all these disciplines will work over a relatively short period to both ensure a full take-on, as well as enhancements where possible, including production of management accounts and central control of payment processes.
- **Procurement**
  Whilst a comprehensive and systematic approach to supplier pricing optimisation is a long-term goal for the Group, our acquisition process focuses again on the quick wins that can simply be achieved by straightforward face to face communication between purchasing teams of new and current operations.
- **Operational**
  The Group now has over 180,000 square feet of operational facilities across its nine sites. Each business is encouraged to work with its colleagues across the Group, and this has allowed each operation to use its resources more effectively. Furthermore, we have begun the development of a 'Shared Logistics Centre' ("SLC") based on the operation previously set up to exclusively support the Flowtechnology UK business, with the aim to create a 'best of breed' logistic facility and service which will be utilised other Group companies. This infrastructure has been established for over 20 years and is already providing a class leading distribution service. An obvious early example of this concept is in Indequip, which has effectively removed its own logistics structure in its entirety, whilst retaining complete commercial control, with a significant reduction in its own cost base. We expect this type of interaction using operational assets more efficiently to become a recurring theme over the coming years – and achieved without significant risk added to our core trading assets.
- **Commercial**
  Finally, the cross selling of ideas and opportunities across the Group is allowing our complementary skill sets – from logistics to product to technical expertise – to be exploited for selling leads wherever possible. With our expansion from four to eight operating brands during the past twelve months we are seeing real tangible benefit from our strategy. For example, sales from Flowtechnology UK to other group companies rose by 78% in 2016, and from PMC to other divisions by 154%.

"The Flowtech Group now operates three divisions: Flowtechnology, Power Motion Control & Process. This structure has delivered greater opportunity to focus on fluid power solutions while at the same time, developing a deeper technical expertise within our complementary businesses; specialising our offering in the fluid power sector and, delivering high service levels to all our customers across our business. This formulation gives us a solid platform for growth as well as opening and creating new opportunities in new and exciting sectors."

Sean Fennon
Chief Executive Officer

Underlying operating result

The underlying operating result* can be summarised as follows:

Continuing operations Underlying operating result*	**2016 £000**	2015 £000	Change £000	Change %
Flowtechnology	**7,627**	7,571	56	0.7
Power Motion Control	**1,823**	1,228	595	48.5
Process	**401**	—	401	—
Central costs	**(2,397)**	(1,931)	(466)	24.1
Underlying operating result	**7,454**	6,868	586	8.5

* Underlying operating result is continuing operations' operating profit before acquisition costs, amortisation of intangible assets, share-based payment costs and restructuring costs.

Flowtechnology

A highlight during the year was when the division acquired a direct UK competitor, Indequip, with a plan to retain the clear identity of the business as a separate trading brand under the leadership of Managing Director, Ian Simpson, whilst at the same time integrating the operational side of the business fully into the logistics infrastructure of the rest of the group. We know that Ian and his team initially viewed the acquisition by the Group with a sense of trepidation. However, in Ian's own words, "the move has proved to be a springboard for the reinvigoration of the Indequip business and has set it off with new impetus to develop and grow". Indequip's new catalogue arrived in December, prepared with the input of the Group's creative services team, and this was released in January to a very positive response. In 2015 Indequip was struggling, with resources being limited and the efforts of an energetic and well-lead team being stifled. Today, confidence is renewed with a clear focus on the future as part of a retained trading style as part of the Group.

As a result of the general market difficulties previously described, volumes within the original Flowtechnology UK business have been under negative pressure, but our clear focus is to ensure we retain strong gross margins and a high service offer. Continued work on our "Data Repository" will also begin to deliver benefit in 2017, with a new web trading platform launched in March.

The Benelux market remains buoyant, with the short to medium term outlook encouraging. Having previously been fixed on the value of Global Brands, the region has become open to change, and this has allowed the Flowtechnology operation to promote our Exclusive Brands, all developed within the wider Group – a move which has begun to show positive benefits in both revenue and margin growth. The continued re-sourcing work carried out in conjunction with our purchasing group should allow Flowtechnology Benelux to develop its position further over the coming year and increase its market penetration, particularly in the hydraulic segment where the business has previously had little activity.

+6%
Flowtechnology turnover
(2015: -2%)

+0.6%
Flowtechnology operating profit
(2015: +2.9%)

+0.7%
Flowtechnology underlying operating profit
(2015: +2.4%)

Operational and financial review continued

Power Motion Control (PMC)

When the Group came to market in 2014, the creation of a Power Motion Control division, based around the supply of hydraulic components, hose assemblies and systems to a largely OEM customer base, was a key part of our strategy. PMC now has four trading "brands" operating from six sites across the UK and Ireland, with a current total revenue of over £20m – all under the leadership of Nick Fossey who joined us in March 2016.

With the full year effect of the Nelson and Albroco acquisitions from early 2015 now evident, backed up by a consistent performance from Primary, the division has made encouraging progress against a challenging backdrop for volumes and margins. In 2016 and now 2017 the addition of TSL and HTL adds to the portfolio, now supported by a newly established cross-selling team. From a standing start in 2014, the division is now established and growing.

Compared to the UK, the wider Irish market in which Nelson Hydraulics operates has remained relatively buoyant. This has enabled Nelson to consolidate its overall market share and gain business from its customer base. The Irish OEM export market appears to be holding up well moving into 2017, with market optimism being driven by the weak pound and the strong export opportunities.

Process

We welcomed Hydravalve to the Group in March 2016, as the start of our Process division focused on developing our presence in broader markets for valves and actuation. Core product areas have strong overlap with Far East supply in Flowtechnology UK and this has allowed the two operations to combine purchases and obtain significant price advantage which will assist in underpinning margins in 2017 and beyond. Based in Willenhall in the West Midlands, Hydravalve is also now diverting generic product from direct supply and instead is sourcing using the SLC in Skelmersdale. Managed by the former owner Andy Newham, Hydravalve is now well established and has proven to be an excellent cornerstone acquisition for the Process division.

+36%
PMC turnover (2015: 197%)

+55%
PMC operating profit (2015: 209%)

+48%
PMC underlying operating profit (2015: 233%)

Central costs

	2016 £000	2015 £000	Change £000
– Commercial	**359**	269	90
– Finance, IT & management	**1,646**	1,294	352
– PLC	**392**	368	24
Central costs	**2,397**	1,931	466

In order to add clarity to our reporting process we now provide further stratification on this cost area to illustrate how the acquisition programme can develop with only a limited increase in central costs to support this. The three areas now identified are as follows:

Commercial – being Creative Services (catalogue design and marketing materials production) and Marketing departments, and as a main addition in 2016 a new sales resource.

Finance, IT and Management – which includes the employment costs of the executive team. During the year a bonus was paid to the Executive team totalling £113,000 in recognition of progress made by the Group since 2014, with the balance being the development of the necessary team to support the growth programme for the long term, including the recruitment of the PMC Divisional Managing Director, Nick Fossey.

PLC – being non-executive director costs, broker and legal fees, and all other costs relating to the operation and marketing of the public company. Finncap were appointed as joint broker with Zeus Capital in January 2017.

Acquisition and restructuring costs

The total cost for the year of £419,000 represents 9.5% (2015: 3.8%) of the total consideration paid for acquisitions (as detailed in note 25). This includes both the transaction cost, including legal and professional fees, and the cost for post deal IT and Finance integration, and we believe this again represents a fair cost for transactions of this type.

Restructuring costs incurred during the year of £84,000 (2015: £323,000) primarily relate to relate to the redundancies in administrative functions following acquisition, as well as a streamlining of the Group following advice from our legal and tax advisers.

Taxation

The tax charge for the year was £1.1m (2015: £1.1m), with an effective tax rate of 20.3% and a blended tax rate based on the geographical regimes of 19.5%.

Operational and financial review continued

Statement of financial position and managing working capital

The net debt position at the year-end was £13.10 million (2015: £9.0m). Under the debt facilities extended in 2015, our revolving credit facility agreed with Barclays Bank plc for up to £15 million, is now fully available but with ample headroom under a comfortable covenant headroom. Cash inflows of around £9.6m under the recent placing have also now been received, which leaves the business lowly geared and well positioned for further investment in the immediate future.

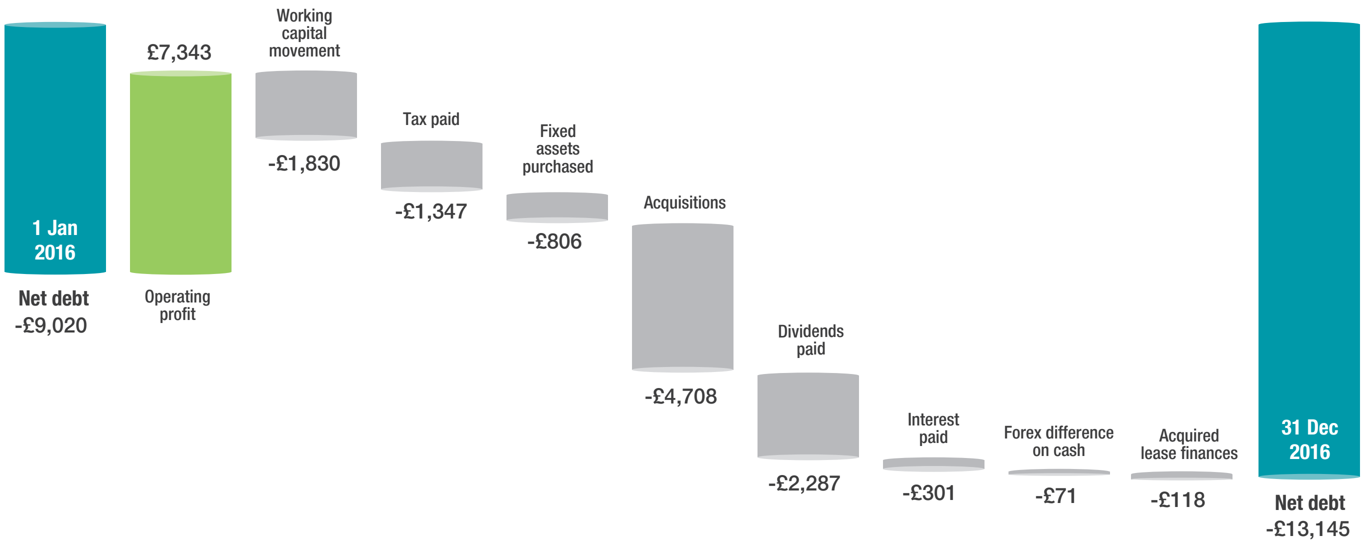
In late 2015 the Group took the strategic decision to increase order values from some of its Far East suppliers, with a view to obtaining better pricing in a softer market at the time. This has assisted the drive to retain gross margins in the difficult markets experienced in 2016, but this has meant that overall stock holding levels have been above optimum with broad stock turns across the group of around two. From 1 January 2017, a new "profit sharing" scheme has been introduced across the Group that operates at local level, and as well as remunerating staff members for profit growth, an added element can be obtained for improvements in returns achieved on overall working capital management – with stock at its core. Whilst always being mindful of not undermining service levels, a long-term drive towards stock turns of 2.5 to 3 is being targeted, and as the group expands with each acquired business as well as organic growth, we believe this is achievable in the medium term. Any cash released will then be re-invested in further growth. With debtor collections consistent (the total charge for bad and doubtful debt related issues was £67,000 (2015: £62,000), representing only 0.12% of turnover) and increasing supplier terms being negotiated, a focus on the management of working capital is at the forefront of the Group's thinking.

Exchange rates and foreign currency exposure

As previously described, the Group is able to take a flexible approach to currency risk management, as other than some smaller elements of its PMC business with OEMs, it is not involved in fixed price sales contracts. This has obviously been tested vigorously since the Brexit decision. Whilst there have been some learning points, we have again gained confidence that sales pricing can be flexed as cost prices change and the Group will continue to operate in this manner, as a focus on moving pricing to match market conditions is believed to be an important aspect of our offer.

In addition, the Group derives income streams from its Benelux and Republic of Ireland operations. In order to fix the value of these profits, the Group continues to maintain foreign exchange contracts on an annual basis for the estimated euro value of these contributions. In 2016 this contract resulted in a loss of £73,000 (2015: gain of £18,000), which is accounted for within net financing costs, and this year is to some degree countered by the increased "value" of the respective income streams on conversion.

Net debt bridge
£000



People

Each year of growth brings with it the advantage of an expanded management team, each with new focus and skills that can be used to further enhance our wider activities. Managing Directors appointed during the year include Ian Simpson at Indequip; Andy Newham at Hydravalve, ably supported by his sons Andrew and Edward; Steve Rushworth at TSL, and most recently Kirk Duncan and Alan Willis at HTL.

Our quarterly Operational Board structure is now divisionalised with bi-annual cross group meetings. Finally, the full PLC board led by Malcolm Diamond performs an in-depth assessment with each business as part of an annual forecast process.

The Board is very encouraged by the progress made during the year. However, we are keenly aware that none of this progress is achievable without the continued commitment and effort of all our employees – in both the “founding” Flowtechnology businesses, and all our “new” colleagues in Primary Fluid Power, Nelson Hydraulics, Indequip, Hydravalve, TSL, and now HTL. We believe the team ethic that is being created across the Group is allowing us to build for the long term.

Outlook

We have entered 2017 with renewed confidence. Our acquisition of HTL in January 2017 adds a further element to our customer and supplier base and, on the back of our recent £10m capital raise, the Group has the financial scope to support this confidence.

We have a relentless approach to growth by organic and acquisitive means, backed up by our four-layered approach to extracting synergy gain over the short, medium and long term.

Our targeted approach ensures we can achieve both a concentration and enhancement to our product set – which lies at the centre of our business model – entirely focused on fluid power.

Yours sincerely

Sean Fennon
Chief Executive Officer

Bryce Brooks
Chief Financial Officer
4 April 2017

“The Board is very encouraged by the progress made during the year. However, we are very aware that none of this progress is achievable without the continued commitment and effort of all our employees – in both the “founding” Flowtechnology businesses, and all our “new” colleagues in Primary Fluid Power, Nelson Hydraulics, Indequip, Hydravalve, TSL, and now HTL. We believe the team ethic that is being created across the Group is allowing us to build for the long term.”

Bryce Brooks
Chief Financial Officer

Risk Management

How the business manages risk

In common with all organisations, Flowtech faces risks which may affect its performance. There is little that we can do about the macroeconomic environment but the Board believes that our strategy, which is designed to exploit opportunities created by the market, places Flowtech in a strong position relative to others, particularly where those markets are volatile. For the risks we are able to manage 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. Risk review is an ongoing process and is reviewed formally by the Operational Board prior to the year end.

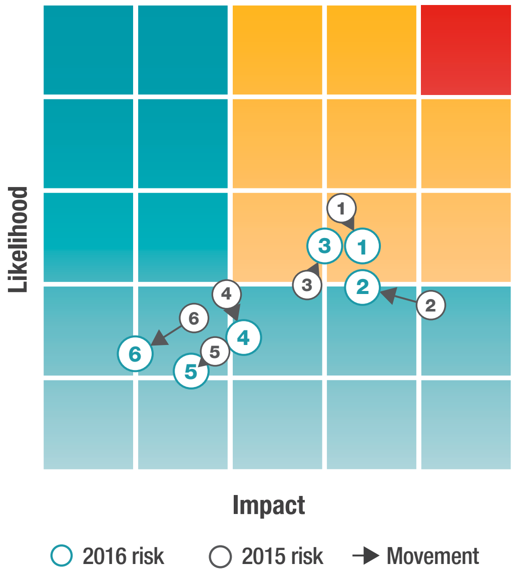
The principal risks identified include:

Number	Risk	Mitigation
	Talent management and succession planning	
1 Link to strategy	There is a risk that the business is not able to attract and retain high performing employees. The Group also needs to maintain engagement with the employees to ensure they remain supportive of the business strategy.	Attraction and retention of employees is supported by bonus plans, recognition and reward programmes and innovative benefit packages. Succession planning process introduced by the Operational Board in 2015 to identify and develop key employees. Nick Fossey appointed to lead the PMC division in March 2016. Training forms a key part of all employees' development within their roles. Training is arranged to support the Group's business plans and the personal goals of all employees.
	System and site disruption	
2 Link to strategy	There is heavy operational dependence on the resilience of warehousing and IT infrastructure to support business operations and maintain high service levels. The risk is present that unplanned events could disrupt the functioning of key elements of the operational infrastructure, damaging customer service and business reputation.	Off-site disaster recovery provision for IT systems including call centre relocation. Business continuity plans in place at operational locations. As the Group increases in size, resilience to disruption increases as distribution and production activities can be re-routed to other sites. Business continuity plan tested successfully at the Shared Logistics Centre and annual test programme has been introduced across the Group.
	Inability to recognise and control cyber exposures	
3 Link to strategy	The Group recognises there is an increasing exposure to cyber-risk, including advanced techniques to disrupt our websites and direct attacks on Group systems with the potential loss of confidential information.	Current mitigation measures for local business systems include anti-virus software, virus scans on incoming emails and firewall protection. The main Group website is hosted in the cloud with dual servers ensuring automatic switchover should one fail with daily back-up procedures. All systems reviewed during the year whilst working towards IASME Gold certification.
	Quality control	
4 Link to strategy	Many of the key components and products supplied by the Group are for industrial use, often in hazardous environments. These components and products must be fit for purpose to ensure that their reliability, performance and safety is of the necessary standard. Failure in this quality will cause damage to the Group's reputation, customer relationships and potential legal consequences.	The majority of the Group's products are sourced from reputable 'brands' in the UK and Europe. In addition, for Exclusive Brands sourced from China, the Group has quality control specialists who regularly visit suppliers' manufacturing sites to ensure that high quality standard operating procedures are being adhered to. The Group complies with ISO9001 ensuring quality standards are maintained through all its operations. Continual testing procedures are in place for both components and manufactured products. Employees involved in assembly processes are qualified with the relevant industry body awards and continue with regular internal and external training.

