FLOWTECH FLUIDPOWER PLC

ANNUAL REPORT

for the year ended 31 December 2015

www.flowtechfluidpower.com
Stock Code: FLO

Welcome

Welcome to Flowtech Fluidpower plc's second Annual Report for the year ended 31 December 2015

AIM 20

Who are we?

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

The Group's headquarters are in Skelmersdale, Lancashire and the business employs 266 people

Our mission

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

Our vision

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

Our values

Read more about Our Values online

Our competitive edge

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

Flowtechnology

Best in industry providers of hydraulic, pneumatic and industrial solutions 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
- Technology – 63% of orders are placed online B2B

Power Motion Control

Adding value through design and assembly capabilities for specialist hydraulics

- Know-how – differentiated technical design, assembly and marketing
- Centre of Engineering Excellence for hydraulic assembly

Process

Focused on delivering quality branded and generic solutions to manufacturing and industrial end users

- Established March 2016
- Extended range of valves and associated products

Enhancing our offering through acquisition

Two incorporated into the Power Motion Control division

- May 2015, Albroco Limited, a well-respected supplier of hydraulic components and electro-mechanical products to the on and off highway markets
- July 2015, Nelson Fluid Power Limited, a distributor of hydraulic equipment, components and hose assemblies from its locations in Northern Ireland and the Republic of Ireland
- 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
- Active acquisition pipeline

Read more in Group at a Glance 06

Read more in Continuing Strong Traditions 26

What’s inside

Investor website

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

- Latest news and press releases
- Annual Reports

Signposting icons to look out for within this report:

Read more in this Annual Report 00

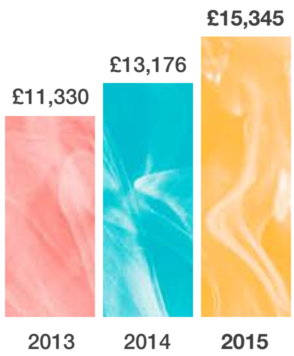
Read more in our Online Report

Financial and operational highlights

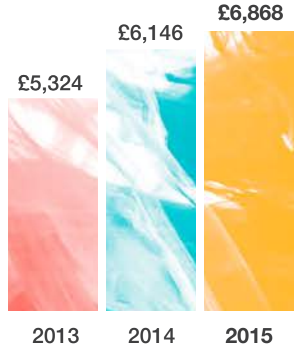
Financial highlights

Revenue
£000

Gross Profit
£000

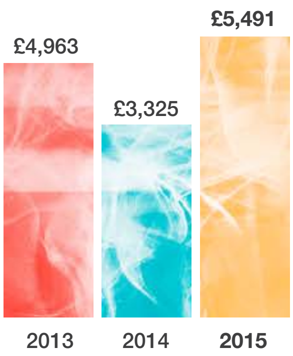


Underlying Operating Result*
£000



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

Operating Profit
£000



Total Dividend
Pence

5.25p

Final Dividend 3.50p
Interim Dividend 1.75p

Net Debt
£000

£9.0m

2014: £6.7m

2013: £69.8m

Operational highlights

- Four acquisitions in line with strategy
- Revenue growth of 19% on previous year
- Margins maintained despite adverse market conditions
- Working capital targets met with debt capacity in place
- Centre of Engineering Excellence created in Knowsley, UK
- Data repository and web platform programme implemented
- Eaton Master Agreement signed
- Investment in people and infrastructure to support future growth
- New Process division established early 2016
- Nick Fossey appointed as first "Divisional Director" responsible specifically for development of the Power Motion Control division

"The original strategy presented at IPO in 2014 was to deliver profitable growth while maintaining consistent high levels of service to our diverse customer base — this remains our core philosophy."

Sean Fennon
Chief Executive Officer

Read more in the Chief Executive Officer's statement 27

Read more in the Financial review 29

Non-Executive Chairman's letter
Malcolm Diamond MBE, Non-Executive Chairman

"Our management team's confidence in delivering growth mainly by driving consolidation in what is a fragmented market sector continues with unabated optimism."

Malcolm Diamond MBE
Non-Executive Chairman

Dear Shareholder

Welcome to our Report and Accounts publication for the first full year of trading as a plc.

2015 and early 2016 has been an exciting period of positive development around the Group, encompassing the launching of over 6,300 new products along with broadened categories, four important acquisitions, strategic structural refinements for improved operating efficiencies and new data processing resources – all of which support and enhance market-leading customer service levels going forward.

Clearly, very few UK-based industrial organisations have totally escaped the impact of the oil price collapse, and in the first quarter of the year our subsidiary, Primary Fluid Power Limited suffered a 20% reduction in orders and revenue as a direct result; however, after a swift redirection of sales focus into automotive and pharmaceuticals it had recovered normal revenue dynamics by the time we published our Interim results.

In June, the hose assembly function known as Vitassem, formerly based in the Skelmersdale distribution centre, was moved to the Primary factory in Knowsley eight miles away, thus releasing space for additional warehousing in what is now a pure distribution facility and consolidating all UK assembly operations on the one site.

The acquisition pipeline has been very active throughout the year, resulting in Albroco being bought at the end of May, and totally absorbed into Primary's Knowsley site, thus yielding earnings enhancing synergies. In early July, Nelson Hydraulics (Northern Ireland and Dublin) joined the Group, along with its 40 staff and Managing Director Mark Nelson. These two additions when linked with Primary enabled the formation of a new specialist division, "Power Motion Control" (PMC) which is now under the leadership of Nick Fossey who joined us on 1 March 2016 from the Eaton Corporation. This realignment into two distinct divisions resulted in the decentralisation of the Group Marketing function and, after consultation, the departure of the Group Marketing Director Paul Watson on 22 October 2015. In turn, John Farmer, Flowtechnology UK's Product Development Director was immediately appointed Managing Director of the Flowtechnology UK division. I also welcome Paul McGrady to the Operational Board as Managing Director of Primary. Formerly Sales Director at Primary, he succeeds Stephen Merrie who has now retired following a successful year overseeing the integration of Vitassem and Albroco into the Knowsley site.

In early September, a unique Master trading agreement was signed with the Hydraulics Group of the Eaton Corporation for the distribution of PMC products and the sole distribution of Eaton Winner hose, fittings and adaptors. The Flowtech Board consider this to be a significant marketing and service advantage within the sector, with revenue flow through anticipated in the second half of 2016.

To underpin the Board's confidence in the dynamic progress of the Group over the past year, we committed to rewarding shareholders with a 5% increase in the dividend ahead of these results. Although at the time of writing, the negative macro-economic environment and Brexit focus could be constraining investor confidence, we remain very optimistic about the future development and progress of this business.

You can be assured that our management team's confidence in delivering growth mainly by driving consolidation in what is a fragmented market sector continues with unabated optimism, whilst we gratefully acknowledge the ongoing support and loyalty of our shareholders.

Yours sincerely

Malcolm Diamond

Malcolm Diamond MBE
Non-Executive Chairman
12 April 2015

Read more in Governance 44

"The year has seen a period of continued strong development with an uplift in revenue of 19% over the previous year, our first as a PLC, and a 65% improvement in operating profit"

Sean Fennon
Chief Executive Officer

Reasons to invest

1

Strong balance sheet and cash generation, consistent GP% margins

Resulting in ongoing high double digit EBITA

Committed to a progressive dividend policy and delivering ongoing shareholder value

2

Focused on building a specialist fluid power group delivering high levels of customer service 24/7

Supported by highly skilled technical people capable of delivering what the customer needs at the right price and on time

3

Market leading operation led by a highly experienced management team with the combined skills to build an international footprint and product categories in line with its strategic objectives

4

Leading edge technical know-how capabilities around the business to support a strong, diverse and robust customer base across a spread of leading industrial sectors

5

Strength and depth of the ranges and brands within an international marketplace

6

Focus on market sectors which offer high long term growth potential

Group at a glance

The Group

Flowtech Fluidpower plc ("Flowtech" or "the Group") is the leading distributor of technical fluid power products to over 3,600 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 two operating divisions:

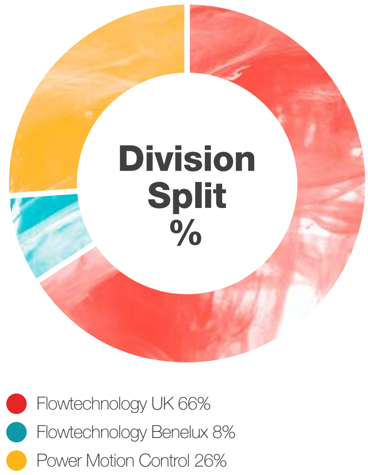
- Flowtechnology operating in the UK ("FTUK") Northern Europe ("FTB")
- Power Motion Control ("PMC")

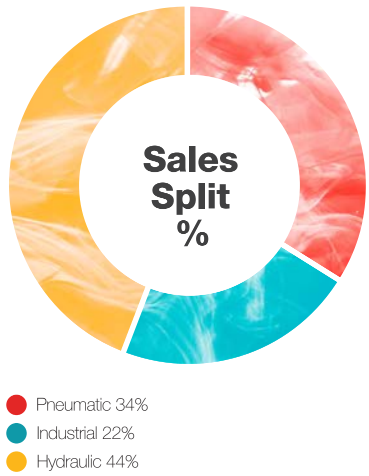
FTUK and FTB operate the same business model in the UK and Northern Europe respectively and focus on supplying distributors and resellers of industrial MRO (maintenance, repair and operation) products, primarily serving urgent orders rather than bulk offerings. The PMC division specialises in the design and assembly of engineering components and hydraulic systems, which are further enhanced by component supply along with a service and repair function. Since the year end a third division, "Process", has been established which will focus on distribution of industrial components to the process sectors. All three divisions have overlapping product sets allowing procurement synergies to be exploited.

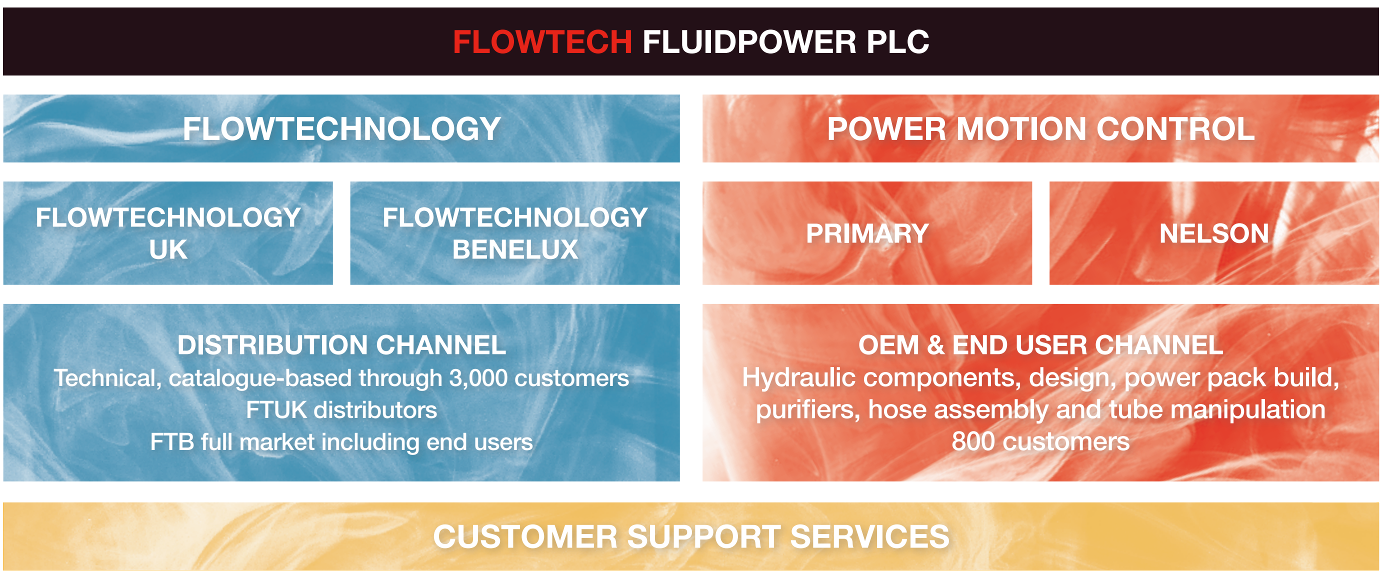
The Group has established a key position in the fluid power supply chain. The focus on core competencies within the fluid power market has been central to our continued success and this focus will support our long term strategy. In addition, Flowtech continues to deliver and develop its added value services to support its customers through organic development of its product ranges and acquisition of complementary businesses.

FTUK is based in Skelmersdale, Lancashire, where all Group functions are also located. In Europe, FTB operates from a single site in Deventer in the eastern region of Holland and services customers principally in Holland and Belgium. PMC operates from four sites. Originally established in Knowsley, Merseyside, sites in Lisburn and Dungannon, Northern Ireland and Dublin, ROI were added following the acquisition of the Nelson Fluid Power group ("NFP") in July.

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.



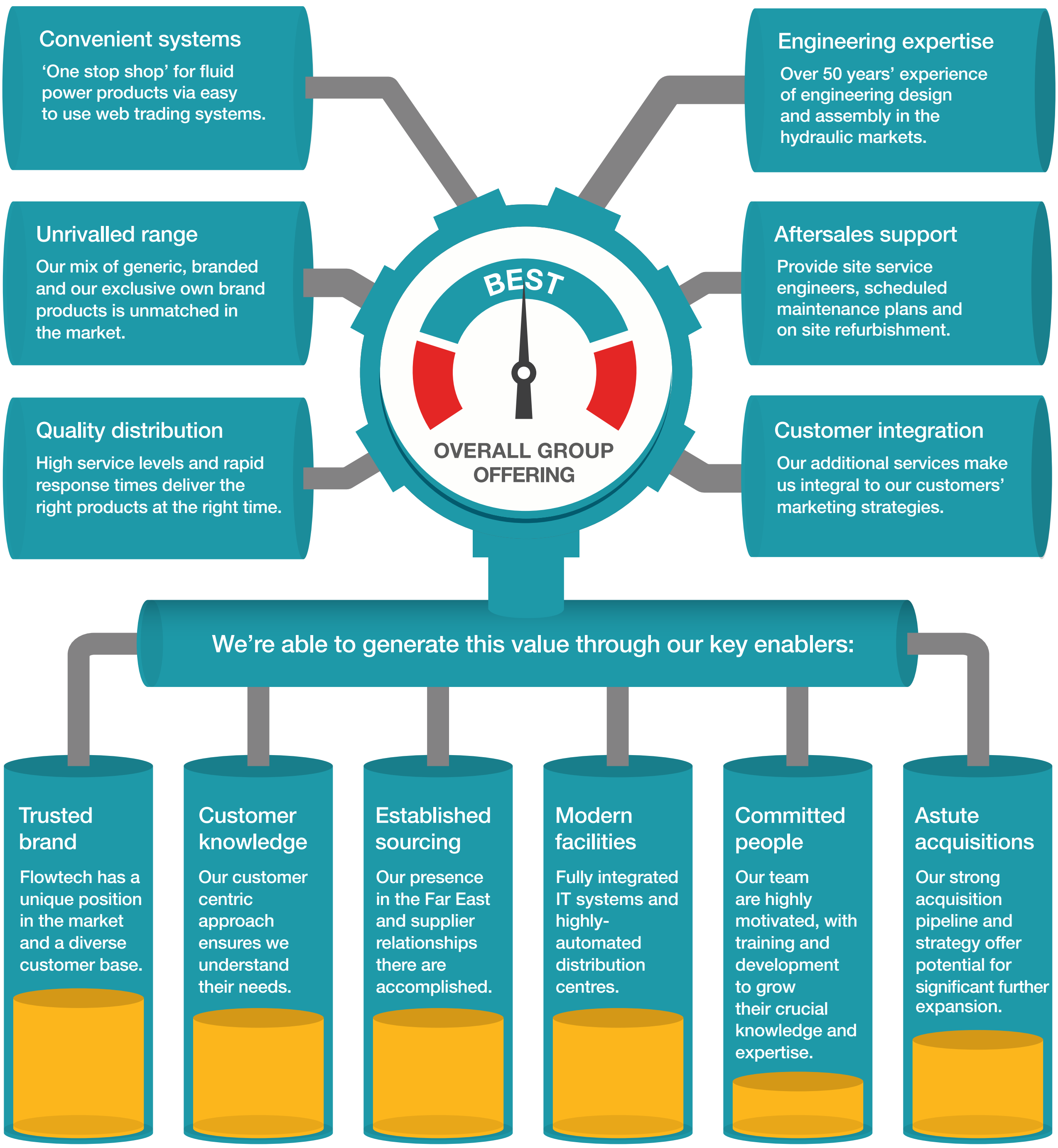




Our complementary divisions

The Group has two operating divisions: Flowtechnology, geographically split into Flowtechnology UK ("FTUK") and Flowtechnology Benelux ("FTB"); and Power Motion Control ("PMC"). FTUK and FTB operate the same business model in the UK and Northern Europe respectively and focus on supplying distributors and resellers of industrial MRO (maintenance, repair and operation) products, 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 FTUK which offers 99% service levels for next day delivery and ensures facility usage is optimised across the Group. Since the year end a third division, "Process", has been established which will focus on distribution of industrial components to the process sectors.

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



Read more in Our business model 14

Read more in Sustainability 34

Group at a glance continued

Flowtechnology UK

Key Facts

119
EMPLOYEES

80,000
SQ FT MODERN DISTRIBUTION CENTRE

99%
OF ORDERS DESPATCHED IN FULL SAME DAY

3,900
AVERAGE PICKS PER DAY WITH AN ERROR RATE OF LESS THAN 0.25%

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.

