FLUID THINKING, MAKING A POWERFUL DIFFERENCE

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Welcome to our Annual Report

Technology and know-how that keeps industry flowing

Who we are

We are a leading specialist in fluid power products and solutions. Through hydraulics, pneumatics and associated industrial products, we focus on moving liquid, gas or air to generate power which keeps industry moving. Our business is growing both organically and by acquisition. With sites across the UK, ROI, Benelux and China, we have a market presence internationally and aim to further strengthen our global footprint through future penetration into European markets.

Read more about our Group at a Glance on page 6

What we specialise in

A specialist fluid power Group, we provide **'total fluid power solutions'**, delivering products, design, manufacturing services, maintenance and support to distributors, equipment manufacturers and industrial users across the UK and overseas. Through a strong product set, purchasing synergies and technical expertise, we have developed a reputation for delivering high quality and market leading services across all industrial sectors.

Read more about our divisions on pages 8 to 11

Our vision

Our ongoing strategy guides how we work together as a Group of complementary businesses to achieve one shared purpose:

"To be the trusted provider of products, solutions and services to the fluid power market"

Our values

Our employees, customers and suppliers are central to everything we do. As a Group we share three common values:

- **Delivering tailored solutions**
  We listen, taking time to understand individual customer needs. Utilising our entrepreneurial talent and deep technical expertise, we develop specialist solutions, continually adding value to customers and wider industry.
- **Continuing strong traditions**
  We are a business based on tradition. Family values of trust, loyalty, respect and teamwork are demonstrated across all Group businesses. We invest in our people, ensuring they have the vital skills and confidence to continually deliver exceptional service to our customers.
- **Nurturing solid partnerships**
  Through success we build trust, through trust we build success. We remain focused on building and nurturing solid partnerships with customers and suppliers across the globe.

Contents

Chairman's letter

Malcolm Diamond MBE, Chairman

> "The benefits of our acquisition strategy are apparent in the financial performance of the Group, with six new companies acquired throughout the year. This acquisition activity has strengthened our position with important pan-European and global branded suppliers, enhanced our technical strength, and reinforced our position in our current core geographies of UK, Ireland, and Benelux."
>
> **Malcolm Diamond MBE**
> **Chairman**

Dear Shareholder

Welcome to your 2017 year end Flowtech Fluidpower Report and Accounts.

When we floated our Company in May 2014, it was with a commitment from the Board to instigate a medium to long-term consolidation of the highly fragmented hydraulic and pneumatic industry, firstly in the UK, and then to extend this strategy into Europe over the next foreseeable few years.

Our 2017 result reaffirms the Board's confidence in our strategy as we continue to expand and develop our capabilities both within the UK and internationally.

Despite a challenging outlook for the UK economy, in 2017 the fluid power market experienced a significant turnaround following two years of soft trading, presenting a period of opportunity strengthened by European demand.

The Group achieved 46% growth in total revenue to £78.3 million, 8% of which came from organic growth, 38% from acquisitions. Profit before tax for 2017 totalled £6 million versus £5.5 million in 2016. Earnings per share reached 9.69p in 2017 versus 9.96p in 2016.

This year a major refurbishment and redesign at the Skelmersdale site expanded capacity and streamlined the logistics operation which will provide considerable scope for the profitable integration of future acquisitions. Moreover, it created modern office and meeting facilities for Flowtechnology UK, Indequip and Group employees. Pleasingly, this transition was completed with no disruption to customer service for the businesses which utilise this facility.

The benefits of our acquisition strategy are apparent in the financial performance of the Group, with six new companies acquired throughout the year, supported by the successful capital raising in March 2017.

This acquisition activity has strengthened our position with important pan-European and global branded suppliers, enhanced our technical strength, and reinforced our position in our current core geographies of UK, Ireland, and Benelux. In addition to expanding our Process division, we have significantly expanded our Power Motion Control operations, offering additional design, build and component supply into new market sectors including: mobile, rail, and aerospace. I am confident these acquisitions will provide a solid foundation for future profitable growth. From the outset, the Flowtech Fluidpower strategy has remained the same: to build a fluid power Group to serve all customer needs within the fluid power market. The addition of a fourth, Onsite Services division will in time enable the Group to provide total fluid power solutions in technical component supply, niche product supply and installation, bespoke designed solutions and finally planned onsite maintenance and repair.

By focusing on selected customers, utilising the Group status and investing in machinery, many of our businesses have been successful in winning new and ongoing sizeable supply contracts with billion-pound companies. Two such investments include the automatic hose-cutting machine at Nelson Hydraulics and the Parker pipework machinery at Group HES.

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

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

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

Finally, it was very pleasing to be given such valuable and widespread support for both the Board and the Executive Management team during the recent successful process to raise £11 million (before costs) in new capital for the Group in March and April of this current 2018 financial year. This has enabled us to complete the acquisition of our largest UK catalogue based competitor Beaumanor, along with its subsidiary Derek Lane & Co.

The management will now focus its attention throughout the remainder of 2018 in leveraging the operational benefits that will accrue from not only this acquisition, but also the additions that were brought to the Group throughout 2017 reporting period.

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

Yours sincerely

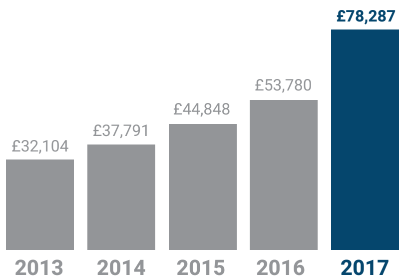
Malcolm Diamond

Malcolm Diamond MBE
Chairman
16 April 2018

Group highlights

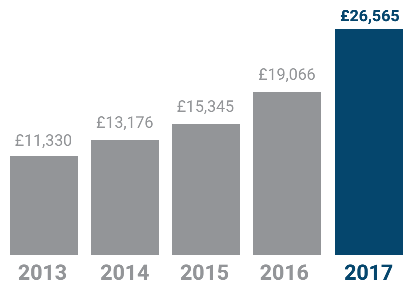
REVENUE
£000

£78.3m



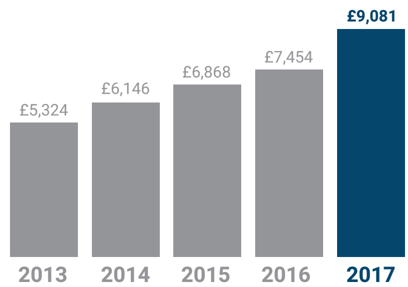
GROSS PROFIT
£000

£26.6m



UNDERLYING OPERATING PROFIT*
£000

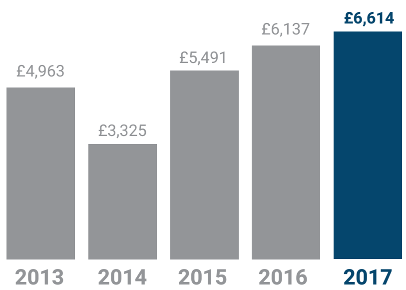
£9.1m



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

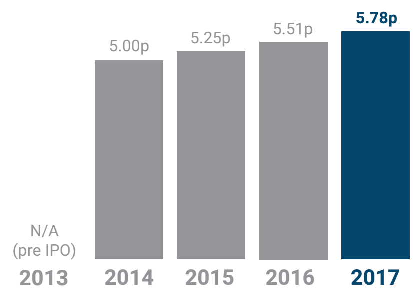
OPERATING PROFIT
£000

£6.6m



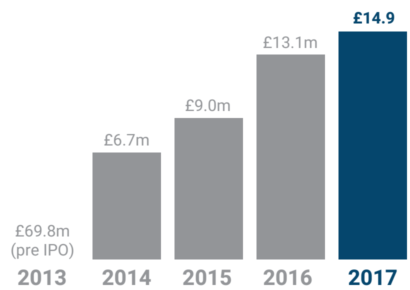
TOTAL DIVIDEND
(p)

5.78p



NET DEBT
£000

£14.9m



OPERATIONAL HIGHLIGHTS

- Revenue growth of 46% on previous year
- Underlying operating profit growth of 21.9% on previous year
- Operating profit margin growth of 7.7% on previous year
- Divisional gross margins maintained despite negative currency pressures
- Six acquisitions in 2017 in line with strategy, and Beaumanor and Derek Lane & Co since year end
- Redevelopment of office space and creation of a centralised logistics centre in England's North West
- New Onsite Services division created
- Pan-European expansion commenced with acquisition of Hydroflex
- New regional Managing Directors appointed for UK and Ireland, and Benelux
- Investment in people, infrastructure and IT to support future growth

"

The benefits of our acquisition strategy are apparent in the financial performance of the Group."

Malcolm Diamond MBE
Chairman

Reasons to invest

1 OUR BUSINESS

A specialist fluid power Group, we provide 'total fluid power solutions', delivering technical products, design, manufacturing services, maintenance and support to distributors, equipment manufacturers and industrial users across the UK and overseas.

2 MARKET

The fluid power market is highly fragmented with multiple manufacturer brands supplying directly to equipment manufacturers and industrial users, and a smaller number of master distribution companies selling into distribution and resale markets. Our multi-channel strategy enables us to cover all three channels: distribution, Original Equipment Manufacturers (OEMs)* and industrial end users.

3 MARGINS

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

4 PRODUCTS

Through a strong product set, purchasing synergies and technical expertise, the Group has been able to develop a reputation for delivering high quality products and market leading services linked to wider added value offerings. Our mix of generic, branded and exclusive own brand products combined with bespoke manufactured solutions is unmatched in the market.

5 GROWTH

We continue to develop a focused offering across many channels and sectors, driven by both organic growth and a strong acquisition strategy of adding complementary businesses from within the fluid power market in the UK and Europe.

6 CUSTOMERS

We have a unique position in the fluid power market, operating across a wide and varied range of sectors through a diverse customer base. Our customer-centric approach ensures we understand their needs. Our catalogue, design and business development support services make us integral to our distribution customers' marketing strategies.

7 WORKFORCE

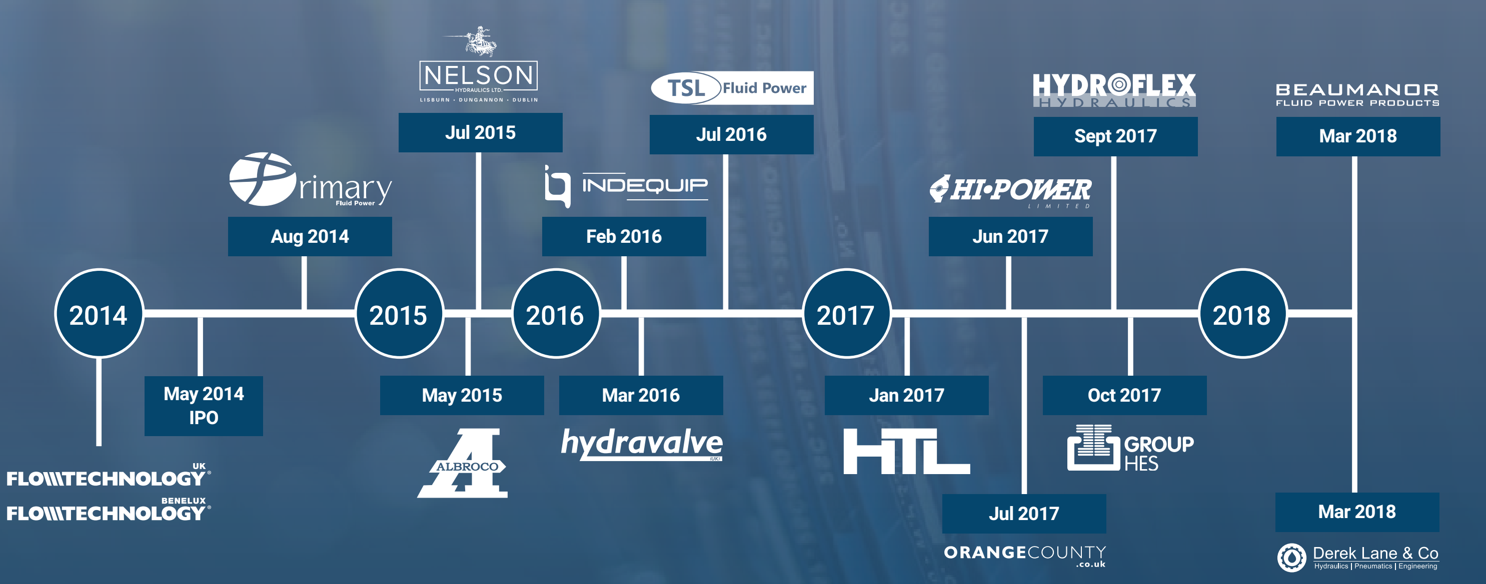
The management team is highly experienced and works in an environment driven by collaboration; this is mirrored through the organisation delivering a market-leading workforce committed to delivering excellence.

8 CAPABILITIES

Our organisational structure has been designed for growth; business units focused on product design, manufacturing, sales and service, supported by a strong central support team and integrated IT systems, allowing quick integration and consolidation.

* OEMs make parts and equipment to be used or sold by other manufacturers.

ACQUISITIONS SINCE IPO



Marketplace

Our market

We operate within the fluid power market, worth over £1 billion in the UK, £11 billion across Europe and £27.6 billion globally.