Risk heat map

The risk heat map represents the qualitative and quantitative evaluations of the likelihood of a risk occurring and the impact on the Group in the event that a particular risk is experienced. The risk heat map was compiled by the Operational Board based on a common understanding of the risk appetite of the Group, the level of impact that would be material to the Group and the same method for assigning probabilities and potential impacts. Results from the individual Board members were amalgamated using simple averaging.

Movements from the prior year's ranking are indicated by the arrows.



Number	Risk	Mitigation
	Breach of regulations	
5 Link to strategy	Inadvertent breaches of regulations could lead to prosecution and significant fines. Regulations impacting the Group include COSHH, packaging waste regulations, health and safety at work, the Bribery and Corruption Act and corporate governance.	The Group engages external specialists as required to make sure internal procedures and policies are in place to provide compliance with the regulatory frameworks. There is an ongoing review of relevant national and international compliance requirements. Health and safety procedures to be standardised across the Group in 2017.
	Failure to integrate acquisitions and align strategies to existing business model.	
6 Link to strategy	The Directors believe that the fluid power marketplace is highly fragmented, and the Group's core trading entities operate in well-defined channels. Acquisition opportunities that fit within these channels will be key targets. However, this fragmented nature will often introduce channel overlap that could undermine trading performance in other parts of the Group.	The Board includes both Executive and Non-Executive Directors with considerable acquisition experience. Given that the development of the Group in the fluid power market is likely to include multiple opportunities to acquire trading companies in both the UK and Europe, future appointments will also be made as required to strengthen skills and knowledge in this area. Since the IPO, the Group has also added professionals in both general accounting, business process and mergers and acquisitions to its internal resources in support of this process. Prior to engaging in any process the Chief Financial Officer will review any acquisition opportunity for conformance with the Board's strategy on channel management. Further detailed assessment with regard to channel conflict will be a key part of the due diligence process which will include consultation with the Group's Operational Board prior to plc Board approval and any commitment to buy.

Strategic key

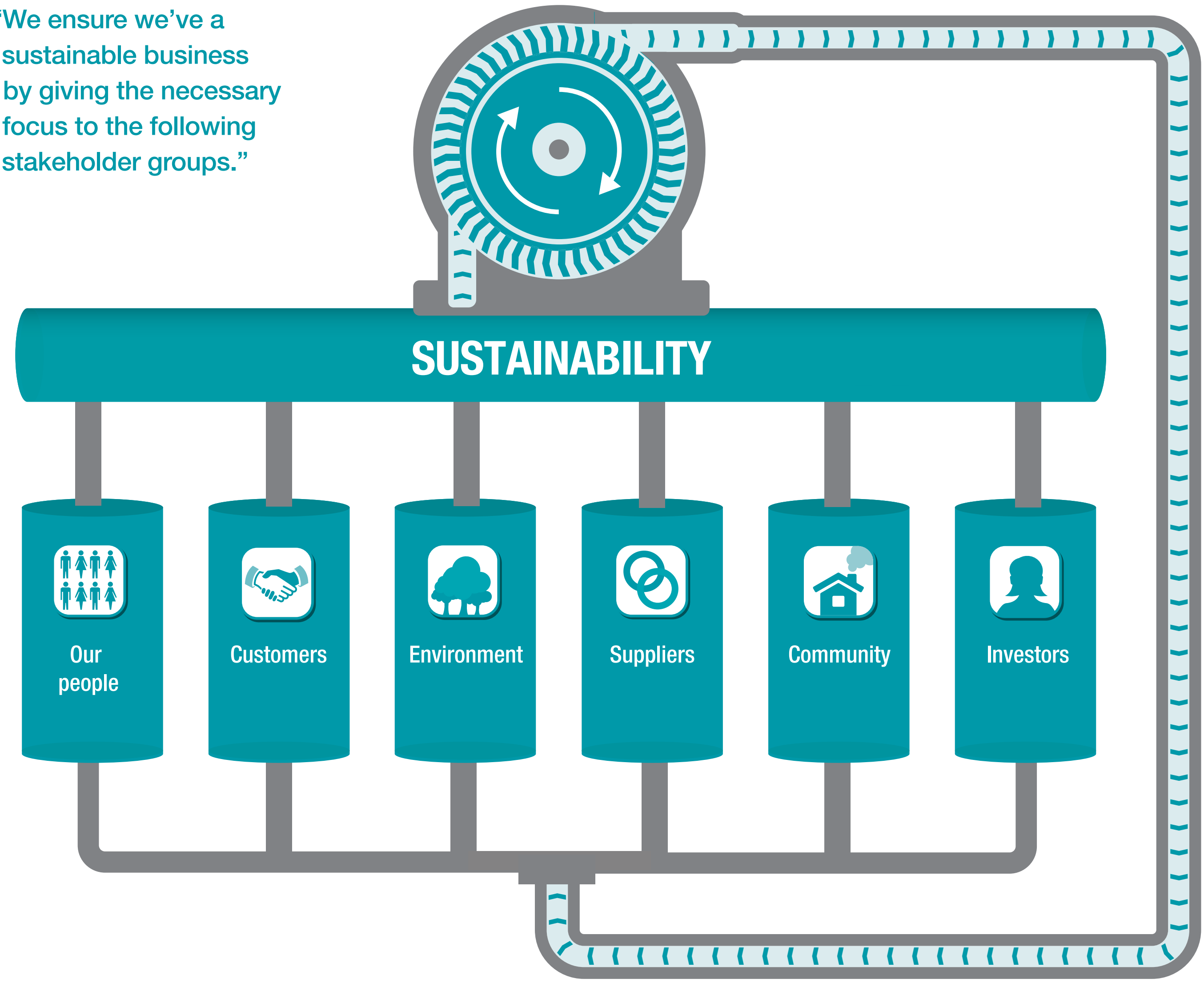
- Brand positioning
- Acquisition and integration
- E-commerce and business intelligence
- Products and sourcing
- Supply chain
- People

Sustainability

Sustainability seeks to develop and implement the methods and behaviours that balance the consumption of resources with the impact of that consumption on the environment in an economically viable manner that also enhances the quality of life. The Group believes this is a matter of common sense that has been embedded into the values of all our component divisions for many years. As an amalgamation of family businesses we have been practicing the sensible values of sustainability for many years.

The Group recognises that we are part of a much wider community and our key focuses in our sustainability activities are our people, customers, suppliers and investors, the environment and our local communities.

"We ensure we've a sustainable business by giving the necessary focus to the following stakeholder groups."



Our people

Our employees are our greatest asset and are trained to meet our requirements of efficiency and service to customers and suppliers. The Group recognises that its performance and ongoing success are directly related to the quality and effective performance of employees. It is the policy of the Group to ensure that employees are able to improve their performance by having appropriate access to effective training, development, coaching and counselling facilities. Induction training sets the foundation for all employees and introduces the Group's operational best and required practices which are documented in comprehensive Standard Practice Instructions. This is followed by specific on-the-job training. Where the demands of the business allow, flexible working is encouraged. FTB have worked with employees this year to implement changes to flexible working to maximise efficiencies in the call centre and distribution centre whilst accommodating work life balance.

The Company is an Equal Opportunity Employer. This means that the Company's established policy is to ensure that no unlawful discrimination occurs, either directly or indirectly, against any person on the grounds of colour, sex, sexual orientation, marital status, race, religion, nationality, ethnic or national origin or age. The Company's policy covers direct and indirect discrimination and failure to make reasonable adjustments for disabled employees, victimisation and harassment.

Health and safety

Health and safety is taken very seriously by management at all levels in the Group and our accidents rates are very low with no RIDDOR incidents during the year and only 4 days lost due to minor incidents across an average workforce of 291. During 2017 we will be looking to standardise procedures across the Group.

Apprentices

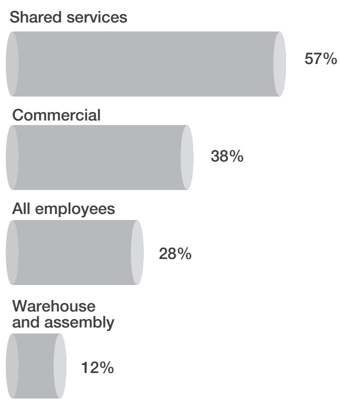
Primary Fluid Power have a long tradition of apprenticeships with two engineers from the team of 34 having come through the programme. Primary are focused on ensuring new trainees are fully trained in the field of hydraulics at the National Fluid Power Centre. This year, FTUK has also started a scheme which covers various disciplines including business administration and customer care.

	No. apprentices	
	Dec 16	Dec 15
Primary Fluid Power	**5**	4
FTUK	**4**	0

Diversity

We recognise and value all forms of diversity in our employees and endeavour to promote diversity in our workplace to enhance the success of our Group.

Gender diversity – % female at 31 December 2016



Employee retention

Flowtechnology Benelux

Sustainability continued

The female force behind Flowtechnology UK

In line with our philosophy of Excellence and best fit, it is notable that Flowtechnology UK have six of their departments now run by five female employees.

"Combined they have over 90 years' experience. Their drive, imagination, determination, accuracy and attention to detail is highly respected by myself, the business and our customers."

John Farmer
Managing Director FTUK

(back left to right) Luci Barrow, Supply Chain Process Manager, Cheryl Philbin, Communications Manager, Karen Tucker, Creative Services Manager
(front left to right) Jane D'Silva, Commercial Centre Manager, Lynne Yates, Data Manager

Customers

The Group values each customer regardless of size and is committed to develop mutually beneficial relationships at local, national and international level. All divisions have a customer-centric approach and it is vitally important for to us to work closely with the customer base to understand the underlying drivers in their marketplace. Continued dialogue has enabled the Group to develop its product offer and so match these changing requirements. One such product offer is the ability of Nelson Hydraulics to supply hose printed with the customer's name and part number due to investment in state-of-the-art automated hose machinery.

"The ongoing support and enthusiasm from FTUK has been a breath of fresh air."

FTUK customer

Flowtechnology Benelux undertook a customer survey with a very positive result; *"This resulted in a powerful 8.0 average mark from our customers. On the question 'how do you rate Flowtechnology Benelux as a supplier?' 99,2% of respondents stated to be satisfied (6-8), or even very satisfied (9-10). These are numbers we are proud of!"*

Mark Richardson
Managing Director,
Flowtechnology Benelux

The environment

The Group is mindful of the impact that its operations have on the environment and is committed to reduce its carbon footprint. Amongst the measures in place are:

- We recycle as much 'waste' as possible in the form of plastic, paper, metals and cardboard. In Benelux they are proud to achieve 100% recycling on all paper and plastic.
- The Group fleet utilises the BMW Efficient Dynamics range whenever possible and encourages employees to share the benefits through a salary sacrifice scheme for personal use.
- Reducing energy use through low energy lighting and utilising motion sensitive lighting in our warehouses.
- Encouraging cycle use through local government initiatives in both the UK and the Netherlands.
- Wherever possible orders and invoices to suppliers and customers are sent via Electronic Data Interchange (EDI) with a consequent reduction in the use of paper.
- In the Service Centre, paper usage and storage has been reduced by the introduction of scanning with the aim of achieving a paperless system. Use of Dropbox is being implemented wherever possible to speed up data sharing and communications.
- Financial reports are issued to the majority of Shareholders as an interactive report on our website.

Suppliers

The Group nurtures its relationships with its OEM suppliers whilst developing its complementary Exclusive Brands. We have a dedicated team in Shanghai to manage relationships with our Far Eastern suppliers, ensuring we can overcome local cultural and language barriers. During the year, our Shanghai team completed over 30 Far East manufacturer inspections for both current and new potential manufacturers.

Representative from all business units in the Group have attended trade shows in 2016 including ASIA PTC, 120th Spring Canton Fair, China's largest import export fair, ISSA Interclean in Amsterdam, Valve World and Tube Dusseldorf.

"As an import and distribution business, visiting the factories abroad has significantly improved our ability to control quality, and should reflect in fewer time consuming issues."

Andy Newham
Managing Director Hydravalve

"Over 70% of the team live in the local community and there is a real family spirit within the business. This year has demonstrated that the team love to work hard and play hard."

John Farmer
Managing Director FTUK

"As a Group we are absolutely delighted to win the coveted top spot in the regional business awards and also to be recognised strongly in the manufacturing category. As the Group grows we still harness the same family culture and values in promoting an open-working environment, that was instilled in the original core business. This recognition by our peers and the sponsors is therefore testament to the teams' hard work and commitment which provides the solid foundation for our accomplishments to date and into the future."

Sean Fennon
Chief Executive Officer

Community

- Employees are encouraged to participate in regular fundraising events for national charities such as dress-down days. This year employees have bungee jumped, run through mud and dashed in Santa costume to raise money for charity.
- Local football sponsorship is encouraged to support junior teams in the community and with both PFP and FTUK management actively involved with playing and coaching for local teams including Quarry Green FC, Skelmersdale United Youth Academy and Wigan Ladies Football Club.
- The Indequip team are keen golfers and sponsor a local course, Huyton and Prescot.
- FTUK extended the Christmas spirit to employee families with an afternoon party for their children.

Recognition

Nominated for two categories, Flowtech Fluidpower plc (Flowtech) was delighted to be recognised in the regional business awards event which was supported by executive sponsors DLA Piper, KPMG and Lloyds Bank.

The Company successfully pipped Liverpool John Lennon Airport and Bullens Healthcare to the award for 2016 Business of the Year and also was runner-up in the award for Manufacturer of the Year (Lloyds Bank). The Echo RBA event was attended by over 500 representatives from the North West's local pool of business talent.

Investors

The Board presents to our investors twice a year and are always available for meeting with existing and new investors.

Human rights

Our respect for human rights is implicit in our employment practices; the rights of every employee are respected and every employee is treated with dignity and consideration. Our employment practices are designed to attract, retain, motivate and train people and to respect their rights. We do not use child labour, nor do we use forced labour. We make regular supplier visits to ensure our supply chain maintains the same standards of integrity and is free from modern slavery. We recognise freedom of association by permitting our employees to establish and join organisations of their own choosing without our permission, and we recognise collective bargaining where required by local laws.

The Strategic Report as set out on pages 10 to 43 has been approved by the Board.

Yours sincerely

Sean Fennon
Chief Executive Officer

Bryce Brooks
Chief Financial Officer
4 April 2017

Officers and professional advisers

Nigel Richens

Non-Executive Director
Appointed: May 2014

Career: 23 years within the accountancy sector at partner level with PwC. Experienced adviser to listed and private equity-owned businesses across manufacturing, distribution, construction and engineering sectors.

Board committees: Chair of Audit, Remuneration and AIM Compliance and Corporate Governance Committees.

Malcolm Diamond MBE

Non-Executive Chairman
Appointed: May 2014

Career: 37 year career in industry. Strong commercial and marketing experience as well as City investor knowledge and expertise. Experienced Non-Executive having worked across industrial, pharmaceutical and investment sectors.

Current role: Executive Chairman, Trifast plc, Non-Executive Director, Acal Plc.

Board committees: Chair of Nomination Committee and also a member of both the Audit and Remuneration Committees and the AIM Compliance and Corporate Governance Committee.

Sean Fennon

Chief Executive Officer
Appointed: November 2009

Career: 32 years in industry – in design, manufacturing, wholesale, retail and industrial distribution.

Previous role: Managing Director of a large UK industrial distributor, a subsidiary of a large German group.

Board committees: By invitation.

Bryce Brooks

Chief Financial Officer
Appointed: March 2010
Career: Qualified with PwC in 1989.

Previous role: Finance Director in two UK subsidiaries of Marlowe Holdings, an American-owned industrial products distribution group headed by Edmundson Electrical, as well as a group corporate development role.

Board committees: AIM Compliance and Corporate Governance Committee and by invitation.

Registered office

Pimbo Road
Skelmersdale
Lancashire WN8 9RB

Company secretary

Bryce Brooks

Contact

info@flowtechfluidpower.com
www.flowtechfluidpower.com
Tel: +44 (0) 1695 52796

Nominated adviser and broker

Zeus Capital Limited
41 Conduit Street
London W1S 2YQ
and
82 King Street
Manchester M2 4WQ

Joint broker

finnCap Limited
60 New Broad Street
London
EC2M 1JJ

Auditor

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester M3 3EB

Solicitors

DLA Piper UK LLP
One St Peter's Square
Manchester
M2 3DE

Company registrars

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Bankers

Barclays Bank PLC
1 Churchill Place
London E14 5HP

Investor relations

TooleyStreet Communications Ltd
Regent Court
Birmingham
West Midlands B3 1UG

Directors' report (other disclosures)

The Directors present their Annual Report, together with the audited Group and Company financial statements for the year ended 31 December 2016. The Group financial statements have been prepared in accordance with International Reporting Standards as approved by the European Union (IFRS). The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced disclosure framework' (FRS 101).

A review of the Group's trading and an indication of future developments are contained in the Strategic Report on pages 10 to 43. Details of revenue and operating profits for each operating segment are contained in note 3 to the consolidated financial statements. The principal subsidiaries contributing to the profits and net assets of the Group are listed in note 12 to the consolidated financial statements.

Flowtech Fluidpower plc is incorporated in England (company registration number 09010518) and has its registered office at Pimbo Road, Skelmersdale, Lancashire WN8 9RB.

Results and dividends

The results for the year ended 31 December 2016 are set out in the consolidated income statement on page 50. The Group has reported an operating profit from its continuing activities of £6.137 million (2015: £5.491m). After accounting for net finance costs, the consolidated income statement shows a profit from continuing operations before taxation of £5.527 million (2015: profit of £5.280m).

The Directors are recommending a final dividend of 3.55p per ordinary share amounting to £1.6 million payable on 23 June 2017 to Shareholders on the Company's register at the close of business on 2 June 2017. The shares will be quoted ex-dividend from 1 June 2017.

Directors

The Directors who held office during the year and up to the date of approval of the financial statements are as follows:

- Malcolm Diamond MBE
- Nigel Richens
- Sean Fennon
- Bryce Brooks

Short biographies of each Director are provided on pages 44 and 45.