- 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
- Innovative marketing programmes are in place to support customer growth
- Over 64% of orders are placed online, through a fully integrated web trading system
- Orders taken up until 10.00 pm can be delivered next day
- Extensive stockholding of over 37,000 product lines supports a class-leading service offering
- First in industry to offer a mobile app for orders, introduced May 2015

Flowtechnology Benelux

Key Facts

23
EMPLOYEES

20,000
SQ FT MODERN DISTRIBUTION CENTRE

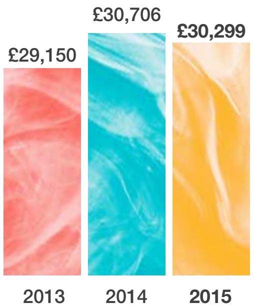
98%
OF ORDERS DESPATCHED IN FULL SAME DAY

502
AVERAGE PICKS PER DAY WITH AN ERROR RATE OF LESS THAN 0.3%

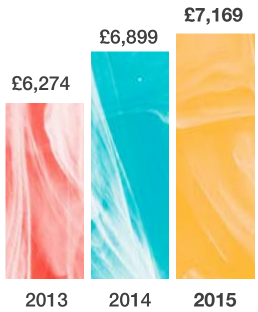
Flowtechnology Benelux was acquired in 2007. Since 2010 significant restructuring has been undertaken and by 2014 it was fully integrated into the Group’s operating systems. The change process has delivered a business with solid foundations which is now establishing a strong reputation in its marketplace.

- Single purpose-built unit, with integrated links to the UK business
- Over 55% of orders are placed online, through a fully integrated web trading system
- Orders taken up until 8.00 pm can be delivered next day
- The ongoing focus on sales development, service levels and increased customer support has seen the business increase its market penetration
- Customer development programmes are in place aimed at matching the regional requirements of each of the key sectors we serve
- Stockholding of over 12,000 product lines

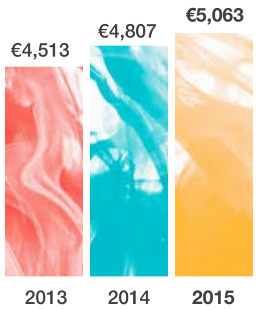
UK Revenue
£000



UK Underlying Operating Result*
£000



Benelux Revenue
€000



Benelux Underlying Operating Result*
€000

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

Our locations

UK

The Group's 80,000 sq.ft. UK distribution hub 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.

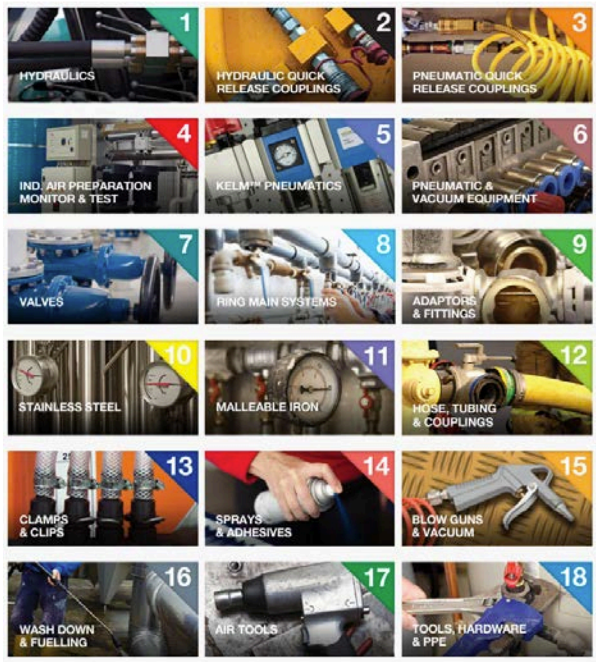
Netherlands

FTB services approximately 900 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 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 centrepoint for quality control and container load optimisation.

Our products



Global OME brands

Our exclusive brands

Group at a glance continued

Power Motion Control ("PMC")

Key Facts

98
EMPLOYEES

62,000
SQ FT OPERATING FACILITY

97%
DELIVERY TARGETS ACHIEVED

79%
TENDERS WON

The PMC division incorporates Primary Fluid Power ("PFP") acquired in 2014 and this year's acquisitions: Albroco and Nelson Fluid Power ("NFP"). The trade of Albroco has been smoothly integrated into the Primary operations whilst Nelson continues to operate independently under local management. All three acquisitions benefit from the synergies created within the Group for procurement and shared support costs.

- Technically-based hydraulics business and holds 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
- Acquisition of NFP adds a customer base in Ireland with emphasis in the crushing and screening, agricultural and marine and fishing sectors
- Acquisition of NFP adds substantial strength to the Group's procurement position in hydraulic components, hose and couplings
- Successfully retained Albroco's customers bringing significant opportunities to sell existing PFP products

PMC Revenue
£000

PMC Underlying Operating Result*
£000

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

Our locations

UK

PFP's 25,000 sq.ft. facility in Knowsley, Merseyside, houses our 'Centre of Engineering Excellence' 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. Quality assurance is controlled with modern CNC technology and product application and testing capability.

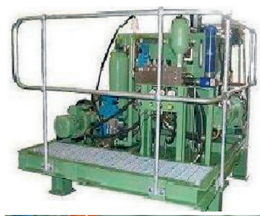
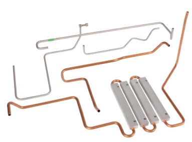
NFP has two sites in Lisburn and Dungannon totalling 27,000 sq.ft. housing six hose assembly lines, power pack assembly facilities and warehousing.

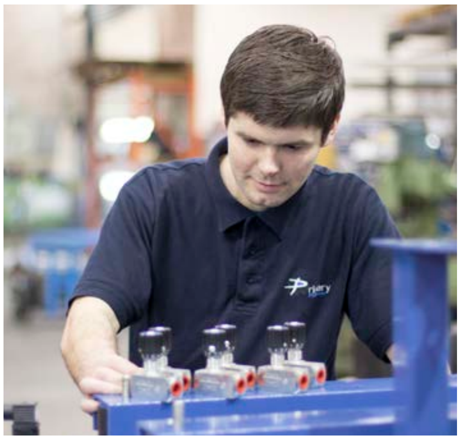
Republic of Ireland

NFP has one site in Dublin of 10,000 sq.ft. accommodating one hose assembly line, warehousing and support staff.

Our products

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

Strategic Report
Our marketplace

Key market trends

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 2.5% for hydraulics and 3.0% for pneumatics during 2016 to 2019. This is despite unexpected developments in the global economy such as steep oil price drops, the Chinese economic slowdown and the weakening euro. Positive factors in the UK economy include the re-emerging construction market and associated mobile equipment sector and the underlying strength of key pneumatics-using sectors such as transport equipment, industrial electronics and precision equipment.

Pneumatic

The pneumatics market has been more resilient to downward global trends and has been supported by the transport equipment industry which has not been as impacted by the strong pound. Acquisitions by the Group in the year have provided entry into sectors proving to be resistant to negative global trends. UK distributors have performed above industry expectations and this trend is expected to continue through the next four years.

£180m

estimated UK pneumatic equipment market

£175m

UK export market

Hydraulic

Whilst the overall hydraulics market suffers from global pressures, UK distributors have managed to defy the negative impacts with high-frequency orders running well ahead of the overall market. Research continues to suggest that larger manufacturers are increasingly relying on these distribution channels. Market share is expected to increase incrementally for distributors who are equipped to offer competitive pricing and modern inventory management, services that are actively supported by FTUK in its distributor partnerships.

£702m

estimated UK hydraulic component market

£600m

UK export market

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. Another key sector for the Group is transport which is also predicted to expand with continued investment in several UK factories from Nissan, Honda and BMW.

> "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 2.5% for hydraulics and 3.0% for pneumatics during 2016 to 2019."

Strategic Report
Our supply chain

The Group prides itself on building long-standing partnerships with its OEM suppliers and in September was extremely pleased to announce the signing of a master trading agreement with the Hydraulics Group of the Eaton Corporation for the distribution of PMC products and the sole distribution of Eaton Winner hose, hose fittings and adaptors. The Flowtech Group of companies have had a long association with Eaton which dates back over 25 years. During this period, Primary Fluid Power became Eaton's leading PMC (power motion control) distributor and provider of total systems capability for branded Eaton Vickers Power Units in the UK.

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.

With the ongoing recruitment of locally-based employees in the Far East, coupled with the quickening pace of the sourcing programme, it was important that the Group moved quickly to create a more efficient stockholding strategy; a policy that will in time reduce the UK footprint and cost base, and streamline the overall Far East supply chain. The establishment of a small logistics facility in Guangdong province in southern China is the first step in a long term plan to extend resources in the region and support future growth across the Group.

"The Group prides itself on building long-standing partnerships with its OEM suppliers."

"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."

Read more in Our Business Model 14

Read more in Sustainability 34

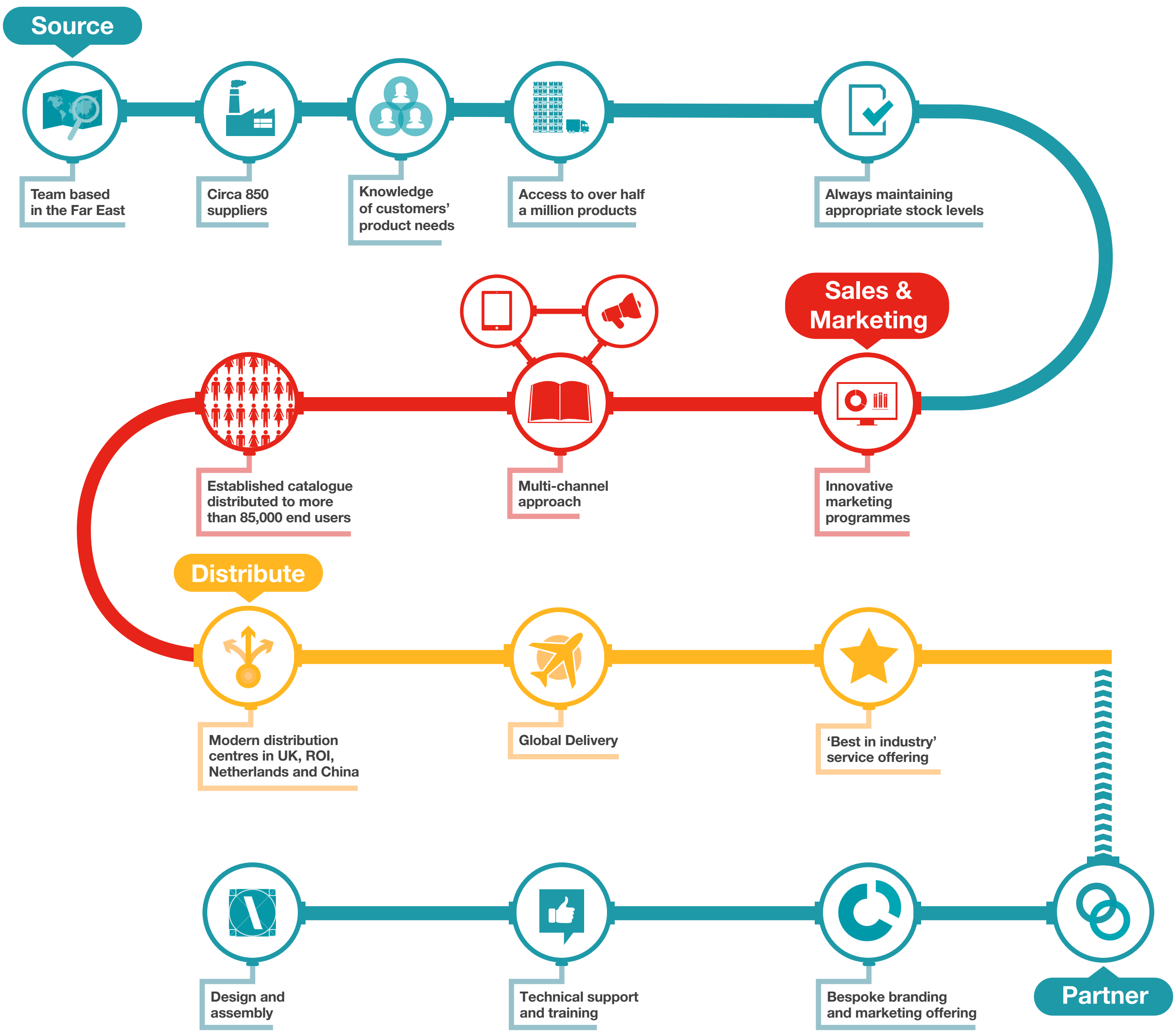
Strategic Report
Our business model

Our business model

We ensure we are a dynamic business for our customers by continually developing our offering, from sourcing to distribution of products, to our bespoke design, manufacture and partnering services. The models of our two divisions support our strategy of achieving a focused fluid power group. They are supported by our Group central services and our key enablers.

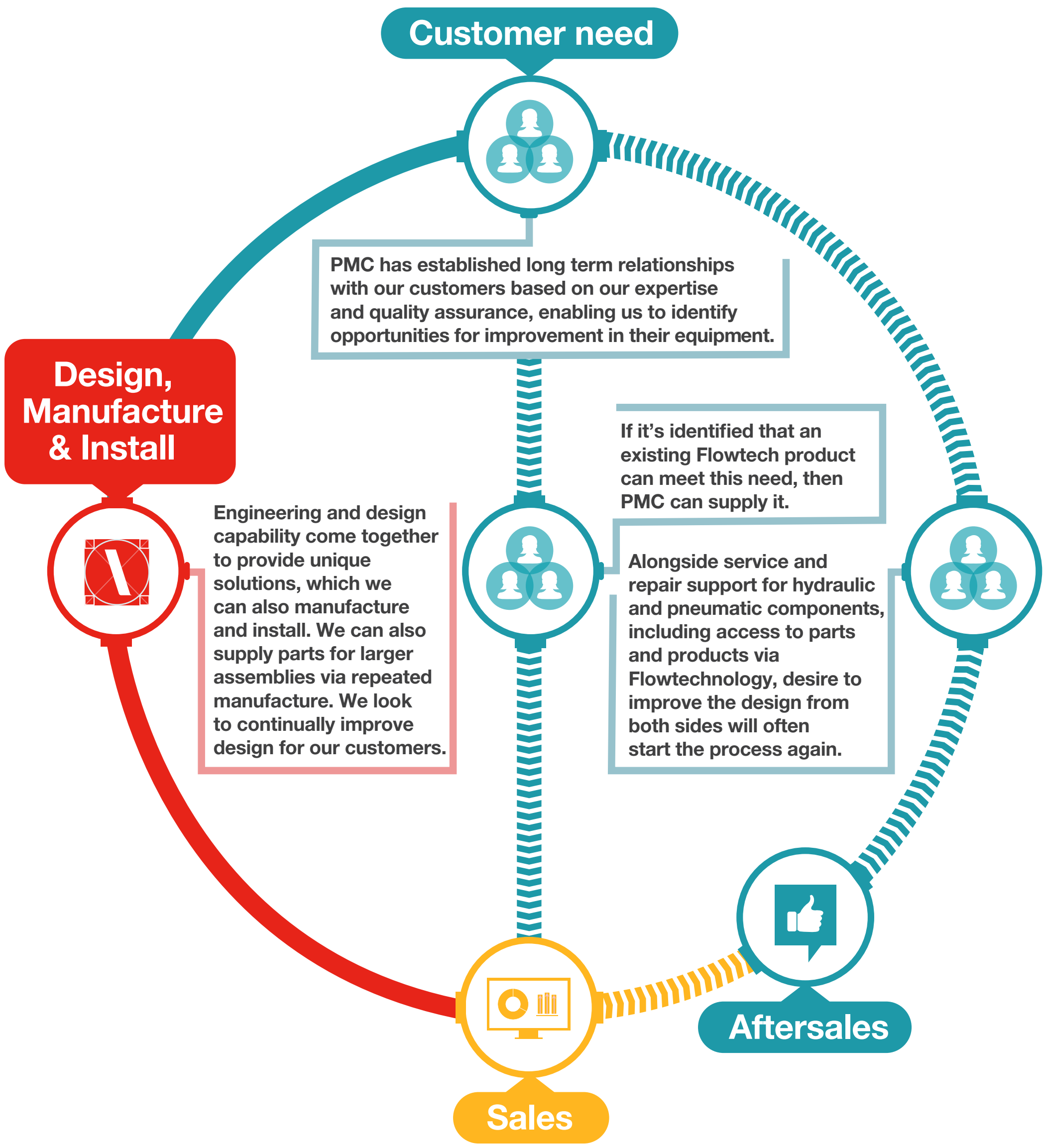
What Flowtechnology does

As the leading distributor of technical fluid power products, Flowtechnology offers an unrivalled range of OEM and Exclusive Brand products in the UK and Northern Europe.



What PMC does

Alongside distribution of Flowtechnology-sourced components and products, PMC delivers bespoke solutions and complete systems for customers in a number of industries.



Strategic Report
Our business model continued

We ensure we are a dynamic business for our customers by continually developing our offering, from sourcing to distribution of products, to our bespoke design, manufacture and partnering services. The models of our two divisions support our strategy of achieving a focused fluid power group. They are supported by our Group central services and our key enablers.

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.