Fluid power technology is utilised in nearly every product developed and manufactured, across all industrial sectors. By definition **fluid power** uses fluid, either **hydraulic liquid** (mainly oil or water) or **pneumatic gas** (normally compressed air) under pressure to generate, control and **transmit power**. Key industry sectors include: automotive, construction and infrastructure, food processing and packaging, medical, oil and gas, agriculture and transportation services. Of the total UK fluid power revenue, hydraulics represents approximately 70%, pneumatics 20% and the remaining 10% in industrial products which act as conduits for gases and liquids. In the UK, we estimate Flowtech Fluidpower now holds around 10% market share across all categories.

Our competitive edge in the marketplace

The competitive landscape across fluid power is historically highly fragmented with several large organisations supplying a wide selection of technical commodities and many small niche companies offering bespoke products and solutions. More recently, as fluid power integrates with other technologies and as customers lean towards fewer suppliers, a growing trend in consolidation has emerged. Through a highly developed multi-channel strategy, Flowtech Fluidpower is at the forefront of this trend, being one of few globally, and the only UK aggregator to provide a full spectrum of fluid power capabilities. We are specialists within our field; our depth and width of product, broad engineering capabilities and unrivalled service levels are key differentiators, setting us apart from other competitors and enabling us to hold a unique position in our market with no sizeable competition.

Key differentiators:

- unique position within the fluid power supply chain with access to over 500,000 products across multiple global and exclusive own brands
- aligned with both the global supply base and the distributor network
- full spectrum capabilities in hydraulic and pneumatic component distribution, bespoke hydraulic solutions and proactive maintenance services
- world class purchasing and logistics function
- bespoke integrated trading platforms and IT systems
- technical 'know-how'
- multi-channel development strategy, extended through to OEMs and end users
- focused acquisition strategy capable of exploiting our core competences across all European industrial markets

Trends in our marketplace

The uncertainty over Brexit negotiations is being felt across all business sectors. Gross Domestic Product (GDP) growth decelerated following increased pressure on import prices as foreign producers aim to maintain margins. This was further compounded by the inflation rate of 2.7% without comparable wage increases forcing a further squeeze on consumer spending.

Despite diminished domestic economic conditions, the UK fluid power market experienced a strong year, demonstrating 6.1% combined growth of both pneumatic and hydraulic sales in 2017 (source: British Fluid Power Association (BFPA), 2017). This trend is largely a result of: global investment in trade and industry outside the UK, a stronger industrial recovery across Europe and a policy stimulus in China bolstering industrial demand in the Far East, particularly within construction. Moreover, a turnaround in oil markets strengthened additional industrial activity in the UK, leading to a marked growth within the domestic hydraulic market. The BFPA predicts encouraging growth in the UK; an average 2.6% for hydraulics and 3.2% for pneumatics from 2018 to 2021.

£178m

Estimated UK pneumatic equipment domestic market

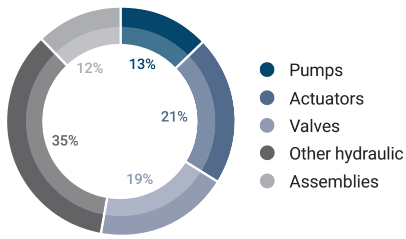
Source: BFPA 2017

£434m

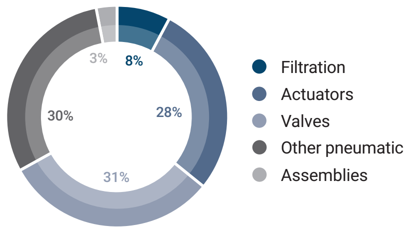
Estimated UK hydraulic equipment domestic market

Source: BFPA 2017

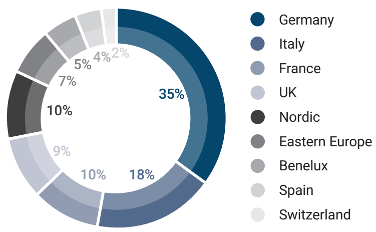
CETOP - hydraulic products (estimated market): 8.8bn Euro



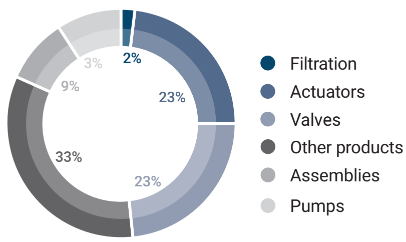
CETOP - pneumatic products (estimated market): 3.8bn Euro



Estimated 12.6bn Euro European fluid power market by country



Estimated 12.6bn Euro European fluid power market by product



Source: CETOP: European Fluid Power Directory 2017/2018. https://www.cetop.org/directory/hydraulics-buyers-guide/

Pneumatic sector

Following a predicted increase of 5% for pneumatic home and export sales in 2017, the BFPA predicts more modest growth of 2.7% in 2018. The impact of weakening automotive sales will likely be offset by stability in food and beverage, the key driver for the pneumatics market. Higher imported food costs are already allowing domestic producers to prosper as consumers explore UK-made alternatives. Unlike hydraulics, the pneumatic market is highly concentrated, enabling distributors to maintain their position. As a result, pneumatic equipment distribution has remained relatively stable over a 15-year period, a trend which is expected to continue.

Hydraulic sector

In 2017 the BFPA predicted a sharp increase of 5.5% for the domestic hydraulic sector, its best performance since 2012 and a marked turnaround from two years of decline. External demand from Continental Europe and Asia further bolstered sales, with an expected total market growth of 7.2%. As post-Brexit negotiations continue, UK hydraulic growth is expected to flatten throughout 2018, before picking up again in 2019. Subdued growth is more a result of an unusual 50% year-on-year growth for mobile hydraulics in July and August 2017 than a general slump in demand. In 2018, industrial hydraulics is expected to grow 3.8% underpinned by specialist markets such as the high value test and measurement sector where UK producers have a strong competitive advantage and are less reliant on investment funding. Additionally, the UK machine tools market is benefiting from stronger external demand outside of the UK. Electro-hydraulics is a key area of development, with the National Fluid Power Centre launching an Electro-hydraulics, Control and Automation course in 2017. The BFPA remains optimistic about the UK hydraulic fluid power outlook, particularly due to investment recovery across Europe which should be long-lasting.

UK Industrial trends

The Group supplies industrial products used in production across all manufacturing industries. Examples include ducting and tubing, clips, clamps, pneumatic power tools and ring main systems. Selling into a wide and varied customer base, we service an extensive range of industry sectors thus spreading the risk of adverse market conditions and creating many opportunities for the Group. Despite the challenges faced by the domestic economy there are a number of positive trends and initiatives that Flowtech Fluidpower is ideally positioned to capitalise on:

- **Manufacturing**: British manufacturing shows a positive outlook. A weaker currency and global growth has made UK exports more competitive with USA, China and Europe showing strong performance
- **Construction**: While commercial building projects remain bound by capital constraints, by contrast the residential sector shows notable strength, supported by a UK Government commitment to build 1 million new homes by 2020
- **Transport**: Airbus and Boeing expansion plans along with extensive projects such as Crossrail 2 and London Underground should ensure that transportation construction will remain robust over the coming years
- **Energy**: Global investment in renewable energy is set to soar, notably from China, India, USA, Japan and Germany. UK offshore wind is the single largest part of the global renewables market. With plans to phase out UK coal by 2025, solar, onshore and offshore wind will offer cheaper alternatives to gas. Moreover, the British nuclear industry aims to cut construction costs by 30%, and potential Government backing could help finance new reactor plants within the UK

£19.9m

Estimated UK pneumatic export market

Source: BFPA 2017

£252m

Estimated UK hydraulic export market

Source: BFPA 2017

How are we responding to UK industrial trends?

Answer:

We are responding as follows:

- Securing new business in growth sectors – e.g. renewable energy, leak detection (an area under closer scrutiny following the Grenfell Tower disaster), nuclear, rail, aerospace
- Market penetration as one Group – our PMC division leverages the power of being one Fluidpower Group, exploiting opportunities to cross-sell across the Group
- Consolidation of stock, allowing us to maintain margins despite increased pressure on import costs
- Investment in automation:
  - We recently installed a second auto-cutting machine at our Nelson Dungannon site; 70% of hoses are now cut via these machines increasing output by 50%
  - TSL introduced two new CNC lathes to reduce dependency on sub-contractors, which has significantly reduced delivery times
  - PFP introduced two new CNC machines which operate continuously

How important is Europe as a market for Flowtech Fluidpower?

Answer:

Our objective remains growth through both acquisitive and organic means over the short, medium and long term. With the Brexit vote and potential future trade barriers, expansion into Europe becomes increasingly important for us and therefore a logical step in our acquisition journey. Strong growth from our two profit centres in Benelux combined with the overall economic trends in 2017 and beyond demonstrate the significant opportunities Continental Europe presents with a market that displays similar fragmentation to our home markets in the UK and Ireland, and at *circa* £11 billion gives us a huge opportunity for future growth.

Group at a glance

Across our four divisions we employ over 550 skilled people throughout the UK, ROI and Benelux. Our ongoing strategy guides how we work together as a Group of complementary businesses to achieve one shared purpose: to be the trusted provider of products, solutions and services to the fluid power market.

FLOWTECHNOLOGY (DISTRIBUTION)

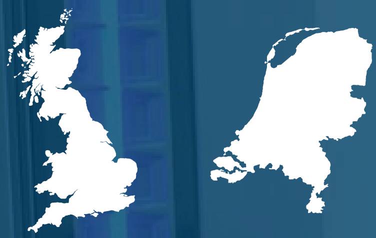
Urgent component distribution to the entire fluid power industry

Suppliers of urgently required technical hydraulic, pneumatic and industrial replacement components for the Maintenance, Repair and Operations (MRO) market. In an industry where downtime is business critical, a highly responsive and reliable service is vital. With the widest and deepest product set refined over 30 years, an established logistics operation and unrivalled service levels in the market, our Flowtechnology companies are specialists in their field, passionate and driven to ensure industry remains in continual flow.

Read more on page 8

Our locations

UK Netherlands



PROCESS

Specialist niche products

Profit centres in our Process division specialise in the supply of high-quality products and solutions predominantly to those sectors that transform bulk materials into specific end user products such as food and beverage, petrochemical, consumer packaged goods, utilities and biotechnology. Our Process division stocks, supplies, installs and commissions specialist equipment for OEMs and end users.

Read more on page 9

Our locations

UK

POWER MOTION CONTROL (PMC)

Specialist hydraulic solutions

A group of specialist fluid power companies, working independently and in collaboration to advise, design, build and deliver hydraulic solutions for OEMs and industrial end users. Additionally, they supply components from leading hydraulic suppliers or manufactured onsite. Each business has a long-standing reputation for service excellence.

Read more on page 10

Our locations

UK Ireland Netherlands

ONSITE SERVICES

Proactive technical onsite installation, maintenance and repair

The Group HES acquisition enabled us to capitalise on demand in the marketplace for a national partner to assist in onsite maintenance. This new division will deliver planned onsite maintenance in fluid power and integrated technologies to manufacturers and end users, both locally supporting our PMC division and nationally providing specialist maintenance services actuators, hose and fittings.

Read more on page 11

Our locations

UK

Pictured: CNC machine at Primary Fluid Power

Divisional overview

Flowtechnology (Distribution)

Customer needs

Flowtechnology serves the MRO market, supplying urgently needed hydraulic, pneumatic and industrial components to keep industry moving. Flowtechnology customers require a highly responsive, reliable and technical supplies partner as an essential part of their day-to-day functioning.

Through e-commerce and catalogue distribution, Flowtechnology companies sell both leading manufacturer brands and exclusive own brands predominantly into distribution but also to smaller OEMs and industrial users. Flowtechnology companies are unrivalled in the industry, for exceptional technical service, and the widest and deepest product set in the market; supplying up to 500,000 products through long-established global supplier partnerships. Many distribution customers utilise Flowtechnology as their warehouse and logistics function, ordering products for next day delivery and even shipping goods direct to their own customers from the Group's logistics centres.

Adding value as a Group

The acquisition of complementary businesses has enabled product range synergies to be identified. The Group and notably the Flowtechnology division has benefited from the economies of scale realised from our extensive acquisition programme, and will help maintain customer pricing in the market, and allow the Group to secure new business organically by internal referrals.