Those Directors serving at the end of the year, or at date of this report, had an interest in the ordinary share capital of the Company, and its subsidiaries, at 31 December 2016 which is disclosed in the Directors' Remuneration Report on page 53.

Details of the Directors' share options are provided in the Directors' Remuneration Report on page 53.

Material interest in contracts

No Director, either during or at the end of the financial year, was materially interested in any significant contract with the Company or any subsidiary undertaking.

Share capital

Details of the Company's share capital are in note 26 to the consolidated financial statements.

The Company's share capital comprises one class of ordinary shares and as at 12 April 2017 there were in issue 51,411,615 fully paid ordinary shares of 50p each. All shares are fully transferable and rank pari passu for voting and dividend rights.

The Company has been notified of the following interest in more than 3% of the Company's issued share capital at 31 March 2017 (being the last practicable date before the publication of this report):

	Number of shares held	% of issued share capital
Miton Asset Management	6,956,506	13.53%
Premier Asset Managers	6,450,650	12.55%
Hargreave Hale	4,153,233	8.08%
Close Brothers Asset Management	3,916,976	7.62%
City Financial Investment Company	3,783,896	7.36%
Henderson Global Investors	1,918,237	3.73%
Ruffer LLP	1,761,137	3.43%
Ennismore Fund Management	1,716,531	3.34%
Lazard Freres Gestion	1,389,310	2.70%
Legal & General Investment Management	1,294,808	2.52%

Financial instruments and risk management

Information about the use of financial instruments by the Company and its subsidiaries, and the Group's financial risk management policies are given in note 32. It is not the Group's policy to trade in financial instruments.

Social responsibility

The Board takes regular account of the significance of social, environmental and ethical matters. The following specific matters fall under the broad definition of 'social responsibility':

Employees

Details of the number of employees and related costs can be found in note 5 to the consolidated financial statements. The Group is committed to providing staff and management with training designed to develop attitudes and skills and give opportunities for advancement. The Group promotes good communication and consultation with regular management meetings, staff briefings, and a staff consultative committee to involve staff in the progress of the Group and its future.

The Group operates various performance bonus schemes related to KPI achievements within the operational functions. The Group believes that these schemes demonstrate the Group's commitment to involving employees in performance.

It is the policy of the Group that no employee, or potential employee, is discriminated against on the grounds of disability, age, race, religion, sex, sexual orientation or political belief and offer the same employment opportunities, training, career development and promotion prospects to all.

Employee share scheme incentives

Flowtech Fluidpower plc operates two share-based Enterprise Management Incentive option schemes for the benefit of its staff and senior management. The aim of the share-based EMI option schemes is to align the interests of employees with those of the Company's Shareholders. Employees may exercise their options at any time between May 2017 and May 2024.

At 31 December 2016 the total shares in the Company held by the Enterprise Management Incentive Plans were 2,474,721 representing 5.7% of the issued capital. Further details are provided in note 24 to the consolidated financial statements.

Flowtech Fluidpower plc operates a share-based Company Share Option Plan scheme (CSOP) for the benefit of its staff and senior management. The aim of the share-based CSOP scheme is to align the interests of employees with those of the Company's Shareholders. Employees may exercise their options at any time between May 2018 and May 2025.

At 31 December 2016 the total shares in the Company held by the Company Share Option Plan was 575,000, representing 1.3% of the issued capital. Further details are provided in note 24 to the consolidated financial statements.

Health, safety and environmental management

The Group recognises the importance of its environmental responsibilities and operates in accordance with policies agreed through a health and safety committee and a staff consultative committee. Initiatives designed to minimise the Group's impact on the environment include recycling of waste where practical, use of low emission vehicles and low energy lighting.

The health and safety of the Group's employees, customers and members of the general public is a matter of primary concern. Accordingly, it is the Group's policy to manage its activities so as to avoid causing any unnecessary or unacceptable risk to the health of its employees and members of the public. The policy is based on the requirements of national employment legislation in the countries where the Group operates, including the Safety, Health and Welfare at Work Act 1989.

Operations are conducted such that they comply with all the legal requirements relating to the environments in which they operate. During the periods covered by this report no Group company has incurred any fines or penalties or been investigated for any breach of environmental regulations.

Directors' report (other disclosures) continued

Annual general meeting

The Annual General Meeting will be held on 25 May 2017 at 10am at the offices of our joint brokers, finnCap, 60 New Broad Street, London, EC2M 1JJ.

Going concern

UK company law requires the Directors to consider whether it is appropriate to prepare the financial statements on the basis the Company and the Group are going concerns. Throughout the financial statements there are various disclosures relating to going concern. This Directors' Report summarises the key themes and references those areas where greater disclosure is given.

The Group meets it day-to-day working capital requirements through its bank facilities. The year end amounts outstanding on each are discussed within note 19. 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 Company and the Group are appropriately positioned to ensure the conditions of its funding will continue to be met and therefore enable the Company and the Group to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

Sensitised forecasts have been prepared for two years and have been reviewed by the Directors to ensure that the profit and cash generation derived from these forecasts are sufficient to ensure that the existing bank facilities are sufficient to meet the Group's requirements. This is discussed further within liquidity risk in note 32.3 and is the key factor in relation to going concern.

As a result of this review, the Directors are of the opinion that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and have continued to adopt the going concern basis in preparing the financial statements.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and that each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Auditor

Grant Thornton UK LLP was reappointed as Auditor of the Company during the year and a resolution to appoint them will be proposed at the Annual General Meeting.

By order of the Board

Bryce Brooks
Chief Financial Officer and Company Secretary
4 April 2017

Statement of directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Reporting Standards as adopted by the European Union (IFRS). The Company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdon Accounting Standards and applicable laws, including FRS101 'Reduced disclosure framework'). 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 Company and the Group 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 consolidated financial statements state whether IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements respectively;
- 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 respectively;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

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 the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Corporate governance report

The Board is accountable to the Company's Shareholders for good governance. The following statement describes the key corporate governance policies that have been adopted by the Company. The Company is not required to follow, and does not comply with, the UK Corporate Governance Code. Nevertheless, the Board is committed to high standards of corporate governance which it considers are critical to business integrity and to maintaining investors' trust.

The board

At the date of signing these accounts, the Board has two Executive Directors and two Non-Executive Directors including the Chairman.

Biographical information for each of the Directors are set out on pages 44 to 45. The Board confirms that, having taken into consideration the results of the performance evaluation undertaken in the year, the Director being proposed for re-election has demonstrated commitment to his responsibilities and continues to perform effectively.

Role of the board

During the year the Board has met formally on nine occasions and undertaken several telephone discussions to cover specific matters such as acquisitions, strategy, fundraising and appointment of advisers. At the Board meeting, the CEO reports on the overall business performance and any matters which need to be brought to the attention of the Board. The CFO reports on the financial performance and any other secretarial matters. Health and safety compliance is reviewed at every meeting. Specific topics covered this year have been the risk register, IT and accounting function integration post acquisition and MAR compliance. Minutes of the previous Board meeting are approved.

There are four Board committees; the Audit, Remuneration, Nomination and the AIM Compliance and Corporate Governance Committees.

Collectively and individually, the Directors monitor the performance of the Board and its members on a range of measures. Due to its small size and the cost of the process, a formal evaluation of Board performance by an outside agency is not thought to be appropriate. All Directors have access to independent advice at Company expense if it is felt it is required.

The nomination committee

The Nomination Committee reviews the size, structure and composition of the Board and ensures adequate succession planning for both the Board and senior management team. The Committee meets as required. No meetings were required in the year.

The remuneration committee

The Remuneration Committee meets at least once a year to determine and agree remuneration packages and other employee benefits. Details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 52 to 53.

The AIM compliance and corporate governance committee

The AIM Compliance and Corporate Governance Committee meets twice a year. It is responsible for establishing, reviewing and monitoring the Group's procedures and controls for ensuring compliance with the AIM Rules and the timely disclosure of information to satisfy the Group's legal and regulatory obligations.

The audit committee

The Audit Committee meets at least twice a year with the Group's Auditor and as otherwise required. Its duties are to:

- Monitor the integrity of the financial statements;
- Review the quality of the Group's internal controls, ethical standards and risk management systems;
- Review the Group's procedures for detecting and preventing bribery and fraud;
- Ensure that the financial performance of the Group is properly reported on and monitored, including reviews of the annual and interim accounts, results announcements and accounting policies; and
- Oversee the relationship with the Group's external Auditor.

During the year the Audit Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements, preliminary announcements and interim results statement prior to Board approval and reviewing the external Auditor's reports thereon;
- reviewing the external Auditor's plan for the audit of the Group financial statements, confirmations of auditor independence and proposed audit fee and approving terms of engagement for the audit;
- considering the effectiveness and independence of the external Auditor and recommending to the Board the re-appointment of Grant Thornton UK LLP as external Auditor;
- considering the review of material business risks;
- reviewing Group Directors' expenses;
- monitoring of reporting and follow up of items reported by employees;
- considering the significant risks and issues in relation to the financial statements and how these were addressed including:
  - impairment reviews of goodwill
  - valuation of intangibles and share based payments
  - provisions
  - fraud risk
  - going concern, covenants and cash headroom;

- considering the adequacy of accounting resource and the development of appropriate systems and controls;
- reviewing the risk register with specific focus on cyber exposure and approving an employee training programme on cyber risks;
- review of progress in introducing best practice systems and procedures Group wide
- reviewing the plans and progress to interface and integrate IT systems post acquisition; and
- considering policies on non-audit engagements for the Company's Auditor.

Internal controls

The Directors are responsible for the Group's system of internal control. However, such a system is designed to manage, rather than eliminate the risk of failures to achieve business objectives and can provide only reasonable and not absolute assurance against misstatement or loss. The key elements within the Group's system of internal control are as follows:

- regular Board meetings to consider matters reserved for Directors' consideration;
- regular management reporting;
- an annual Board review of corporate strategy, including a review of material risks and uncertainties facing the business;
- established organisational structure with clearly defined lines of responsibility and levels of authority;
- documented policies and procedures;
- regular review by the Board of financial budgets, forecasts and covenants with performance reported to the Board monthly;
- detailed investment process for major projects, including capital investment coupled with post investment appraisal analysis.

The Audit Committee considered the need to establish a formal internal audit function. It was decided that it was not appropriate at present due the centralised control structure and daily monitoring of results, stock levels and cash balances. This matter will be revisited as the Group expands. There are adequate resources to conduct ad hoc investigations should the Audit Committee so require.

Communication with shareholders

Presentations by the Executive Directors of interim and full year results are offered to all major Shareholders. Other Shareholders are welcome to make contact with the Company and wherever possible their concerns or questions are responded to by a Director in person.

The Group's website www.flowtechfluidpower.com is the primary source of information for the Group and includes an overview of the activities of the Group and details of all recent announcements.

Directors' remuneration report

The remuneration committee

The Remuneration Committee consists of the Non-Executive Directors of the Company. The role of the Remuneration Committee will be to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees, Executives and Directors, including all share-based compensation. The remuneration of the Non-Executive Directors is approved by the Board of Directors. As Chairman of the Committee, I have been asked by the Board to report to you on all remuneration matters on its behalf.

Remuneration policy

The remuneration policy of the Group is:

- to provide a suitable remuneration package to attract, motivate and retain Executive Directors who will run the Group successfully; and
- to ensure that all long term incentive schemes for the Directors are in line with the Shareholders' interests.

The Committee makes recommendations to the Board.

No Director plays a part in any discussion about their own remuneration. The Remuneration Committee members are expected to draw on their experience to judge where to position the Group, relative to other companies' and other groups' rates of pay when considering remuneration packages for executives.

Benefits in kind are the provision of medical insurance premiums. The pension contributions represent the Group's contribution to defined contribution schemes.

All of the Executive Directors have service contracts which provide for notice periods of 12 months. All of the Non-Executive Directors have service contracts which provide for notice periods of three months.

All of the Executive Directors participate in the EMI option schemes and one of the Executive Directors participates in an unapproved EMI option scheme. These options will be exercisable on the publication of the Company's financial results for the year ended December 2016 and will lapse if the Directors leave employment for any other reason than being a 'good leaver' as defined within the scheme rules, or at the end of the tenth anniversary of the date of grant. Further details are provided in note 24 to the consolidated financial statements.

Directors' detailed emoluments

	Salary and fees £000	Benefits £000	Bonus £000	Share-based payments £000	**Total 2016 £000**	Total 2015 £000
Executives						
Sean Fennon	220	2	60	70	**352**	306
Bryce Brooks	148	2	40	57	**247**	199
Paul Watson (resigned 22 October 2015)	—	—	—	—	**—**	320
Non-Executives						
Malcolm Diamond MBE	76	—	—	—	**76**	75
Nigel Richens	43	—	—	—	**43**	40
	487	4	100	127	**718**	940

Directors' share interests

The table below shows the interests of the Directors in office at the end of the year in the share capital of the Company:

	As at 31 December 2016 No. of ordinary shares	As at 31 December 2015 No. of ordinary shares
Executives		
Sean Fennon	**219,000**	209,000
Bryce Brooks	**94,000**	91,000
Non-Executives		
Malcolm Diamond MBE	**50,000**	35,000
Nigel Richens	**50,000**	35,000

All changes in the year relate to purchases on 12 and 13 May 2016 for an average price of 141.2 pence per share.

The table below shows the interests of the Directors in office at the end of the year in the share capital of the Company's subsidiary Flowtech MIP Limited:

	As at 31 December 2016				As at 31 December	
Executives	**A shares £1 ordinary**	**B shares £1 ordinary**	**C shares £1 ordinary**	**D shares £1 ordinary**	2015	B shares £1 ordinary
Sean Fennon	**340**	**3,100**	**5**	**—**	340	3,100
Bryce Brooks	**180**	**3,100**	**—**	**5**	180	3,100
Paul Watson (resigned 22 October 2015)	**—**	**—**	**—**	**—**	180	3,100

A and B shares were issued on admission to AIM at a cost of £10 per share on 21 May 2014. The C and D shares were issued at a cost of £400 per share on 1 June 2016. All shares were issued as part of an employee share-based remuneration scheme called the 'Management Incentive Plan'. For further details refer to note 24.

Directors' share options

Details of share options held by the Directors over the ordinary shares of the Company are set out below:

Executives	Scheme	As at 31 December 2015	Exercised	Cancelled	**As at 31 December 2016**
Sean Fennon	EMI (Approved)	249,999	—	—	**249,999**
Sean Fennon	EMI (Unapproved)	222,223	—	—	**222,223**
Bryce Brooks	EMI (Approved)	249,999	—	—	**249,999**

All options were granted on admission to AIM on 21 May 2014. The shares were issued as part of an employee share-based remuneration scheme called the "Enterprise Management Incentive Plan". Further details are provided in note 24 to the consolidated financial statements.

On behalf of the Board

Nigel Richens
4 April 2017

Independent auditor's report

We have audited the financial statements of Flowtech Fluidpower plc for the year ended 31 December 2016 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the Company income statement, the Company statement of financial position, the Company statement of changes in equity 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) including FRS 101 'Reduced Disclosure Framework'.

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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 49, 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 Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the 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 matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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.
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and parent company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and Directors' Report.

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.

Stuart Muskett
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
4 April 2017

Consolidated income statement

	Note	2016 £000	2015 £000
Continuing operations			
Revenue	3	**53,780**	44,848
Cost of sales		**(34,714)**	(29,503)
Gross profit		**19,066**	15,345
Distribution expenses		**(2,475)**	(2,245)
Administrative expenses before separately disclosed items:		**(9,137)**	(6,232)
— Acquisition costs	4	**(419)**	(299)
— Amortisation of acquired intangibles	4	**(569)**	(413)
— Share-based payment costs	4	**(353)**	(342)
— Restructuring costs	4	**(84)**	(323)
— Release of over accrued contingent consideration	4	**108**	—
Total administrative expenses		**(10,454)**	(7,610)
Operating profit	3,4	**6,137**	5,491
Financial income	6	**1**	22
Financial expenses	6	**(611)**	(233)
Net financing costs		**(610)**	(211)
Profit from continuing operations before tax	3	**5,527**	5,280
Taxation	7	**(1,146)**	(1,057)
Profit from continuing operations		**4,381**	4,223
Loss from discontinued operations, net of tax	28	**(91)**	(131)
Profit for the year attributable to the owners of the parent		**4,290**	4,092
Earnings per share	9		
Basic earnings per share			
Continuing operations		**10.17p**	9.85p
Discontinued operations		**(0.21p)**	(0.31p)
Basic earnings per share		**9.96p**	9.54p
Diluted earnings per share			
Continuing operations		**10.08p**	9.73p
Discontinued operations		**(0.21p)**	(0.30p)
Diluted earnings per share		**9.87p**	9.43p

Consolidated statement of comprehensive income

	2016 £000	2015 £000
Profit for the year	**4,290**	4,092
Other comprehensive income		
– items that will be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	**350**	85
Total comprehensive income for the year attributable to the owners of the parent	**4,640**	4,177

Consolidated statement of financial position

	Note	2016 £000	2015 £000
Assets			
Non-current assets			
Goodwill	10	**47,927**	46,412
Other intangible assets	11	**4,780**	4,179
Property, plant and equipment	13	**3,899**	3,265
Total non-current assets		**56,606**	53,856
Current assets			
Inventories	15	**16,592**	13,254
Trade and other receivables	16	**13,012**	10,367
Prepayments		**304**	316
Other financial assets	17	**—**	32
Cash and cash equivalents	18	**3,824**	1,841
Total current assets		**33,732**	25,810
Liabilities			
Current liabilities			
Interest-bearing loans and borrowings	19	**12,888**	5,986
Trade and other payables	20	**8,625**	6,625
Deferred and contingent consideration	21	**1,420**	1,250
Tax payable		**975**	758
Provisions	22	**—**	86
Other financial liabilities	23	**57**	15
Total current liabilities		**23,965**	14,720
Net current assets		**9,767**	11,090
Non-current liabilities			
Interest-bearing loans and borrowings	19	**4,081**	4,874
Deferred and contingent consideration	21	**212**	898
Provisions	22	**212**	130
Deferred tax liabilities	14	**1,019**	901
Total non-current liabilities		**5,524**	6,803
Net assets		**60,849**	58,143
Equity directly attributable to owners of the parent			
Share capital	26	**21,539**	21,539
Share premium		**46,880**	46,880
Share-based payment reserve		**733**	380
Shares owned by the Employee Benefit Trust		**(338)**	(338)
Merger reserve		**293**	293
Merger relief reserve		**2,086**	2,086
Currency translation reserve		**257**	(93)
Retained losses		**(10,601)**	(12,604)
Total equity		**60,849**	58,143