Group central services

MANAGEMENT	FINANCE	MARKETING
CREATIVE SERVICES	IT	HR

Service Centre team

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

Acquisitions team

During the year the Group has continued to develop its skill base in all aspects necessary for a successful acquisition programme. Sean Fennon and Bryce Brooks 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. 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

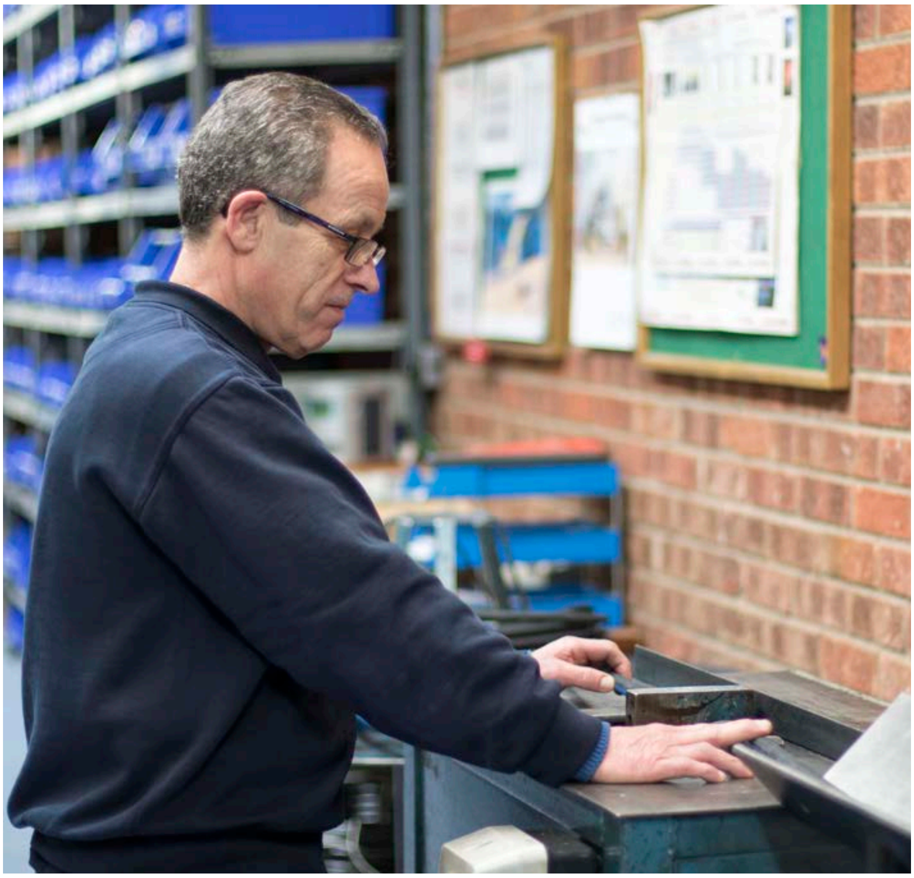
The immediate post integration team is now led by internal appointments in Business Process and IT, and Financial Control, with follow on work undertaken in Corporate Governance, Risk Management and Business Continuity Planning. This entire process is structured under a '100 Day' project management philosophy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

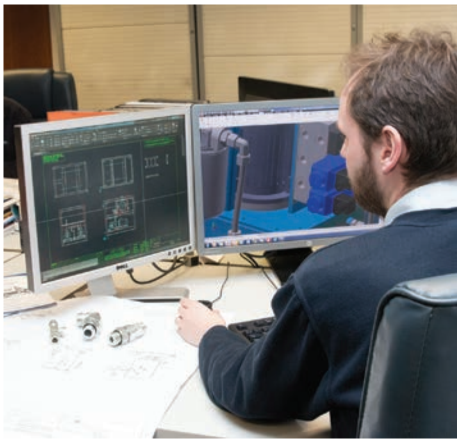
Acquisitions team pictured left to right:
Anne Fogg, Business Process Manager
Chris Kershaw, M&A Consultant
Jon Burke, Group Financial Controller
Bryce Brooks, Chief Financial Officer
Helen Barratt, Head of Corporate Governance

Group key enablers

TRUSTED BRAND	CUSTOMER KNOWLEDGE	ESTABLISHED SOURCING
MODERN FACILITIES	COMMITTED PEOPLE	ASTUTE ACQUISITIONS

Read more in
Our complimentary divisions 07

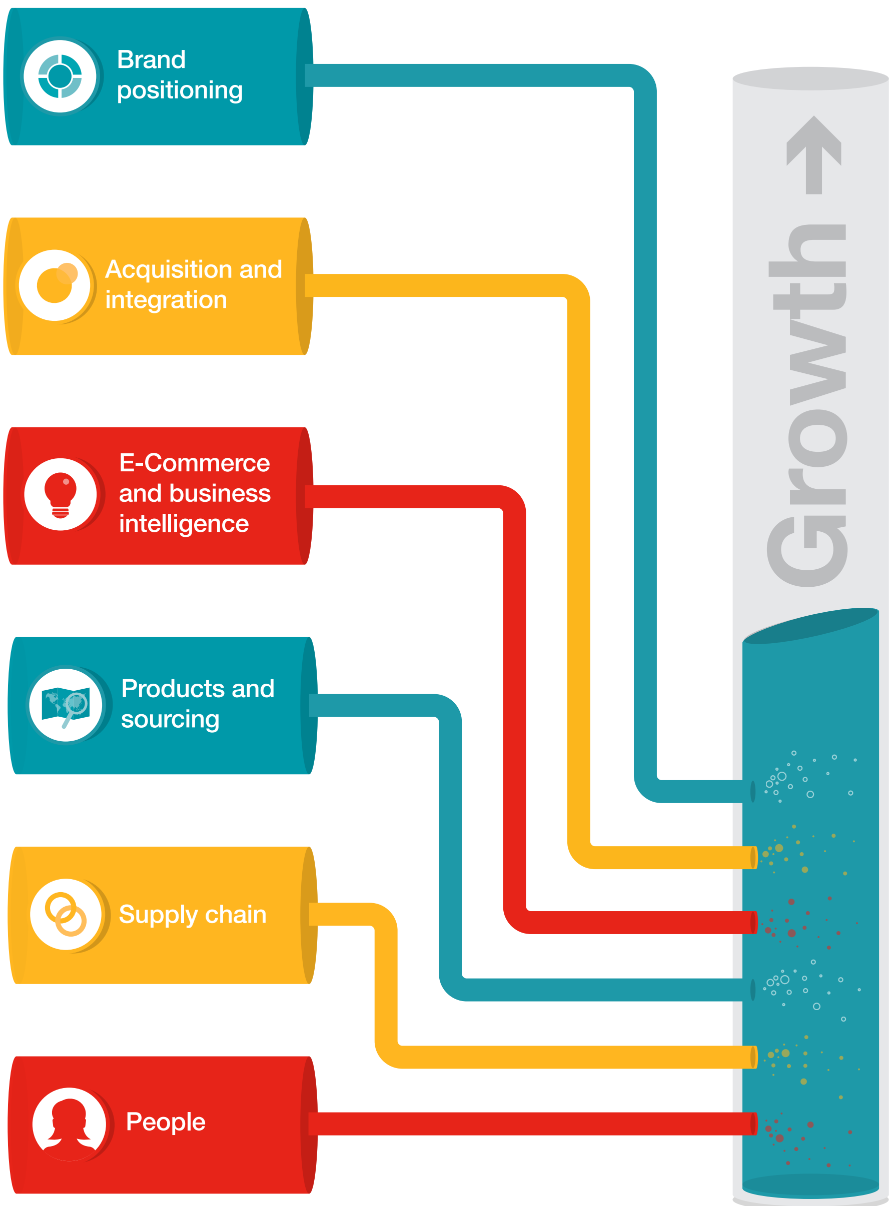




Strategic Report
Our strategy

Our strategy

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



Read more in Our KPIs 21

Read more in Chief Executive Officer's statement 27

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. Eight new Exclusive Brands were added to our portfolio, now 26 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 64% of Flowtechnology customers ordering online in the UK we are committed to continually improving the customer website and will be launching a new website in 2016. Business intelligence initiatives create insight which enables us to improve our products, our inventory management and pricing strategies.	First in the industry to introduce a mobile App in 2015. This features basic mobile phone ordering plus bar code scanning and technical sheet downloads. Invested in creating data cubes linking warehouse and logistics data. Global data repository project initiated. **Read the global data repository case study on page 20**
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.	The acquisition of Albroco has given us an enhanced presence in the new product range of electro-mechanical control products. Master trading agreement with the Hydraulics Group of the Eaton Corporation for the sole distribution of Eaton Winner hose, hose fittings and adaptors. Expansion of our sourcing team based in Shanghai.
Supply chain	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. 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. Where acquisitions include distribution operations they will be integrated into the Flowtechnology segments to provide synergy savings for the benefit of all our stakeholders.	To ensure service levels are never compromised we have substantially improved the business continuity plan. In addition, the Skelmersdale warehouse now has the capability to supply 60% of Benelux sales, next day, in the event of an emergency. Reorganisation of assembly operations to create our ‘Centre of Engineering Excellence’ at Knowsley.
People	People are one of our strongest assets and 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.	Nelson was acquired with the majority of the senior team having over 25 years service with the company. The Primary in-house training programme was rolled out to all UK employees. UK managers benefited from NLP training to improve skills and capabilities. Nick Fossey joined the Group from Eaton Corporation in March 2016 and has become the Group’s first “Divisional Director” responsible for development of Power Motion Control division. Nick has gained an extensive knowledge of the hydraulics distribution sector internationally, particularly within Europe, which will be invaluable to the future development of our business model.

Strategic Report
Case study — Global data repository project

The Group's strategy for growth is based around our ability to serve the fluid power market across multi-branded businesses, utilising multi-platform customer interfaces, delivering market-leading service across multi-channels.

A fundamental issue is the standardisation of product data. A clear problem that has been an issue within the industry for many years. However, in each business new products create little problem as they are created within a pre-set and defined structure.

The issue arises when there is a non-prescriptive method of product creation, which can produce multiple product records for the same article. This issue is exacerbated when a business has an acquisition programme, as the new businesses not only have product creation issues but the base product structure may be completed differently to the standard Group structures.

The Group's ability to solve this problem is crucial to our long term development. The consolidation and optimisation of the product set will create a solid platform to implement both procurement and inventory synergies delivering improvements in service, margin and cash generation.

A central product creation team has been created to manage the long term process of consolidation and development. The team operates as a central resource and will manage the day-to-day creation issues for the Group as well as the consolidation of acquired businesses product files.

A Group-wide programme has been implemented with the aim of delivering a single Global Data Repository, a programme that is aimed at feeding the multi-trading platforms across the Group and thereby satisfy the many different system structures which will enable the Group to consolidate and optimise its product set.

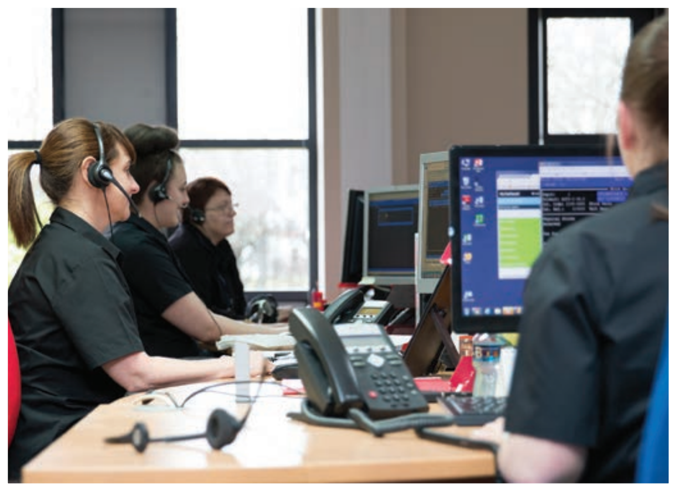
This Data Repository needs to be flexible enough to manage multiple structures yet still allow consolidation of both data and images. This amalgamation of the data, formatted and fully attributed, will feed the trading systems as well as being used to create focused promotional materials and channel specific catalogues.

Web Platform

The core business is based on a simple premise: to create a series of customer touchpoints making it easy for customers to trade with us. The original introduction of the FTUK web platform was created as a customer ordering portal allowing the business to fulfil its service proposition, taking orders up to 10.00 pm and delivering next day. The web was developed to create a seamless link to the ERP system allowing the allocation of stock and other integrated processes which created advantage for our customer base.

The development of the Global Data Repository with its enhanced capabilities and flexible features has created the opportunity to redevelop and deploy a fully integrated web solution across the Group companies. This platform has also been designed to be fully configurable for each business within the Group whilst being able to deliver a user experience which matches each of the customer types in the various trading channels, and therefore allows the trading businesses to maximise the experience for their own specific customer base.

"A Group wide programme has been implemented with the aim of delivering a single Global Data Repository which will enable the Group to consolidate and optimise its product set."



Key Performance Indicators (KPIs)

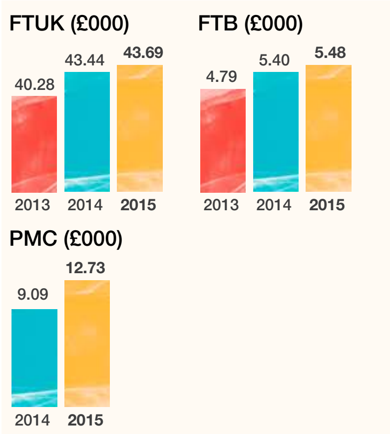
The Operational Board regularly monitors a range of financial and non-financial performance indicators to allow it to measure performance against expected targets. The following represents a selection of these indicators.

KPI | **Definition and link to strategy** | **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 is a fundamental performance measure. This is further supported by additional calculations giving indicative full month estimates on a daily basis. 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. The majority of staff reward schemes by way of monthly bonus payments are linked to any growth in gross profit achieved.

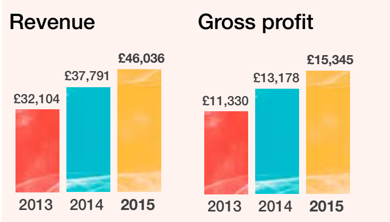
Performance across all segments remains strong



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.

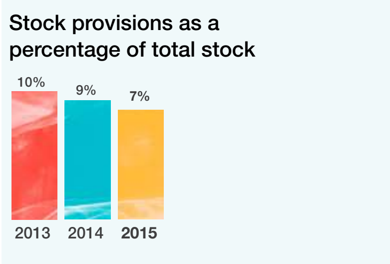
Granular KPI review has led to overall growth targets been achieved



Stock provisions calculated at item level

The Group maintains accurate stock provision measures down to item level on a minimum twice monthly basis. This can then be analysed by individual product group or supplier to ensure 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.

Regular review of KPIs and remedial action has reduced provision requirements

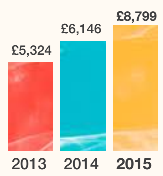


Operating profit before separately disclosed items

The Group reports on a standard calendar monthly basis using a consistent format across all trading businesses and, as well as sales and the gross margin measures, will include comparison of cost types detailing actual against 12 month average, year-to-date and prior year-to-date.

Performance across all segments remains strong

Underlying operating result*



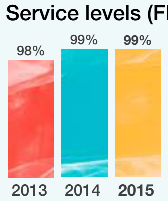
* Before separately disclosed items which are shown in the financial statements

Service levels – Flowtechnology division

The aim of the Flowtechnology division is to provide a wide and deep product range, competitive pricing, consistently high service levels and a unique dependable next day delivery. These attributes are all linked to optimised inventory levels to provide an unparalleled customer support service. This is measured by the percentage of orders despatched same day.

Supply chain and logistics continue to deliver consistent performance

Service levels (Flowtechology)



STRATEGIC REPORT

Strategic Report
Case study — Living our values

Delivering tailored solutions

Primary Fluid Power

Lee tunnel project — a sophisticated tailored solution, improving the environment.

Primary Fluid Power has a long established reputation for providing sophisticated hydraulic solutions to customers throughout the UK. As part of a major project to upgrade London's sewer system, PFP lived up to their reputation and designed, manufactured and delivered the key components to help manage sewage through the sewerage system and are proud to form part of the solution that will help the environment; estimated to reduce 40% of the volume of sewage – currently 39 million tonnes per year – flowing untreated into the Thames at Beckton, east of London.

Background

The Lee Tunnel Shafts are London's largest and deepest ever shafts; the scheme aims to eliminate sewage discharges to the River Lee, via an enormous tunnelling system. The tunnel is the first stage of improvements to London's sewer system which will remove combined discharges of storm water and sewage to the River Thames and lower River Lee. The tunnel, which will have an internal diameter of 7.2m, is being constructed at an average of 75m below the ground, running 6.9km from the Abbey Mills Pumping Station to the Beckton Sewage Treatment Works ("STW") in East London. The tunnel is required to store 350,000m^3 of storm water and sewage, which is pumped out to Beckton STW following each tunnel's filling event.

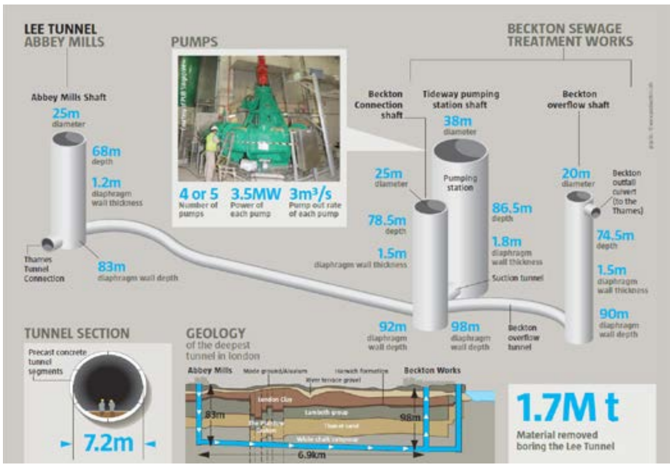
Collaboration

With the scale of the project being extremely large and complex, including five huge diaphragm wall shafts with depths of 70 to 80 metres —the largest ever built in the United Kingdom —working in collaboration was critical in order to achieve precise customer requirements and meet deadlines.

Following numerous constructive meetings and phone calls between the customer and PFP's team of experienced engineers, a solution was agreed resulting in the design and manufacture of the power pack. The power pack was designed to provide the strength to open and close the tunnels gates and allow the sewage to flow. As the project developed, PFP were also able supply the cylinders, capable of moving over 16 million tonnes of waste water annually, which are used to power the gates, as well as manifold blocks and piping to facilitate the completion of the hydraulic system required to control and power the Thames Valley sewage tunnels.

Flexibility

As with all projects of such a nature the customer's requirements changed as new challenges unfolded. The sophisticated requirements to electronically control the systems resulted in a number of last minute changes to the electrical design which PFP were able to implement, providing a tailored solution on time and on budget.