Read more about Our **Business Model** on page 12 and **Divisional Performance** on page 30

KEY FACTS

4 profit centres

211 employees

UK and Benelux

5,500 customers

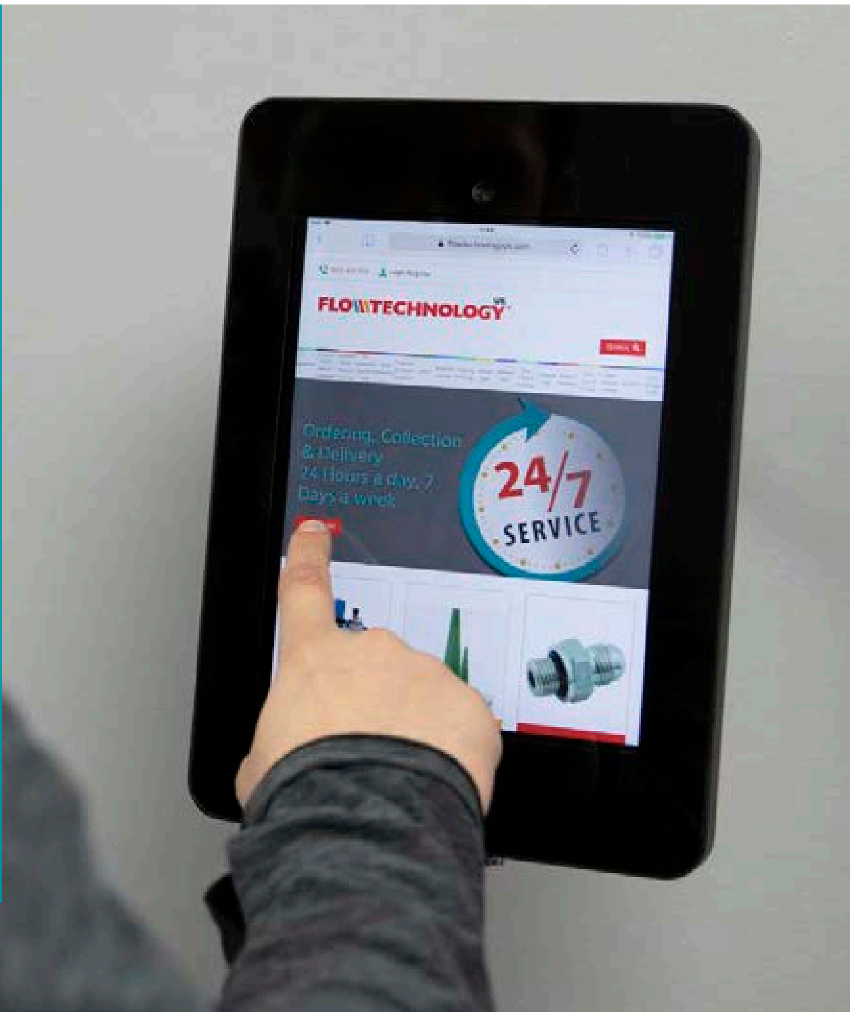
99.5% delivery targets achieved

250 brands

1 acquisition in 2018

Service in action

- **Surpassing expectation through service** – supplying to industries which never sleep, OEM customers require a support partner around the clock. Flowtechnology (FTUK) continues to push the boundaries on service; this year they launched an out-of-hours same day ordering, delivery and collection service, not available by any other UK distributor, which supports their customers and reduces downtime for end user industries.
- **Widening our product portfolio** – the acquisition of Hewi Slangen in 2017 has enabled Flowtechnology Benelux (FTB) to support customers with hose assembly requirements which complements their existing product range. FTB has launched a new online microsite to market this service.
- **Improving end user reach** – Indequip and FTUK continually aim to enhance their support and service to customers. Both have improved the e-commerce platforms they provide for customers to sell product to end users and in turn generate additional revenue for the Group.
- **Easing the pain of multi-currency trading** – this year by customer request, Indequip was the first UK company in the Group to offer a Euro currency version of its catalogue, enabling customers to trade in their local currency. This has allowed Indequip to sell into the Irish market, with 50% more sales than originally expected. The growth plan is to attract more Euro distributors in 2018.



Divisional overview

Process

Customer needs

Process industries operate around the clock and have stringent health and safety standards requiring reliable specialist products either used in the production process itself or around the site locations. Supplying to OEMs and end users, our Process division companies have a strong reputation as technical experts within their niche areas, supplying the following products as single components on a next day service or as part of complex projects involving installation and commissioning:

- specialist valves, which can be pneumatically, electrically or hydraulically actuated (controlled) to various specifications for use in potentially hazardous and explosive environments
- actuators in various materials and specifications e.g. stainless steel within food manufacturing environments to adhere to cleanliness standards
- leak-detection flexible pipework
- specialist pumps for transferring fluids including oil, grease, and other viscous fluids
- safety relief valves and tank fittings to release pressure
- overfill prevention technology

Adding value as a Group

Through the Group's world class logistics centre, both Process division companies have increased their stockholding capacity of existing products and new products which has allowed them to secure new business with more blue-chip organisations and facilitated smarter working within their own warehouses.

Through the Group's creative services team, Hydravalve launched its first catalogue and first e-commerce website, increasing market penetration and enabling customers to view their full product range, check stock availability and buy online.

Read more about Our **Business Model** on page 12 and **Divisional Performance** on page 30

KEY FACTS

2 profit centres

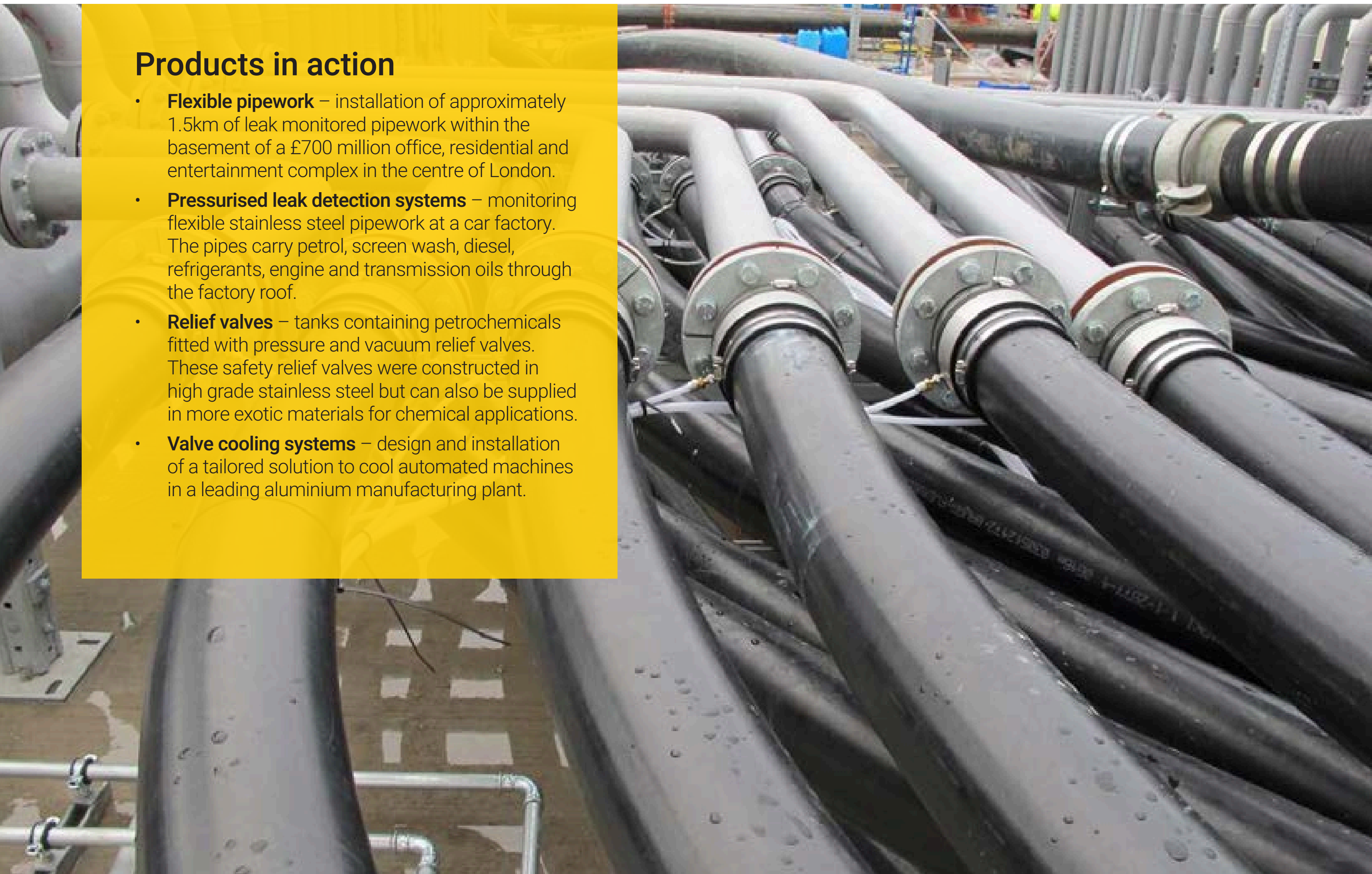
36 employees

UK based

597 customers

25 key supplier brands

1 acquisition in 2017



Products in action

- **Flexible pipework** – installation of approximately 1.5km of leak monitored pipework within the basement of a £700 million office, residential and entertainment complex in the centre of London.
- **Pressurised leak detection systems** – monitoring flexible stainless steel pipework at a car factory. The pipes carry petrol, screen wash, diesel, refrigerants, engine and transmission oils through the factory roof.
- **Relief valves** – tanks containing petrochemicals fitted with pressure and vacuum relief valves. These safety relief valves were constructed in high grade stainless steel but can also be supplied in more exotic materials for chemical applications.
- **Valve cooling systems** – design and installation of a tailored solution to cool automated machines in a leading aluminium manufacturing plant.

Divisional overview

Power Motion Control (PMC)

Customer needs

Hydraulic systems play a crucial role in the smooth and efficient operation of industrial machinery. The PMC division supports both OEMs and end users. In addition to high-end products from trusted global brands, customers also rely heavily on PMC's specialist technical advice and engineering expertise to design, build and deliver bespoke hydraulics systems.

PMC companies are active in both mobile and industrial hydraulic markets. They supply industry leading components and critical and complex hydraulic built systems using hydraulics parts such as cylinders, pumps, motors, valves, filters, actuators, hose and fittings, which add value on a daily basis to the end user market.

Adding value as a Group

The PMC division markets itself as one Fluidpower Group of complementary businesses, which strengthens their overall position within the market, ensuring opportunities are passed on to other members of the division and additionally, simplifying life for the customer.

The aftersales market provides a substantial level of repeat business. Access to the Group's world class logistics centres has enabled PMC to easily and quickly supply specific replacement parts, ensuring customer satisfaction remains at an all-time high.

Access to stock from across the Group has enabled PMC divisional members to protect and increase profit margins by buying generic components at a more favourable price than via external hydraulic manufacturers.

Read more about Our **Business Model** on page 12
and **Divisional Performance** on page 30

KEY FACTS

8
profit centres

351
employees

UK, Ireland and Benelux

2,700
customers

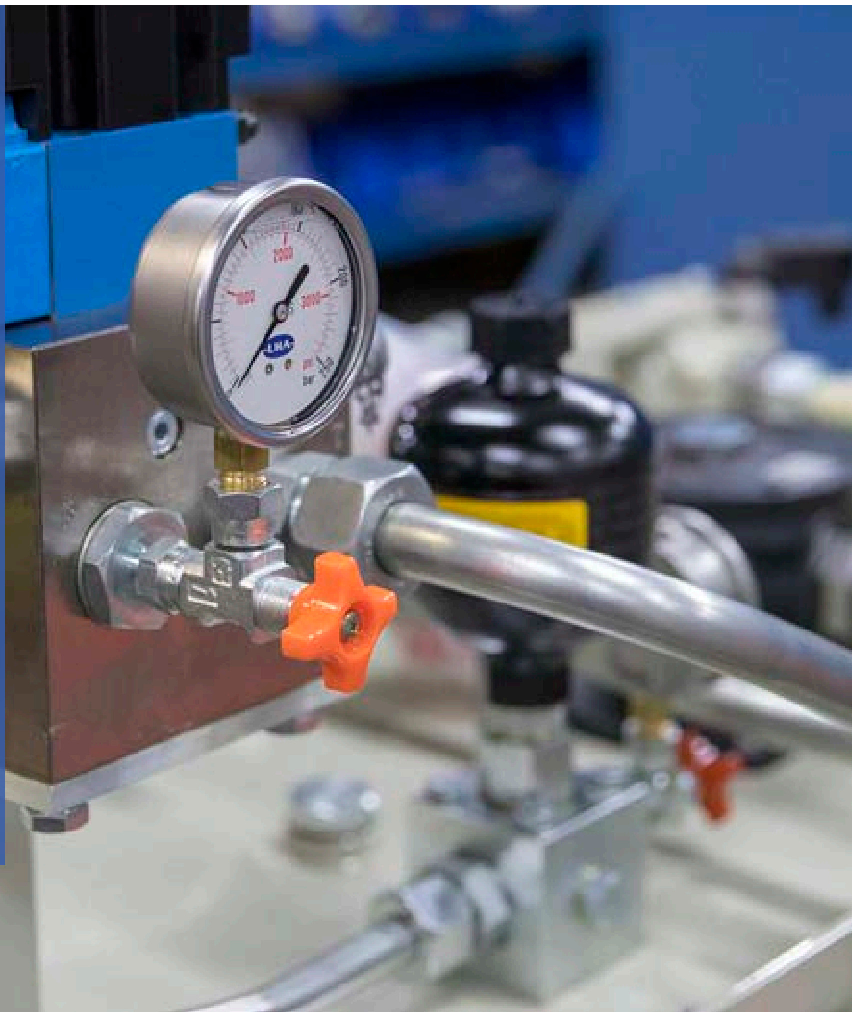
100
brands

5
acquisitions in 2017

1
acquisition in 2018

Products in action

- **Sophisticated hydraulic systems** providing power, motion and control to A-frames used to launch and recover large submarines for rescue operation and oceanographic research.
- **Bespoke electro-hydraulic directional control valves** used by fruit harvesting machine operators to independently control five separate conveyors in the most energy efficient way.
- **Custom made hydraulic cylinders** with a battery operated hydraulic power unit and wireless connectivity to a digital controller providing improved efficiency in a nuclear/military manufacturing plant. The solution allowed manipulation of an 80 tonne object 12 metres in the air with movement precision of 0.1mm.
- **Dual road rail transmission drive systems** for rail shunting to move loads of over 1,400 tonnes using innovative remote controls which enable the machine to move waggons within 10mm precision for wheel maintenance.
- **Oil extraction** requiring robust high pressure premium fittings to create a leak free fit, intrinsic to the safety of such systems.
- Supply of around **25km of hydraulic hose** for a market leading OEM in heavy-duty vehicle lifts and high quality loading bay solutions across the USA, Europe and Asia.