The financial statements on pages 56 to 58 were approved by the Board of Directors on 4 April 2017 and were signed on its behalf by:

Bryce Brooks
Chief Financial Officer
Company number: 09010518

Consolidated statement of changes in equity

	Share capital £000	Share premium £000	Share-based payment reserve £000	Merger reserve £000	Shares owned by the EBT £000	Merger relief reserve £000	Currency translation reserve £000	Retained losses £000	Total equity £000
Balance at 1 January 2015	21,414	46,664	148	293	—	2,086	(178)	(14,521)	55,906
Profit for the year	—	—	—	—	—	—	—	4,092	4,092
Other comprehensive income	—	—	—	—	—	—	85	—	85
Total comprehensive income for the year	—	—	—	—	—	—	85	4,092	4,177
Transactions with owners									
Issue of share capital	125	216	—	—	—	—	—	—	341
Shares owned by the EBT	—	—	—	—	(338)	—	—	—	(338)
Share-based payment charge	—	—	342	—	—	—	—	—	342
Share options settled	—	—	(110)	—	—	—	—	—	(110)
Equity dividends paid (note 8)	—	—	—	—	—	—	—	(2,175)	(2,175)
Total transactions with owners	125	216	232	—	(338)	—	—	(2,175)	(1,940)
Balance at 1 January 2016	**21,539**	**46,880**	**380**	**293**	**(338)**	**2,086**	**(93)**	**(12,604)**	**58,143**
Profit for the year	—	—	—	—	—	—	—	4,290	4,290
Other comprehensive income	—	—	—	—	—	—	350	—	350
Total comprehensive income for the year	—	—	—	—	—	—	350	4,290	4,640
Transactions with owners									
Share-based payment charge	—	—	353	—	—	—	—	—	353
Equity dividends paid (note 8)	—	—	—	—	—	—	—	(2,287)	(2,287)
Total transactions with owners	**—**	**—**	**353**	**—**	**—**	**—**	**—**	**(2,287)**	**(1,934)**
Balance at 31 December 2016	**21,539**	**46,880**	**733**	**293**	**(338)**	**2,086**	**257**	**(10,601)**	**60,849**

Consolidated statement of cash flows

	Note	2016 £000	2015 £000
Cash flow from operating activities			
Net cash from operating activities	27	**4,166**	5,943
Cash flow from investing activities			
Acquisition of businesses, net of cash acquired	25	**(3,677)**	(3,063)
Acquisition of property, plant and equipment	13	**(858)**	(750)
Proceeds from sale of property, plant and equipment		**52**	7
Payment of deferred and contingent consideration		**(1,031)**	(1,603)
Net cash used in investing activities		**(5,514)**	(5,409)
Cash flows from financing activities			
Proceeds from new loan		**—**	6,523
Repayment of long term borrowings		**(857)**	(2,357)
Net change in short term borrowings		**7,000**	(2,096)
Repayment of finance lease liabilities		**(37)**	(32)
Interest received		**1**	14
Interest paid		**(302)**	(244)
Purchase of own shares		**—**	(338)
Cash settled share options		**—**	(105)
Dividends paid	8	**(2,287)**	(2,175)
Net cash generated from/(used in) financing activities		**3,518**	(810)
Net change in cash and cash equivalents		**2,170**	(276)
Cash and cash equivalents at start of year		**1,725**	1,979
Exchange differences on cash and cash equivalents		**(71)**	22
Cash and cash equivalents at end of year	18,19	**3,824**	1,725
Cash and cash equivalents	18	**3,824**	1,841
Bank overdraft	19	**—**	(116)
Cash and cash equivalents at end of year		**3,824**	1,725

Company number: 09010518

Notes to the consolidated financial information

1. General information

The principal activity of Flowtech Fluidpower plc (the "Company") and its subsidiaries (together, the "Group") is the distribution of engineering components and assemblies, concentrating on the fluid power industry. The Company is a public limited company, incorporated and domiciled in the United Kingdom. The address of its registered office is Pimbo Road, Skelmersdale, Lancashire, WN8 9RB. The registered number is 09010518.

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; or telephone +44 (0) 1695 52796.

2. Accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"s) as adopted for use in the European Union and IFRIC interpretations issued by the International Accounting Standards Board ("IASB") and the Companies Act 2006. The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced disclosure framework' (FRS 101).

The consolidated financial statements have been prepared on a going concern basis and prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through the profit or loss.

The consolidated financial statements are presented in sterling and have been rounded to the nearest thousand (£000). The functional currency of the Company is sterling.

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual events ultimately may differ from those estimates.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in the consolidated financial statements.

2.2 Going concern

These financial statements have been prepared on a going concern basis. The Directors have prepared cash flow projections and are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group's forecasts and projections, which take into account reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current facilities. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

2.3 Basis of consolidation

On 24 April 2014, the Company was incorporated under the name Flowtech Fluidpower Limited. On 7 May 2014, Flowtech Fluidpower Limited acquired the entire issued share capital of Fluidpower Shared Services (formerly Flowtech Holdings Limited) via a share for share exchange with the shareholders of Fluidpower Shared Services Limited. On 7 May 2014, Flowtech Fluidpower Limited was re-registered as a public limited company with the name Flowtech Fluidpower plc. Following the share for share exchange referred to above, Flowtech Fluidpower plc became the ultimate legal parent of the Group.

In the absence of an IFRS which specifically deals with similar transactions, management judge it appropriate to refer to other similar accounting frameworks for guidance in developing an accounting policy that is relevant and reliable. The Directors consider the share for share exchange transaction to be a group reconstruction rather than a business combination in the context of IFRS 3 (revised), 'Business Combinations', which has been accounted for using merger accounting principles. Therefore, although the share for share exchange did not occur until 7 May 2014, the consolidated financial statements of Flowtech Fluidpower plc are presented as if the Flowtech Group of companies had always been part of the same group.

Notes to the consolidated financial information continued

2. Accounting policies continued

Accordingly, the following accounting treatment was applied in respect of the share for share exchange:

- The assets and liabilities of Fluidpower Shared Services Limited and its subsidiaries were recognised in the consolidated financial statements at the pre-combination carrying amounts, without restatement to fair value;
- The retained losses and other equity balances recognised in the consolidated financial statements for the year ended 31 December 2013 reflect the retained losses and other equity balances of Fluidpower Shared Services Limited and its subsidiaries recorded before the share for share exchange. However, the equity structure (share capital and share premium balances) shown in the consolidated financial statements reflects the equity structure of the legal parent (Flowtech Fluidpower plc), including the equity instruments issued under the share for share exchange. The resulting difference between the parent's capital and the acquired Group's capital has been recognised as a component of equity being the 'merger reserve'.

The Company had no significant assets, liabilities or contingent liabilities of its own at the time of the share for share exchange and no such consideration was paid.

Subsidiaries

The Group's financial statements consolidate those of the parent Company and all of its subsidiaries as of 31 December 2016. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.4 Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

a. they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

b. where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

2.5 Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

2. Accounting policies continued

Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances net of bank overdrafts and short term deposits held with banks by the Group, and are subject to insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement only.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses. Any change in their value through impairment or reversal of impairment is recognised in profit or loss. Discounting is omitted where the effect is immaterial. Interest-bearing borrowings include invoice discounting facilities and stock loans. Cash flows on these items are treated net due to the large amounts, short maturities and the rapid turnover on cash receipts and cash payments.

Derivative financial instruments

Derivative financial instruments held by the Group include forward foreign currency contracts and are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Derecognition of financial liabilities

The Group derecognises a financial liability (or its part) from the statement of financial position when, and only when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of a financial liability (or a part of a financial liability) extinguished and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

2.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the income statement over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives and depreciation methods are as follows:

Property	50 years – straight line
Plant, machinery and equipment	3 to 20 years – straight line
Motor vehicles	4 to 5 years – reducing balance

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

2.7 Leased assets

Finance leases

Management applies judgement in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Group obtains ownership at the end of the lease term.

See note 2.6 for the depreciation methods and useful lives for assets held under finance leases.

Notes to the consolidated financial information continued

2. Accounting policies continued

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments

An operating lease is defined as a lease in which substantially all of the risks and rewards incidental to ownership remain with the lessor. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

2.8 Business combinations

Subject to the transitional relief in IFRS 1 ‘First time adoption of IFRSs’, all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Acquisitions prior to 1 January 2011 (date of transition to IFRSs)

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Group elected not to restate business combinations that took place prior to 1 January 2011. In respect of acquisitions prior to 1 January 2011, goodwill is included at 1 January 2011 on the basis the amount recorded under UK GAAP.

Acquisitions after 1 January 2011

For acquisitions on or after 1 January 2011, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the fair value of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred and included in the separately disclosed ‘acquisition costs’ as part of administration expenses.

Any contingent consideration payable is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

2.9 Intangible assets

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to operating segments and is not amortised but is tested annually for impairment, or earlier if there is an indication of impairment.

Acquired intangibles

Intangible assets acquired as part of business combinations are capitalised at fair value at the date of acquisition. Following the initial recognition, the carrying amount of an intangible is its cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged on the basis of the estimated useful life on a straight-line basis and the expense is taken to the income statement and included in the separately disclosed ‘amortisation of acquired intangibles’ as part of administration expenses (note 11).

The Group has recognised customer relationships and brand identity as separately identifiable acquired intangible assets. The useful economic life attributed to each intangible asset is determined at the time of the acquisition and ranges from five to ten years.

Impairment reviews are undertaken annually and whenever the Directors consider that there has been a potential indication of impairment.

2. Accounting policies continued

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value, after making allowance for obsolete and slow moving items. Cost includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition.

2.11 Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or operating segment is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together by operating segments as defined in note 2.17. The goodwill acquired in a business combination, for the purpose of impairment testing, is also allocated to the relevant operating segment. Goodwill acquired in a business combination is allocated to operating segments that are expected to benefit from the synergies of the combination and represent the lowest level within the Group at which management monitor the related goodwill.

An impairment loss is recognised if the carrying amount of an asset or its operating segment exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of operating segments are allocated first to reduce the carrying amount of any goodwill allocated to the segments, and then to reduce the carrying amounts of the other assets in the segment on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.12 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

2.13 Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black–Scholes model.

Notes to the consolidated financial information continued

2. Accounting policies continued

2.14 Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

2.15 Revenue

Revenue is the total amount receivable by the Group for goods supplied, excluding VAT and discounts. Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, which is determined to be at the point of despatch.

Revenues from the assembly of engineering components under stage payment arrangements are not considered material.

2.16 Cost of sales

Cost of sales includes all costs incurred up to the point of despatch including operating expenses of the warehouse.

2.17 Operating segments

The Group comprises the following three operating segments which are defined by trading activity:

Flowtechnology — distribution and assembly of engineering components, principally to distributors and end users in the UK, Ireland and the Benelux.
Power Motion Control — based in the UK and Eire, distribution and assembly of engineering components and hydraulic systems to distributors and end users in the international market.
Process – distribution of engineering components to the process sector, principally in the UK.

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.

2.18 Financing income and expenses

Financing expenses comprise interest payable and finance charges on finance leases recognised in profit or loss using the effective interest method. Financing income comprises interest receivable on funds invested. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

2.19 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2. Accounting policies continued

2.20 Adopted IFRS not yet applied

New standards and interpretations currently in issue (as at 1 February 2017) but not effective, for accounting periods commencing on 1 January 2016 are:

- IFRS 9 Financial Instruments (effective 1 January 2018)
- IFRS 14 Regulatory Deferral Accounts (IASB effective date 1 January 2016)*
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date 1 January 2017)*
- Amendments to IAS 7: Disclosure Initiative (effective date 1 January 2017)*
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date 1 January 2018)*
- Amendments to IFRS 4: Applying IFRS 9 financial instruments with IFRS 4 Insurance Contracts (effective date 1 January 2018)*
- Annual Improvements to IFRSs 2014-2016 Cycle – Relating to IFRS 1 First time adoption of IFRS and IAS 28 Investment in associates and joint ventures (effective date 1 January 2017)*
- Annual Improvements to IFRSs 2014-2016 Cycle – Relating to IFRS 12 Disclosure of interest in other entities (effective date 1 January 2018)*
- IFRIC Interpretation 22 Foreign currency transactions and advance considerations (effective date 1 January 2018)*

* Not adopted by the EU (as at 1 February 2017)

The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed by the European Union and require adoption by the Group in future reporting periods.

IFRS 9 'Financial Instruments'

The new standard for financial instruments (IFRS9) introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and their impairment. IFRS 9 also provides new guidance on the application of hedge accounting. IFRS 9 is effective from periods beginning on or after 1 January 2018. Management is yet to fully assess the impact of the Standard and is therefore unable to provide quantified information, but at this point believes there will be minimal impact.

IFRS 15 'Revenue from contracts with customers'

IFRS 15 will replace IAS 18, IAS 11 and several revenue-related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered by existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options and other common complexities.

IFRS 15 is effective from periods beginning on or after 1 January 2018. Management has started to assess the impact of the new Standard and does not believe that will be any material impact.

IFRS 16 'Leases'

IFRS 16 will replace IAS 17 and three related interpretations. It completes the IASB's long running project to overhaul lease accounting. Leases will be recorded on the statement of financial position in the form of a right of use asset and a lease liability. IFRS 16 is effective from periods beginning on or after 1 January 2019. Management is yet to fully assess the impact of the Standard and is therefore unable to provide quantified information. However, in order to determine the impact the Group are in the process of:

- Performing a full review of all agreements to assess whether any additional contracts will now become leases under IFRS 16's new definition
- Deciding which transitional provision to adopt; either full retrospective application or partial retrospective application without restatement of comparatives
- Assessing the current disclosures of finance leases and operating leases
- Determining which optional accounting simplifications apply to the lease portfolio and if these will be used
- Assessing the additional disclosures that will be required

Notes to the consolidated financial information continued

2. Accounting policies continued

2.21 Equity, reserves and dividend payments

Equity comprises the following:

- 'Share capital' represents the nominal value of equity shares
- 'Share premium' represents the excess over nominal value of consideration received for equity share net of expenses of the share issue, less any costs associated with the issuing of shares
- 'Share-based payment reserve' represents the provision made to date for share-based payments as detailed in note 2.13
- 'Shares owned by the EBT' represents shares in the Group purchased for the Employee Benefit Trust
- 'Merger reserve' represents the difference between the parent's capital and the acquired Group's capital retained losses and other equity balances before and after the share for share exchange which created the Group
- 'Merger relief reserve' represents merger relief arising on the acquisition of subsidiaries for which some or all of the consideration was settled in shares
- 'Currency translation reserve' comprises all foreign exchange differences arising since 1 January 2011, arising from the translation of foreign operations
- 'Retained losses' represent retained losses of the Group

All transactions with owners of the parent are recorded separately within equity.

Dividend distributions payable to equity Shareholders are included in other liabilities when the dividends have been approved in general meeting prior to the reporting date.

2.22 Discontinued operations

An operation is classed as discontinued when management have made the decision to either sell the operation or relocate the operation. Discontinued operation costs relate to surplus property costs.

2.23 Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in sterling, which is also the functional currency of the parent Company.

Foreign currency transactions and balances

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than sterling are translated into sterling upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

The assets and liabilities of foreign operations are translated to the Group's presentational currency, sterling, at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the currency translation reserve. The Group has taken advantage of the relief available in IFRS 1 to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to Adopted IFRSs (1 January 2011). On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

2. Accounting policies continued

2.24 Significant judgements, key assumptions and estimates

In the process of applying the Group's accounting policies, which are described above, management have made judgements and estimations about the future that have the most significant effect on the amounts recognised in the financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following judgements have the most significant effect on the financial statements.

Impairment of goodwill

The carrying value of goodwill must be assessed for impairment annually. This requires an estimation of the value in use of the operating segments to which goodwill is allocated. Value in use is dependent on estimations of future cash flows from the operating segment and the use of an appropriate discount rate to discount those cash flows to their present value. The carrying value of goodwill as at 31 December 2016 is £47,927,000 (2015: £46,412,000). Refer to note 10 for further detail. There was no impairment charge during the year.

Acquired intangibles

Intangible assets (customer relationships and brand identity) have been acquired as part of the net assets of certain subsidiaries. These intangible assets were capitalised at their fair value at the date of acquisition. Determining the value of acquired intangibles required the calculation of estimated future cash flows expected to arise from the intangible assets at a suitable discount rate in order to calculate their present value. In addition, an estimate of the useful life of the intangible asset has to be made over the period in which the cash flows were expected to be generated. The carrying amount of the acquired intangibles at the reporting date was £4,780,000 (2015: £4,179,000). Refer to note 11 for further detail.

Provision for impairment of inventories

The carrying value of inventories as at 31 December 2016 is £16,592,000 (2015: £13,254,000) and included a provision against the inventories of £931,000 (2015: £1,005,000). During the year £141,000 (2015: £120,000) of the provision was utilised following the scrapping and sale of obsolete inventory. During the year a further provision of £67,000 (2015: £95,000) was made. The provision for impairment of inventories is based on sales trends for all inventory and management's estimation of recoverability. There is a risk that the provision will not match the inventories that ultimately prove to be impaired.