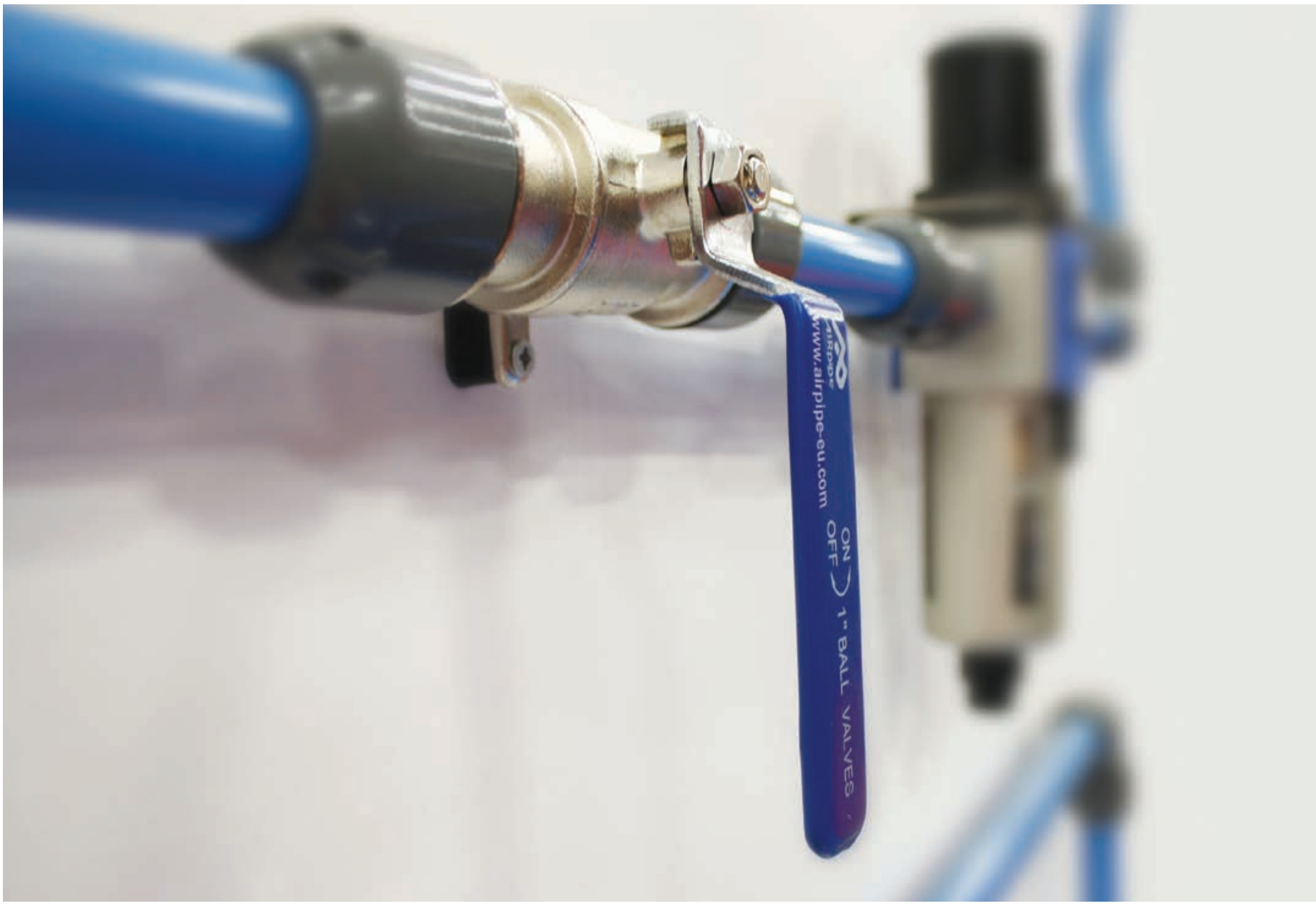


Delivery

The team at PFP pride themselves on listening to customers' requirements, developing cost effective tailored solutions and delivering on time. As a result, customers trust PFP and strong relationships prevail. This project has been no different and PFP look forward to supporting the customer in the future stages of the Lee Tunnel Project.

"With the scale of the project being extremely large and complex, working in collaboration was critical in order to achieve precise customer requirements and meet deadlines."

"The team at PFP pride themselves on listening to customers' requirements, developing cost effective tailored solutions and delivering on time. "


www.airpipe-eu.com
ON
OFF
1" BALL VALVES


STILL

Strategic Report
Case study — Living our values

Nurturing solid partnerships

FLOWTECHNOLOGY UK

Flowtechnology UK is committed to supporting its Distributors through sharing the skills and experiences of its marketing and design teams. During 2015 we have run various initiatives to make our Distributors aware of their branding and highlight the services we offer to help them develop and promote their brand.

Training

Regular fluid power training sessions at FTUK or on-site.

Social media

"Visual content makes up 93% of all human communication"

Send visual posts to your customers using branded or bespoke artwork. Do something different – educate, get customers talking about your brand or the brands you sell.

Your catalogue cover

"Each day is a brand new opportunity… to promote your brand"

On your customers' desks every day of the week.

How will you tell your story?

Case study

The 2015/16 Catalogue Cover of the Year was awarded to a company who realised the potential of promoting their business in alignment with the local community.

They chose an iconic local image and incorporated fluid power products. By fully utilising FTUK's design team they created a rather unique visual representation and a strong brand presence for the catalogue year, which generated a significant amount of local PR and contributed to a substantial increase in their overall company turnover.

Personalised catalogue pages

The ideal opportunity to tell your story in detail.
Showcase core products and services.
List opening times and delivery options.
Display unique selling points.

Reach Your Customers…

Utilise the FTUK marketing service

Adverts & PR

- Local papers
- Industry publications
- Online

Online 24/7

Bespoke branded website

- Easier trading for existing customers with direct shipping options on orders up to 10pm
- Promote new products outside current catalogue
- Identify new leads and convert business

FTUK website

- 0.5% online discount
- My Account section

Sales support material

- Leaflets and brochures
- Trade counter displays / wall charts
- Roller banners and branded packaging
- Installation guides / presentations for your TV or iPad
- Editable flyers – easily personalise your own leaflets

Biennial convention

Best in industry convention.

Direct emails

Send Flowtechnology communications to your own customers – stock awareness, new products, monthly offers.

Industry knowledge

Segment your customers and tailor your message accordingly.
“More focus = more return”
We can supply:

- Industry reports
- Lists of potential customers in your area

Strategic Report
Case study — Living our values

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 Nelson Fluid Power 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.

Employees

Prior to acquisition the company was still under the management of the founding family and post acquisition the management team remains in place under the one remaining family member, Managing Director, Mark Nelson. Employees are treated as family and this is reflected in the average length of service of 14 years with the longest service being 49 years. The culture is for everyone in the business to understand the customer, to understand the products and understand the two together.

Customers

New customers have been attracted through the strength of the brand and reputation of Nelson. They have been retained through Nelson's willingness to put the customer first and to go the extra mile to always supply what the customer wants. Quality and service levels are always kept to a high standard to ensure the company's core philosophy of customer satisfaction is achieved.

Suppliers

The company believes that the cheapest price is not always the best and it applies standards focused on value, loyalty and integrity when dealing with suppliers. This style has successfully built relationships with long-standing mutual support. Their choice of suppliers is popular with customers as they know the finished product will consistently be supplied made from the best quality components from well-established, respected brands from within the industry.

Change management

The company also prides itself on being able to accommodate change. More customers are moving to just-in-time delivery arrangements and Nelson has quickly adapted and made the required changes to stockholdings. Customer design requirements continually change and the traditions of putting the customer first and a focus on customer satisfaction ensure these changes are accommodated. Nelson will also seek change with customers to make sure certain products are continually improved and new technical advances can be utilised.

NELSON
HYDRAULICS LTD.
LISBURN · DUNGANNON · DUBLIN

Mission Statement

Nelson Hydraulics Limited is committed to bringing the best personal and professional service to our customers worldwide within the hydraulics industry. Our core value is customer satisfaction.

Chief Executive Officer's statement

"Whilst our acquisition activity has been fruitful, there continues to be significant opportunity to achieve organic growth through a wide range of revenue enhancing development programmes linked to this focused acquisition strategy."

Sean Fennon
Chief Executive Officer

Summary review

The year has seen a period of continued strong development with an uplift in revenue of 19% over the previous year, our first as a PLC, and a 65% improvement in operating profit. At the same time, we can safely say that 2015 was a challenging year for all, with continued pressure being exerted on the industrial marketplace driven by the crisis in oil and gas markets and all its associated industries. In addition, this has been linked to more volatile currency fluctuations between sterling and our main trading partners.

Therefore, the result achieved gives a clear indication of the resilience of our core activities, and we firmly believe this represents a creditable outcome for the business as a whole.

The original strategy presented at IPO in 2014 was to deliver profitable growth while maintaining consistent high levels of service to our diverse customer base — this remains our core philosophy. Whilst our acquisition activity has been fruitful, there continues to be significant opportunity to achieve organic growth through a wide range of revenue enhancing development programmes linked to this focused acquisition strategy.

Acquisitions

Our strategy has assisted us to further increase market penetration and positioning. In 2014, when we acquired Primary Fluid Power, we were able to establish a firm footing in the distribution of technically advanced hydraulic components and power packs. During 2015, by adding Albroco and Nelson Hydraulics, we had the critical mass to form a 'Power Motion Control' division ("PMC") thus giving us an overall advantage in the marketplace through the creation of an OEM-focused hydraulic specialist, backed by a strong technical offering, across a wide and varied customer base. The integration of Albroco and Nelson has been extremely smooth with the process beginning to deliver a series of synergies in addition to the new income streams brought into the Group.

As part of this development, we have now recruited Nick Fossey as Divisional Managing Director of the PMC division. Nick joined us from a senior position at Eaton Hydraulics, and he brings a wealth of knowledge and experience to the business, as well as a deep network of contacts across Europe, the Middle East and the USA.

Our linkage to Eaton Hydraulics has been further cemented through the signing in September 2015 of a master trade distributor agreement which creates a long term partnership for the supply of Eaton PMC products to the UK and Irish markets. In addition, Eaton has granted sole distribution rights for Eaton Winner hose, fittings and adaptors to the Group in the UK. The agreement represents a huge opportunity for both companies to develop and deliver a sales growth strategy using our combined strengths of world class manufacturing and distribution.

Finally, following the year end, we were very pleased to add Indequip, in February, and Hydravalve, in March, to our portfolio, the latter establishing a new "Process" division. Both will remain commercially independent, but now as part of the Flowtech Group they will be able to take advantage of the wider product offer, technical backup and marketing resources available.

Strategic Report
Chief Executive Officer's statement continued

Pictured: Operational Board
Seated (left to right)
Sean Fennon – CEO Flowtech Fluidpower plc
Mark Richardson – MD, Flowtechnology Benelux
Bryce Brooks – CFO, Flowtech Fluidpower plc

Standing (left to right)
Mark Nelson – MD, Nelson Hydraulics
John Farmer – MD, Flowtechnology UK
Nick Fossey – Group Managing Director, PMC Division
Paul McGrady – MD, Primary Fluid Power

Managing our inventory and product data

A fundamental part of the Group strategy revolves around how we manage inventory. This is not only in terms of the financial investment, but also the product set that is used across all of the trading units and this subsequently affects how we are able to optimise the synergies these operations can achieve. In order to maximise these synergies, a major IT development project was instigated in mid-2015 with the aim of consolidating the Group's entire product set, allowing each autonomous business to reap the benefits of being part of a larger organisation without the need for wholesale system change. The use of cutting edge web and data warehouse systems will allow this to be completed cost effectively and ensure that our substantial data resources in both range, graphics and pricing can be exploited seamlessly across the Group.

The creation of this 'Global Data Repository' has been implemented to enable the Group to consolidate and optimise the product set across all trading units. This programme will feed the multi-trading platforms across the business units delivering major benefits, both financial and operational. This will be of increasing value as we expand via acquisition allowing further benefit to be exploited.

People

A further pleasing aspect of the year has been the development of our Operational Board which was established to promote information flow between the businesses and enable the Group to focus on key market, customer and supply chain initiatives. Initially, the Operations Board included the plc Executive Directors, Mark Richardson from Flowtech Benelux and Stephen Merrie. Following Stephen Merrie's retirement from Primary, Paul McGrady has been promoted to allow an unbroken transition which has already created a strong start to 2016. Following the acquisition of Nelson, the Managing Director, Mark Nelson joined the Operational Board. Working with new Divisional Director, Nick Fossey, our PMC teams will be able to exploit the solid foundation created during the year and use the undoubted advantages created as part of a wider group. In Flowtechnology, John Farmer has also stepped up into the leadership role following many years in the sales and purchasing functions, and has brought a top to bottom understanding of our core operation. Finally we are very pleased that Andy Newham Senior, who has successfully led the Hydravalve operation for many years, will join the Operational Board from May bringing with him over 30 years' knowledge of the process industries which we believe will be invaluable as we develop this new division over the coming years.

Outlook

When our 2015 results are coupled with the more challenging conditions experienced across the majority of industrial sectors, we believe they give further evidence of the resilience of our technical distribution model, both in underlying profitability and crucially in cash generation. The past 12 months have seen us continue to develop our multi-channel strategy with four acquisitions expanding our product and infrastructure resources. In addition, we also have confidence that the groundwork in identifying further targets, as well as building the team capable of successfully integrating them, will continue to bear fruit over 2016 and beyond. From the core Flowtechnology operation that we brought to market in 2014, we are now able to use each addition to our "family" of companies by exploiting the synergy gains achieved, both commercially and operationally, and this underpins everything that we do. A live example of this is our Data Repository project. We therefore enter our third year as a public company with expanding confidence about what the Group can achieve for its staff and Shareholders.

The Board takes this opportunity to thank our other colleagues around the business for their continuous hard work, dedication and loyalty, which underpins both the high level customer relationships and the Group's overall performance.

Financial review

"The first full calendar year as a public company has seen satisfactory financial progress on several fronts including an 11.7% increase in underlying operating performance."

Bryce Brooks
Chief Financial Officer

Underlying Operating Result

The underlying operating result can be summarised as follows:

Continuing operations Underlying operating result*	2015 £000	2014 £000	Change	%
Flowtechnology:				
UK	**7,169**	6,899	270	+3.9%
Benelux	**402**	497	(95)	(19.1)%
	7,571	7,396	175	2.4%
Power Motion Control	**1,228**	369	859	232.8%
Central costs	**(1,931)**	(1,619)	(312)	(19.3)%
Underlying operating result	**6,868**	6,146	722	11.7%

* Underlying operating result is continuing operations' operating profit before acquisition costs, amortisation of intangible assets, share-based payment costs, restructuring costs, and IPO costs. Underlying operating result is reconciled to statutory profit before tax in note 3 to the consolidated financial statements.

Underlying operating result (£000)

£6,868

+11.7%

Net debt position

£9.0m

2014: £6.7m

Read more about Our Financials 50

Read more about Financial Highlights 02

As well as creating a strong platform for the long term growth of the Group, the first full calendar year as a public company has seen satisfactory financial progress on several fronts including an 11.7% (2014:15.4%) increase in underlying operating performance. However, as has been widely reported, broad industrial markets have experienced challenging environments during the middle to latter part of 2015, and this has dampened the short term growth aspirations of the core Flowtechnology operations, particularly in the UK. It is therefore pleasing to report that this division has again demonstrated its resilient nature with reported profits showing overall year-on-year growth. The reduced contribution from the much smaller Benelux operation is largely down to local investment in an expanded technical sales resource which will support the business over the medium to long term, and in the short term has helped to produce year-on-year sales growth on constant currency of 4%. The cost base in this region can now support further significant growth in revenue, and in addition to organic growth, the Group will focus on suitable 'bolt on' acquisitions which should allow attractive synergy gains in due course.

Strategic Report
Financial review continued

Final Dividend

3.50p

Total Dividend

5.25p

Read more about Non-Executive Chairman's Letter 03

As detailed in the above table, the main driver for growth over the year has been derived from the Group's investment in the newly established Power Motion Control division. After initial setbacks from the slowdown in offshore and oil and gas market expenditure, the combined Primary, Nelson Hydraulics, and Albroco operations have made considerable progress during the latter part of 2015. Nelson is currently operating under an 'earn-out' arrangement and has produced a contribution to the Group of £365,000 in the second half of the year, which is in line with our original expectations. The contribution from Primary and the merged Albroco business at operating level is £863,000, of which £580,000 has come in the second half-year and therefore represents a satisfactory refocusing of the business away from its previous weighting in the oil and gas sector.