Divisional overview

Onsite Services

Customer needs

A costly problem within the fluid power sector involves urgent repair to critical yet often older machinery with little or no technical information to hand, which can result in multiple site visits to fix.

Increasingly multi-site OEMs seek national partners with a local presence to service their sites up and down the country in the most efficient way to mitigate costly downtime. Moreover, with the emergence of Industry 4.0* and the shift towards more integrated technologies, skilled fluid power engineers with experience in sophisticated monitoring, control and automation technologies are in high demand to get the job done single-handedly first time.

Our national planned maintenance operation will enable us to understand clients' machinery and have the required equipment prior to arriving onsite, to ensure we fix the problem first time.

Adding value as a Group

Working in partnership with other divisional members provides us with an instant customer base, enabling us to hit the ground running with existing clients. Moreover, removing onsite maintenance from our PMC division will enable them to focus on securing new business from existing and new clients which in turn they can pass on to the Onsite Services team as an aftersales service.

* Industry 4.0 combines automation and information exchange within manufacturing.

KEY FACTS

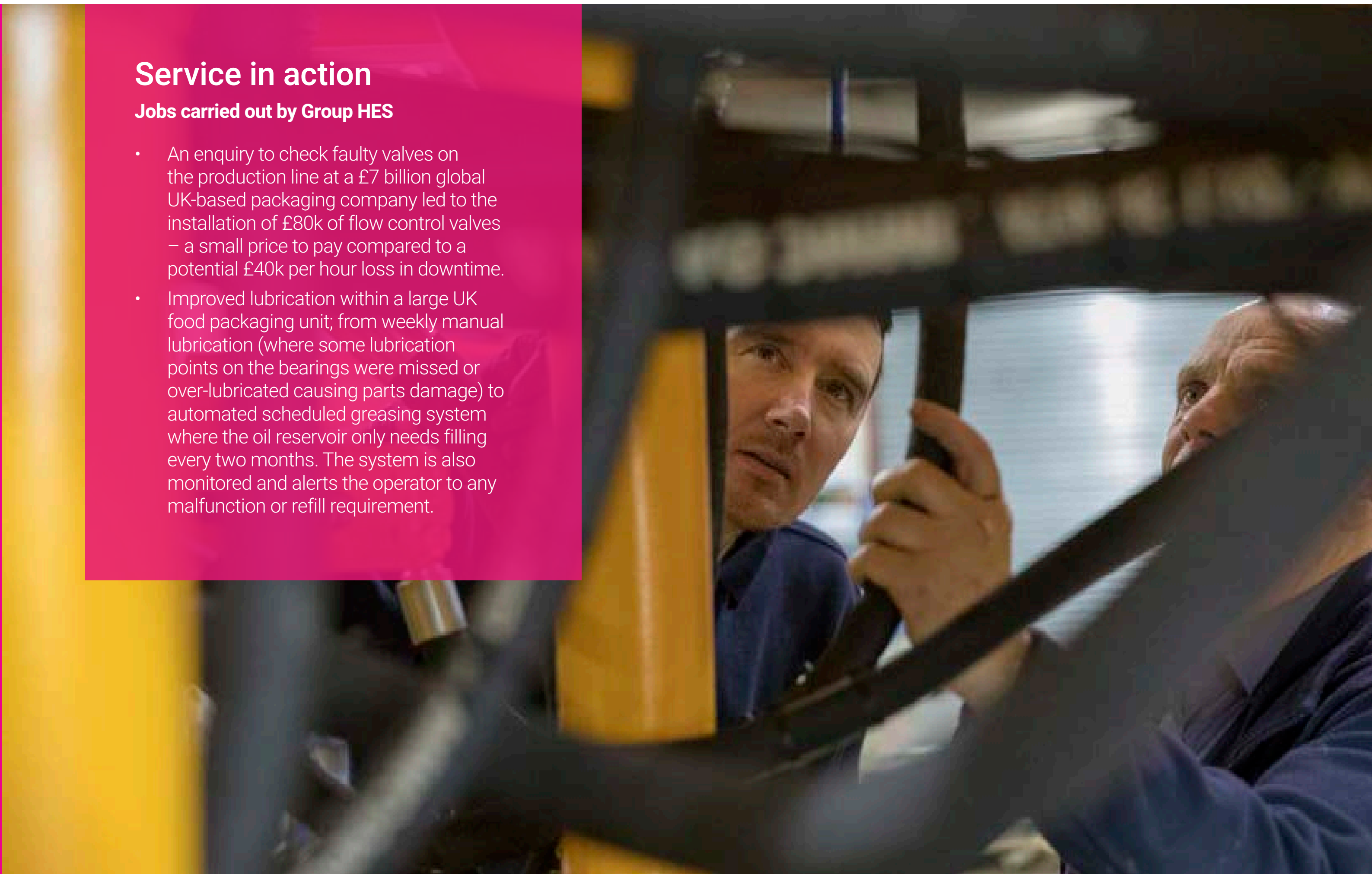
Onsite Services is a new division for the Group, utilising existing expertise from Group HES. The division sees Flowtech Fluidpower launch the final leg of its multi-channel strategy, adding planned onsite maintenance, to provide a total fluid power service in component distribution, bespoke solutions design and supply and onsite servicing.

Through the Group HES acquisition, we already have a number of blue chip OEM customers and will utilise both existing and new expertise to develop this division.

Service in action

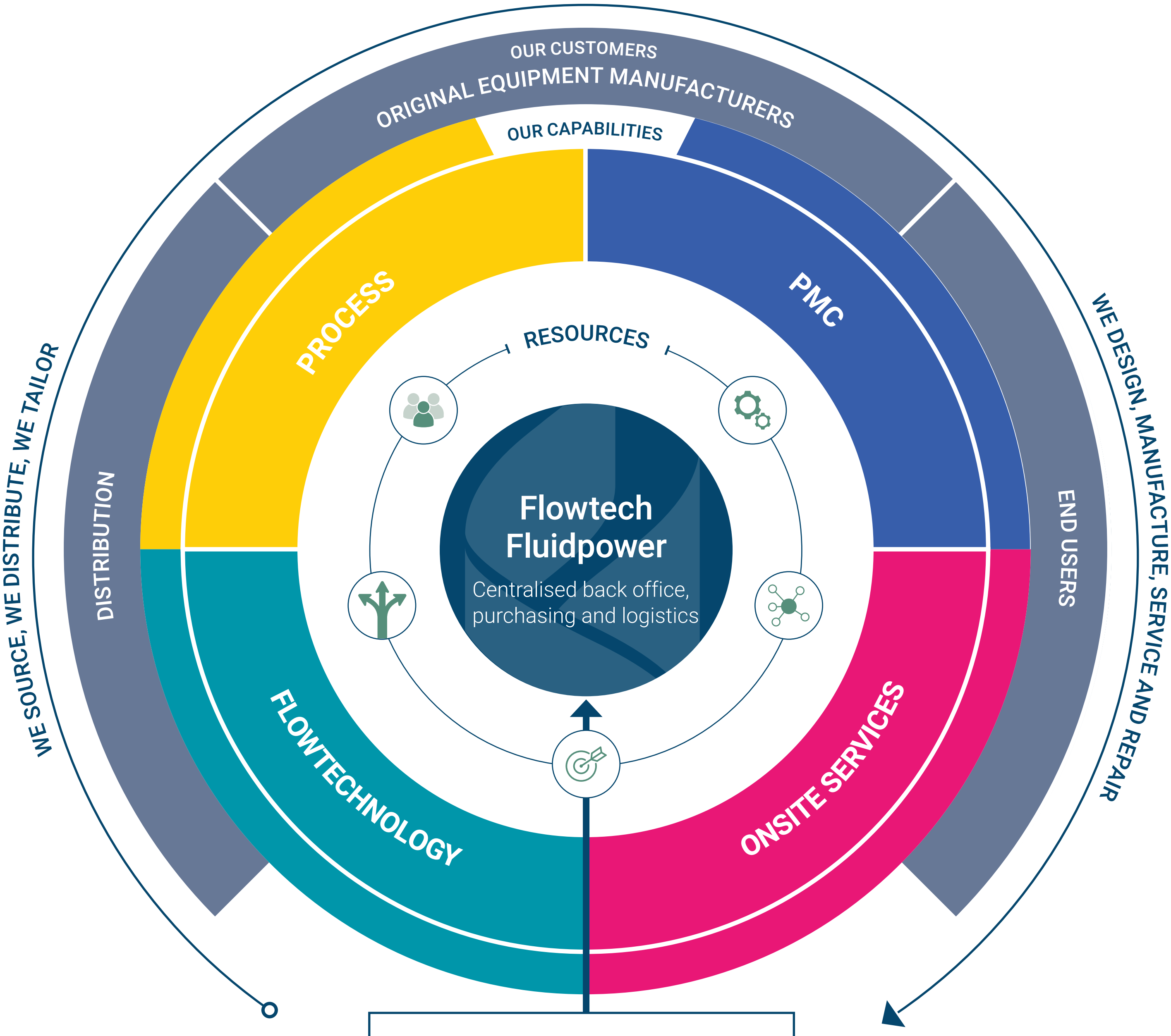
Jobs carried out by Group HES

- An enquiry to check faulty valves on the production line at a £7 billion global UK-based packaging company led to the installation of £80k of flow control valves – a small price to pay compared to a potential £40k per hour loss in downtime.
- Improved lubrication within a large UK food packaging unit; from weekly manual lubrication (where some lubrication points on the bearings were missed or over-lubricated causing parts damage) to automated scheduled greasing system where the oil reservoir only needs filling every two months. The system is also monitored and alerts the operator to any malfunction or refill requirement.



Business model

"As a specialist provider of fluid power products, Flowtech Fluidpower prides itself on having a strong business model which can deliver sustainable growth."



DELIVERING SUSTAINABLE GROWTH

Developing our resources, capabilities and further trust in our branded businesses to deliver

Recruiting and retaining talented individuals to offer specialist advice and support to customers and colleagues

Investing in acquisitions, we will widen our service portfolio and the number of markets we support

OUR CAPABILITIES

Through our four divisions we provide ‘total fluid power solutions’ delivering technical products, design, manufacturing, installation, maintenance and support to distributors, equipment manufacturers and industrial users across the UK and overseas.

Supported by a strong central support team and integrated IT systems, each business operates independently with the opportunity to tap into shared resources to strengthen and streamline their service to customers whilst maximising profit margins.

OUR RESOURCES

People
Our people are our greatest asset. Their drive, expertise and dedication ensure we continually push the boundaries of exceptional service.

Innovation
Our ability to design and innovate for specific client needs and serve the market at speed act as differentiating features from our competitors.

Products
Offering a diversified range of technical products ensures we enhance, maintain and support our customers’ operations.

Channels
Through our distribution partners and acquired businesses we can easily engage with customers in a manner which suits them and their business.

Diversified business
Acquired businesses provide expertise and personal services to customers without the hassle of back-office administration.

ADDING VALUE FOR OUR STAKEHOLDERS

Customers
We help our customers’ businesses keep going. We provide vital parts within the manufacturing process and also work with them to deliver technical expertise and new, innovative thinking that can help improve their operations and service to their own customers.

People
Working in a progressive organisation that retains local roots whilst receiving the benefits of a large business such as centralised support services, job security, equal opportunities, training, career progression and a safe and rewarding place to work.

Shareholders
Our specialist position enables us to maintain margins and deliver strong cash and dividend flow. Reinvestment will facilitate future development in IT and infrastructure, investment in our people and further geographic expansion, enabling us to grow the value of shareholder investment over time.

Suppliers
Access to a widening network of technical distributors, specialists they can rely on to professionally and safely promote their brand. Increased orders and financial reassurance from a Group purchasing function.

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

Strategy

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

The successful integration of new businesses into the Group is critical, maintaining momentum and ensuring an ability to continue to trade with their customers seamlessly.