Share-based payments

A number of accounting estimates and judgements are incorporated within the calculation of the charge to the income statement in respect of share-based payments. These are described in more detail in note 24.

2.25 Separately disclosed items

Separately disclosed items are those significant items which in management's judgement should be highlighted by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

2.26 Investment in own shares

Own shares held by the Group's Employee Benefit Trust have been classified as deductions from Shareholders' funds.

2.27 Contingent consideration

Where acquisition consideration includes consideration contingent on performance outcomes being met, the consideration is valued at the acquisition date based on performance forecasts available at the time. Those forecasts are reviewed at the reporting date and the consideration revised where materially different.

Notes to the consolidated financial information continued

3. Segment reporting

Management currently identifies the Group's three operating segments based on geographic area and trading activity (see note 2.17). These operating segments are monitored by the Group's Chief Operating Decision Maker and strategic decisions are made on the basis of adjusted segment operating results. Inter-segment revenue arises on the sale of goods between group undertakings.

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 result from continuing operations is shown below. The principal adjustments made are in respect of the separately disclosed items as detailed in note 4; the Directors consider that these should be reported separately as they do not relate to the performance of the segments.

Segment information for the reporting periods is as follows:

	For the year ended 31 December 2016					
	Flowtechnology £000	Power Motion Control £000	Process £000	Inter-segmental transactions £000	Central costs £000	Total continuing operations £000
Income statement – continuing operations:						
Revenue from external customers	35,113	15,830	2,837	—	—	53,780
Inter-segment revenue	1,645	585	199	(2,429)	—	—
Total revenue	36,758	16,415	3,036	(2,429)	—	53,780
Underlying operating result	7,626	1,823	401	—	(2,397)	7,454
Net financing (costs)/income	(1)	(65)	(39)	—	(505)	(610)
Underlying segment result	7,625	1,758	362	—	(2,902)	6,844
Separately disclosed items (see note 4)	(180)	40	(57)	—	(1,119)	(1,317)
Profit before tax	7,445	1,798	305	—	(4,021)	5,527
Specific disclosure items						
Depreciation	389	112	24	—	—	526
Amortisation	16	488	65	—	—	569
Reconciliation of underlying operating result to operating profit:						
Underlying operating result	7,626	1,823	401	—	(2,397)	7,454
Separately disclosed items (see note 4)	(180)	40	(57)	—	(1,119)	(1,317)
Operating profit/(loss)	7,446	1,863	344	—	(3,516)	6,137

3. Segment reporting continued

	For the year ended 31 December 2015				
	Flowtechnology £000	Power Motion Control £000	Inter-segmental transactions £000	Central costs £000	Total Continuing operations £000
Income statement – continuing operations:					
Revenue from external customers	33,168	11,680	—	—	44,848
Inter-segment revenue	959	231	(1,190)	—	—
Total revenue	34,127	11,911	(1,190)	—	44,848
Underlying operating result	7,571	1,228	—	(1,931)	6,868
Net financing (costs)/income	(65)	3	—	(149)	(211)
Underlying segment result	7,506	1,231	—	(2,080)	6,657
Separately disclosed items (see note 4)	(166)	(505)	—	(706)	(1,377)
Profit before tax	7,339	726	—	(2,786)	5,280
Specific disclosure items					
Depreciation	412	93	—	—	505
Amortisation	—	413	—	—	413
Reconciliation of underlying operating result to operating profit:					
Underlying operating result	7,571	1,228	—	(1,931)	6,868
Separately disclosed items (see note 4)	(166)	(505)	—	(706)	(1,377)
Operating profit/(loss)	7,404	723	—	(2,637)	5,491

The Group's revenues from external customers and its non-current assets (other than financial instruments and deferred tax assets) are divided into the following geographic areas:

	31 December 2016		31 December 2015	
	Revenue £000	**Non-current assets £000**	Revenue £000	Non-current assets £000
United Kingdom	**44,133**	**55,118**	36,329	52,326
Europe	**8,806**	**1,488**	7,760	1,530
Rest of the World	**841**	**—**	759	—
Total	**53,780**	**56,606**	44,848	53,856

All revenue is derived from the sale of goods. No customers of the Group account for 10% or more of the Group's revenue for either of the years ended 31 December 2015 or 2016. Non-current assets are allocated based on their physical location.

Central costs relate to finance expenses associated with Group loans as detailed in note 6 and separately disclosed items, as detailed in note 4.

Notes to the consolidated financial information continued

4. Operating profit

The following items have been included in arriving at the operating profit for continuing operations:

	2016 £000	2015 £000
Impairment loss on other trade receivables and prepayments	**103**	62
(Gain)/loss on foreign currency transactions	**(293)**	(105)
Impairment loss on inventory	**67**	95
Depreciation of owned property, plant and equipment	**515**	491
Depreciation of property, plant and equipment held under finance leases	**11**	14
Amortisation of intangible assets	**569**	413
Gain on release of overprovision for contingent consideration	**(108)**	—
Profit on sale of plant and equipment	**(21)**	(7)
Operating lease rentals:		
– Land and buildings	**584**	491
– Other	**215**	146
Repairs and maintenance expenditure on plant and equipment	**127**	136

Services provided by the Group's Auditor

	2016 £000	2015 £000
Audit of the statutory consolidated and Company financial statements of Flowtech Fluidpower plc	**20**	20
Disclosure below based on amounts receivable in respect of other services to the Company and its subsidiaries		
Amounts receivable by the Company's Auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**80**	62
All other taxation advisory services	**8**	—

Services are provided by other professional advisers as deemed appropriate by the management team.

Separately disclosed items

	2016 £000	2015 £000
Separately disclosed items within administration expenses:		
– Acquisition costs	**419**	299
– Amortisation of acquired intangibles (note 11)	**569**	413
– Share-based payment costs (note 24)	**353**	342
– Restructuring	**84**	323
– Release of over accrued contingent consideration (note 32.1)	**(108)**	—
Total separately disclosed items	**1,317**	1,377

- Acquisition costs relate to stamp duty, due diligence, legal fees, finance fees and other professional costs incurred in the acquisition of businesses
- Share-based payment costs relate to the provision made in accordance with IFRS 2 'Share-based payment' following the issue of share options to employees
- Restructuring costs relate to restructuring activities of an operational nature following acquisition of business units and other restructuring activities in established businesses. Costs include employee redundancies and IT integration.

5. Directors and employees

The average number of persons employed by the Group (including Directors) during each year, analysed by category, was as follows:

	Number 2016	2015
Assembly and distribution	**145**	132
Administration	**146**	115
	291	247

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	**7,672**	5,669
Social security costs	**751**	547
Contributions to defined contribution pension plans	**217**	166
Share-based payments (note 24)	**353**	342
	8,993	6,724

Key management compensation

The remuneration of the Directors and the Chairman, who are all statutory directors and are the key management of the Group, is set out below in aggregate for each of the key categories specified in IAS 24 'Related Party Disclosures'.

	2016 £000	2015 £000
Remuneration	**587**	591
Social security costs	**62**	65
Contributions to defined contribution pension plans	**—**	14
Compensation for loss of office	**—**	154
Benefits in kind	**4**	6
Share-based payments	**127**	175
	780	1,005

The amounts set out above include remuneration in respect of the highest paid Director as follows:

	2016 £000	2015 £000
Highest paid Director's remuneration		
Remuneration	**280**	220
Social security costs	**38**	29
Benefits in kind	**2**	1
Share-based payments	**70**	85
Total highest paid Director's remuneration	**390**	336

Details of Directors' emoluments are included in the Directors' Remuneration Report on pages 52 to 53.

Notes to the consolidated financial information continued

6. Financial income and expense

Finance income for the year consists of the following:

	2016 £000	2015 £000
Finance income arising from:		
Interest income from cash and cash equivalents	**1**	4
Fair value gains on forward exchange contracts held for trading	**—**	18
Total finance income	**1**	22

Finance expenses for the year consist of the following:

	2016 £000	2015 £000
Finance expense arising from:		
Interest on invoice discounting and stock loan facilities	**3**	36
Interest on revolving credit facility	**241**	41
Finance lease interest	**3**	3
Bank loans – current facilities	**116**	132
Other credit related interest	**1**	4
Total bank and other credit interest	**364**	216
Imputed interest on deferred and contingent consideration	**174**	17
Fair value losses on forward exchange contracts held for trading	**73**	—
Total non-credit related interest	**247**	17
Total finance expense	**611**	233

7. Taxation

Recognised in the income statement

Continuing operations:	2016 £000	2015 £000
Current tax expense		
Current year charge	**1,285**	1,231
Overseas tax	**20**	3
Adjustment in respect of prior periods	**12**	(76)
Current tax expense	**1,317**	1,158
Deferred tax		
Origination and reversal of temporary differences	**(118)**	(97)
Adjustment in respect of prior periods	**(7)**	(11)
Change in tax rate	**(46)**	7
Deferred tax credit	**(171)**	(101)
Total tax expense – continuing operations	**1,146**	1,057

7. Taxation continued

Discontinued operations:	2016 £000	2015 £000
Current year credit	(22)	—
Total tax expense – discontinued operations	**(22)**	—
Total tax expense in the income statement	**1,124**	1,057

No income tax was recognised in other comprehensive income or directly in equity for either of the years ended 31 December 2015 or 2016.

Reconciliation of effective tax rate

	2016 £000	2015 £000
Profit for the year	4,290	4,092
Total tax expense	1,124	1,057
Profit excluding taxation	5,414	5,149
Tax using the UK corporation tax rate of 20.00% (2015: 20.25%)	1,083	1,042
Deferred tax movements not recognised	33	37
Effect of tax rates in foreign jurisdictions	1	(4)
Impact of change in tax rate on deferred tax balances	(46)	1
Income not taxable	(22)	—
Amounts not deductible	70	68
Adjustment in respect of prior periods	5	(87)
Total tax expense in the income statement – continuing and discontinued	**1,124**	1,057

Change in corporation tax rate

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2016 have been calculated based on these rates.

8. Dividends

	2016 £000	2015 £000
Final dividend of 3.50p (2015: 3.33p) per share	1,499	1,426
Interim dividend of 1.84p (2015: 1.75p) per share	788	749
Total dividends	**2,287**	2,175

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2016 of 3.67p (2015: 3.50p) per share which will absorb an estimated £1.6 million of Shareholders' funds. This has not been accrued as it had not been approved at the year end. Subject to approval, it will be paid on 23 June 2017 to Shareholders who are on the register of members on 2 June 2017.

Notes to the consolidated financial information continued

9. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary Shareholders by the weighted average number of ordinary shares during the year.

For diluted earnings 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 year.

	Year ended 31 December 2016			Year ended 31 December 2015		
	Earnings £000	Weighted average number of shares	Earnings per share Pence	Earnings £000	Weighted average number of shares	Earnings per share Pence
Basic earnings per share						
Continuing operations	4,381	43,078	10.17	4,223	42,869	9.85
Discontinued operations	(91)	43,078	(0.21)	(131)	42,869	(0.31)
Basic earnings per share	4,290	43,078	9.96	4,092	42,869	9.54
Diluted earnings per share						
Continuing operations	4,381	43,456	10.08	4,223	43,387	9.73
Discontinued operations	(91)	43,456	(0.21)	(131)	43,387	(0.30)
Diluted earnings per share	4,290	43,456	9.87	4,092	43,387	9.43

	2016 £000	2015 £000
Weighted average number of ordinary shares for basic and diluted earnings per share	43,078	42,869
Impact of share options	378	518
Weighted average number of ordinary shares for diluted earnings per share	43,456	43,387

10. Goodwill

The movements in the net carrying amount of goodwill are as follows:

	2016 £000	2015 £000
Gross carrying value		
Balance at 1 January	46,412	44,583
Acquired through business combinations	1,515	1,829
Balance at 31 December	47,927	46,412
Accumulated impairment		
Balance at 1 January	—	—
Impairment charge	—	—
Balance at 31 December	—	—
Carrying amount at 31 December	47,927	46,412

The goodwill acquired during the year relates to the acquisition of Indequip, Hydravalve and TSL Fluid Power; see note 25.

The acquisitions have been recognised in the three operating segments as follows:

	Flowtechnology £000	Power Motion Control £000	Process £000	Total £000
Indequip (note 25.1)	632	—	—	632
Hydravalve (note 25.2)	—	—	728	728
TSL Fluid Power (note 25.3)	—	155	—	155
Total goodwill acquired through business combinations	632	155	728	1,515

10. Goodwill continued

Impairment testing

For the purpose of annual impairment testing, goodwill is allocated to the operating segments as detailed in note 2.16 as they are expected to benefit from the synergies of the business combinations on which the goodwill arises, as follows:

	2016 £000	2015 £000
Flowtechnology UK	42,308	41,676
Flowtechnology Benelux	848	848
Power Motion Control	4,043	3,888
Process	728	—
Total at 31 December	**47,927**	46,412

Recoverable amounts for operating segments are based on the higher of value in use and fair value less costs to sell. The recoverable amount of each operating segment has been calculated with reference to its value in use.

Growth rates

The value in use is calculated from cash flow projections based on the Group's forecasts for the year ending 31 December 2017, which are extrapolated for a further four years*. The Group's latest financial forecasts, which cover a three year period, are reviewed by the Board.

Discount rates

The pre-tax discount rate used to calculate value is 11% (2015: 10%).This discount rate is derived from the Group's weighted average cost of capital.

Cash flow assumptions

The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market. The growth rates used in the value in use calculation reflect the average growth rate experienced by the Group for the industry.

In respect of the goodwill attributed to the Flowtechnology UK segment, the headroom compared to the carrying value exceeds £21million. Increasing the discount rate to 21% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the goodwill attributed to the Flowtechnology UK segment.

In respect of the goodwill attributed to the Flowtechnology Benelux segment, the headroom compared to the carrying value exceeds £4 million. Increasing the discount rate to 74% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the goodwill attributed to the Flowtechnology Benelux segment.

In respect of the goodwill attributed to the Power Motion Control segment, the headroom compared to the carrying value exceeds £8 million. Increasing the discount rate to 45% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the goodwill attributed to the Power Motion Control segment.

In respect of the goodwill attributed to the Process segment, the headroom compared to the carrying value exceeds £5 million. Increasing the discount rate to 94% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the goodwill attributed to the Process segment.

* Using growth rates as follows: Flowtechnology 3.2%, PMC 2.9% and Process 7.9%. Cash flows beyond the five year period have been extrapolated assuming no further growth.

Notes to the consolidated financial information continued

11. Other intangible assets

	Customer relationships		Brands		Total	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Gross carrying value						
Balance at 1 January	**4,722**	3,125	**—**	—	**4,722**	3,125
Acquired through business combinations – brands (note 25.1)	**—**	—	**96**	—	**96**	—
Acquired through business combinations – customer relationships (note 25.2 and 25.3)	**1,074**	1,597	**—**	—	**1,074**	1,597
Balance at 31 December	**5,796**	4,722	**96**	—	**5,892**	4,722
Amortisation and impairment						
Balance at 1 January	**543**	130	**—**	—	**543**	130
Amortisation	**553**	413	**16**	—	**569**	413
Balance at 31 December	**1,096**	543	**16**	—	**1,112**	543
Carrying amount at 31 December	**4,700**	4,179	**80**	—	**4,780**	4,179

Additions in the year to brands relate to the acquisition of the business of Indequip. The estimated useful life has been determined as five years based on the expected future cash flows that they would generate in arriving at their fair value.

Additions in the year to customer relationships relate to the acquisition of Hydravalve Limited and TSL Fluid Power. 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 amortisation of customer relationships and brands is charged to administration costs in the Consolidated Income Statement and is referred to as the amortisation of acquired intangibles.

12. Subsidiary undertakings

	Country of incorporation	Principal activity	Ownership
Flowtech Mid-Co Limited	UK	Holding company	100%
Fluidpower Limited (formerly Flowtech Limited)	UK	Distributors of engineering components	100%
Flowtechnology Benelux B.V.	Netherlands	Distributors of engineering components	100%
Vitassem Limited	UK	Dormant	100%
IPL Fluidpower Limited	UK	Dormant	100%
Flowtechnology CZ Limited	UK	Assembly of engineering components	100%
Flowtech Europe Limited	UK	Holding company	100%
Flowtechnology Asia Limited	UK	Holding company	100%
Flowtechnology HK Limited	China	Dormant	100%
Fluidpower Shared Services Limited (formerly Flowtech Holdings Limited)	UK	Holding company	100%
Fluidpower MIP Limited (formerly Flowtech MIP Limited)	UK	Holding company	100%
Fluidpower Properties Limited	UK	Dormant	100%
Fluidpower Group Limited	UK	Holding company	100%
Indequip Limited	UK	Dormant	100%
Onsite Fluidpower Limited	UK	Dormant	100%
PMC Fluidpower Limited (formerly Primary Fluid Holdings Limited)	UK	Assembly and distribution of engineering components	100%
Primary Fluid Power Limited	UK	Assembly and distribution of engineering components	100%
KR Couplings Limited	UK	Dormant	100%
Betabite Hydraulics Limited	UK	Dormant	100%
Triplesix Limited	UK	Holding Company	100%
Titan Fluid Power Limited	UK	Dormant	100%
Nelson Hydraulics Limited	UK	Assembly and distribution of engineering components	100%
Hydraulics (Ireland) Limited	UK	Dormant	100%
Process Fluidpower Limited	UK	Holding company	100%
Hydravalve Limited	UK	Distributors of engineering components	100%
Haitima Flow Control UK Limited	UK	Dormant	100%
HUK Valves Limited	UK	Dormant	100%

For all the subsidiaries above the class of shares held are ordinary shares and all subsidiaries, except Fluidpower MIP Limited, are indirect subsidiaries of Flowtech Fluidpower plc.

On 13 March 2016, the Group acquired 100% of the ordinary shares in Indequip Limited, a newly incorporated company.

On 18 March 2016, the Group acquired 100% of the ordinary shares in Hydravalve Limited, and its dormant subsidiaries Haitima Flow Control UK Limited and HUK Valves Limited.