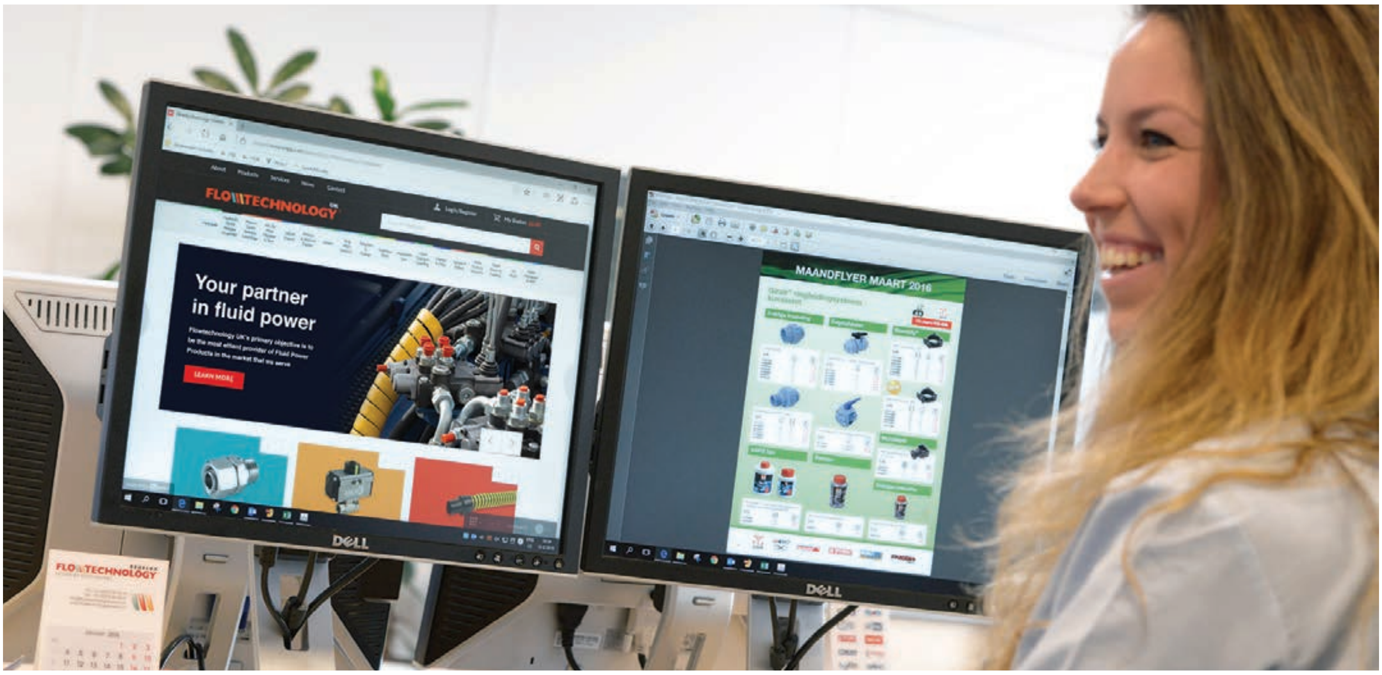
Acquisition and restructuring costs

The Group uses a wide array of high quality professional advisers to work on our acquisition strategy and its implementation, complemented by in-house resources focusing on core commercial due diligence. In addition, during the year we have implemented a significant investment in the necessary corporate procedures to ensure that any business we acquire is able to integrate quickly and efficiently into the Group's governance and accounting environment, thereby building an immediate reporting structure. The total cost for the year represents 3.8% of the total consideration paid for acquisitions (as detailed in note 25) and we believe this represents a fair cost for transactions of this type.

Restructuring costs incurred during the year relate to sensible redundancy arrangements incurred as part of the ongoing operational integration between the two North West England-based businesses, in addition to the costs related to the plc Board restructuring in late 2015.

Taxation

The tax charge for the year was £1.1 million (2014: £1.2m), with an effective tax rate of 20.5% and a blended tax rate based on the geographical regimes of 20.2%. As detailed in note 7, the Group incurred an adjustment to the current year tax charge of £76,000 which related to an over estimation of tax due in the prior year.



Statement of financial position and cash flow

The net debt position at the year end was £9.0 million (as detailed in notes 18 and 19) (2014: £6.7m). Cash generated from operating activities before tax payments was £7.4 million (note 27) (2014: £3.5m) providing ample dividend cover and ability to service contingent consideration, which clearly demonstrates the strong cash generative nature of the core business.

During the year the principal use of cash has been in the investment in the Albroco and Nelson operations. Both have been funded by a mixture of day one cash, followed by deferred consideration contingent on the performance of both businesses over the two years immediately following their purchase. These two deals are both examples of where the Group will seek to ensure that our cash resources are used in a focused manner with regard to acquisition activities, and will always look to ensure that wherever possible, the transference of risk from vendors has a suitable profile built over an extended period of time.

In addition, during the latter part of 2015, the Group has used its financial strength to take advantage of the current soft conditions in the Chinese manufacturing environment to procure advantageous pricing on some fast moving lines. Where sensible these will be used to both promote offensive market initiatives during 2016, as well as to provide some defence should the current challenging environments in the UK distribution sector persist. In general, the stock profile created across the Group leaves all our trading divisions well placed for further organic expansion through to 2017 and beyond.

Core working capital requirements again remain at a satisfactory level with key trade debt risks well embraced by the use of our Central Services function. The total charge for bad and doubtful debt related issues of £62,000, representing 0.14% of turnover (2014: £84,000).

Cash resources for further organic and acquisitive growth have also been bolstered by the extension of core facilities with Barclays Bank plc. As detailed in note 19, as well as our long term loan facility, the Group now enjoys an enhanced revolving credit facility of £8 million, with agreement for a further ‘accordion’ facility of £7 million should such resources be required. All are subject to achievable covenant requirements. This again leaves the business very well placed for the immediate future, and indicates the level of commitment provided to the Group by Barclays.

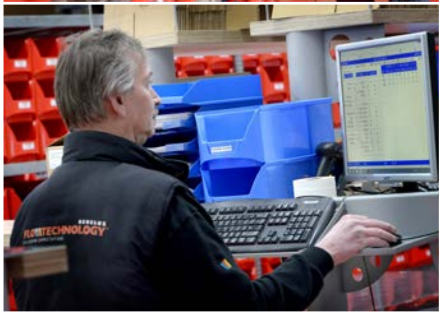
Exchange rates and hedging activities

The majority of the Group’s activities take place in sterling, but with an increasing exposure to the euro for purchasing from Eurozone countries, as well as some US dollar supplies from China and Taiwan. For these trading activities the Group is able to take a flexible approach to currency risk management, as it is not involved in fixed price sales contracts. Sales pricing can therefore be flexed as cost prices change and the Group has operated in this manner successfully for a number of years.

In addition, the Group derives income streams from its Benelux and Irish Republic operations. In order to fix the value of these profits, the Group will hedge on an annual basis each January for the estimated euro value of the contribution of these operations. In 2015 this hedging process resulted in a gain of £18,000 (2014: £31,000) and is accounted for within net financing costs.

Dividend

Subject to Shareholder approval at the Annual General Meeting which is to be held on 1 June 2016, the Directors are proposing a final dividend of 3.50p per share. This, together with the interim dividend of 1.75p (paid on 23 October 2015), brings the total for the year to 5.25p which again matches the commitment made at the date of the IPO. The outlook for further enhancement to dividend flow remains good and the Board would like to reiterate its view that the retention of a strong dividend policy is a foundation for the investment case in the Group.



Strategic Report
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.

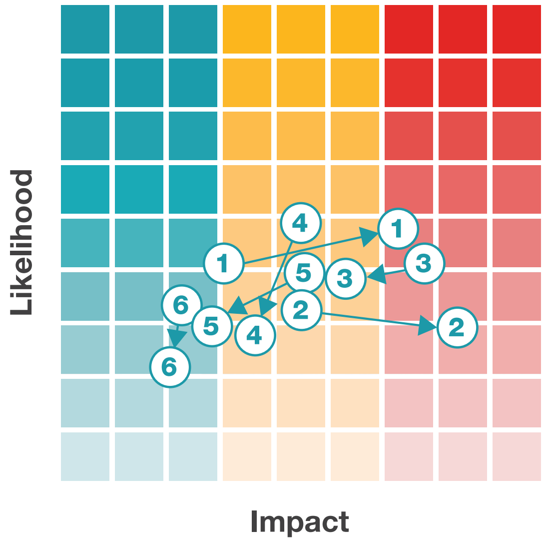
The principal risks identified include:

Number	Risk	Mitigation
	Talent management and succession planning	
1	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	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. Back-up generator installed at the main site with other sites to have feasibility studies in 2016. 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.
	Inability to recognise and control cyber exposures	
3	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.

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.



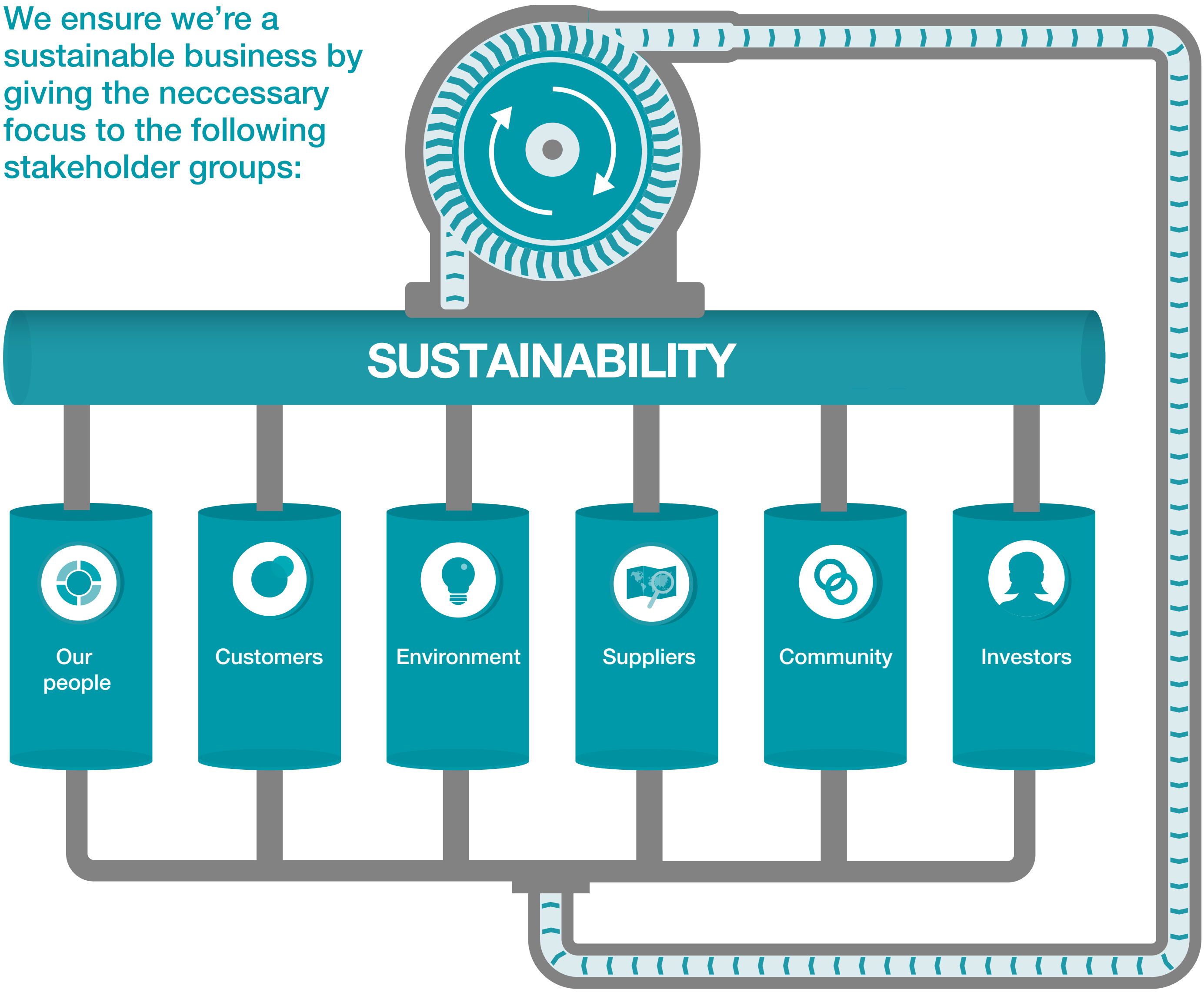
Number	Risk	Mitigation
	Quality control	
4	Many of the key components and products supplied by the Group are for industrial use, often in hazardous environments. These components and products must be fit for purpose to ensure that their reliability, performance and safety is of the necessary standard. 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.
	Breach of regulations	
5	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.
	Failure to integrate acquisitions and align strategies to existing business model.	
6	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 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 Report
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're a sustainable business by giving the neccessary 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.

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.

'Investors In People' — Flowtechnology UK achieved accreditation in 2002 and has successfully passed subsequent re-assessments of the Investors in People Standard. This award confirms we have developed successful strategies and have taken effective action to improve the performance of the organisation through our employees.

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. During the year the IADA Group 'Supplier of the Year Award 2015' was won by Flowtechnology UK.

"Flowtechnology UK not only deserved to be voted Supplier of the Year, but our decision was unanimous and is the first time a supplier from the Fluid Power Industry has won our esteemed award."
Mike Casson, Chairman of IADA

Strategic Report
Sustainability continued

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
- 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
- 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. Our commitment to supplier relationships has resulted in the Group signing a master trading agreement with the Hydraulics Group of the Eaton Corporation.

"We see considerable potential to drive further adoption of Eaton products in the UK, working closely with Flowtech Group. Through our association with Flowtech, we can better serve our customers with Eaton products and solutions. This agreement enables us to offer the Eaton Winner matched hose and assembly system to the UK for the first time."

Mark Ward, Eaton Sales Manager, UK and Ireland.

Community

- The Group receives numerous requests from charities and organisations seeking our help. Our charity contribution activity is financed through a discretionary budget approved annually by the Flowtech Fluidpower plc Board and as such, the fund is distributed between the chosen charities for the year and is enhanced through the support we also provide via the voluntary input of our colleagues and other types of donations
- Employees are encouraged to participate in regular fundraising events for national charities such as dress-down days
- Local football sponsorship is encouraged to support junior teams in the community and PFP management is actively involved with playing and coaching for their local team, Quarry Green FC

"The management and players of Quarry Green FC would like to thank Primary Fluid Power for all their much needed and valued support; without support from companies like Primary Fluid Power grass roots football would find it very hard to exist."

The management and players of Quarry Park FC

Investors

The Board presents to our investors twice a year and are always available for meeting with existing and new investors. Our first Annual General Meeting was held on 21 May 2015, the anniversary of the IPO, which included a tour of the Skelmersdale site and a presentation of the Group's strategy. The Board will be repeating this format at our next AGM on 1 June 2016 and all investors are welcome to attend.

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 12 to 37 has been approved by the Board.

Yours sincerely

Sean Fennon
Chief Executive Officer
12 April 2015

Bryce Brooks
Chief Financial Officer

Our Governance
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: 35 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: 30 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
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Lancashire WN8 9RB

Company Secretary
Bryce Brooks

Contact
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41 Conduit Street
London W1S 2YQ
and
82 King Street
Manchester M2 4WQ

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

Solicitors
DLA Piper UK LLP
101 Barbirolli Square
Bridgewater
Manchester M2 3DL

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

Our Governance
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 2015. 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 12 to 37. 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 2015 are set out in the consolidated income statement on page 50. The Group has reported an operating profit from its continuing activities of £5.491 million (2014: £3.325m). After accounting for net finance costs, the consolidated income statement shows a profit from continuing operations before taxation of £5.280 million (2014: profit of £30.411m which included a non-recurring item: the gain on settlement of debt of £29.043m created by a debt for equity swap with the previous private equity owners).

The Directors are recommending a final dividend of 3.50p per ordinary share amounting to £1.508 million payable on 24 June 2016 to Shareholders on the Company's register at the close of business on 3 June 2016. The shares will be quoted ex-dividend from 2 June 2016.

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
- Paul Watson (resigned 22 October 2015)

Short biographies of each Director are provided on pages 38 and 39.

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 2015 which is disclosed in the Directors' Remuneration Report on page 46.

Details of the Directors' share options are provided in the Directors' Remuneration Report on page 47.

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 2016 there were in issue 43,078,279 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 2016 (being the last practicable date before the publication of this report):

	Number of shares	%
Miton Group plc	6,527,606	15.15
Hargreave Hale	5,516,400	12.81
Premier Asset Managers	5,500,650	12.77
Close Brothers Asset Management	3,946,524	9.16
Stephen Merrie	2,100,000	4.87
Henderson Global Investors	1,950,000	4.53
City Financial Investment Company	1,939,896	4.50
Ruffer LLP	1,896,600	4.40
Ennismore Fund Management	1,881,481	4.37
Lazard Freres Gestion	1,370,000	3.18
Legal & General Investment Management	1,294,808	3.01

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 2015 the total shares in the Company held by the Enterprise Management Incentive Plans were 2,499,721, representing 5.8% 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 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 2015 the total shares in the Company held by the Company Share Option Plan was 130,000, representing 0.3% 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.

Our Governance
Directors' Report (other disclosures) continued

Annual General Meeting

The Annual General Meeting will be held at the Company's head office at Pimbo Road, Skelmersdale, Lancashire WN8 9RB on 1 June 2015 at noon.

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
12 April 2016

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the consolidated 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 as adopted by the European Union 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.

Our Governance
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 claim compliance 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 38 to 39. 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 on eight occasions and undertaken several telephone discussions to cover specific matters such as acquisitions. 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. 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 46 to 47.

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

— accounting policies and disclosures in relation to segmental analyses

— 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;
- reviewing progress on the plans to integrate acquisitions, enhance business continuity and disaster recovery procedures; 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.

Our Governance
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	Compensation for loss of office £000	Pension £000	Share-based payments £000	Total 2015 £000	Total 2014 £000
Executives							
Sean Fennon	220	1	–	–	85	306	228
Bryce Brooks	136	4	–	14	45	199	157
Paul Watson (resigned 22 October 2015)	120	1	154	–	45	320	167
Non-Executives							
Malcolm Diamond MBE	75	–	–	–	–	75	38
Nigel Richens	40	–	–	–	–	40	25
	591	6	154	14	175	940	609

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 2015 No. of ordinary shares	As at 31 December 2014 No. of ordinary shares
Executives		
Sean Fennon	**209,000**	189,000
Bryce Brooks	**91,000**	81,000
Non-Executives		
Malcolm Diamond MBE	**35,000**	25,000
Nigel Richens	**35,000**	25,000

All changes in the year relate to purchases on 23 November 2015 for an average price of 107.8 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 2015		As at 31 December 2014	
Executives	**A shares £1 ordinary**	**B shares £1 ordinary**	A shares £1 ordinary	B shares £1 ordinary
Sean Fennon	**340**	**3,100**	340	3,100
Bryce Brooks	**180**	**3,100**	180	3,100
Paul Watson (resigned 22 October 2015)	**—**	**—**	180	3,100

All shares were issued on admission to AIM at a cost of £10 per share on 21 May 2014. The shares were issued as part of an employee share-based remuneration scheme called the 'Management Incentive Plan'. For further details refer to note 24. Paul Watson's shares were purchased at a nominal value of £32.80 on his resignation on 22 October 2015.