STRATEGIC FOCUS	DESCRIPTION	HIGHLIGHTS
Brand Positioning	The overall Group brand is positioned as a full-service fluid power provider, which encompasses all our trading businesses. Brand identity and the ability to maintain and build a strong reputation is critical to our long-term development. For all future acquisitions, brand and reputation will be paramount with the intention to maintain local branding and develop its existing position. Product brand expansion continues to be a key development area for the Group.	• Rebranding of the Group to further differentiate the corporate brand from the original "Flowtech" business • Acquisitions have strong brand identities within their sectors • The establishment of a new umbrella brand for PMC; the "Fluidpower Group" which focuses on hydraulic application solutions and technical expertise, providing the customer with a specialist service from a single source • Extension of our Global manufacturing partnerships, with the addition of another exclusive own brand "Techmatic"
Acquisition and Integration	• The strategy is to acquire complimentary fluid power businesses operating in specific sectors. Each business being highly focused operations delivering quality customer service. • Integration projects are ongoing to streamline processes across the Group to ensure we minimise the administration burden and concentrate on delivering service excellence to our customers.	• Acquisitions have brought substantial new skills, knowledge, access to new markets for fluid power components and talented management teams • Six acquisitions were made in 2017 with an additional one in March 2018 • Continual improvement to Standard Practice Instructions (SPIs) including SPIs for all Group IT policies
E-commerce and Business intelligence	The Flowtechnology operations have always been innovative in the use of e-commerce with our websites being fully integrated into our ERP systems. With over 70% of customer orders being placed through the website. This model will be rolled out throughout the operating units within the Group. Business intelligence initiatives create insight which enables us to improve our stock profile and inventory usage and create strong pricing strategies.	• Completion of super server project, allowing hosting of Enterprise Resource Planning (ERP) systems for all business units at the Skelmersdale site, with additional offsite disaster recovery facilities • Creation of centralised supplier payments system, providing purchasing intelligence and delivering processing efficiencies • Established consistency of IT infrastructure across all sites which allows Group to ensure GDPR compliance. • Cyber Essentials accreditation achieved by Flowtechnology UK and Indequip • Launch of two newly updated websites, Flowtechnology UK and Indequip

PRIORITIES FOR THE FOLLOWING YEAR	ASSOCIATED RISKS
• To reposition the plc as an inclusive brand covering the full-service offering to the market and representing four distinct channels • Drive the umbrella branding of PMC, the "Fluidpower Group", to deliver complimentary product and service opportunities through the sister businesses, utilising technical expertise and product competence • Strengthen the position of each business unit brand by tactical marketing and promotions • Building on our relationship with Global brands to continue building our position in the market place, ensuring our customers have access to extended product ranges to cover the wider market sectors	• Poor communication strategy • Lack of clarity of message • Failure to integrate and align the strategies of the business model
• Continued growth of the Group by strategic acquisitions, adding complimentary businesses to the relevant channels • Evaluation of our European acquisition strategy, initially targeted at increasing the Group's presence and scale in the Benelux • With the acquisition in March 2018 of Beaumanor, a fluid power catalogue distributor, the Group now has three of the major catalogue houses in the UK. This will allow the Group to drive through a number of synergies and build in business service protection • The updated data repository will be utilised to harmonise the product offer across the three businesses, optimising purchasing costs, inventory turnover and increasing overall service levels. This will also reduce customer conflict and improve catalogue production. • To maintain business continuity, as part of the disaster recovery plan the Beaumanor facility will be used as the backup logistic centre to Skelmersdale. An evaluation of the system linkage between Beaumanor and Skelmersdale will determine the best route for integration of the warehousing processes	• Failure to identify suitable acquisitions which add complimentary businesses to the Group • Inability to quickly align the warehouse systems between the two logistics centres • Inability to quickly align management reporting processes and accounting controls
• Obtain Information Assurance Standard for Medium-Sized Enterprises (IASME) Gold certification for the Skelmersdale site and replicate best practice to achieve Cyber Essential accreditations across all UK business units • Develop reporting in Sage X3 to consolidate data from multiple ERP systems across the businesses • Evaluate operating systems across the catalogue distribution businesses, to deliver an integrated ERP solution, maintaining the existing e-commerce platform	• Inability to recognise cyber exposure • System and site disruption • Lack of planning

Strategy continued

STRATEGIC FOCUS	DESCRIPTION	HIGHLIGHTS
Product and Sourcing	We aim to be positioned as a full-service provider for fluid power products and services. The ongoing expansion of ranges and brands will see the Group create increasing opportunity for a larger percentage of customer spend and open up new opportunities in the wider market. The Group nurtures its relationships with OEM suppliers while continuing to develop its complementary exclusive brands.	Acquisitions have given us extended ranges across many of our major product groups; • HTL – bespoke mobile valve assemblies • Hi-Power – heavy duty automated greasing systems and bulk discharge equipment • Orange County – specialist piping and monitoring systems • Hydroflex – Bespoke hydraulic hose assembly for Benelux • Group HES – Parker large bore piping, Danfoss range, bespoke gear boxes and axles • Beaumanor – Catalogue based distribution business with international supply line
Supply Chain	We have built long-term partnerships with our suppliers and quality logistics companies, enabling us to provide the pace of responsiveness our customers demand. The Flowtechnology businesses consistently achieve our service level targets of 99.5% of orders delivered next day. This is underpinned by our strategy in product, sourcing and sound inventory management. Where acquired businesses include a catalogue distribution operation they will be linked into the distribution segment to provide synergy opportunities and savings.	• Restructure and refurbishment of main logistics centre, increasing capacity and creating scope for future expansion • Supply chain proactively introduced leaner stock management practices including; economic quantity ordering, more frequent stock turnover, working with suppliers to pack goods in a more efficient way for stock replenishment, prioritising arrivals of stock • Supplier account managers appointed to build collaborative relationships • CIPS qualification training started to support best practices
People	People are one of our strongest assets. As well as recruiting new talent, we acquire companies who recognise 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 long-term success.	• Nick Fossey appointed regional MD UK & Ireland, Mark Richardson appointed regional MD Benelux • Five new appointments to the Operational Board; Alan Willis, HTL, Maurice Kearney, Hi-Power, Leo Voogd, Hydroflex, Chris Way, Group HES and Stuart Diesel, Onsite Services division • As part of the Beaumanor acquisition in March 2018, Mark Cropper, Beaumanor and Mark Venn, Derek Lane & Co have joined the Regional Board • Apprenticeship programmes are in place at Primary Fluid Power, FTUK, Group HES, Orange County and Hi-Power. Five apprentices have been retained within the Group. • Croner support in health and safety at nine sites, working to develop consistent procedures and policies Group-wide

PRIORITIES FOR THE FOLLOWING YEAR	ASSOCIATED RISKS
• To increase access to new product ranges and technical knowledge through the integration of the acquisitions • To develop a schedule of supplier visits by the Strategic Buying team to evaluate both new and existing suppliers, focused on price and performance, and to monitor a continuous improvement program • To create closer partnerships with specific large OEM manufacturers, developing a more collaborative approach to the market place	• Lack of quality control • Inability to influence and build supplier relationships • Lack of cost focus
• Optimise Group purchasing activities to deliver cost savings by utilising economies of scale, rationalising the supplier base, consolidating stockholding into the main logistics sites and reducing carriage costs • Evaluate and implement procurement planning software across the catalogue distribution businesses in the UK and Europe, to deliver an integrated approach • Major brand evaluation, support, lead times, system linkages and partnership opportunities	• System and site disruption • Lack of competent employees • Inability to influence business
• Set up a Group Business Development team to work across the Group to develop new business opportunities • To maintain an open culture within the business, encouraging and valuing opinions • Training programs on the SPIs to reduce administration processing costs and improve the visibility and control of local business costs • Continued employee evaluation processes to develop talent from within the organisation	• Lack of open debate and discuss • Talent management and succession planning

Strategy in action: SUPPLY CHAIN

Investment in centralised purchasing and logistics

The opportunity

As our acquisition strategy developed, it became apparent that our clear focus on fluid power would enable us to consolidate some of our core business functions in purchasing and logistics and create a centralised service from which all Group members and their customers could benefit.

All businesses within the Group are renowned for exceptional service and it is important for us to protect and enhance this service externally to customers and internally to each other. We have a clear strategy to develop our existing logistics facility, leveraging off the unrivalled service levels that we deliver to the fluid power market at present, for use by all our internal operations.

The last two years have seen the transformation of the FTUK distribution centre into a new office complex and much improved logistics centre with increased capacity which will service and add value to our existing customers but also expand across the whole fluid power market, delivering to our own businesses and to OEMs across the UK and Europe.

Strategic improvements

Increased capacity

A shift towards centralised purchasing of common products across the Group enables us to benefit from economies of scale. Strategic bulk purchasing of these product lines required additional space in quickly accessible stock locations to service all members of the Group and in some cases direct shipments to their customers.

Working with Kardex, the supplier of our vertical product storage and retrieval lift systems, we installed three new lifts, creating a total of 16 lifts. Each lift has a footprint of 4.5 sqm, 3,000 product storage locations across one hundred shelves, each shelf able to hold up to 500kg, meaning across the three new lifts we have created an additional 133 tonnes of product storage, increasing our capacity by 35% and consolidating stock into one picking zone. It was also important to increase our capacities in other areas; to that extent we increased our bulk storage capacity by over 2,000 new pallet locations (25%), which will enable us to further consolidate our purchasing and accommodate bulky items for the Group.

Streamlined warehouse

Important consideration was given to the existing warehouse layout and resultant changes have enabled logistics operational efficiencies to be improved without the need to employ additional employees. Moving the despatch team 50 metres, immediately next to the lift systems, where 80% of products are picked has improved the speed at which tasks are done, allowing us to cope with extra demand from other Group companies without any additional resource.

Goods-in has relocated to a more user-friendly area and investment in mobile booking in terminals with tablets, handheld scanners and printers has created a more flexible area and reduced equipment costs. The onsite collection point has moved to the front of building with tablet browse and ordering technology for increased customer convenience.

IT integration

We needed to create seamless links from our order processing to service, pick, pack and despatch and to this extent we work closely with Kardex and our own IT support teams, to develop systems which link directly through our standard picking routines. The new Kardex machines include a double tray configuration which presents the operator with two trays simultaneously, and holds a third in the background, decreasing the waiting time by 30 seconds per transaction across 4,500 transactions per day. The picking time window has narrowed which frees the department to concentrate on other tasks and has enabled us to maintain our high operational efficiencies and achieve over 99.5% fulfil rates.

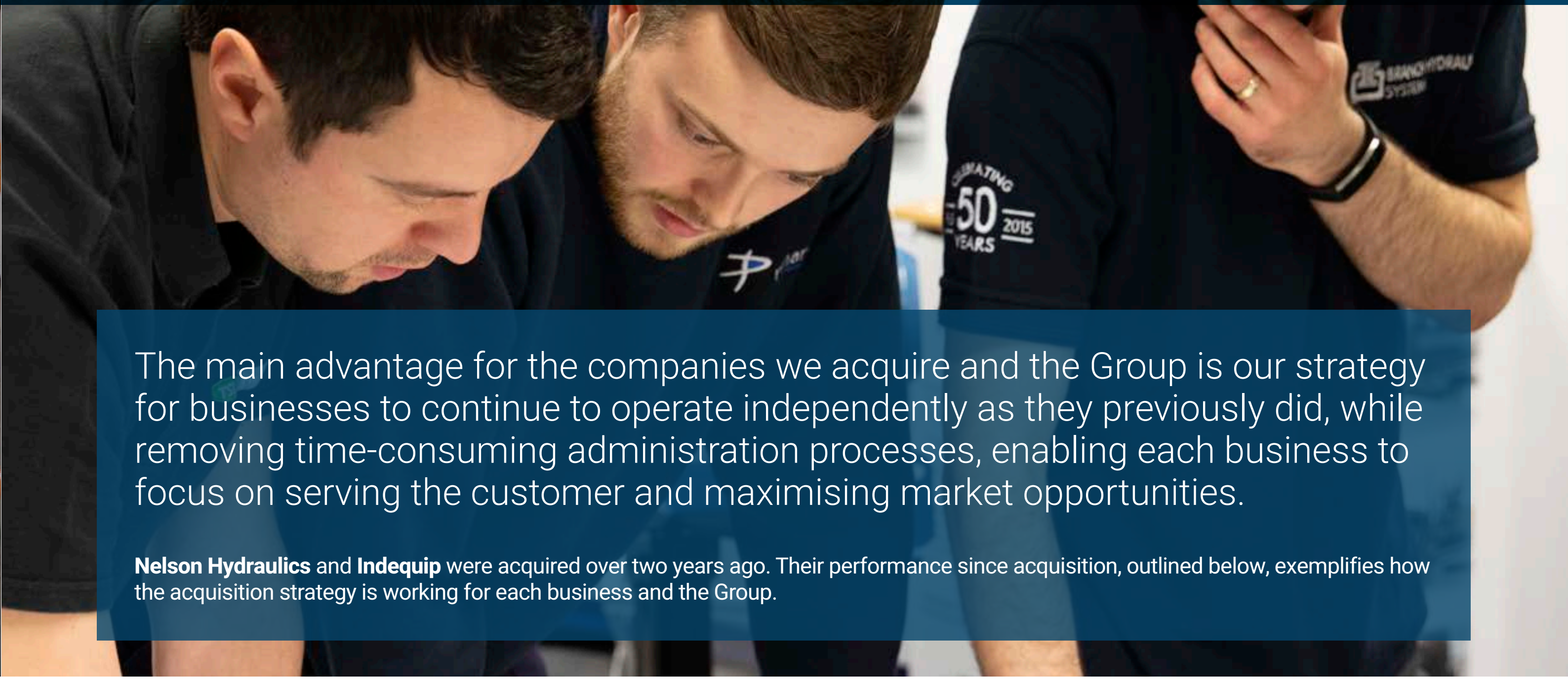
As a result of these changes, the logistics centre has increased output by 10% over the year, using the same number of employees and no additional overtime.

Safeguarding for the future

Our growth strategy includes a strong acquisition pipeline. Width of product set is critical to our growth. In such an evolving business we have to make provision for future expansion to ensure we remain the market leader in our field. We have the capacity to install additional lifts, and this ensures we can expand our current operation to support our companies, our customers and industry as a whole.

Strategy in action: ACQUISITION AND INTEGRATION

How joining a plc is adding value for our businesses and the Group



The main advantage for the companies we acquire and the Group is our strategy for businesses to continue to operate independently as they previously did, while removing time-consuming administration processes, enabling each business to focus on serving the customer and maximising market opportunities.