On 16 May 2016, the Group acquired 100% of the ordinary shares in Fluidpower Group Limited, a newly incorporated company.

On 16 May 2016, the Group acquired 100% of the ordinary shares in Process Fluidpower Limited, a newly incorporated company.

On 19 May 2016, the Group acquired 100% of the ordinary shares in Onsite Fluidpower Limited, a newly incorporated company.

On 27 July 2016, the Group acquired 100% of the ordinary shares in Titan Fluid Power Limited, a newly incorporated company.

On 29 July 2016, the Group acquired 100% of the ordinary shares in Triplesix Limited.

Notes to the consolidated financial information continued

13. Property, plant and equipment

	Land and property £000	Plant, machinery and equipment £000	Motor vehicles £000	Total £000
Cost				
Balance at 1 January 2015	1,075	6,068	103	7,246
Additions	13	677	60	750
Disposals	—	—	(28)	(28)
Acquisitions through business combinations	—	38	107	145
Effect of movements in foreign exchange	—	(28)	—	(28)
Balance at 31 December 2015 and 1 January 2016	1,088	6,755	242	8,085
Additions	43	782	33	858
Disposals	—	—	(61)	(61)
Acquisitions through business combinations (note 25)	—	292	21	313
Effect of movements in foreign exchange	—	100	—	100
Balance at 31 December 2016	**1,131**	**7,929**	**235**	**9,295**
Depreciation and amortisation				
Balance at 1 January 2015	8	4,332	19	4,359
Depreciation charge for the year	25	432	48	505
Disposals	—	—	(19)	(19)
Effect of movements in foreign exchange	—	(25)	—	(25)
Balance at 31 December 2015 and 1 January 2016	33	4,739	48	4,820
Depreciation charge for the year	26	436	64	526
Disposals	—	—	(30)	(30)
Effect of movements in foreign exchange	—	80	—	80
Balance at 31 December 2016	**59**	**5,255**	**82**	**5,396**
Net book value				
At 31 December 2016	**1,072**	**2,674**	**153**	**3,899**
At 1 January 2016	1,055	2,016	194	3,265
At 1 January 2015	1,067	1,736	84	2,887

At year end the net book value of leased plant, machinery and equipment was £121,000 (2015: £46,000). Included in land and property is land at a cost of £145,000 which is not depreciated (2015: £145,000).

14. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Intangible assets	**—**	**—**	**(950)**	(844)
Property, plant and equipment	**—**	**—**	**(182)**	(165)
Financial assets	**—**	**1**	**—**	—
Provisions	**47**	**70**	**—**	—
Employee share-based payments	**66**	**37**	**—**	—
Tax assets/(liabilities)	**113**	**108**	**(1,132)**	(1,009)
Net deferred tax liability			**(1,019)**	(901)

A deferred tax asset of £84,000 (2015: £50,000) in respect of cumulative share-based payments of £494,000 (2015: £277,000) has not been recognised due to uncertainty surrounding the availability of future profits, against which these payments can be utilised.

Movement in deferred tax during the year ended 31 December 2016

	1 January 2016 £000	Recognised in profit or loss £000	Acquired during the year £000	**31 December 2016 £000**
Intangible assets (note 25)	(844)	124	(230)	**(950)**
Property, plant and equipment	(165)	42	(59)	**(182)**
Financial assets	1	(1)	—	**—**
Provisions	70	(23)	—	**47**
Employee share-based payments	37	29	—	**66**
	(901)	171	(289)	**(1,019)**

Movement in deferred tax during the year ended 31 December 2015

	1 January 2016 £000	Recognised in profit or loss £000	Acquired during the year £000	**31 December 2016 £000**
Intangible assets	(598)	73	(319)	**(844)**
Property, plant and equipment	(133)	(25)	(7)	**(165)**
Financial assets	1	—	—	**1**
Interest-bearing loans and borrowings	6	(6)	—	**—**
Provisions	35	35	—	**70**
Employee share-based payments	13	24	—	**37**
	(676)	101	(326)	**(901)**

Notes to the consolidated financial information continued

15. Inventories

	2016 £000	2015 £000
Finished goods and goods for resale	**16,592**	13,254

Changes in finished goods recognised as cost of sales in the year amounted to £30,999,000 (2015: £26,140,000). The write down or reversal of inventories to net realisable value amounted to a write down of £67,000 (2015: write down of £95,000). The write downs and reversals are included in cost of sales. The provision made against inventories at the year end was £931,000 (2015: £1,005,000).

Estimates are made of the net realisable value of inventory at the year end. In some circumstances, inventory is subsequently sold in excess of the net realisable value determined, which results in a reversal of the write down.

16. Trade and other receivables

	2016 £000	2015 £000
Trade receivables	**12,570**	10,068
Other receivables	**442**	299
Trade receivables and other receivables	**13,012**	10,367

17. Other financial assets

	2016 £000	2015 £000
Current		
Financial assets – forward exchange contracts	**–**	32

18. Cash and cash equivalents

	2016 £000	2015 £000
Cash and cash equivalents:		
Sterling	**3,176**	830
Euro	**564**	930
Dollar	**84**	81
Total cash and cash equivalents	**3,824**	1,841

19. Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 32.

	2016 £000	2015 £000
Non-current liabilities		
Secured bank loans	4,000	4,857
Finance lease liabilities	81	17
Total non-current liabilities	4,081	4,874
Current liabilities		
Secured bank loans	857	857
Bank overdraft	—	116
Revolving credit facility	12,000	5,000
Finance lease liabilities	31	13
Total current liabilities	12,888	5,986
Total	16,969	10,860

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Carrying value 2016 £000	Carrying value 2015 £000
Secured bank loan	GBP	Libor + 1.5%	2018	4,857	5,714
Secured revolving credit facility	GBP	Libor + 1.8%	n/a	12,000	5,000
Finance lease liabilities	GBP	Various 4.8% to 31.0%	2019	112	30
				16,969	10,744

The revolving credit facility is up to £15,000,000 and is subject to a non-utilisation fee of 0.7% and is due for renewal in 2018. The bank loans and revolving credit facility are secured by legal charges over certain of the Group's assets which include trade receivables and stock. Group bank accounts are in a netting-off facility and overdrafts are not subject to interest.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2016 £000	**Interest 2016 £000**	**Principal 2016 £000**	Minimum lease payments 2015 £000	Interest 2015 £000	Principal 2015 £000
Less than one year	40	9	31	15	2	13
Between one and five years	103	22	81	19	2	17
More than five years	—	—	—	—	—	—
	143	31	112	34	4	30

Notes to the consolidated financial information continued

20. Trade and other payables

	2016 £000	2015 £000
Current		
Trade payables	**4,960**	4,321
Accrued expenses	**2,181**	1,299
Social security and other taxes	**1,484**	1,005
	8,625	6,625

21. Contingent consideration

	2016 £000	2015 £000
Non-current liabilities		
Contingent consideration	**212**	898
Total non-current liabilities	**212**	898
Current liabilities		
Contingent consideration	**1,420**	1,250
Total current liabilities	**1,420**	1,250
Total	**1,632**	2,148

The contingent consideration is payable to the former owners of Nelson Hydraulics Limited and Hydravalve Limited on the first and second anniversaries of the acquisition by the Group. Details of acquisitions in the current year are given in note 25.

22. Provisions

	Dilapidation provision £000	Other £000	Total £000
Balance at 1 January 2016	130	86	**216**
Acquisitions through business combinations	82	—	**82**
Amount utilised	—	(86)	**(86)**
Balance at 31 December 2016	212	—	**212**

Provisions have been analysed between current and non-current as follows:

	2016 £000	2015 £000
Current	**—**	86
Non-current	**212**	130
Total	**212**	216

The dilapidation provision is held in respect of leasehold properties held by the Group and represents management's best estimate of the amount which is expected to be settled in respect of dilapidation costs for the relevant sites. This is expected to be utilised in more than five years.

23. Other financial liabilities

	2016 £000	2015 £000
Current		
Financial liabilities – foreign exchange contracts	**57**	15

24. Employee benefits

24.1 Pension plans

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in each year was £217,000 (2015: £166,000).

24.2 Share-based employee remuneration

As at 31 December 2016, the Group maintained four share-based payment schemes for employee remuneration: the Management Incentive Plan; the Enterprise Management Incentive Plan, which has two sub plans, Approved and Unapproved; and the Company Share Option Plan.

Management Incentive Plan

The Management Incentive Plan ('MIP') is part of the remuneration package of the Group's senior management. Shares held in Fluidpower MIP Limited under this plan may be sold if certain conditions, as defined in the Articles of Association of Fluidpower MIP Limited, are met. It is based on the growth of Flowtech Fluidpower plc's share value within a specified holding period. In addition, participants in this scheme must be employed by the Group until the end of the agreed holding period. At the end of the holding period the holder may sell their shares to the Company for either cash or shares at a value determined by the growth of Flowtech Fluidpower plc's share value within the specified holding period. The Plan is classified as an equity-settled scheme as there is no present obligation to settle in cash.

The number of shares in Fluidpower MIP Limited subject to options and the exercise price are:

Date of grant	Exercise period	2016 Number	2015 Number
21 May 2014	11 April 2017 to 10 August 2024	**540**	540
1 June 2016	1 June 2019 to 31 May 2021	**3,010**	—

The fair values of the options granted were determined using a variation of the Black-Scholes model that takes into account factors specific to share incentive plans, such as the vesting period. The following principal assumptions were used in the valuation:

	MIP scheme £000	MIP scheme £000
Grant date	21 May 2014	1 June 2016
Vesting period ends	3 April 2017	31 May 2019
Share price at date of grant	£1.00	£1.45
Volatility	30.7%	31.6%
Option life	6.25 years	5 years
Dividend yield	5.15%	5.3%
Risk-free investment rate	2.11%	1.29%
Fair value at grant date	£1.00	£1.99
Exercise price at date of grant	£1.30	£1.51
Exercisable from/to	4 April 2017 to 20 May 2024	1 June 2019 to 31 May 2021
Weighted average remaining contractual life	7 years	5 years

Notes to the consolidated financial information continued

24. Employee benefits continued

The underlying expected volatility was determined by reference to historical share data of a group of the Company's peers over the past six years in accordance with the expected exercise period of the schemes.

Enterprise Management Incentive Plan

The Enterprise Management Incentive Plan (EMI) is part of the remuneration package of certain employees, the majority of options being issued on the date the Company was admitted to the London Stock Exchange. The sub plans are named Approved and Unapproved by virtue of whether the plans qualify for HMRC approval, the Unapproved Plan being mainly related to the CEO and non-UK resident employees. Options under this scheme will vest if the participant remains employed for the agreed vesting period. Upon vesting each option allows the holder to purchase one ordinary share.

The number of shares subject to options and the exercise price are:

Date of grant	Exercise price	Exercise period	2016 Number 000s	2015 Number 000s
Approved Plan				
21 May 2014	£1.00	4 April 2017 to 20 May 2024	**1,635**	1,700
8 August 2014	£1.26	4 April 2017 to 7 August 2024	**138**	138
30 June 2015	£1.36	4 April 2017 to 7 August 2024	**50**	50
			1,823	1,888
Unapproved Plan				
21 May 2014	£1.00	4 April 2017 to 20 May 2024	**467**	472
11 August 2015	£1.32	4 April 2018 to 10 August 2025	**140**	140
1 July 2016	£1.00	4 April 2019 to 30 June 2026	**45**	—
			652	612
			2,475	2,500

Share options and weighted average exercise prices are as follows for the reporting periods presented:

	Enterprise Management Incentive Plan				
	Approved scheme		Unapproved scheme		
	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share	Total number of shares
Outstanding at 1 January 2016	1,888	1.03	612	1.07	2,500
Granted	—	—	45	1.00	45
Lapsed	—	—	—	—	—
Forfeited	(65)	1.00	(5)	—	(70)
Exercised	—	—	—	—	—
Outstanding at 31 December 2016	**1,823**	**1.03**	**652**	**1.06**	**2,475**
Exercisable at 31 December 2015	—	—	—	—	—
Exercisable at 31 December 2016	—	—	—	—	—

24. Employee benefits continued

The fair values of the options granted were determined using a variation of the Black-Scholes model that takes into account factors specific to share incentive plans, such as the vesting period. The following principal assumptions were used in the valuation:

	Unapproved EMI scheme	Unapproved EMI scheme	Approved EMI scheme	Approved EMI scheme	EMI scheme Unapproved and Approved
Grant date	1 July 2016	11 August 2015	30 June 2015	8 August 2014	21 May 2014
Vesting period ends	3 April 2019	10 August 2018	3 April 2017	3 April 2017	3 April 2017
Share price at date of grant	£1.00	£1.44	£1.34	£1.26	£1.00
Volatility	31.6%	36.6%	36.6%	36.6%	36.6%
Option life	6.5 years	6.5 years	6.25 years	6.25 years	6.25 years
Dividend yield	5.3%	5.0%	5.0%	5.0%	5.0%
Risk-free investment rate	2.11%	1.5%	1.5%	1.5%	1.5%
Fair value at grant date	£1.05	£1.46	£1.35	£1.11	£1.11
Exercise price at date of grant	£1.00	£1.32	£1.36	£1.26	£1.00
Exercisable from/to	4 April 2019 to 20 May 2026	11 August 2018 to 10 August 2025	4 April 2017 to 20 May 2024	4 April 2017 to 20 May 2024	4 April 2017 to 20 May 2024
Weighted average remaining contractual life	9 years	8 years	7 years	7 years	7 years

The underlying expected volatility was determined by reference to historical share data of a group of the Company's peers over the past six years in accordance with the expected exercise period of the schemes.

Company Share Option Plan

The Company Share Option Plan ('CSOP') is part of the remuneration package of certain employees. Options under this scheme will vest if the participant remains employed for the agreed vesting period. Upon vesting each option allows the holder to purchase one ordinary share.

The number of shares subject to options and the exercise price are:

Date of grant	Exercise price	Exercise period	2016 Number 000s	2015 Number 000s
11 August 2015	£1.43	11 August 2018 to 10 August 2025	**130**	130
1 July 2016	£1.00	4 April 2019 to 30 June 2026	**445**	—
			575	130

Share options and weighted average exercise prices are as follows for the reporting periods presented:

	Number of shares	Weighted average exercise price per share
Outstanding at 1 January 2016	130	1.43
Granted	445	1.00
Forfeited	—	—
Outstanding at 31 December 2016	575	1.10
Exercisable at 31 December 2015	—	—
Exercisable at 31 December 2016	—	—

Notes to the consolidated financial information continued

24. Employee benefits continued

The fair values of the options granted were determined using a variation of the Black-Scholes model that takes into account factors specific to share incentive plans, such as the vesting period. The following principal assumptions were used in the valuation:

	CSOP scheme 2016	CSOP scheme 2015
Grant date	**1 July 2016**	11 August 2015
Vesting period ends	**3 April 2019**	10 August 2018
Share price at date of grant	**£1.00**	£1.44
Volatility	**31.6%**	36.6%
Option life	**6.5 years**	6.5 years
Dividend yield	**5.3%**	5.0%
Risk-free investment rate	**2.11%**	1.5%
Fair value at grant date	**£1.05**	£1.46
Exercise price at date of grant	**£1.00**	£1.43
Exercisable from/to	**4 April 2019 to 20 May 2026**	11 April 2018 to 20 May 2025
Weighted average remaining contractual life	**9 years**	8 years

The underlying expected volatility was determined by reference to historical share data of a group of the Company's peers over the past six years in accordance with the expected exercise period of the schemes.

In total, £353,000 (2015: £342,000) of employee remuneration expenses, all of which related to equity-settled share-based payment transactions, has been included in the Consolidated Income Statement.

25. Acquisitions and disposals

25.1 Acquisition of Indequip

On 19 February 2016 the Group acquired the trade and assets of Indequip, a UK-based business. The acquisition was made to enhance the Group's position in the technical pneumatic market.

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	68	(58)	—	10
Intangible assets	—	—	96	96
Inventories	392	(228)	—	164
Trade and other receivables	10	—	—	10
Cash and cash equivalents	—	—	—	—
Trade and other payables	—	—	—	—
Current tax balances	—	—	—	—
Provisions	—	—	—	—
Deferred tax liability	—	—	(19)	(19)
Total net assets	470	(286)	77	261

25. Acquisitions and disposals continued

	£000
Fair value of consideration paid	
Amount settled in cash	**893**
Total consideration	**893**
Less net assets acquired	**(261)**
Goodwill on acquisition (note 10)	**632**

Fair values are provisional as subject to management estimations at the reporting date.

Consideration transferred

Indequip was acquired on 19 February 2016 for cash consideration of £893,000.

Acquisition costs amounting to £31,000 have been recognised as an expense in the Consolidated Income Statement as part of separately disclosed administration costs.

Goodwill

Goodwill of £632,000 is primarily related to expected future profitability and expected cost synergies from the closure of the operational site and transfer of activities into existing Group locations. Goodwill has been allocated to the Flowtechnology operating segment and is not expected to be deductible for tax purposes.

Intangible asset

An intangible asset of £96,000 has been provisionally identified related to the brand identity of Indequip. The estimated useful life has been determined as five years based on the expected future cash flows that it would generate in arriving at their fair value. The components of the brand considered in the valuation comprised the website, catalogue and awareness of brand in the industry. Sales growth over the five-year period has been assumed to be 1% with an attrition rate of 3% for customers. Growth and attrition rates are based on management experience and expectations. Amortisation of the brand is not expected to be deductible for tax purposes.

Fair value adjustments

The value of property, plant and equipment has been decreased by £58,000 to reflect the alignment of the useful life review policy with that of the Group.

The value of inventories has been decreased by £228,000 to reflect the alignment of stock valuation methods with those of the Group.

Indequip's contribution to the group results

Indequip generated a profit after tax of £227,000 for the ten months from 19 February 2016 to the reporting date. If Indequip had been acquired on 1 January 2016, it is estimated revenue for the Group would have been £54,173,000 and profit after tax for the year would have increased by £19,000.