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 2014	Exercised	Cancelled	**As at 31 December 2015**
Sean Fennon	EMI (Approved)	249,999	—	—	**249,999**
Sean Fennon	EMI (Unapproved)	222,223	—	—	**222,223**
Bryce Brooks	EMI (Approved)	249,999	—	—	**249,999**
Paul Watson (resigned 22 October 2015)	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
12 April 2016

Our Financials
Independent Auditor's Report

We have audited the consolidated financial statements of Flowtech Fluidpower plc for the year ended 31 December 2015 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 parent Company statement of financial position, the parent 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 43, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2015 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 parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Stuart Muskett
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
MANCHESTER

12 April 2016

Our Financials
Consolidated Income Statement

	Note	2015 £000	2014 £000
Continuing operations			
Revenue	3	**44,848**	37,791
Cost of sales		**(29,503)**	(24,615)
Gross profit		**15,345**	13,176
Distribution expenses		**(2,245)**	(2,034)
Administrative expenses before separately disclosed items:		**(6,232)**	(4,996)
— Acquisition costs	4	**(299)**	(206)
— Amortisation of acquired intangibles	4	**(413)**	(130)
— Share-based payment costs	4	**(342)**	(148)
— Restructuring costs	4	**(323)**	(45)
— IPO costs	4	**—**	(2,292)
Total administrative expenses		**(7,609)**	(7,817)
Operating profit	3,4	**5,491**	3,325
Financial income	6	**22**	33
Financial expenses	6	**(233)**	(1,990)
Gain on settlement of debt		**—**	29,043
Net financing (costs)/income		**(211)**	27,086
Profit from continuing operations before tax		**5,280**	30,411
Taxation	7	**(1,057)**	(1,184)
Profit from continuing operations		**4,223**	29,227
Loss from discontinued operations, net of tax	28	**(131)**	(496)
Profit for the year attributable to the owners of the parent		**4,092**	28,731

	Note	2015	2014
Earnings per share	9		
Basic earnings per share			
Continuing operations		**9.85p**	114.42p
Discontinued operations		**(0.31p)**	(1.94p)
Basic earnings per share		**9.54p**	112.48p
Diluted earnings per share			
Continuing operations		**9.73p**	112.86p
Discontinued operations		**(0.30p)**	(1.92p)
Diluted earnings per share		**9.43p**	110.94p

Consolidated Statement of Comprehensive Income

	2015 £000	2014 £000
Profit for the year	**4,092**	28,731
Other comprehensive income/(expense)		
– items that will be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	**85**	(141)
Total comprehensive income for the year attributable to the owners of the parent	**4,177**	28,590

Our Financials
Consolidated Statement of Financial Position

	Note	2015 £000	2014 £000
Assets			
Non-current assets			
Goodwill	10	**46,412**	44,583
Other intangible assets	11	**4,179**	2,995
Property, plant and equipment	13	**3,265**	2,887
Total non-current assets		**53,856**	50,465
Current assets			
Inventories	15	**13,254**	11,163
Trade and other receivables	16	**10,367**	9,529
Prepayments		**316**	270
Other financial assets	17	**32**	24
Cash and cash equivalents	18	**1,841**	1,979
Total current assets		**25,810**	22,965
Liabilities			
Current liabilities			
Interest-bearing loans and borrowings	19	**5,986**	2,973
Trade and other payables	20	**6,625**	5,415
Deferred and contingent consideration	21	**1,250**	1,603
Tax payable		**758**	881
Provisions	22	**86**	71
Other financial liabilities	23	**15**	27
Total current liabilities		**14,720**	10,970
Net current assets		**11,090**	11,995
Non-current liabilities			
Interest-bearing loans and borrowings	19	**4,874**	5,716
Deferred and contingent consideration	21	**898**	—
Provisions	22	**130**	162
Deferred tax liabilities	14	**901**	676
Total non-current liabilities		**6,803**	6,554
Net assets		**58,143**	55,906
Equity directly attributable to owners of the parent			
Share capital	26	**21,539**	21,414
Share premium		**46,880**	46,664
Share-based payment reserve		**380**	148
Shares owned by the Employee Benefit Trust		**(338)**	–
Merger reserve		**293**	293
Merger relief reserve		**2,086**	2,086
Currency translation reserve		**(93)**	(178)
Retained losses		**(12,604)**	(14,521)
Total equity		**58,143**	55,906

The financial statements on pages 50 to 91 were approved by the Board of Directors on 12 April 2016 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 2014	50	—	—	293	—	—	(37)	(13,494)	(13,188)
Profit for the year	—	—	—	—	—	—	—	28,731	28,731
Other comprehensive loss	—	—	—	—	—	—	(141)	—	(141)
Total comprehensive (expense)/ income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(141)**	**28,731**	**28,590**
Transactions with owners									
Issue of share capital	21,364	19,950	—	—	—	—	—	—	41,314
Share issue expenses	—	(2,329)	—	—	—	—	—	—	(2,329)
Merger relief arising on acquisition of subsidiary	—	—	—	—	—	2,086	—	—	2,086
Gain on settlement of debt capitalised as share premium on issue of ordinary shares	—	29,043	—	—	—	—	—	(29,043)	—
Share-based payment charge	—	—	148	—	—		—	—	148
Equity dividends paid (note 8)	—	—	—	—	—	—	—	(715)	(715)
Total transactions with owners	**21,364**	**46,664**	**148**	**—**	**—**	**2,086**	**—**	**(29,758)**	**40,504**
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 31 December 2015	**21,539**	**46,880**	**380**	**293**	**(338)**	**2,086**	**(93)**	**(12,604)**	**58,143**

Our Financials
Consolidated Statement of Cash Flows

	Note	2015 £000	2014 £000
Cash flow from operating activities			
Net cash from operating activities	27	**5,943**	2,275
Cash flow from investing activities			
Acquisition of subsidiary, net of cash acquired	25.1,25.2	**(3,063)**	(2,683)
Disposal of subsidiary, net of overdraft disposed of		**—**	103
Acquisition of property, plant and equipment	13	**(750)**	(496)
Proceeds from sale of property, plant and equipment		**7**	—
Payment of deferred consideration		**(1,603)**	—
Net cash used in investing activities		**(5,409)**	(3,076)
Cash flows from financing activities			
Net proceeds from the issue of share capital		**—**	37,571
Proceeds from new loan		**6,523**	7,000
Repayment of long term borrowings		**(2,357)**	(37,532)
Net change in short term borrowings		**(2,096)**	(5,409)
Repayment of finance lease liabilities		**(32)**	(16)
Interest received		**14**	3
Interest paid		**(244)**	(341)
Purchase of own shares		**(338)**	—
Cash settled share options		**(105)**	—
Dividends paid	8	**(2,175)**	(715)
Net cash (used in)/generated from financing activities		**(810)**	561
Net change in cash and cash equivalents		**(276)**	(240)
Cash and cash equivalents at start of year		**1,979**	2,265
Exchange differences on cash and cash equivalents		**22**	(46)
Cash and cash equivalents at end of year	18,19	**1,725**	1,979
Cash and cash equivalents	18	**1,841**	1,979
Bank overdraft	19	**(116)**	—
Cash and cash equivalents at end of year		**1,725**	1,979

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 Flowtech Holdings Limited via a share for share exchange with the shareholders of Flowtech Holdings 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. Accordingly, the results of the Group for the entire year ended 31 December 2014 are shown in the comparatives of consolidated statement of comprehensive income on this basis.

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

- The assets and liabilities of Flowtech Holdings Limited and its subsidiaries were recognised in the consolidated financial statements at the pre-combination carrying amounts, without restatement to fair value;

Our Financials
Notes to the Consolidated Financial Information continued

2 Accounting policies continued

- The retained losses and other equity balances recognised in the consolidated financial statements for the year ended 31 December 2014 reflect the retained losses and other equity balances of Flowtech Holdings 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 2015. 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.

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.

2 Accounting policies continued

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 on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Property	50 years
Plant, machinery and equipment	3 to 20 years
Motor vehicles	3 to 5 years

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.

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.

Our Financials
Notes to the Consolidated Financial Information continued

2 Accounting policies continued
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 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 fifteen years.

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

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.

2 Accounting policies continued

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 2.16. 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.

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 long term contracts are not considered material.

Our Financials
Notes to the Consolidated Financial Information continued

2 Accounting policies continued

2.16 Operating segments

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

Flowtechnology:
UK — distribution and assembly of engineering components, principally to distributors and end users in the UK and Eire.
Benelux — distribution of engineering components to distributors and end users in the Netherlands and Belgium.

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.

The Power Motion Control segment was referred to as 'Primary' in previous reports.

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.

2.17 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.

2.18 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.

2.19 Adopted IFRS not yet applied

New standards and interpretations currently in issue (as at 2 February 2015) but not effective, for accounting periods commencing on 1 January 2015 are:

- IFRS 9 'Financial Instruments' (IASB effective date 1 January 2018)[1]
- IFRS 15 'Revenue from Contracts with Customers' (effective 1 January 2018)
- IFRS 16 'Leases' (IASB effective date 1 January 2019)
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) (IASB effective date 1 July 2014)[2]
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (IASB effective date 1 January 2016)[1]
- Annual Improvements to IFRSs 2010-2012 Cycle[2]
- Annual Improvements to IFRSs 2012-2014 Cycle (effective 1 January 2016)[1]
- Amendments to IAS 27 'Equity Method in Separate Financial Statements' (effective 1 January 2016)[1]
- Disclosure Initiative: Amendments to IAS 1 'Presentation of Financial Statements' (effective 1 January 2016)[1]

1. Not adopted by the EU (as at 1 February 2016).
2. EU mandatory effective date is financial years starting on or after 1 February 2015.

2 Accounting policies continued

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.

2.20 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
- '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
- '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
- 'Share-based payment reserve' represents the provision made to date for share-based payments as detailed in note 2.13

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.

2.21 Discontinued operations

Discontinued operation costs relate to ongoing commitments for properties relating to operations disposed of in the year ended 31 December 2014. These costs were unforeseen at the time of disposal.

2.22 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.

Our Financials
Notes to the Consolidated Financial Information continued

2 Accounting policies continued

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, including goodwill and fair value adjustments arising on consolidation, 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.

2.23 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 2015 is £46,223,000 (2014: £44,583,000). Refer to note 10 for further detail. There was no impairment charge during the year.

Acquired intangibles

Intangible assets (customer relationships) 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 £4,518,000 (2014: £2,995,000). Refer to note 11 for further detail.

Provision for impairment of inventories

The carrying value of inventories as at 31 December 2015 is £13,254,000 (2014: £11,163,000) and included a provision against the inventories of £1,005,000 (2014: £1,045,000). During the year £120,000 (2014: £17,000) of the provision was utilised following the scrapping and sale of obsolete inventory. A further provision of £95,000 (2014: £15,000) 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.

2.24 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.

2.25 Investment in own shares

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

3 Segment reporting

Management currently identifies the Group's two operating segments based on geographic area and trading activity (see note 2.16). 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.

The Directors believe that the underlying operating profit provides additional useful information on underlying trends to Shareholders. The term 'underlying' is not a defined term under IFRS and may not be comparable with similarly titled profit measurements reported by other companies. A reconciliation of the underlying operating result to operating profit/(loss) from continuing operations is shown below. The principal adjustments made are in respect of the separately disclosed items as detailed in note 4.

Segment information for the reporting periods is as follows:

	For the year ended 31 December 2015					
	Flowtechnology		Power Motion Control	Inter-segmental transactions	Central costs	Total Continuing operations
	UK £000	Benelux £000	UK £000	£000	£000	£000
Income statement – continuing operations:						
Revenue from external customers	29,439	3,729	11,680	–	–	44,848
Inter-segment revenue	860	99	231	(1,190)	–	–
Total revenue	30,299	3,828	11,911	(1,190)	–	44,848
Underlying operating result	7,169	402	1,228	–	(1,931)	6,868
Net financing (costs)/income	(65)	–	3	–	(149)	(211)
Underlying segment result	7,104	402	1,231	–	(2,080)	6,657
Separately disclosed items (see note 4)	(144)	(22)	(505)	–	(706)	(1,377)
Profit before tax	6,960	380	726	–	(2,786)	5,280
Specific disclosure items						
Depreciation	389	23	93	–	–	505
Amortisation	–	–	413	–	–	413
Reconciliation of underlying operating result to operating profit:						
Underlying operating result	7,169	402	1,228	–	(1,931)	6,868
Separately disclosed items (see note 4)	(144)	(22)	(505)	–	(706)	(1,377)
Operating profit/(loss)	7,025	380	723	–	(2,637)	5,491

Our Financials
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3 Segment reporting continued

	For the year ended 31 December 2014					
	Flowtechnology		Power Motion Control	Inter-segmental transactions	Central costs	Total Continuing operations
	Benelux £000	UK £000	£000	£000	£000	£000
Income statement – continuing operations:						
Revenue from external customers	30,052	3,800	3,939	—	—	37,791
Inter-segment revenue	654	60	—	(714)	—	—
Total revenue	30,706	3,860	3,939	(714)	—	37,791
Underlying operating result	6,899	497	369	—	(1,619)	6,146
Net financing (costs)/income	(141)	(2)	—	—	27,229	27,086
Underlying segment result	6,758	495	369	—	25,610	33,232
Separately disclosed items (see note 4)	(166)	(30)	(135)	—	(2,490)	(2,821)
Profit before tax	6,592	465	234	—	23,120	30,411
Specific disclosure items						
Depreciation	424	40	39	—	—	503
Amortisation	—	—	130	—	—	130
Reconciliation of underlying operating result to operating profit:						
Underlying operating result	6,899	497	369	—	(1,619)	6,146
Separately disclosed items (see note 4)	(166)	(30)	(135)	—	(2,490)	(2,821)
Operating profit/(loss)	6,733	467	234	—	(4,109)	3,325

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 2015		31 December 2014	
	Revenue £000	**Non-current assets £000**	Revenue £000	Non-current assets £000
United Kingdom	**36,329**	**52,326**	30,636	49,537
Europe	**7,760**	**1,530**	6,958	928
Rest of the World	**759**	**—**	197	—
Total	**44,848**	**53,856**	37,791	50,465

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 2014 or 2015. 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 the costs of the shared service centre which include payroll costs, administration costs and separately disclosed items, as detailed in notes 4 and 5.

4 Operating profit

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

	2015 £000	2014 £000
Impairment loss on other trade receivables and prepayments	**62**	84
(Gain)/loss on foreign currency transactions	**(105)**	8
Impairment loss on inventory	**95**	15
Depreciation of owned property, plant and equipment	**491**	487
Depreciation of property, plant and equipment held under finance leases	**14**	16
Amortisation of intangible assets	**413**	130
Profit on sale of plant and equipment	**(7)**	—
Operating lease rentals:		
– Land and buildings	**491**	515
– Other	**146**	148
Repairs and maintenance expenditure on plant and equipment	**136**	111

Services provided by the Group's Auditor

	2015 £000	2014 £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	**62**	45
Audit-related assurance services	**—**	34
Services relating to corporate finance transactions (IPO)	**—**	180

Services are provided by other professional advisors as deemed necessary by the management team.

Separately disclosed items

	2015 £000	2014 £000
Separately disclosed items within administration expenses:		
– Acquisition costs	**299**	206
– Amortisation of acquired intangibles (note 11)	**413**	130
– Share-based payment costs (note 24)	**342**	148
– Restructuring	**323**	45
– IPO costs	**—**	2,292
Total separately disclosed items	**1,377**	2,821

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

Our Financials
Notes to the Consolidated Financial Information continued

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	
	2015	2014
Assembly and distribution	**132**	104
Administration	**115**	92
	247	196

The aggregate payroll costs of these persons were as follows:

	2015 £000	2014 £000
Wages and salaries	**5,669**	4,725
Social security costs	**547**	498
Contributions to defined contribution pension plans	**166**	124
Share-based payments (note 24)	**342**	148
	6,724	5,495

Key management compensation
The remuneration of the Directors and the Chairman, who 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'.

	2015 £000	2014 £000
Remuneration	**591**	523
Social security costs	**65**	63
Contributions to defined contribution pension plans	**14**	27
Compensation for loss of office	**154**	—
Benefits in kind	**6**	6
Share-based payments	**175**	53
	1,005	672

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

	2015 £000	2014 £000
Highest paid Director's remuneration		
Remuneration	**220**	202
Social security costs	**29**	26
Benefits in kind	**1**	1
Share-based payments	**85**	25
Total highest paid Director's remuneration	**336**	254

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

6 Financial income and expense
Finance income for the year consists of the following:

	2015 £000	2014 £000
Finance income arising from:		
Interest income from cash and cash equivalents	**4**	2
Fair value gains on forward exchange contracts held for trading	**18**	31
Total finance income	**22**	33

6 Financial income and expense continued

Finance expenses for the year consist of the following:

	2015 £000	2014 £000
Finance expense arising from:		
Interest on invoice discounting and stock loan facilities	**36**	126
Overdraft interest	**—**	1
Interest on revolving credit facility	**41**	—
Finance lease interest	**3**	3
Bank loans – current facilities	**132**	87
Other interest	**21**	14
Subtotal	**233**	231
Pre-IPO finance expenses:		
Shareholder loans	**—**	1,648
Other bank loans	**—**	111
Subtotal	**—**	1,759
Total finance expense	**233**	1,990

7 Taxation

Recognised in the income statement

Continuing operations:	2015 £000	2014 £000
Current tax expense		
Current year charge	**1,231**	1,058
Overseas tax	**3**	21
Adjustment in respect of prior periods	**(76)**	67
Current tax expense	**1,158**	1,146
Deferred tax		
Origination and reversal of temporary differences	**(97)**	43
Adjustment in respect of prior periods	**(11)**	(7)
Change in tax rate	**7**	2
Deferred tax (credit)/charge	**(101)**	38
Total tax expense – continuing operations	**1,057**	1,184

Discontinued operations:	2015 £000	2014 £000
Current tax expense	**—**	—
Deferred tax		
Origination and reversal of temporary differences	**—**	8
Change in tax rate	**—**	—
Deferred tax expense	**—**	8
Total tax expense – discontinued operations	**—**	8
Total tax expense in the income statement	**1,057**	1,192

No income tax was recognised in other comprehensive income or directly in equity for either of the years ended 31 December 2014 or 2015.