Nelson Hydraulics and **Indequip** were acquired over two years ago. Their performance since acquisition, outlined below, exemplifies how the acquisition strategy is working for each business and the Group.

Nelson Hydraulics (Nelson)

Nelson is a hydraulic components and hose assemblies business, based in Ireland. Previously owned by the Nelson family for 50 years, the company was purchased in July 2015 under a two-year earn-out agreement, which de-risked the purchase for the Group and presented a more lucrative option for the previous owners.

Still managed by former owner and MD, Mark Nelson, the company retained its original team and strong relationships with customers throughout Ireland and globally.

Since acquisition, Nelson's revenue increased by 30%. Sensible cost savings, investment from the Group and taking advantage of the resources available have ensured sustainable growth via the following initiatives:

- Investment in machinery – the company invested over £150k in two automated hose cutting machines, which cut around 70% of all hose assemblies in half the time and with 100% accuracy.
- UK expansion – new division of Nelson Hydraulics set-up within mainland UK to expand the hose assembly service. Operating from Primary Fluid Power, it utilises current facilities within the Group.
- Improved reputation – with no previous marketing support, Nelson utilised dedicated marketing expertise to create company brochures and presentations for global leading companies. In addition, Nelson is one of eight companies within the PMC division who go to market as one Group of companies with complementary skillsets. This combined with the kudos being part of a plc brings has significantly raised the profile of the company.

The above initiatives, combined with a clear direction and bold mindset from the Board, has encouraged Nelson to seize opportunities, which previously they may have been nervous to take. The investment in machinery along with promoting their Group status enabled Nelson to secure a £1 million contract with a leading company in the crushing industry and additionally service increased demand from existing customers.

Indequip

Indequip, a specialist distributor of pneumatic components based in the UK, was purchased as an asset sale in February 2016. Prior to acquisition, Indequip had a strong position in the distribution market but was becoming severely constrained with little investment from its former owners to drive the business forward.

Still operating under the same MD, Ian Simpson, and retaining the majority of its original workforce, Indequip has experienced two years of solid sales growth; 38% in 2016 and 32% in 2017.

Being part of the Group has enabled Indequip to flourish and add value in the following ways:

- Enhanced stocks – investment, buying expertise and a sophisticated warehouse and logistics function have increased despatch rates from 70% to 97%, empowered the team to proactively win business and facilitated the launch of Indequip's exclusive brand, 'Techmatic'.
- Improved reputation – repositioned themselves away from former negative perceptions via a rebrand in 2016. Customers saw this as a giant leap for Indequip and felt compelled to support them in their journey. Being part of a Group enabled Indequip to secure the UK contract for pneumatic supply into a global online distribution business and also within the packaging process for a leading UK building materials and construction company.
- Enhanced services and secured additional business through machined products (via sister company Primary Fluid Power) and marketing and catalogue production (utilising centralised creative services and IT). In 2017, they doubled online sales via a new website and also launched the first Euro-version fluid power catalogue in Ireland supporting Irish customers and winning business in a new geographic location.
- Increased team morale, following a successful integration process, a new collaborative office space and overall business success.
- Strategic reporting and planning via new business Intelligence and customer relations software.

Fundamentally, both businesses have enjoyed ongoing successes as a result of strong leadership and the belief and trust each managing director had in the vision delivered from the Board at the time of acquisition and beyond.

Our values – delivering tailored solutions

Improving the reliability of trains – HTL

About HTL

Ludlow-based HTL has been serving the mobile OEM market for over 40 years and provides complete hydraulic solutions from design to installation. They have strong long-term relations with suppliers and an unrivalled service to customers, with bespoke requirements often delivered within 48 hours. They are active in many market sectors including agriculture, airport ground supply equipment, construction, material handling and rail.

The challenge

Many passenger cars within the rail sector are equipped with a dated waxstat cooling system which can be inefficient and inherently unreliable, causing over-worked parts, excess maintenance and delayed train journeys.

The solution

Our experienced engineering teams identified that replacing the existing cooling system with an electro-hydraulic fan drive system made from a kit of parts including wiring, hose assemblies, temperate sensors and an electronic fan control would bring significant benefits.

The new electro-hydraulic system provides ground-breaking flexibility with live diagnostic data available via a simple plug into a laptop, allowing the engineers to adjust the parameters of the system with ease, while optimising the efficiency of the cooling system. In addition, the solution provides a variable fan speed resulting in significantly less stress on the blades of the fan.

As a failsafe and in the event of damage to the system, the fan is automatically set to 'on', to minimise the risk of over-heating.

HTL recently supplied the solution into both Arriva Trains Wales and Abellio ScotRail, working with each to configure the product to suit individual customer requirements. The HTL team were on hand to ensure the new concept was commissioned correctly and to answer questions during the initial installation phase. By the end of 2018 over 100 passenger cars will benefit from this easy to install solution.

The benefits

The solution that replaces the waxstat system provides many benefits including:

- Lower installation costs including reduced pipework.
- Supplied as a kit, enabling quick and easy installation and commissioning. HTL pre-set the parameters for convenience but they can be adjusted with ease.
- Easy fault diagnosis system reduces maintenance.
- Improved efficiency. The option to use a variable displacement pump (pumping oil to areas that need it rather than continuously) would further improve energy efficiency and therefore reduce running costs.

HTL has been instrumental in tailoring, installing and commissioning an innovative solution which provides ongoing efficiencies for the rail sector and significantly improves the reliability of train journeys across the UK.

40

Years
Serving the mobile OEM market

100+

Passenger cars
will benefit by the end of 2018

Our values – nurturing solid partnerships

Branch Hydraulic Systems, part of Group HES, launches first UK Parker Piping Centre

About Group HES

Group HES is a specialist in hydraulic component and systems supply. The company enjoys an excellent reputation for the design, manufacture, installation and servicing of critical and complex bespoke hydraulic and control solutions. Built on over 50 years of trading expertise, their five trading entities work in collaboration to achieve bespoke fluid power solutions for customers and industry.

The opportunity

In 2016, Branch Hydraulic Systems (BHS), part of Group HES became aware of a potential contract with Galliford Try (GT), a major contractor building the new Airbus Wing Integration Centre (AWIC) project at Filton, near Bristol. This new facility is supported by the Aerospace technology Institute (ATI), Department for Business, Energy and Industrial Strategy (BEIS) and Innovate UK. The contract was to supply, build and install the hydraulic ring main system which provides a solid power supply for the sophisticated test equipment that is at the heart of this new facility. BHS was interested in developing the capability to offer large bore pipework installations, a key element of the GT contract and many other opportunities across industry with only one other main competitor in the market supplying pipework of this size. Moreover, it would also complement their current site service offering, enabling the company to generate additional business.

A key facilitator to success

Parker is one of the world's largest manufacturers of motion and control technologies, part of their product portfolio is an innovative large bore piping range. Leveraging their long-standing supply relationship, BHS secured an agreement with Parker to fabricate large bore pipework alongside their own brand which is modelled on Parker's impressive non-weld Complete Piping Solution (CPS). Following a successful tender process, BHS won the contract with GT and work started to build the first UK Parker Piping Centre at the Group HES site in Gloucester.

Combining expertise

The Airbus project involves system design, manufacture of hydraulic power packs, design and development of control software systems, electrical and control panels, onsite installation and commissioning of over 1km of pipework. With wide-ranging engineering capability across Group HES, BHS was well positioned to take on the contract. Group HES's previous investment in 3D CAD was invaluable in this project, as they can easily plan, design and manage the process. In addition, sister company HES Automatec created the software in-house, using a National Instruments product, that runs the Parker variable speed drives, as well as developing sophisticated data acquisition systems. To ensure manufacture is in accordance with Parker's stringent quality and safety protocol, a period of intense training was undertaken both in Germany with the Parker team and at our Gloucester operation.

The future of the piping centre

Parker's high-performance pipe flaring technology represents the very latest in non-weld technology, surpassing current weld options and is interchangeable with standard industry systems, for a clean, reliable and leak-free piping system. Group HES aims to nurture its ongoing partnership with Parker, taking advantage of the limited competition in the market.

Our values – continuing strong traditions

Celebrating our heritage, building our future

Our business is built on trust. For that reason, our people are our single most important resource. Having long-standing partnerships with both customers and suppliers locally and across the globe, they provide knowledge, creativity, vision and motivation that keeps our business thriving.

Hydravalve

Founder and MD Andy Newham with his daughter Marie and two sons Eddie and Andrew

Indequip

Founder Ian Simpson with his daughter Chloe and brother Stuart.

Group HES

Former MD Stuart Diesel (now heading up Onsite Services), with his brother Bruce, two sons Matt and Alex and Bruce's son Josh (Alex and Josh work during university holidays).

Left to right: Matt, Bruce, Josh, Alex and Stuart Diesel

Acquiring strong companies

Building a strong Group, is as much about the people as it is about the products or services we offer.

As well as recruiting new talent, we are keen to acquire companies who value their workforce and share our vision for exceptional service. With each acquisition, as centralised functions emerge, we are keen to retain committed employees and redeploy valued skills and positive work ethic into other areas. Consequently, acquired companies are run by their senior management teams with the added support of divisional Directors.

Family-feel at heart

We are a business based on tradition. Family values of trust, loyalty, respect and teamwork are demonstrated across all our businesses. Many started as family ventures and remain that way today as they see second and third generations rise through the ranks.

Protecting our legacy

Many employees are long-serving, and across the Group we enjoy a low staff turnover. It is essential to retain and cultivate this knowledge and expertise as we shape our leaders of tomorrow. Encouraging and developing employees in the following ways supports our strategy and secures our long-term position in the market:

- Providing collaborative working environments to bring teams together, e.g. open plan offices and conferences. The logistics centre refurbishment completed this year has enabled both the Flowtechnology UK and Indequip commercial teams to work more effectively
- Team building opportunities – through business trade shows, customer visits, charity activities and employee events we actively support opportunities for employees to get to know each other. From experience we know this breaks down barriers and facilitates closer working relationships. In January 2018, we held a two-day education and training event, bringing together around 50 commercial and engineering personnel within the PMC division to share ideas and unite teams
- Supporting training and development – throughout 2017, over 190 employees took part in training programmes in various disciplines, developing essential skills to build competence and add value to customers
- Developing leaders to become multi-faceted agile employees who can quickly adapt to new technologies and circumstances with the skills to achieve our strategic goals
- Positioning senior management to maximise cross-divisional synergies. This year, Nick Fossey, divisional MD for PMC, was promoted to oversee Flowtechnology as well, a strategic decision which will advance teamwork between these two allied divisions and continue to ensure we extract synergies
- Empowering Group companies to work autonomously, while ensuring individual, divisional and Group goals are aligned
- Ensuring we recruit the right people for the right jobs. As part of our recruitment programme we utilise various testing methods to ensure employees are a natural fit for our business and the job they applied for
- Supporting apprenticeships; giving our local talent pool opportunities to learn and adopt our culture from a grassroots level and supporting industry's need for engineering apprentices as older generations retire

Collaborative working

"Having our full commercial team together in one space is paying dividends for us, we enjoy a more integrated approach where knowledge is more easily and quickly shared and ideas flourish."

John Farmer, MD Flowtechnology UK

Inspiring the leaders of tomorrow

"We are in the first year of our three-year apprenticeship with Group HES, we feel very fortunate to be part of the business who have been incredibly supportive. Our colleagues are like family. We hope to secure permanent positions when we finish, especially now, being part of a larger organisation, with more opportunities to progress."

Lillie and Zach Cooper, twin mechanical engineering Apprentices, Group HES

Pictured: Hydraulic Power Unit

Corporate social responsibility

"As a people-led business, we adopt responsible and ethical working practices to protect and enhance the communities and environments in which we operate."

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 SPIs. This is followed by specific on-the-job training, in-house or at accredited third parties. Many of our engineering apprentices attend courses with the National Fluid Power Centre (NFPC), an independent training body. Where the demands of the business allow, flexible working is encouraged. Across the Group, over 190 employees attended some form of training course in 2017.

The Company is an Equal Opportunity Employer. This means that the Company's established policy is to ensure that no unlawful discrimination occurs, either directly or indirectly, against any person on the grounds of colour, sex, sexual orientation, marital status, race, religion, nationality, ethnic or national origin or age.

The Company's policy covers direct and indirect discrimination and failure to make reasonable adjustments for disabled employees, victimisation and harassment.

Health and safety

Health and safety is taken very seriously by management at all levels in the Group and our accident rates are very low with no RIDDOR incidents during the year. The workforce has almost doubled and minor incidents have understandably increased but only 31 were reported across 522 employees. Overall two days were lost. We are working to standardise procedures in the UK and after a market review we are now working with Croner at nine Group sites to develop common procedures and will continue to roll out their programme in 2018.

Apprentices

Many of our businesses have a long tradition of apprenticeships. Through training and encouragement, we nurture and develop local talent and support school leavers seeking commercial or engineering experience. We enjoy a high retention rate as most apprentices go on to secure permanent positions with us. In 2017 we retained five apprentices across the Group, one in the FTUK call centre, one engineer at Group HES and three engineers at Primary Fluid Power.

Number of apprentices:
G = graduated or left,
N = new, **C** = current (year end)

See table at bottom of page.