Summary aggregated estimated financial information on Indequip for the period from 1 January 2016 to 19 February 2016, when it became a subsidiary:

	2016 £000
Revenue	**393**
Profit	**19**

Notes to the consolidated financial information continued

25. Acquisitions and disposals continued

25.2 Acquisition of Hydravalve Limited

On 18 March 2016, the Group acquired 100% of the share capital of Hydravalve Limited, a UK-based business, thereby obtaining control. The acquisition was made to establish the Group's position in the manufacturing and industrial markets. The total consideration was £2,727,000. This comprised £2,105,000 in cash and £622,000 contingent cash consideration. The additional consideration is based on profit targets for the Company's customer base and is payable on the first and second anniversaries of the acquisition. The fair value of £622,000 has been calculated using management forecasts of Hydravalve's Limited's performance discounted at the Company's weighted average cost of capital.

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	229	39	—	**268**
Intangible assets	—	—	879	**879**
Inventories	1,634	(163)	—	**1,471**
Trade and other receivables	942	(19)	—	**923**
Cash and cash equivalents	(312)	—	—	**(312)**
Finance leases	(71)	(48)	—	**(119)**
Trade and other payables	(606)	—	—	**(606)**
Current tax balances	(216)	—	—	**(216)**
Provisions	—	(72)	—	**(72)**
Deferred tax liability	(41)	—	(176)	**(217)**
Total net assets	1,559	(263)	703	**1,999**

	£000
Fair value of consideration paid	
Amount settled in cash	**2,105**
Fair value of contingent consideration	**622**
Total consideration	**2,727**
Less net assets acquired	**(1,999)**
Goodwill on acquisition (note 10)	**728**

Fair values are provisional as subject to management estimations at the reporting date.

Consideration transferred

Hydravalve Limited was acquired on 18 March 2016 for a total consideration of £2,727,000 comprising £2,105,000 in cash and £622,000 contingent cash consideration. The contingent consideration is due in two instalments on 18 April 2017 and 18 April 2018. It is contingent on the earnings before interest and tax exceeding a target EBIT of £727,000 per annum for the first two years post acquisition. Performance under the target will reduce consideration payable. The maximum contingent consideration payable is £2,000,000. The fair value of £622,000 has been estimated by management using a discount rate of 10.9%, being the weighted average cost of capital of Hydravalve Limited and sales forecasts prepared by management at the time of acquisition, these have been reviewed for performance up to the reporting date.

Acquisition costs and stamp duty amounting to £112,000 have been recognised as an expense in the Consolidated Income Statement as part of separately disclosed administration costs.

25. Acquisitions and disposals continued

Goodwill

Goodwill of £728,000 is primarily related to expected future profitability and expected cost synergies. Goodwill has been allocated to the Process operating segment and is not expected to be deductible for tax purposes.

Intangible asset

An intangible asset of £879,000 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 the sales to significant customers. Long term sales growth over the ten-year period has been assumed to be 1.0% with an attrition rate of 7.5% 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.

Fair value adjustments

The value of property, plant and equipment has been decreased by £9,000 to reflect the alignment of the useful life review policy with that of the Group and increased by £48,000 to recognise a leased asset omitted from the books of the Company prior to acquisition.

The value of inventories has been decreased by £163,000 to reflect the alignment of the Hydravalve stock provisioning policy with that of the Group.

The value of debtors has been decreased by £19,000 to reflect the alignment of the Hydravalve debtor provisioning policy with that of the Group.

The value of lease finance liabilities has been increased by £48,000 to recognise a leased obligation omitted from the books of the Company prior to acquisition.

The value of provisions has been increased by £72,000 to reflect a provision for dilapidation costs relating to properties leased by the Company.

Hydravalve Limited's contribution to the Group results

Hydravalve Limited generated a profit after tax of £337,000 for the nine months from 18 March 2016 to the reporting date. If Hydravalve Limited had been acquired on 1 January 2016, revenue for the Group would have been £54,714,000 and profit after tax for the year would have increased by £16,000.

Summary aggregated financial information on Hydravalve Limited for the period from 1 January 2016 to 18 March when it became a subsidiary:

	2016 £000
Revenue	**934**
Profit	**16**

Notes to the consolidated financial information continued

25. Acquisitions and disposals continued

25.3 Acquisition of Triplesix Limited

On 29 July 2016 the Group acquired the entire share capital of Triplesix Limited, a UK-based business, thereby obtaining control. The acquisition was made to enhance the Group's position in the hydraulic cylinder and rotary actuator market. On 1st October 2016 the trade and assets of Triplesix Limited were transferred its parent PMC Fluidpower Limited.

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	41	(6)	—	**35**
Intangible assets	—	—	195	**195**
Inventories	16	—	—	**16**
Trade and other receivables	193	(47)	—	**146**
Cash and cash equivalents	409	—	—	**409**
Trade and other payables	(64)	—	—	**(64)**
Current tax balances	(63)	—	—	**(63)**
Provisions	—	(10)	—	**(10)**
Deferred tax liability	(8)	—	(35)	**(43)**
Total net assets	524	(63)	160	**621**

	£000
Fair value of consideration paid	
Amount settled in cash	**776**
Total consideration	**776**
Less net assets acquired	**(621)**
Goodwill on acquisition (note 10)	**155**

Fair values are provisional as subject to management estimations at the reporting date.

Consideration transferred

Triplesix Limited was acquired on 29 July 2016 for a total cash consideration of £776,000. Contingent consideration with a maximum value of £750,000 is included within the purchase agreement and is due in four six monthly instalments starting 1 March 2017. It is contingent on the earnings before interest and tax exceeding £112,000 per annum for the first two years' post acquisition. Following review of performance post acquisition and management forecasts for the next year, EBIT targets are not expected to be met and no provision has been made for contingent consideration.

Acquisition costs and stamp duty amounting to £17,000 have been recognised as an expense in the Consolidated Income Statement as part of separately disclosed administration costs.

Goodwill

Goodwill of £155,000 is primarily related to expected future profitability and expected purchasing synergies from Group buying arrangements The employee base brings additional skill sets in three-dimensional design capabilities and a design database which can be utilised across the Group. Goodwill has been allocated to the Power Motion Control operating segment and is not expected to be deductible for tax purposes.

25. Acquisitions and disposals continued

Intangible asset

An intangible asset of £195,000 has been 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 those purchasing bespoke cylinders and actuators, a product group which is new to the segment, but complementary to existing sales streams. Sales growth over the ten year period has been assumed to be 2% with an attrition rate of 10% for customers. Growth and attrition rates are based on a review of sales and customer records. Amortisation of customer relationships is not expected to be deductible for tax purposes.

Fair value adjustments

The value of property, plant and equipment has been decreased by £6,000 to reflect the alignment of the useful life review policy with that of the Group.

The value of debtors has been decreased by £47,000 to reflect the alignment of the Triplesix Limited debtor provisioning policy with that of the Group and to provide for significant bad debts apparent at the date of acquisition.

The value of provisions has been increased by £10,000 to reflect a provision for dilapidation costs relating to properties leased by the Company.

Triplesix Limited's contribution to the Group results

Triplesix Limited generated a loss after tax of £10,000 for the seven months from 29 July 2016 to the reporting date. If Triplesix Limited had been acquired on 1 January 2016, revenue for the Group would have been £54,504,000 and profit after tax for the year would have increased by £111,000.

Summary aggregated financial information on Triplesix Limited for the period from 1 January 2016 to 29 July 2016, when it became a subsidiary:

	2016 £000
Revenue	**724**
Profit	**111**

26. Equity

The share capital of the Company consists only of fully paid ordinary shares with a nominal value of 50p per share. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at Shareholders' meetings of the Company.

	Number	£000
Allotted and fully paid ordinary shares of 50p each at 31 December 2016	43,078,282	21,539
Shares authorised for share-based payments	6,666,667	3,333
Total shares authorised at 31 December 2016	**49,744,949**	**24,872**

	Number	£000
Allotted and fully paid ordinary shares of 50p each		
At 1 January 2016 and 31 December 2016	**43,078,282**	**21,539**

Notes to the consolidated financial information continued

27. Net cash from operating activities

	2016 £000	2015 £000
Reconciliation of profit before taxation to net cash flows from operations		
Profit from continuing operations before tax	**5,527**	5,280
Loss from discontinued operations before tax	**(113)**	(131)
Depreciation	**526**	505
Financial income	**(1)**	(22)
Financial expense	**611**	232
Profit on sale of plant and equipment	**(21)**	(7)
Amortisation of intangible assets	**569**	413
Equity-settled share-based payment charge	**353**	342
Release of over accrued contingent consideration	**(108)**	—
Operating cash inflow before changes in working capital and provisions	**7,343**	6,612
Change in trade and other receivables	**(1,384)**	1,628
Change in stocks	**(1,486)**	(688)
Change in trade and other payables	**1,126**	(136)
Change in provisions	**(86)**	(60)
Cash generated from operations	**5,513**	7,356
Tax paid	**(1,347)**	(1,413)
Net cash generated from operating activities	**4,166**	5,943

28. Discontinued operations

Discontinued operation costs relate to surplus property costs during the year. Operations were relocated to existing Group properties. Discontinued operation costs in the prior year related to the ongoing surplus property costs of an operation which was closed in 2014.

	2016 £000	2015 £000
Discontinued operations:		
Administrative expenses	**(113)**	(131)
Operating loss	**(113)**	(131)
Taxation (note 7)	**22**	—
Loss from discontinued operations	**(91)**	(131)

There are no material net cash flows attributable to the operating, investing and financing activities of discontinued operations.

29. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016 £000	2015 £000
Less than one year	**788**	632
Between one and five years	**1,909**	970
More than five years	**3,410**	239
	6,107	1,841

The Group acts as a lessee for land and buildings, plant and machinery and motor vehicles, under operating leases. The Group's significant lease arrangements are for properties, for which there are no significant lease incentives. As at 31 December 2016, the property lease periods range from less than one year to fifteen years. The disclosures above for non-cancellable operating lease rentals have been split out below to show the split between land and buildings and other assets which include motor vehicles.

	2016		2015	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Less than one year	**570**	**218**	519	113
Between one and five years	**1,521**	**388**	810	160
More than five years	**3,410**	**—**	239	—
	5,501	**606**	1,568	273

During the year £799,000 was recognised as an expense in the income statement in respect of operating leases relating to continuing operations (2015: £637,000). Operating lease costs recognised in discontinued operations were £45,000 (2015: nil).

30. Contingent liabilities and commitments

The Group had capital expenditure of £63,000 contracted for but not provided at 31 December 2016 (2015: £77,000).

31. Related party transactions

Transactions between the Company, its Employee Benefit Trust and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Key management includes Executive and Non-Executive Directors. The compensation paid or payable to key management is disclosed in the Directors' Remuneration Report on pages 52 to 53.

Dividends paid to Directors of the plc were as follows:

	2016 £000	2015 £000
Sean Fennon	**12**	11
Bryce Brooks	**5**	5
Malcolm Diamond MBE	**3**	2
Nigel Richens	**3**	2
	23	20

Other than the transactions set out above, the Group has not entered into any transactions with any related parties who are not members of the Group.

Notes to the consolidated financial information continued

32. Financial instruments

32.1 Fair values of financial instruments

Fair values

The table below analyses financial instruments into a fair value hierarchy based on the valuation technique used to determine fair value.

- 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).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable input).

	Carrying amount 2016 £000	**Fair value 2016 £000**	**Level 2 2016 £000**	**Level 3 2016 £000**	Carrying amount 2015 £000	Fair value 2015 £000	Level 2 2015 £000	Level 3 2015 £000
Financial assets held for trading (including all derivatives) (note 17)								
Forward exchange contracts	**—**	**—**	**—**	**—**	32	32	32	—
Total financial assets at fair value through profit or loss	**—**	**—**	**—**	**—**	32	32	32	—
Financial liabilities at fair value through profit or loss (including all derivatives) (note 23)								
Forward exchange contracts	**(57)**	**(57)**	**(57)**	**—**	(15)	(15)	(15)	—
Contingent consideration (note 21)	**(1,632)**	**(1,632)**	**—**	**(1,632)**	(2,148)	(2,148)	—	(2,148)
Total financial liabilities at fair value through profit or loss	**(1,689)**	**(1,689)**	**(57)**	**(1,632)**	(2,163)	(2,163)	(15)	(2,148)

There have been no transfers in either direction during the years ended 31 December 2016 and 31 December 2015.

The reconciliation of the carrying amounts of financial instruments classified within level 3 is as follows:

	2016 £000	2015 £000
Balance at 1 January	**2,148**	—
Arising on business combinations	**622**	2,148
Payment of contingent consideration	**(1,031)**	—
Release of over provision of contingent consideration	**(108)**	—
Balance at 31 December	**1,631**	2,148

The release of over provision of contingent consideration relates to the final calculation of the contingent consideration for Albroco Limited acquired in 2014. The consideration was based on gross profit targets. After reviewing performance to date and forecasts management concluded no further payments would be due. Included in contingent consideration paid was £281,000 relating to the Albroco Limited acquisition.

32. Financial instruments continued

The Group is exposed to various risks in relation to financial instruments. Each of these is disclosed in the table below.

	Carrying amount 2016 £000	Fair value 2016 £000	Level 2 2016 £000	Level 3 2016 £000	Carrying amount 2015 £000	Fair value 2015 £000	Level 2 2015 £000	Level 3 2015 £000
Loans and receivables								
Cash and cash equivalents (note 18)[1]	**3,824**				1,841			
Trade and other receivables (note 16)[1]	**13,012**				10,367			
Total financial assets not measured at fair value	**16,836**				12,208			
Total financial assets at fair value	**–**	**–**	**–**		32	32	32	
Financial assets	**16,836**				12,240			
Financial liabilities measured at amortised cost								
Other interest-bearing loans and borrowings (note 19)	**(16,969)**				(10,860)			
Trade payables and accruals (note 20)[1]	**(7,141)**				(5,620)			
Total financial liabilities measured at amortised cost	**(24,110)**				(16,480)			
Financial liabilities at fair value								
Forward exchange contracts	**(57)**	**(57)**	**(57)**		(15)	(15)	(15)	
Contingent consideration (note 21)	**(1,632)**	**(1,632)**	**–**	**(1,632)**	(2,148)	(2,148)	–	(2,148)
Total financial liabilities at fair value	**(1,689)**	**(1,689)**	**(57)**	**(1,632)**	(2,163)	(2,163)	(15)	(2,148)
Total financial liabilities	**(25,799)**				(18,643)			
Total financial instruments	**(8,963)**				(6,403)			

1. The Group has not disclosed the fair value for financial instruments such as short term trade receivables and payables, and cash and cash equivalents, because their carrying amounts are a reasonable approximation of fair values.

Financial instruments measured at fair value	**Valuation technique**
Forward exchange contracts	The Group's interest rate swap contracts are not traded in active markets. These have been fair valued using observable exchange rates corresponding to the maturity of the contract, through direct confirmation from the provider of the contract.
Contingent consideration	The fair value of contingent consideration at 31 December 2016 relates to the acquisition of Nelson Fluid Power Limited in 2015 and the acquisition of Hydravalve Limited in 2016. It is estimated using a present value technique. The £1,632,000 fair value is measured by reference to the future cash outflows. The cash outflows reflect management's best estimate of the amount payable.
Financial instruments not measured at fair value	**Valuation technique**
Bank loans and other interest-bearing borrowings	Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Notes to the consolidated financial information continued

32. Financial instruments continued

32.2 Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management also consider the factors that may influence the credit risk of the Group's customer base, including the default risk of the industry and country in which the customers operate. The Group has an established credit policy under which the credit status of each new customer is reviewed before credit is advanced. This includes external evaluations where possible. Credit limits are established for customers and outstanding balances are reviewed regularly by management.

The concentration of credit risk for trade receivables at the balance sheet date by geographic region was:

	2016 £000	2015 £000
UK	11,025	8,717
Europe	1,272	1,230
Rest of the World	273	121
	12,570	10,068

Credit quality of financial assets and impairment losses

The ageing of trade receivables at the balance sheet date was:

	Gross 2016 £000	Impairment 2016 £000	Gross 2015 £000	Impairment 2015 £000
Not past due	12,222	84	9,380	76
Past due 0-30 days	393	6	615	8
More than 30 days	195	150	260	103
	12,810	240	10,255	187

Some of the unimpaired trade receivables are past due as at the reporting date. These past due debtors are not resultant from any major disputes with customers. There have been no other indicators that would cast doubt over the creditworthiness of such customers.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The movement in the allowance for impairment in respect of trade receivables during each year was as follows:

	2016 £000	2015 £000
Balance at 1 January	187	158
Net change due to acquisitions and disposals of subsidiaries	66	35
Provision utilised	(116)	(68)
Increase in provision	103	62
Balance at 31 December	240	187

The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

32. Financial instruments continued

32.3 Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Management monitor and manage liquidity for the Group and ensure that the Group has sufficient headroom in its committed facilities to meet unforeseen or abnormal requirements. Available headroom is monitored via the use of detailed cash flow forecasts. Particular focus is given to management of working capital.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Year ended 31 December 2016	**Carrying amount £000**	**Contractual cash flows £000**	**1 year or less £000**	**1 to 2 years £000**	**2 to 5 years £000**
Non-derivative financial liabilities					
Secured bank loan	**4,857**	**4,979**	**945**	**4,034**	**—**
Finance lease liabilities	**112**	**143**	**40**	**40**	**63**
Revolving credit facility	**12,000**	**12,066**	**12,066**	**—**	**—**
Trade payables	**4,960**	**4,960**	**4,960**	**—**	**—**
Derivative financial liabilities					
Other forward exchange contracts:					
Net payment	**57**	**57**	**57**	**—**	**—**
	21,986	**22,205**	**18,068**	**4,074**	**63**

Year ended 31 December 2015	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000
Non-derivative financial liabilities					
Secured bank loan	5,714	5,942	963	945	4,034
Finance lease liabilities	30	34	15	15	4
Revolving credit facility	5,000	5,033	5,033	—	—
Trade payables	4,321	4,321	4,321	—	—
Derivative financial liabilities					
Other forward exchange contracts:					
Net payment	15	15	15	—	—
	15,080	15,345	10,347	960	4,038

There are no contractual maturities over five years.