Our Financials
Notes to the Consolidated Financial Information continued

7 Taxation continued
Reconciliation of effective tax rate

	2015 £000	2014 £000
Profit for the year	**4,092**	28,731
Total tax expense	**1,057**	1,192
Profit excluding taxation	**5,149**	29,923
Tax using the UK corporation tax rate of 20.25% (2014: 21.50%)	**1,042**	6,433
Deferred tax movements not recognised	**37**	12
Effect of tax rates in foreign jurisdictions	**(4)**	—
Other temporary differences	**—**	36
Impact of change in tax rate on deferred tax balances	**1**	2
Gains not chargeable	**—**	(6,244)
Amounts not deductible	**68**	886
Adjustment in respect of prior periods	**(87)**	67
Total tax expense	**1,057**	1,192

Change in corporation tax rate

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were 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. This will reduce the Group's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2015 have been calculated based on these rates.

8 Dividends

	2015 £000	2014 £000
Final dividend of 3.33p (2014: nil) per share	**1,426**	—
Interim dividend of 1.75p (2014: 1.67p) per share	**749**	715
Total dividends	**2,175**	715

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2015 of 3.50p (2014: 3.33p) per share which will absorb an estimated £1.508 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 24 June 2016 to Shareholders who are on the register of members on 3 June 2016.

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 2015			Year ended 31 December 2014		
	Earnings £000	Weighted average number of shares 000s	Earnings per share Pence	Earnings £000	Weighted average number of shares 000s	Earnings per share Pence
Basic earnings per share						
Continuing operations	4,223	42,869	9.85	29,227	25,542	114.42
Discontinued operations	(131)	42,869	(0.30)	(496)	25,542	(1.94)
Basic earnings per share	4,092	42,869	9.55	28,731	25,542	112.48
Diluted earnings per share						
Continuing operations	4,223	43,387	9.73	29,227	25,897	112.86
Discontinued operations	(131)	43,387	(0.30)	(496)	25,897	(1.92)
Diluted earnings per share	4,092	43,387	9.43	28,731	25,897	110.94

	2015 000s	2014 000s
Weighted average number of ordinary shares for basic and diluted earnings per share	42,869	25,542
Impact of share options	518	355
Weighted average number of ordinary shares for diluted earnings per share	43,387	25,897

10 Goodwill

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

	2015 £000	2014 £000
Gross carrying value		
Balance at 1 January	44,583	42,684
Acquired through business combinations (notes 25.1 and 25.2)	1,829	2,059
Amounts eliminated on disposal	—	(160)
Balance at 31 December	46,412	44,583
Accumulated impairment		
Balance at 1 January	—	160
Impairment charge	—	—
Amounts eliminated on disposal	—	(160)
Balance at 31 December	—	—
Carrying amount at 31 December	46,412	44,583

The goodwill acquired during the year relates to the acquisition of Albroco Limited and Nelson Fluid Power Limited and its subsidiaries; see notes 25.1 and 25.2. The acquisitions have been recognised in the Power Motion Control operating segment.

Our Financials
Notes to the Consolidated Financial Information continued

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:

	2015 £000	2014 £000
Flowtechnology UK	**41,676**	41,676
Flowtechnology Benelux	**848**	848
Power Motion Control	**3,888**	2,059
Total at 31 December	**46,412**	44,583

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 for the Group based on the Group's latest financial forecasts which are for a period of three years, which are extrapolated for a further two years and are completed with a ten year perpetuity. The annual growth rate used varies from 1.9% to 5% between the operating segments. 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 10% (2014: 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 £18 million. 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 £5 million. Increasing the discount rate to 81% 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 £14 million. Increasing the discount rate to 59% 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.

11 Other intangible assets

	Customer relationships 2015 £000	2014 £000
Gross carrying value		
Balance at 1 January	**3,125**	—
Acquired through business combinations – customer relationships (note 25.1 and 25.2)	**1,597**	3,125
Balance at 31 December	**4,722**	3,125
Amortisation and impairment		
Balance at 1 January	**130**	—
Amortisation	**413**	130
Balance at 31 December	**543**	130
Carrying amount at 31 December	**4,179**	2,995

Additions in the year relate to customer relationships acquired with the businesses of Albroco Limited and Nelson Fluid Power Limited. 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 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 2015
Flowtech Mid-Co Limited	UK	Holding company	**100%**
Flowtech Limited	UK	Distributors of engineering components	**100%**
Flowtechnology Benelux B.V.	Netherlands	Distributors of engineering components	**100%**
Vitassem 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%**
IPL Fluid Power Limited	UK	Dormant	**100%**
Flowtechnology HK Limited	China	Holding company	**100%**
Flowtech Holdings Limited	UK	Holding company	**100%**
Flowtech MIP Limited	UK	Holding company	**100%**
Primary Fluid Holdings Limited	UK	Holding company	**100%**
Primary Fluid Power Limited	UK	Assembly and distribution of engineering components	**100%**
KR Couplings	UK	Dormant	**100%**
Albroco Limited	UK	Distributors of engineering components	**100%**
Betabite Hydraulics Limited	UK	Dormant	**100%**
Nelson Fluid Power Limited	UK	Holding Company	**100%**
Nelson Hydraulics Limited	UK	Assembly and distribution of engineering components	**100%**
Hydraulics (Ireland) Limited	UK	Dormant	**100%**
Hydrodynamics Power Engineering Limited	UK	Dormant	**100%**

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

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12 Subsidiary undertakings continued
On 29 May 2015, the Group acquired 100% of the ordinary shares in Albroco Limited.

On 3 July 2015, the Group acquired 100% of the ordinary shares in Nelson Fluid Power Limited.

On 11 November 2015, the Group acquired 100% of the ordinary shares in Betabite Hydraulics Limited, a newly incorporated company.

On 15 December 2015, the Group acquired 100% of the ordinary shares in KR Couplings Limited, a dormant company.

13 Property, plant and equipment

	Land and property £000	Plant, machinery and equipment £000	Motor vehicles £000	Total £000
Cost				
Balance at 1 January 2014	—	5,656	—	5,656
Additions	5	491	—	496
Disposals	—	(75)	—	(75)
Acquisitions through business combinations (note 25.1)	1,070	46	103	1,219
Effect of movements in foreign exchange	—	(50)	—	(50)
Balance at 31 December 2014 and 1 January 2015	1,075	6,068	103	7,246
Additions	13	677	60	750
Disposals	—	—	(28)	(28)
Acquisitions through business combinations (note 25.1)	—	38	107	145
Effect of movements in foreign exchange	—	(28)	—	(28)
Balance at 31 December 2015	1,088	6,755	242	8,085
Depreciation and amortisation				
Balance at 1 January 2014	—	3,927	—	3,927
Depreciation charge for the year	8	476	19	503
Disposals	—	(27)	—	(27)
Effect of movements in foreign exchange	—	(44)	—	(44)
Balance at 31 December 2014 and 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	33	4,739	48	4,820
Net book value				
At 31 December 2015	**1,055**	**2,016**	**194**	**3,265**
At 1 January 2015	1,067	1,736	84	2,887
At 1 January 2014	—	1,729	—	1,729

At year end the net book value of leased plant, machinery and equipment was £46,000 (2014: £47,000). Included in land and property is land at a cost of £145,000 which is not depreciated (2014: £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	
	2015 £000	2014 £000	**2015 £000**	2014 £000
Intangible assets	**—**	—	**(884)**	(598)
Property, plant and equipment	**—**	—	**(165)**	(133)
Financial assets	**1**	1	**—**	—
Interest-bearing loans and borrowings	**—**	6	**—**	—
Provisions	**70**	35	**—**	—
Employee share-based payments	**37**	13	**—**	—
Tax assets/(liabilities)	**108**	55	**(1,009)**	(731)
Net deferred tax liability			**(901)**	(676)

A deferred tax asset of £50,000 (2014: £96,000) in respect of cumulative share-based payments of £277,000 (2014: £480,000 relating to losses) 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 2015

	1 January 2015 £000	Recognised in profit or loss £000	Acquired during the year £000	**31 December 2015 £000**
Intangible assets (note 25.1, 25.2)	(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)**

Movement in deferred tax during the year ended 31 December 2014

	1 January 2014 £000	Recognised in profit or loss £000	Acquired during the year £000	**31 December 2014 £000**
Intangible assets	—	27	(625)	**(598)**
Property, plant and equipment	(109)	9	(33)	**(133)**
Financial assets	11	(10)	—	**1**
Interest-bearing loans and borrowings	38	(32)	—	**6**
Provisions	6	39	(10)	**35**
Employee share-based payments	—	13	—	**13**
	(54)	46	(668)	**(676)**

15 Inventories

	2015 £000	2014 £000
Finished goods and goods for resale	**13,254**	11,163

Changes in finished goods recognised as cost of sales in the year amounted to £26,140,000 (2014: £21,831,000). The write down or reversal of inventories to net realisable value amounted to a write down of £95,000 (2014: write down of £15,000). The write downs and reversals are included in cost of sales. The provision made against inventories at the year end was £1,005,000 (2014: £1,045,000).

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.

Our Financials
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16 Trade and other receivables

	2015 £000	2014 £000
Trade receivables	**10,068**	9,311
Other receivables	**299**	218
Trade receivables and other receivables	**10,367**	9,529

17 Other financial assets

	2015 £000	2014 £000
Current		
Financial assets – forward exchange contracts	**32**	24

18 Cash and cash equivalents

	2015 £000	2014 £000
Cash and cash equivalents:		
Sterling	**830**	1,125
Euro	**930**	845
Dollar	**81**	9
Total cash and cash equivalents	**1,841**	1,979

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.

	2015 £000	2014 £000
Non-current liabilities		
Secured bank loans	**4,857**	5,714
Finance lease liabilities	**17**	2
Total non-current liabilities	**4,874**	5,716
Current liabilities		
Secured bank loans	**857**	857
Bank overdraft	**116**	—
Revolving credit facility	**5,000**	—
Invoice discounting facility	**—**	2,096
Finance lease liabilities	**13**	20
Total current liabilities	**5,986**	2,973
Total	**10,860**	8,689

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Carrying value 2015 £000	Carrying value 2014 £000
Secured bank loan	GBP	Libor + 1.5%	2018	**5,714**	6,571
Secured revolving credit facility	GBP	Libor + 1.8%	2018	**5,000**	—
Invoice discounting facility	GBP	Libor + 3%	n/a	**—**	2,096
Finance lease liabilities	GBP	Various 4.8% to 13.7%	2019	**30**	22
				10,744	8,689

19 Other interest-bearing loans and borrowings continued

The invoice discounting facility was repaid during the year and replaced with a revolving credit facility of up to £8,000,000 which is subject to a non-utilisation fee of 0.7%. 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 2015 £000	Interest 2015 £000	Principal 2015 £000	Minimum lease payments 2014 £000	Interest 2014 £000	Principal 2014 £000
Less than one year	15	2	13	24	4	20
Between one and five years	19	2	17	2	—	2
More than five years	—	—	—	—	—	—
	34	4	30	26	4	22

20 Trade and other payables

	2015 £000	2014 £000
Current		
Trade payables	4,321	3,657
Accrued expenses	1,299	1,076
Social security and other taxes	1,005	682
	6,625	5,415

21 Deferred and contingent consideration

	2015 £000	2014 £000
Non-current liabilities		
Contingent consideration	898	—
Total non-current liabilities	898	—
Current liabilities		
Deferred consideration	—	1,603
Contingent consideration	1,250	—
Total current liabilities	1,250	1,603
Total	2,148	1,603

The contingent consideration is payable to the former owners of Albroco Limited and Nelson Fluid Power Limited on the first and second anniversaries of the acquisition by the Group as detailed in notes 25.1 and 25.2.

Our Financials
Notes to the Consolidated Financial Information continued

22 Provisions

	Dilapidation provision £000	Other £000	Total £000
Balance at 1 January 2015	104	129	233
Provisions made during the year	26	45	71
Amount utilised	—	(88)	(88)
Balance at 31 December 2015	**130**	**86**	**216**

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

	2015 £000	2014 £000
Current	**86**	71
Non-current	**130**	162
Total	**216**	233

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.

The other provisions are held primarily in respect of leasehold properties which are vacant. Provision has been made for the residual lease commitments and dilapidations, after taking into account assumptions relating to periods of vacancy. This is expected to be utilised by the end of 2016.

23 Other financial liabilities

	2015 £000	2014 £000
Current		
Financial liabilities – foreign exchange contracts	**15**	27

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 £166,000 (2014: £124,000).

24.2 Share-based employee remuneration
As at 31 December 2015, 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 is part of the remuneration package of the Group's senior management. Shares held in Flowtech MIP Limited under this plan may be sold if certain conditions, as defined in the Articles of Association of Flowtech 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.

24 Employee benefits continued

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

Date of grant	Exercise period	2015 Number	2014 Number
21 May 2014	11 April 2017 to 10 August 2024	**540**	720

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
Grant date	21 May 2014
Vesting period ends	10 April 2017
Share price at date of grant	£1.00
Volatility	30.7%
Option life	6.25 years
Dividend yield	5.15%
Risk-free investment rate	1.29%
Fair value at grant date	£1.00
Exercise price at date of grant	£1.30
Exercisable from to	11 April 2017 to 20 May 2024
Weighted average remaining contractual life	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.

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	2015 Number 000s	2014 Number 000s
Approved Plan				
21 May 2014	£1.00	11 April 2017 to 20 May 2024	**1,700**	2,095
8 August 2014	£1.26	11 April 2017 to 7 August 2024	**138**	138
30 June 2015	£1.36	11 April 2017 to 7 August 2024	**50**	—
			1,888	2,233
Unapproved Plan				
21 May 2014	£1.00	11 April 2017 to 20 May 2024	**472**	517
11 August 2015	£1.32	11 April 2018 to 10 August 2025	**140**	—
			612	517
			2,500	2,750

OUR FINANCIALS

Our Financials
Notes to the Consolidated Financial Information continued

24 Employee benefits continued
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 2015	2,233	1.02	517	1.00	2,750
Granted	50	1.36	140	1.32	190
Lapsed	(15)	1.00	—	—	(15)
Forfeited	(60)	1.00	(45)	1.00	(105)
Exercised	(320)	1.00	—	—	(320)
Outstanding at 31 December 2015	**1,888**	**1.03**	**612**	**1.07**	**2,500**
Exercisable at 31 December 2014	—	—	—	—	—
Exercisable at 31 December 2015	—	—	—	—	—

The weighted average share price per share at the date of exercise was £1.35.

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

Company Share Option Plan
The Company Share Option Plan ("CSOP") is part of the remuneration package of certain employees. The options were issued on 11 August 2015. 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	2015 Number 000s	2014 Number 000s
11 August 2015	1.43	11 April 2018 to 10 August 2025	**130**	—

24 Employee benefits continued

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 2015	—	—
Granted	130	1.43
Forfeited	—	—
Outstanding at 31 December 2015	130	1.43
Exercisable at 31 December 2014	—	—
Exercisable at 31 December 2015	—	—

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
Grant date	11 August 2015
Vesting period ends	10 August 2018
Share price at date of grant	£1.44
Volatility	36.6%
Option life	6.5 years
Dividend yield	5.0%
Risk-free investment rate	1.5%
Fair value at grant date	£1.46
Exercise price at date of grant	£1.43
Exercisable from to	11 April 2018 to 20 May 2025
Weighted average remaining contractual life	9 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, £342,000 (2014: £148,000) 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 Albroco Limited

On 29 May 2015, the Group acquired 100% of the share capital of Albroco Limited, a UK-based business, thereby obtaining control. The acquisition was made to enhance the Group's position in the hydraulic market. During July 2015 the trade and assets of Albroco Limited were transferred to Primary Fluid Power Limited, a fellow Group subsidiary and member of the Power Motion Control operating segment.

Our Financials
Notes to the Consolidated Financial Information continued

25 Acquisitions and disposals continued

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

	Book value £000	Fair value adjustment £000	Intangible asset recognised on acquisition £000	Provisional fair value £000
Property, plant and equipment	20	(20)	—	—
Intangible assets	—	—	482	482
Inventories	414	(227)	—	187
Trade and other receivables	305	(2)	—	303
Cash and cash equivalents	434	—	—	434
Trade and other payables	(246)	5	—	(241)
Current tax balances	(53)	—	—	(53)
Provisions	—	(17)	—	(17)
Deferred tax liability	—	—	(96)	(96)
Total net assets	**874**	**(261)**	**386**	**999**

	£000
Fair value of consideration paid	
Amount settled in cash	1,028
Fair value of contingent consideration	389
Total consideration	**1,417**
Less net assets acquired	(999)
Goodwill on acquisition (note 10)	**418**

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

Consideration transferred

Albroco Limited was acquired on 29 May 2015 for a total consideration of £1,417,000 comprising £1,028,000 in cash and £389,000 contingent cash consideration. The contingent consideration is due to be paid on 30 June 2016 and 30 June 2017 and is contingent on the gross profit of the Albroco customer base exceeding £400,000 in each of the 12 month periods ending 31 May 2016 and 31 May 2017. The maximum consideration payable is £2,000,000. The fair value of £389,000 has been estimated by management using a discount rate of 8.72%, being the weighted average cost of capital of Albroco Limited and sales forecasts prepared by management at the time of acquisition, and these have been reviewed for performance up to the reporting date.

Acquisition costs and stamp duty amounting to £55,000 have been recognised as an expense in the Consolidated Income Statement as part of separately disclosed administration costs.

Goodwill

Goodwill of £418,000 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 Power Motion Control operating segment and is not expected to be deductible for tax purposes.

Intangible asset

An intangible asset of £482,000 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 control components, 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 1.5% with an attrition rate of 7.5% 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.

25 Acquisitions and disposals continued

Fair value adjustments

The value of property, plant and equipment has been decreased by £20,000 to reflect the write down of assets acquired which were not put into use by the Group.

The value of inventories has been decreased by £227,000 to reflect the alignment of the Albroco Limited stock provisioning policy with that of the Group.

The value of debtors has been decreased by £2,000 to reflect the alignment of the Albroco Limited debtor provisioning policy with that of the Group.