Diversity

We recognise and value all forms of diversity in our employees and endeavour to promote diversity in our workplace to enhance the success of our Group. We currently employ 29% females across the Group with 50% of senior management positions at our Skelmersdale office occupied by females.

Our customers

The Group values each customer regardless of size and is committed to developing 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 and service offer and so match these changing requirements.

During 2017, FTUK introduced a new 'out-of-hours' service to support customers with critical emergencies. They also upgraded their e-commerce app to support ordering convenience on mobile and tablet devices and easy stock replenishment with a handy barcode scanner feature. Indequip has enabled Irish customers to trade in their own currency by printing a Euro-version of the distributor catalogue, which they design and print for customers with their own company branding. As specialists within fluid power, increasingly our PMC businesses are providing training as part of the installation service, enabling us to help our customers create a safer working environment for their own teams.

Suppliers

The Group nurtures its relationships with leading fluid power suppliers while developing its complementary exclusive brands and own manufactured products. We have a dedicated team in Shanghai to manage relationships with our Far Eastern suppliers, ensuring we can overcome local cultural and language barriers.

This year we have secured many new distribution agreements across the Group which further expands our product portfolio to existing customers and enables us to secure business with new customers.

Apprentices

Company	2017			2016			2015		
	G	N	C	G	N	C	G	N	C
Primary Fluid Power	4	0	1	1	2	5	2	1	4
FTUK	1	1	4	0	4	4	0	0	0
Orange County	0	1	3	1	1	2	0	2	2
Group HES	1	3	7	2	3	5	3	2	4
Hi-Power	0	0	1	0	0	1	0	0	1
TOTAL			16			17			11

Number of apprentices:
G = graduated or left,
N = new, **C** = current (year end)

Three significant developments include the Parker Partnership with Group HES, the launch of Techmatic, a new exclusive pneumatic brand for Indequip and a new hose service for Flowtechnology Benelux through the acquisition of Hewi Slangen in September 2017.

Representatives from all business units in the Group either exhibited at or attended over 15 supplier and end user trade shows in 2017 in the UK, Europe and Asia. The FTUK 2017 Distributor Convention, held under the wings of Concorde in Manchester, was attended by over 40 suppliers, a 25% increase on previous years. This year all PMC division members exhibited as one 'Fluidpower Group' at the LAMMA 2017 agricultural and machinery show, promoting a complete hydraulic offering to the market and reducing the cost of exhibiting independently. The Group continues to build relationships with trade associations including the BFPA, FADA and NFPC. John Farmer from FTUK joined the BFPA board, taking a more active role with numerous recommendations being acted upon. Furthermore, FTUK hosted its first BFPA seminar at its newly refurbished premises.

The environment

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

- We recycle as much 'waste' as possible in the form of plastic, paper, metals and cardboard. In Benelux they are proud to achieve 100% recycling on all paper and plastic. Three new lifts have enabled the distribution centre to reduce packaging by £20k which is 12% of their annual costs. At Orange County UK they recycle 100% of oil rags. At most warehousing and production sites, paper and cardboard is shredded and reused again in packaging. FTUK, Indequip and Group HES have removed personal bins in the offices in favour of designated recycling bins for various materials
- 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
- We reduce energy use through low energy lighting and motion sensitive lighting in our warehouses and newer meeting rooms
- Over 80% of Group HES's power is generated by solar panels which were fitted in 2014. Furthermore, the company currently has three electric company cars and two charging points onsite. They aim to have all 15 vehicles replaced with electric alternatives by 2020. We aim to share such initiatives across the Group
- 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
- Adopting digitalised processes – including use of scanners, dropbox for data sharing. This year Hydroflex went more than 90% paperless, assisted by their customer scan2order system, which sees customers using a supplied barcode scanner to order product
- Financial reports are issued to the majority of shareholders as an interactive report on our website

Community

Bringing together employees outside of work promotes cohesion in the workplace. Employees are encouraged to participate in regular fundraising events for local and national charities.

- This year FTUK donated over £4,000 through various activities including a summer open day and Christmas pantomime for staff and family, charity raffle at their annual convention and various dress down days
- Local football sponsorship is encouraged to support junior teams in the community and with both Primary Fluid Power and FTUK management actively involved with playing and coaching for local teams including Quarry Green FC, Skelmersdale United Youth Academy and Wigan Ladies Football Club
- Group HES is active in the community, sponsoring various local events such as cycling and paint festivals for local hospitals and homeless charities as well as raising money for national charities. This year they also sponsored Project Propeller 2017 at Staverton Airport, which sees over 150 World War II aircrew flown in by volunteers across the UK. Collectively they contributed over £2,500 in donations and sponsorships throughout 2017

Recognition

Nominated for Best Online Report: AIM/small cap, Flowtech Fluidpower plc was delighted to be recognised at the prestigious 2017 Corporate & Finance Awards, receiving a Silver Winner for its 2017 Annual Report alongside its preferred IR media partner, Jones and Palmer.

Investors

The Board presents to our investors at least twice a year and is available for meeting with existing and new investors by appointment through our joint brokers, Zeus Capital and finnCap.

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 on their own initiative, and we recognise collective bargaining where required by local laws.

Key performance indicators

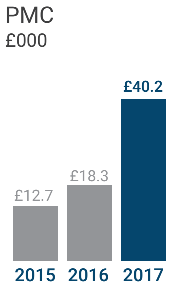
The Board regularly monitors a range of financial and non-financial performance indicators to allow it to measure performance against expected targets.

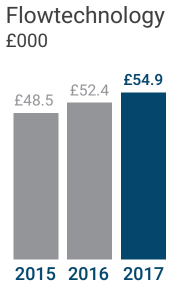
KPI | DEFINITION | PERFORMANCE

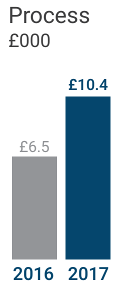
Daily gross profit generated and gross profit percentage

The accurate daily reporting of gross profit achieved by each operating division across the Group with comparison to prior year or plan is our fundamental performance measure. This is further supported by additional calculations giving indicative full month estimates on a daily basis. The daily gross profit report is issued to all business units by 9.00 am daily.

Gross profit % is also reviewed on a daily and monthly basis to ensure consistency with prior year and plan (for further commentary see Operational and Financial Review page 29)

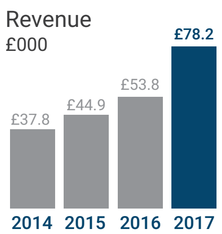


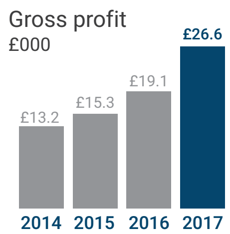




Monthly sales and gross profit by customer account and product

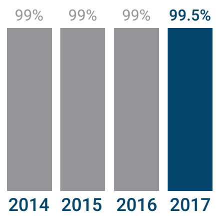
We have a clear focus on the management of profitability at customer and product levels. Within the Group's IT systems, appropriate Business Intelligence modules are maintained to allow ease of analysis on a timely basis to both underpin sales development initiatives at a strategic and tactical level, and to quickly identify underperformance.





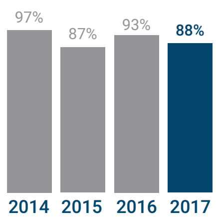
Flowtechnology Division Service levels

This is the percentage of orders despatched same day in the Flowtechnology division for the top 1,000 lines.



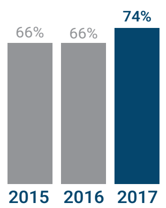
Employee retention

Retention is measured as the number of employees retained at the end of the year as a percentage of the number at the start of the year.



Net Debt to Total Facilities Ratio

Control of cash flow within the Group is essential to ensuring we are able to service all liabilities as they fall due, remain within Banking facilities and covenants, and are able to service dividend payments



COMMENTARY ON PERFORMANCE	STRATEGIC LINK	HOW THESE MEASURES SUPPORT OUR STRATEGIC FOCUS
Performance across all segments remained in line with forecasts and prior year.		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 Board to reinforce close scrutiny of trading performance, provide local management focus and an early indication of any negative growth, if evident.
Granular KPI review has led to overall growth targets being achieved.		The regular measurement of performance enables us to identify broader issues impacting a brand post acquisition. Continued focus on product performance allows us to identify product brand expansion opportunities.
Supply chain and logistics continue to deliver consistent performance.		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 for stock items. These attributes are all linked to optimised inventory levels to provide an unparalleled customer support service.
Overall retention remains high and above national average.		People are one of our strongest assets, they are the key to our strategy to achieving our overall goals. Measuring retention across the business units enables us to identify both good practices and where corrective action may be needed.
Conversion of operating profit to cash has been strong during the year with an overall reduction in working capital achieved despite an increase in sales. A new “Profit Sharing Scheme”, based on rewarding staff based on return on gross working capital employed, was introduced during the year and focuses local decision making on cash generation.		Ensuring that the Group efficiently converts profit into cash underpins our ability to grow, by both organic and acquisitive means.

Operational and financial review


Bryce Brooks Chief Financial Officer, Sean Fennon Chief Executive Officer

"We aim to have a market position as a full-service supplier of fluid power products and services. 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.

Sean Fennon, CEO

Across our four divisions we employ over 550 skilled people throughout the UK, ROI and Benelux. Our ongoing strategy guides how we work together as a Group of complementary businesses to achieve one shared purpose; to be the trusted provider of products, solutions and services to the fluid power market."

Bryce Brooks, CFO

Operational review

	2017	2016	Change %
Group revenue*	£78.3m	£53.8m	+46%
Gross profit*	£26.5m	£19.1m	+34%
Gross profit %	33.9%	35.5%	-1.6%
Group operating profit*	£6.61m	£6.14m	+7.7%
Underlying operating profit†	£9.08m	£7.45m	+21.9%

Reconciliation of underlying operating profit to operating profit

	2017	2016
Underlying operating profit	9,081	7,454
Less separately disclosed items (note 4)	(2,467)	(1,317)
Operating profit	**6,614**	6,137

* All results relate to continuing operations

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

We are again delighted to report a period of significant progress in the scope of our activities as a Group, with an uplift in revenue of 46% (2016: 20%), of which 38% is attributable to acquisition activity during the course of the year, with the balance of 8% derived from organic growth in our established operations. Below this we have seen a 7.7% increase in operating profit (2016: 11.8%), and a 21.9% improvement in underlying operating profit (2016: 8.5%). The well supported placing of shares in March 2017, which raised £9.6 million, has been fully invested in businesses complementary to the Group's core strategy.

The material currency movements in 2016 which rapidly increased input prices across our product portfolio when sourced from Europe or the Far East, have predominantly been moved through our sales pricing structures, albeit with some initial resistance with OEMs. The UK fluid power sector has also experienced relatively buoyant conditions during 2017, which has continued into the early part of 2018. It is particularly pleasing that the Euro-based acquisitions made in the year, being Hi-Power and Hydroflex, have also made immediate contributions.

Gross profit margins

Gross profit % remains one of our most important KPIs, and with the currency effects mentioned above, downward pressures were seen as a key risk to our progress as we entered 2017.

As a reminder, the Group is largely split into two separate and distinct pricing models:

- "Distribution" businesses – Flowtechnology and Process – who operate pricing policies based around smaller parcel size, a broader mix of global brand and own brand products, and a "list less discount" model
- PMC businesses who work in both pure component sales, that overlap with our distribution model, but also in markets where the precedent is for a more fixed approach to pricing to OEMs, and therefore have more challenging pricing issues to address

It is therefore pleasing to report that in 2017 we were able to broadly maintain margins in each of our divisions as shown below, and of particular note in our Flowtechnology division, which after targeted selling price initiatives in the early part of the year, had a final out-turn only 0.1% down on prior year. Overall, Group margins were 1.6% below previous year, which was attributable to mix effects from acquisitions in the lower gross margin (but higher average order size) PMC division.

Gross profit	**2017**	2016
Flowtechnology	**37.1**	37.2
Power Motion Control	**29.1**	29.2
Process	**41.8**	42.6
Group	**33.9**	**35.5**

Acquisitions

Following the successful March fundraising, 2017 was our most active period since coming to market in 2014, and if we include the recent "Beaumanor" transaction post year being reported in March 2018 (note 32), we completed seven deals in just over 12 months. Throughout the year we have worked on our "four layered" focus on synergy gain:

1. Back office – typically accounting, insurance, banking, HR and IT.
2. Commercial – cross-selling allowing our complementary skill sets to be exploited.
3. Procurement – a comprehensive and systematic approach to supplier pricing optimisation.
4. Operational – with over 400,000 square feet of operational facilities across its 26 sites, the Group now has significant resources when compared to just two sites in 2014.

While back-office savings generally start to feed through within one year, we believe that retention of brand identity, reputation and customer relationships remains critical, and especially so during the initial period when often long-standing customer and supplier relationships are most tested. As such our pursuit of other gains, and in particular those achievable from operational activities, is always tempered by a low risk approach to change, and we believe that a proper perspective will be available after at least a three-year period.

Underlying operating profit

The underlying* operating profit can be summarised as follows:

Continuing operations **Underlying operating profit***	**2017** **£000**	2016 £000	Change £000	Change %
Flowtechnology	**7,524**	7,281†	243	3%
Power Motion Control	**2,788**	1,823	965	53%
Process	**1,105**	401	704	176%
Central costs	**(2,336)**	(2,051)†	(284)	14%
Underlying operating profit	**9,081**	7,454	1,627	22%

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

† Restated to reflect £346,000 of cost previously shown in Central Costs and now part of Flowtechnology following a department reorganisation effected on 1 January 2017.