32.4 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments.

While currently the Group's term bank debt is floating Libor linked, the Board reviews its option to fix the rates attached to this debt through the use of interest rate swap derivatives.

Notes to the consolidated financial information continued

32. Financial instruments continued

Market risk — foreign currency risk

The main currency related risk to the Group comes from forward purchasing of inventories and from its foreign operations. This risk is mainly managed by entering into forward currency contracts. The Group does not apply hedge accounting in respect of these forward currency contracts; the changes in fair value have been recognised in the profit or loss.

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

31 December 2016	Sterling £000	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	**3,176**	**564**	**84**	**3,824**
Trade and other receivables	**11,704**	**968**	**340**	**13,012**
Secured bank loans	**(5,000)**	**—**	**—**	**(5,000)**
Revolving credit facility	**(12,000)**	**—**	**—**	**(12,000)**
Finance lease liabilities	**(111)**	**—**	**—**	**(111)**
Trade payables	**(2,729)**	**(2,032)**	**(199)**	**(4,960)**
Forward exchange contracts	**—**	**(540)**	**—**	**(540)**
Net exposure	**(4,960)**	**(1,040)**	**225**	**(5,775)**

31 December 2015	Sterling £000	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	830	930	81	1,841
Trade and other receivables	9,528	793	46	10,367
Secured bank loans	(5,714)	—	—	(5,714)
Revolving credit facility	(5,000)	—	—	(5,000)
Finance lease liabilities	(30)	—	—	(30)
Trade payables	(2,499)	(1,686)	(136)	(4,321)
Forward exchange contracts	—	(36)	—	(36)
Net exposure	(2,885)	1	(9)	(2,893)

Sensitivity analysis

A 10% weakening of the following currencies against the pound sterling at 31 December 2016 would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the reporting date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

The analysis is performed on the same basis for the year ended 31 December 2015.

	Profit or loss and equity	
	2016 £000	2015 £000
€	**95**	4
$	**(20)**	5

A 10% strengthening of the following currencies against the pound sterling at 31 December 2016 would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

32. Financial instruments continued

The analysis is performed on the same basis for the year ended 31 December 2015.

	Profit or loss and equity 2016 £000	2015 £000
€	**(116)**	(4)
$	**25**	(6)

Market risk – interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	2016 £000	2015 £000
Fixed rate instruments		
Financial liabilities	**112**	30
Variable rate instruments		
Financial liabilities (carrying value)	**16,857**	10,714

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the reporting date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through profit or loss and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for the year ended 31 December 2015.

	2016 £000	2015 £000
Equity		
Increase of 100 basis points	**(168)**	(107)
Decrease of 100 basis points	**168**	107
Profit or loss		
Increase of 100 basis points	**(168)**	(107)
Decrease of 100 basis points	**168**	107

32.5 Capital management

The capital structure of the Group is presented in the statement of financial position and includes equity cash and borrowings. The statement of changes in equity provides details of equity and note 19 provides details of loans and overdrafts. Short and medium term funding requirements are provided by a revolving credit facility. Longer term funding is sourced from a combination of these facilities. The Group's objectives when managing capital including short to medium term working capital and amortising, long term borrowings are to safeguard its ability to continue as a going concern and have access to adequate funding for business opportunities, so that it can provide returns for Shareholders and benefits for other stakeholders. The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Group may issue new shares or draw down debt. The Group is not subject to externally imposed regulatory capital requirements. There are no specific ratios used by the Group in assessing its management of capital levels.

Notes to the consolidated financial information continued

32. Financial instruments continued

The Group is subject to covenants in respect of its bank loans and facilities. The Group remains compliant. There were no changes in the Group's approach to capital management during each year.

Management assess the Group's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. This takes into account the subordination levels of the Group's various classes of debt. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares, or sell assets to reduce debt.

The Group maintains sufficient cash levels to enable it to meet its liabilities as they fall due. Management review cash flow forecasts on a regular basis to determine whether the Group has sufficient cash reserves to meet future working capital requirements, financing obligations and to take advantage of business opportunities. In reviewing cash flows and identifying the need for further funds, management consider the nature of cash flow requirements and take appropriate action.

33. Subsequent events

Hydraulics and Transmissions Limited was acquired on 20 January 2017 for an initial consideration of £0.75 million in cash with contingent consideration of £1 million anticipated to be paid over the next two years. The cash consideration was funded out of existing Group resources. The Company provides fluid power solutions predominantly to the mobile market segment and is based in Ludlow, Shropshire. The acquisition will add significantly to the Group's procurement relationship with key global suppliers of hydraulic components. The business now forms part of the PMC division.

The Group will disclose the book value of the identifiable assets and liabilities and their fair values in the 2017 interim 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.

On 30 March 2017 Flowtech Fluidpower plc raised approximately £10m (before expenses) via the placing of 8,333,333 new ordinary shares at 120 pence per share.

There are no other material adjusting or non-adjusting events subsequent to the reporting date.

Company income statement

	Note	2016 £000	2015 £000
Continuing operations			
Administrative expenses		**(194)**	(470)
Operating loss	C	**(194)**	(470)
Financial income	F	**5,000**	4150
Financial expenses	F	**(116)**	(132)
Net financing income		**4,884**	4,018
Profit from continuing operations before tax		**4,690**	3,548
Taxation	G	**(34)**	34
Profit for the year attributable to the owners of the parent		**4,656**	3,582

Company statement of financial position

	Note	2016 £000	2015 £000
Fixed assets			
Investments	J	**57,541**	57,251
Deferred tax assets	O	**—**	34
Total fixed assets		**57,541**	57,285
Current assets			
Trade and other debtors	K	**36,546**	21,777
Cash and cash equivalents	L	**11**	1
Total current assets		**36,557**	21,778
Creditors: amounts falling due within one year			
Interest-bearing loans and borrowings	M	**12,857**	857
Trade and other creditors	N	**1,753**	583
Total creditors: amounts falling due within one year		**14,610**	1,440
Net current assets		**21,947**	20,338
Total assets less current liabilities		**79,488**	77,623
Creditors: amounts falling due after more than one year			
Interest-bearing loans and borrowings	M	**4,000**	4,857
Total creditors: amounts falling due after more than one year		**4,000**	4,857
Net assets		**75,488**	72,766
Capital and reserves			
Called up share capital	P	**21,539**	21,539
Share premium account		**46,880**	46,880
Share-based payment reserve		**622**	332
Retained earnings		**6,447**	4,015
Total equity		**75,488**	72,766

The financial statements on pages 103 to 104 were approved by the Board of Directors on 4 April 2017 and were signed on its behalf by:

Bryce Brooks
Director
Company Registration Number: 09010518

Company statement of changes in equity

	Share capital £000	Share premium £000	Share-based payment reserve £000	Retained earnings £000	**Total equity £000**
Balance at 1 January 2015	21,414	46,664	96	2,613	**70,787**
Profit for the year	—	—	—	3,582	**3,582**
Total comprehensive income for the year	—	—	—	3,582	**3,582**
Transactions with owners					
Issue of share capital	125	216	—	—	**341**
Share options – cost	—	—	—	(5)	**(5)**
Share options – granted to subsidiary employees	—	—	236	—	**236**
Equity dividends paid (note E)	—	—	—	(2,175)	**(2,175)**
Total transactions with owners	125	216	236	(2,180)	**(1,603)**
Balance at 1 January 2016	21,539	46,880	332	4,015	**72,766**
Profit for the year	—	—	—	4,656	**4,656**
Total comprehensive income for the year	**—**	**—**	**—**	**4,656**	**4,656**
Transactions with owners					
Share options – cost	—	—	—	63	**63**
Share options – granted to subsidiary employees	—	—	290	—	**290**
Equity dividends paid (note E)	—	—	—	(2,287)	**(2,287)**
Total transactions with owners	—	—	290	(2,224)	**(1,934)**
Balance at 31 December 2016	**21,539**	**46,880**	**622**	**6,447**	**75,488**

Notes to the company financial information

A. Authorisation of Financial Statements and Statement of Compliance with FRS 101

The financial statements of Flowtech Fluidpower plc for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 4 April 2017 and the Statement of Financial Position was signed on the Board's behalf by Bryce Brooks. Flowtech Fluidpower plc is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards. The Company's financial statements are presented in sterling.

These financial statements have been prepared on a going concern basis and on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The principal accounting policies adopted by the Company are set out in note B.

B. Accounting policies

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2016.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

a. the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

    i. paragraph 79(a)(iv) of IAS 1;

    ii. paragraph 73(e) of IAS 16 'Property, Plant and Equipment';

b. the requirements of paragraphs 10(d), and 134-136 of IAS 1 'Presentation of Financial Statements' and the requirements of IAS 7 'Statement of Cash Flows';

c. the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';

d. the requirements of paragraph 17 of IAS 24 'Related Party Disclosures';

e. the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

f. The disclosure requirements of IFRS 7 'Financial Instruments'

Investments

All investments are initially recorded at cost, being the fair value of consideration given including the acquisition costs associated with the investment. Subsequently, they are reviewed for impairment on an individual basis if events or changes in circumstances indicate the carrying value may not be fully recoverable.

Financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

B. Accounting policies continued

Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances net of bank overdrafts and short term deposits held with banks by the Company, and are subject to insignificant risk of changes in value.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses. Any change in their value through impairment or reversal of impairment is recognised in profit or loss. Discounting is omitted were the effect is immaterial.

Derivative financial instruments

Derivative financial instruments held by the Company include forward foreign currency contracts and are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Derecognition of financial liabilities

The Company derecognises a financial liability (or its part) from the statement of financial position when, and only when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of a financial liability (or a part of a financial liability) extinguished and the consideration paid, including any non cash assets transferred or liabilities assumed, is recognised in profit or loss.

Share-based payments

The fair value of employee share plans is calculated using a variation of the Black–Scholes model. In accordance with IFRS 2 ‘Share-based payment’, the resulting cost is charged to the profit and loss account over the vesting period of the plans.

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.

Financing income and expenses

Financing expenses comprise interest payable and finance charges on finance leases recognised in profit or loss using the effective interest method. Financing income comprises interest receivable on funds invested. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Dividends

Dividend distributions payable to equity Shareholders are included in other liabilities when the dividends have been approved in general meeting prior to the reporting date.

Pensions

Company employees are members of defined contribution pension schemes where the obligations of the Company are charged to the profit and loss account as they are incurred.

Notes to the company financial information continued

C. Operating loss

The following items have been included in arriving at the operating loss for continuing operations:

	2016 £000	2015 £000
Acquisition costs	**151**	166
Share-based payment costs (note 24)	**63**	86
Restructuring	**60**	218

- Acquisition costs relate to stamp duty, due diligence, legal fees, finance fees and other professional costs incurred in the acquisition of businesses.
- Share-based payment costs relate to the provision made in accordance with IFRS 2 'Share-based payment' following the issue of share options to employees.
- Restructuring costs relate to restructuring activities of an operational nature following acquisition of business units and other restructuring activities in established businesses. Costs include: employee redundancies and IT integration.

D. Services provided by the Company's Auditor

During the period the Company obtained the following services provided by the Company's Auditor at the costs detailed below:

	2016 £000	2015 £000
Audit of the statutory financial statements of Flowtech Fluidpower plc	**20**	20

E. Directors and employees

Details of directors and employees are shown in note 5 to the consolidated financial statements.

The average number of persons employed by the Company (including Directors) during each year was as follows:

	2016 £000	2015 £000
Administration	**4**	4

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Remuneration	**587**	591
Social security costs	**62**	65
Contributions to defined contribution pension plans	**—**	14
Compensation for loss of office	**—**	154
Benefits in kind	**4**	6
Share-based payments	**127**	175
	780	1,005

E. Directors and employees continued

The amounts set out above include remuneration in respect of the highest paid Director as follows:

	2016 £000	2015 £000
Highest paid Director's remuneration		
Remuneration	**280**	220
Social security costs	**38**	29
Benefits in kind	**2**	1
Share-based payments	**70**	85
Total highest paid Director's remuneration	**390**	336

Details of Directors' emoluments are included in the Directors' Remuneration Report on pages 46 to 47.

F. Financial income and expense

Finance income for the year consists of the following:

	2016 £000	2015 £000
Finance income arising from:		
Dividends received from group undertakings	**5,000**	4,150
Total finance income	**5,000**	4,150

Finance expenses for the year consist of the following:

	2016 £000	2015 £000
Finance expense arising from:		
Bank loans – current facilities	**116**	132
Total finance expense	**116**	132

G. Taxation

Recognised in the income statement

	2016 £000	2015 £000
Deferred tax		
Origination and reversal of temporary differences	**2**	(34)
Adjustment in respect of prior periods	**32**	—
Total tax expense/(income) in the income statement	**34**	(34)

No income tax was recognised in other comprehensive income or directly in equity for either of the years ended 31 December 2015 or 2016.

Notes to the company financial information continued

G. Taxation continued

Reconciliation of effective tax rate

	2016 £000	2015 £000
Profit for the year	**4,656**	3,582
Total tax expense	**34**	(34)
Profit excluding taxation	**4,690**	3,548
Tax using the UK corporation tax rate of 20.00% (2015: 20.25%)	**938**	718
Deferred tax movements not recognised	**11**	17
Group relief	**15**	40
Impact of change in tax rate on deferred tax balances	**1**	1
Income not taxable	**(1,000)**	(840)
Amounts not deductible	**37**	30
Adjustment in respect of prior periods	**32**	—
Total tax expense in the income statement	**34**	(34)

Change in corporation tax rate

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2016 have been calculated based on these rates.

H. Dividends paid and proposed

	2016 £000	2015 £000
Final dividend of 3.50p (2015: 3.33p) per share	**1,499**	1,426
Interim dividend of 1.84p (2015: 1.75p) per share	**788**	749
	2,287	2,175

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 December 2016 of 3.67p (2015: 3.50p) per share which will absorb an estimated £1.6 million of Shareholders' funds. It will be paid on 23 June 2017 to Shareholders who are on the register of members on 2 June 2017.

I. Share-based payments

Details of share-based payments are shown in note 24 to the consolidated financial statements.

J. Investments

Cost and net book value	**Investments in subsidiaries' unlisted shares £000**	**Subsidiaries' share-based payment reserves £000**	**Total £000**
At 1 January 2016	56,919	332	57,251
Additions	—	290	290
At 31 December 2016	**56,919**	**622**	**57,541**

K. Trade and other debtors

	2016 £000	2015 £000
Current:		
Prepayments and accrued income	379	354
Amounts owed by group undertakings	36,167	21,423
Total trade and other debtors	36,546	21,777

L. Cash and cash equivalents

	2016 £000	2015 £000
Sterling	11	1
Total cash and cash equivalents	11	1

M. Interest bearing loans and borrowings

	2016 £000	2015 £000
Non-current liabilities:		
Secured bank loans	4,000	4,857
Total non-current liabilities	4,000	4,857
Current liabilities:		
Revolving credit facility	12,000	—
Secured bank loans	857	857
Total current liabilities	12,857	857
Total interest bearing loans and borrowings	16,857	5,714

The secured bank loan is repayable in instalments over the period to 8 May 2018 and is secured by legal charges over certain assets of the Flowtech Group which include trade receivables and stock.

The revolving credit facility is up to £15,000,000 and is subject to a non-utilisation fee of 0.7% and is due for renewal in 2018. The bank loans and revolving credit facility are secured by legal charges over certain of the Group's assets which include trade receivables and stock. The revolving credit facility was disclosed in the financial statements of the Company's subsidiary Fluidpower Limited in the prior year.

N. Trade and other creditors

	2016 £000	2015 £000
Social security and other taxes	22	24
Accruals and deferred income	104	233
Amounts owed to other group undertakings	1,627	326
Total trade and other creditors	1,753	583

Notes to the company financial information continued

O. Deferred taxation

Deferred tax assets comprise:

	2016 £000	2015 £000
Provisions	–	34
Total deferred tax	–	34
At start of year	34	–
Deferred tax credit in profit and loss account for the year	(34)	34
At end of year	–	34

A deferred tax asset of £38,000 (2015: £27,000) in respect of cumulative share-based payments of £223,000 (2015: £138,000) has not been recognised due to uncertainty surrounding the availability of future profits, against which these payments can be utilised.

P. Share capital

Allotted, called up and fully paid:

	Number	£000
Allotted and fully paid ordinary shares of 50p each		
At 1 January and 31 December 2016	43,078,282	21,539

Potential issue of shares

Details of the potential issue of shares relating to employee share-based payment schemes are shown in note 24 to the consolidated financial statements.

Q. Contingent liabilities and commitments

The Company has no capital expenditure contracted for but not provided at 31 December 2016.

R. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with entities that are wholly owned subsidiaries of the Flowtech Fluidpower plc Group. A loan of £338,000 made to the Flowtech Fluidpower Employee Benefit Trust to enable it to buy shares in the Company in the prior year remains outstanding. There are no other related party transactions other than those relating to Directors that have been disclosed in note 31 to the consolidated financial statements.

S. Company principal subsidiaries

The principal subsidiaries of the Company are listed in note 12 to the consolidated financial statements.

T. Ultimate controlling party

The Directors consider that there is no ultimate controlling party.

Flowtech Fluidpower plc
Registered office
Pimbo Road
Skelmersdale
Lancashire
WN8 9RB

www.flowtechfluidpower.com

Email: info@flowtechfluidpower.com

FLOWTECH
FLUIDPOWER PLC

Registered office
Pimbo Road
Skelmersdale
Lancashire
WN8 9RB

www.flowtechfluidpower.com
Email: info@flowtechfluidpower.com