The value of trade and other payables has been decreased by £5,000 to reflect the write back of various purchase ledger balances.

The value of provisions has been increased by £17,000 to reflect the dilapidation costs relating to properties leased by the Company.

Albroco Limited's contribution to the Group results

Albroco Limited generated a profit after tax of £33,000 for the seven months from 29 May to the reporting date. If Albroco Limited had been acquired on 1 January 2015, revenue for the Group would have been £45,516,000 and profit after tax for the year would have increased by £89,000.

Summary aggregated financial information on Albroco Limited for the period from 1 January 2015 to 29 May 2015, when it became a subsidiary:

	2015 £000
Revenues	**668**
Profit	**89**

25.2 Acquisition of Nelson Fluid Power Limited

On 3 July 2015, the Group acquired 100% of the share capital of Nelson Fluid Power Limited ("NFP") and its subsidiaries, a UK-based business, thereby obtaining control. The acquisition was made to enhance the Group's position in the hydraulic 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	179	(34)	—	145
Intangible assets	—	—	1,115	1,115
Inventories	1,314	(153)	—	1,161
Trade and other receivables	1,888	(37)	—	1,851
Cash and cash equivalents	2,183	—	—	2,183
Finance leases	(17)	—	—	(17)
Trade and other payables	(1,095)	—	—	(1,095)
Current tax balances	(80)	—	—	(80)
Provisions	—	(25)	—	(25)
Deferred tax liability	(7)	—	(223)	(230)
Total net assets	**4,365**	**(249)**	**892**	**5,008**

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Notes to the Consolidated Financial Information continued

25 Acquisitions and disposals continued

	£000
Fair value of consideration paid	
Amount settled in cash	4,652
Assets retained as consideration	8
Fair value of contingent consideration	1,759
Total consideration	**6,419**
Less net assets acquired	(5,008)
Goodwill on acquisition (note 10)	**1,411**

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

Consideration transferred
Nelson Fluid Power Limited was acquired on 3 July 2015 for a total consideration of £6,419,000 comprising £4,660,000 in cash and assets and £1,759,000 contingent cash consideration. The contingent consideration is due to be paid on 31 July 2016 and 31 July 2017 and is contingent on the profits of the NFP group of companies exceeding £500,000 in each of the 12 month periods ending 30 June 2016 and 30 June 2017. The maximum consideration payable is £2,375,000. The fair value of £1,759,000 has been estimated by management using a discount rate of 8.64%, being the weighted average cost of capital of NFP and sales forecasts prepared by management at the time of acquisition, and these have been reviewed for performance up to the reporting date.

Acquisition costs and stamp duty amounting to £212,000 have been recognised as an expense in the Consolidated Income Statement as part of separately disclosed administration costs.

Goodwill
Goodwill of £1,411,000 is primarily related to expected future profitability, the substantial skill and expertise of its workforce and expected cost synergies from the combined buying power of the Group. Goodwill has been allocated to the Power Motion Control operating segment and is not expected to be deductible for tax purposes.

Intangible asset
An intangible asset of £1,115 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 primarily comprise those in the crushing, screening, agricultural and fishing sectors which are new to the segment. Sales growth over the ten year period has been assumed to be 1.5% with an attrition rate of 2.7% 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 £34,000 to reflect the write down of assets to their market value at the date of acquisition.

The value of inventories has been decreased by £153,000 to reflect the alignment of the NFP stock provisioning policy with that of the Group.

The value of debtors has been decreased by £37,000 to reflect the alignment of the NFP debtor provisioning policy with that of the Group.

The value of provisions has been increased by £25,000 to reflect the dilapidation costs relating to properties leased by the Company.

Nelson Fluid Power Limited's contribution to the Group results
Nelson Fluid Power Limited generated a profit after tax of £264,000 for the six months from 3 July to the reporting date. If Nelson Fluid Power Limited had been acquired on 1 January 2015, revenue for the Group would have been £48,508,000 and profit after tax for the year would have increased by £239,000.

Summary aggregated financial information on Nelson Fluid Power Limited for the period from 1 January 2015 to 3 July 2015, when it became a subsidiary:

	2015 £000
Revenues	**3,660**
Profit	**239**

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 2015	43,078,282	21,539
Shares authorised for share-based payments	6,666,667	3,333
Total shares authorised at 31 December 2015	**49,744,949**	**24,872**

	Number	£000
Allotted and fully paid ordinary shares of 50p each		
At January 2015	42,828,283	21,414
Share issued in respect of loan to Employee Benefit Trust	249,999	125
At 31 December 2015	**43,078,282**	**21,539**

On 9 November 2015, 249,999 ordinary shares of 50p were issued and transferred to the Flowtech Fluidpower Employee Benefit Trust (EBT) under a loan agreement with the EBT.

27 Net cash from operating activities

	2015 £000	2014 £000
Reconciliation of profit before taxation to net cash flows from operations		
Profit from continuing operations before tax	**5,280**	30,411
Loss from discontinued operations before tax	**(131)**	(348)
Depreciation	**505**	503
Financial income	**(22)**	(33)
Financial expense	**232**	1,990
Gain on settlement of debt	**—**	(29,043)
Profit on sale of plant and equipment	**(7)**	—
Amortisation of intangible assets	**413**	130
Equity-settled share-based payment charge	**342**	148
Operating cash inflow before changes in working capital and provisions	**6,612**	3,758
Change in trade and other receivables	**1,628**	408
Change in stocks	**(688)**	12
Change in trade and other payables	**(136)**	(752)
Change in provisions	**(60)**	62
Cash generated from operations	**7,356**	3,448
Tax paid	**(1,413)**	(1,213)
Net cash generated from operating activities	**5,943**	2,275

28 Discontinued operations

The results of the discontinued operations included in the loss for the period relate to unexpected property and legal costs relating to a subsidiary sold in the prior year.

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

Our Financials
Notes to the Consolidated Financial Information continued

29 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2015 £000	2014 £000
Less than one year	**632**	581
Between one and five years	**970**	1,135
More than five years	**239**	—
	1,841	1,716

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 2015, the property lease periods range from less than one year to twelve 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.

	2015		2014	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Less than one year	**519**	**113**	441	140
Between one and five years	**810**	**160**	966	169
More than five years	**239**	**—**	—	—
	1,568	**273**	1,407	309

During the year £637,000 was recognised as an expense in the income statement in respect of operating leases relating to continuing operations (2014: £663,000). During the year £nil was recognised as an expense in the income statement in respect of operating leases relating to discontinued operations (2014: £41,000).

30 Contingent liabilities and commitments

The Group had capital expenditure of £77,000 contracted for but not provided at 31 December 2015 (2014: £nil).

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 46 to 47.

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.

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 2015 £000	Fair value 2015 £000	Level 2 2015 £000	Level 3 2015 £000	Carrying amount 2014 £000	Fair value 2014 £000	Level 2 2014 £000
Financial assets held for trading (including all derivatives) (note 17)							
Forward exchange contracts	32	32	32	—	24	24	24
Total financial assets at fair value through profit or loss	32	32	32	—	24	24	24
Financial liabilities at fair value through profit or loss (including all derivatives) (note 23)							
Forward exchange contracts	(15)	(15)	(15)	—	(27)	(27)	(27)
Contingent consideration	(2,148)	(2,148)	—	(2,148)	—	—	—
Total financial liabilities at fair value through profit or loss	(2,163)	(2,163)	(15)	(2,148)	(27)	(27)	(27)

There have been no transfers in either direction during the years ended 31 December 2015 and 31 December 2014.

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

	2015 £000	2014 £000
Balance at 1 January	—	—
Arising on business combinations	2,148	—
Balance at 31 December	2,148	—

Our Financials
Notes to the Consolidated Financial Information continued

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 2015 £000	Fair value 2015 £000	Level 2 2015 £000	Level 3 2015 £000	Carrying amount 2014 £000	Fair value 2014 £000	Level 2 2014 £000
Loans and receivables							
Cash and cash equivalents (note 18)[1]	1,841				1,979		
Trade and other receivables (note 16)[1]	10,367				9,529		
Total financial assets not measured at fair value	12,208				11,508		
Total financial assets at fair value	32	32	32		24	24	24
Financial assets	12,240				11,532		
Financial liabilities measured at amortised cost							
Deferred consideration (note 21)	–				(1,603)		
Other interest-bearing loans and borrowings (note 19)	(10,860)				(8,689)		
Trade payables and accruals (note 20)[1]	(5,620)				(4,733)		
Total financial liabilities measured at amortised cost	(16,480)				(15,025)		
Financial liabilities at fair value							
Forward exchange contracts	(15)	(15)	(15)		(27)	(27)	(27)
Contingent consideration (note 21)	(2,148)	(2,163)		(2,148)			
Total financial liabilities at fair value	(2,163)	(2,163)	(15)	(2,148)			
Total financial liabilities	(18,643)				(15,052)		
Total financial instruments	(6,403)				(3,520)		

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 interest 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 2015 related to the acquisitions of Albroco Limited and Nelson Fluid Power Limited and is estimated using a present value technique. The £2,148,000 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.

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:

	2015 £000	2014 £000
UK	**8,717**	8,205
Europe	**1,230**	1,076
Rest of the World	**121**	30
	10,068	9,311

Credit quality of financial assets and impairment losses

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

	Gross 2015 £000	Impairment 2015 £000	Gross 2014 £000	Impairment 2014 £000
Not past due	**9,380**	**76**	8,902	82
Past due 0-30 days	**615**	**8**	521	16
More than 30 days	**260**	**103**	46	60
	10,255	**187**	9,469	158

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:

	2015 £000	2014 £000
Balance at 1 January	**158**	188
Net change due to acquisitions and disposals of subsidiaries	**35**	44
Provision utilised	**(68)**	(158)
Increase in provision	**62**	84
Balance at 31 December	**187**	158

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.

Our Financials
Notes to the Consolidated Financial Information continued

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 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

Year ended 31 December 2014	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	6,571	6,921	980	962	4,979
Finance lease liabilities	22	26	24	2	—
Invoice discounting facility	2,096	2,096	2,096	—	—
Trade payables	3,657	3,657	3,657	—	—
Derivative financial liabilities					
Other forward exchange contracts:					
Net payment	27	27	27	—	—
	12,373	12,727	6,784	964	4,979

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.

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.

32 Financial instruments continued

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 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)

31 December 2014	Sterling £000	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	1,125	845	9	1,979
Trade and other receivables	9,030	462	37	9,529
Secured bank loans	(6,571)	—	—	(6,571)
Invoice discounting facility	(2,096)	—	—	(2,096)
Finance lease liabilities	(22)	—	—	(22)
Trade payables	(2,480)	(1,131)	(46)	(3,657)
Forward exchange contracts	—	119	(493)	(374)
Net exposure	(1,014)	295	(493)	(1,212)

Sensitivity analysis

A 10% weakening of the following currencies against the pound sterling at 31 December 2015 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 2014.

	Profit or loss and equity 2015 £000	2014 £000
€	4	(91)
$	5	43

A 10% strengthening of the following currencies against the pound sterling at 31 December 2015 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.

The analysis is performed on the same basis for the year ended 31 December 2014.

	Profit or loss and equity 2015 £000	2014 £000
€	(4)	100
$	(6)	(48)

Our Financials
Notes to the Consolidated Financial Information continued

32 Financial instruments continued
Market risk – Interest rate risk

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

	2015 £000	2014 £000
Fixed rate instruments		
Financial liabilities	**30**	22
Variable rate instruments		
Financial liabilities (carrying value)	**10,714**	8,667

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 2014.

	2015 £000	2014 £000
Equity		
Increase of 100 basis points	**(107)**	(61)
Decrease of 100 basis points	**107**	61
Profit or loss		
Increase of 100 basis points	**(107)**	(61)
Decrease of 100 basis points	**107**	61

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.

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

The trade and certain assets of the UK division of Indequip Limited were acquired on 19 February 2016 for a total cash consideration of £0.9 million. The cash consideration was funded out of existing Group resources. Indequip has a complementary product range to the Group's existing pneumatics ranges and brings new customers to the Group. Significant savings are expected from the integration of the employees and operations into the Skelmersdale site.

Hydravalve (UK) Limited was acquired on 18 March 2016 for an initial consideration of £2.1 million in cash with contingent consideration of £1.0 million anticipated to be paid over the next two years. The cash consideration was funded out of existing Group resources. It is a specialist distributor of valves and associated equipment to the process industry based in Willenhall in the West Midlands. The business has a specialist customer base within the process industry and will become the initial investment in a new "Process" division for the Group. Hydravalve will add significantly to the Group's procurement position in valves.

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

Our Financials
Company Statement of Financial Position

	Note	**2015 £000**	2014 £000
Fixed assets			
Investments	G	**57,251**	57,015
Deferred tax assets	L	**34**	
Total fixed assets		**57,285**	57,015
Current assets			
Trade and other debtors	H	**21,777**	20,767
Cash and cash equivalents	I	**1**	1
Total current assets		**21,778**	20,768
Creditors: amounts falling due within one year			
Interest-bearing loans and borrowings	J	**857**	857
Trade and other creditors	K	**583**	425
Total creditors: amounts falling due within one year		**1,440**	1,282
Net current assets		**20,338**	19,486
Total assets less current liabilities		**77,623**	76,501
Creditors: amounts falling due after more than one year			
Interest-bearing loans and borrowings	J	**4,857**	5,714
Total creditors: amounts falling due after more than one year		**4,857**	5,714
Net assets		**72,766**	70,787
Capital and reserves			
Called up share capital	M	**21,539**	21,414
Share premium account		**46,880**	46,664
Share-based payment reserve		**332**	96
Retained earnings		**4,015**	2,613
Total equity		**72,766**	70,787

The financial statements on pages 92 to 97 were approved by the Board of Directors on 12 April 2016 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 on incorporation	—	—	—	—	**—**
Profit for the period	—	—	—	3,275	**3,275**
Total comprehensive income for the period	—	—	—	3,275	**3,275**
Transactions with owners					
Issue of share capital	21,414	48,993	—	—	**70,407**
Share issue expenses	—	(2,329)	—	—	**(2,329)**
Share options – cost	—	—	—	53	**53**
Share options – granted to subsidiary employees	—	—	96	—	**96**
Equity dividends paid (note E)	—	—	—	(715)	**(715)**
Total transactions with owners	21,414	46,664	96	(662)	**67,512**
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 31 December 2015	21,539	46,880	332	4,015	**72,766**

Our Financials
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 2015 were authorised for issue by the Board of Directors on 12 April 2016 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 Company transitioned from UK GAAP to FRS 101 for all periods presented. There were no material amendments on the adoption of FRS 101. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2015.

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), 10(f),39(c) 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.

A summary of the more important accounting policies is set out below.

Changes in accounting policy and disclosures
There is no impact resulting from the adoption of FRS 101.

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.

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.

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.

C Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account. Flowtech Fluidpower plc reported a profit for the financial period of £3.582 million (2014: £3.275 m).

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:

	2015 £000	2014 £000
Audit of the statutory financial statements of Flowtech Fluidpower plc	**20**	20
Audit related assurance services	**—**	34
Services relating to corporate finance transactions (IPO)	**—**	180

E Dividends paid and proposed

	2015 £000	2014 £000
Final dividend of 3.33p (2014: nil) per share	**1,426**	—
Interim dividend of 1.75p (2014: 1.67p) per share	**749**	715
	2,175	715

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 December 2015 of 3.50p(2014: 3.33p) per share which will absorb an estimated £1.508 million of Shareholders' funds. It will be paid on 24 June 2016 to Shareholders who are on the register of members on 3 June 2016.

F Share-based payments

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

G Investments

Cost and net book value	Investments in subsidiaries' unlisted shares £000	Subsidiaries' share-based payment reserves £000	Total £000
At 1 January 2015	56,919	96	57,015
Additions	—	236	236
At 31 December 2015	**56,919**	**332**	**57,251**

H Trade and other debtors

	2015 £000	2014 £000
Current:		
Prepayments and accrued income	**354**	9
Amounts owed by group undertakings	**21,423**	20,758
Total trade and other debtors	**21,777**	20,767

I Cash and cash equivalents

	2015 £000	2014 £000
Sterling	**1**	1
Total cash and cash equivalents	**1**	1

OUR FINANCIALS

Our Financials
Notes to the Company Financial Information continued

J Interest bearing loans and borrowings

	2015 £000	2014 £000
Non-current liabilities		
Secured bank loans	**4,857**	5,714
Total non-current liabilities	**4,857**	5,714
Current liabilities		
Secured bank loans	**857**	857
Total current liabilities	**857**	857
Total interest bearing loans and borrowings	**5,714**	6,571

The 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.

K Trade and other creditors

	2015 £000	2014 £000
Social security and other taxes	**24**	22
Accruals and deferred income	**233**	144
Amounts owed to other group undertakings	**326**	259
Total trade and other creditors	**583**	425

L Deferred taxation

Deferred tax assets comprise:

	2015 £000	2014 £000
Provisions	**34**	—
Total deferred tax	**34**	—
At start of year	**—**	—
Deferred tax credit in profit and loss account for the year	**34**	—
At end of year	**34**	—

A deferred tax asset of £27,000 (2014: £nil) in respect of cumulative share-based payments of £138,000 (2014: £nil) has not been recognised due to uncertainty surrounding the availability of future profits, against which these payments can be utilised.

M Share capital

Allotted, called up and fully paid:

	Number	£000
Allotted and fully paid ordinary shares of 50p each		
At 1 January 2015	42,828,283	21,414
Shares issued in respect of loan to Employee Benefit Trust	249,999	125
At 31 December 2015	43,078,282	21,539

Full details of share movements are provided in note 26 to the consolidated financial statements.

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.

N Contingent liabilities and commitments

The Company has no capital expenditure contracted for but not provided at 31 December 2015.

O 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 £341,000 was made to the Flowtech Fluidpower Employee Benefit Trust to enable it to buy shares in the Company. 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.

P Company principal subsidiaries

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

Q Ultimate controlling party

The Directors consider that there is no ultimate controlling party.

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Shareholder Notes

Shareholder Notes

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