Operational and financial review continued

KEY FACTS

+6%
Turnover (2016: 6%)

+3%
Underlying operating profit (2016: 1%)

	2017	2016	growth
Revenue from external customers	**37,239**	35,133	6%

Flowtechnology

The division continues to progress following the acquisition of Indequip in early 2016, with underlying operating returns maintained at over 20.2% of sales, despite the enhanced local staff bonus profile and only marginally down on 2016 when 21% was achieved.

With Beaumanor, acquired in March 2018 to join the division in the UK, and our Benelux operation enhanced with developments in the hydraulic sector by Hewi Slangen, and more significantly collaboration with Hydroflex, this very cash generative division has a secure base from which to continue to flourish.

KEY FACTS

+120%
Turnover (2016: 36%)

+53%
Underlying operating profit (2016: 48%)

	2017	2016	growth
Revenue from external customers	**34,806**	15,830	120%

Power Motion Control (PMC)

The division has been the most substantive representation of our acquisition programme and now combines the complementary product, service and skill sets of nine businesses across 19 sites in three countries.

Marketed collectively under a "Fluidpower Group" banner, as a showcase for the wider resources that are available to customers and suppliers alike, the combined net underlying operating margin achieved for the division of was 8%. Our target is to produce a minimum of at least 10% in each business within the division, and overall the 12% achieved on the legacy operation in 2016.

KEY FACTS

+120%
Turnover

+175%
Underlying operating profit

	2017	2016	growth
Revenue from external customers	**6,242**	2,837	120%

Process

Now comprises two business following the addition of Orange County in July 2017, which has traded in line with expectation since that time.

The founding Hydravalve business, itself acquired only in 2016, has performed steadily during its first full year despite substantial change in property and IT infrastructure, following the creation of its first specialist industry catalogue in late 2017, developed in conjunction with our dedicated team at Flowtechnology UK, it has seen an immediate benefit that lifted Q4 trading and brought a buoyant start to 2018.

Central costs

Central costs comprise executive management, finance and IT departments, divisional sales and the cost of running the plc; we continue to manage cost carefully, with the overall increase of 7% (2016: 21%). Planned increases for 2018 and beyond remain limited and are in support of the cost-out synergies being targeted at divisional level.

Acquisition and restructuring costs

The total cost for the year represents 7.0% (2016: 9.5%) of the total consideration paid for acquisitions. The Group uses a mixture of professional advisers for due diligence services with a view to managing costs. Any initiatives to transfer to “internal” resources, with a view to reducing transaction costs, will be managed carefully.

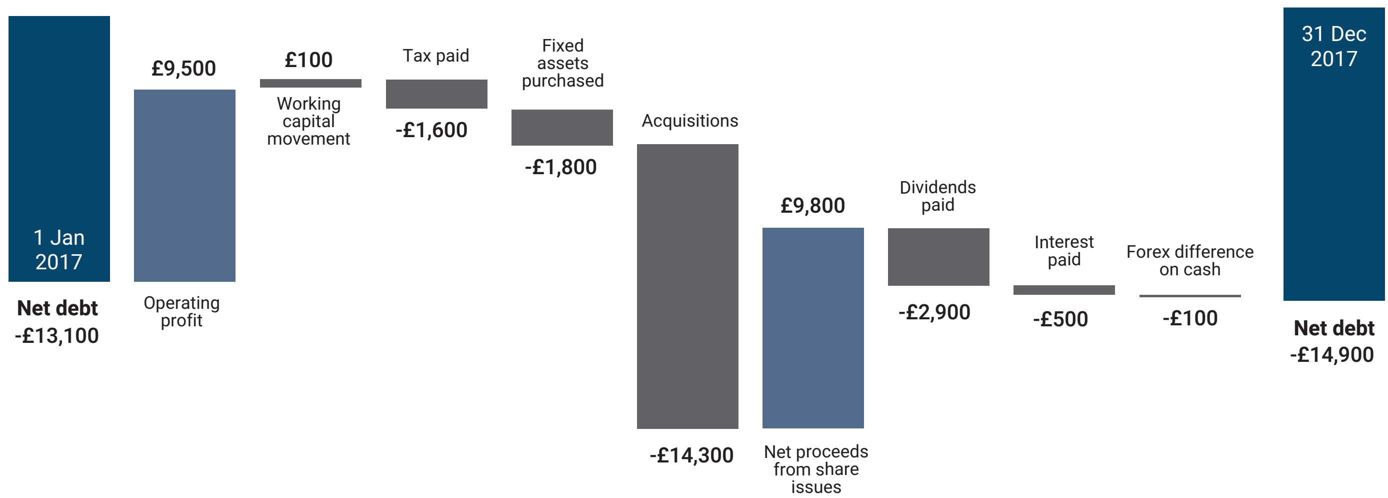
Restructuring costs incurred during the year of £117,000 (2016: £84,000) primarily relate to the reorganisation of administrative functions following acquisition, as well as further streamlining of the Group following advice from our legal and tax advisers.

Statement of financial position and cash flow

The net debt position at the year end was £14.9 million (2016: £13.1m).

Net debt bridge

£000



On top of strong operating profit growth, cash collections have remained consistent, with the total charge for bad and doubtful debt related issues being £38,000 (2016: £67,000), representing only 0.1% of turnover. In addition, net stock investment has been more than covered by trade supplier support, with a result that over the year the movement in total working capital has resulted in a net cash inflow of £0.1 million (2016: an outflow of £1.8m).

The Group has undertaken its largest year of capital expenditure in its history with the central piece being redevelopment of the 25-year old facility at Skelmersdale. Expenditure to cover offices, car parking, racking, plant and IT development totalled £0.8 million and has given the site a new long-term identity. Outside of this, IT systems development in order to ensure both resilience and efficiency remains a key focus, and again when coupled with our objective of achieving medium term synergy benefit from our acquisition programme.

Operational and financial review continued

On 1 March 2018, the Group entered into a restated facilities agreement with Barclays Bank PLC to replace our existing facilities with a £16 million committed revolving credit facility and £4 million loan with a single "bullet" repayment at the end of a three-year term. Attached rates and terms were broadly consistent with those previously enjoyed and are detailed further in note 18.

Dividends

Subject to Shareholder approval at the Annual General Meeting which is to be held on 6 June 2018, the Directors are proposing a final dividend of 3.85p per share. This, together with the interim dividend of 1.93p (paid on 24 October 2017), brings the total for the year to 5.78p which again matches the commitment made at the date of the IPO of 5% growth. 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.

Taxation

The tax charge for the year was £1.21 million (2016: £1.15m), with an effective tax rate of 17.0% (2016: 20.3%) and a blended tax rate based on the geographical regimes of 18.8% (2016: 19.5%).

People

As a direct result of our acquisition activity during the course of the year, the depth and quality of the management teams across the Group continues to improve. Managing Directors appointed during the year include Alan Willis at HTL, Maurice Kearney at Hi-Power, Spencer Rogers at Orange County, Chris Way at Group HES and Dave Maher at Branch Hydraulic Systems. In addition, in early 2018, following a review of our overall medium term objectives, we introduced a regional Managing Director structure with the following appointments:

- Nick Fossey in the UK & Ireland with a focus on synergy extraction, cash generation and continued development of commercial and cross-selling opportunities; and
- Mark Richardson in the Benelux with a focus on operational efficiencies between Hydroflex and Flowtechnology Benelux, and providing a platform for future growth by organic and acquisitive means in the region.

We are always acutely aware that our progress is achieved with the continued commitment and effort of all our employees – in both "new" and "old" businesses – and with enhanced profit sharing arrangements now available across the Group we are confident of our ability to attract and retain the best staff the industry can offer.

Outlook

The growth made by acquisitive means in 2017 has resulted in time being invested in the careful integration of the businesses now covered by our operational reach. This focus will continue through 2018, as we seek to achieve synergistic benefit and capitalise on the entrepreneurial and technical skills of the new operations.

The Board does not intend to implement further significant acquisition activity in 2018, and our focus will therefore be on extracting valuable efficiencies from the businesses to date, and in particular:

- Expanding intercompany procurement and stockholding benefits by using logistics centres in Skelmersdale (FTUK) and Leicester (Beaumanor)
- A wider operational review to identify efficiencies that could be achieved through geographic consolidation of existing assets
- Upgrading information systems, with Sage X3 financials to be implemented Group-wide by the end of 2018 giving a single reporting system for the Group with multi-lingual and multi-currency capabilities

That said, the heightened profile that Flowtech Fluidpower has established has enabled opportunities for further expansion to continue to be presented. It therefore remains a key part of our strategy to ensure we can exploit these openings, while retaining a stable financial and operational structure to ensure that the progress made to date is only enhanced.

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

We have entered 2018 with confidence. Following our recent placing of shares raising a further £10.5 million (after costs) in permanent capital, the acquisition of Beaumanor adds a further significant element to our customer and supplier base.

+46%

Group Revenue Growth

+7.7%

Group Operating Profit Growth

Risk management

How the business manages risk

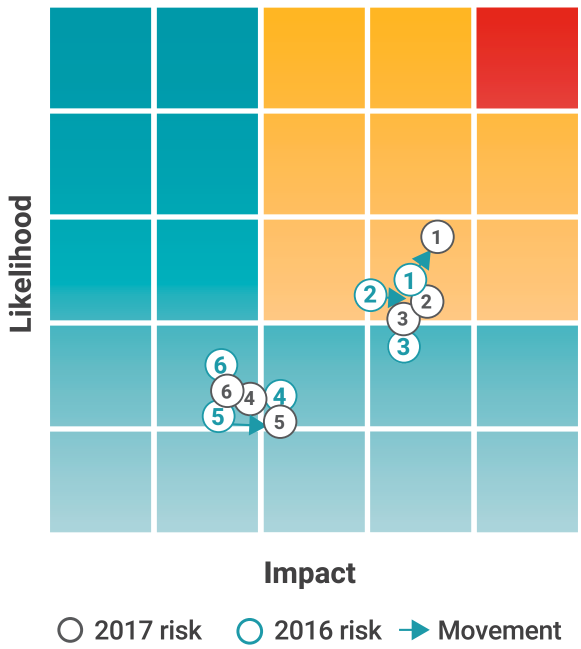
In common with all organisations, Flowtech Fluidpower faces risks which may affect its performance. There is little that we can do about the macroeconomic environment but the Board believes that our strategy, which is designed to exploit opportunities created by the market, places the Group in a strong 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 while 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 Board prior to the year end.

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 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.

Risk	2016 likelihood	2016 impact	2017 likelihood	2017 impact
1 Talent management and succession planning	2.3	3.4	2.9	3.6
2 Inability to recognise and control cyber exposures	2.3	3.0	2.1	3.4
3 System and site disruption	1.7	3.4	1.7	3.5
4 Quality control	1.4	2.1	1.4	1.9
5 Breach of regulations	1.1	1.6	1.1	2.2
6 Failure to integrate acquisitions and align strategies to existing business model	1.6	1.6	1.3	1.7



Risk management continued

The principal risks identified include:

RISK	DESCRIPTION
1 **Talent management and succession planning**	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.
2 **Inability to recognise and control cyber exposures**	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.
3 **System and site disruption**	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.
4 **Quality control**	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.
5 **Breach of regulations**	Inadvertent breaches of regulations could lead to prosecution and significant fines. Regulations impacting the Group include Control of Substances Hazardous to Health, packaging waste regulations, health and safety at work, the Bribery and Corruption Act and corporate governance.
6 **Failure to integrate acquisitions and align strategies to existing business model**	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.

STRATEGIC LINK	MITIGATION
	Attraction and retention of employees is supported by bonus plans, recognition and reward programmes and innovative benefit packages. Profit sharing scheme introduced in 2017. Succession planning process introduced to identify and develop key employees. 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. Group-wide technical and sales conferences to aid skills sharing.
	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 backup procedures. An onsite IT review is carried out post acquisition followed by standardisation of networks and controls. Continuing review of all existing IT systems during the year while working towards IASME Gold certification for all sites.
	Offsite disaster recovery provision for IT systems, including cloud based technologies. Business continuity plans in place at operational locations. As the Group increases in size, resilience to disruption increases as distribution and production activities can be re-routed to other sites. Business continuity plan has been tested successfully at the Skelmersdale Logistics Centre. An annual test programme has been introduced across the Group with the Hydravalve site successfully working through a mock corrosive gas tanker crash this year.
	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 ISO 9001 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 and continue with regular internal and external training.
	The Group engages external specialists as required to make sure internal procedures and policies are in place to provide compliance with the regulatory frameworks. There is an ongoing review of relevant national and international compliance requirements. Health and safety procedures to be standardised across the Group in 2017.
	The Board includes both Executive and Non-Executive Directors with considerable acquisition experience. Given that the development of the Group in the fluid power market is likely to include multiple opportunities to acquire trading companies in both the UK and Europe, future appointments will also be made as required to strengthen skills and knowledge in this area. Since the IPO, the Group has also added professionals in both general accounting, business process and mergers and acquisitions to its internal resources in support of this process. Prior to engaging in any process the Chief Financial Officer will review any acquisition opportunity for conformance with the Board's strategy on channel management. Further detailed assessment with regard to channel conflict will be a key part of the due diligence process which will include consultation with the Group's Regional MD's prior to plc Board approval and any commitment to buy.

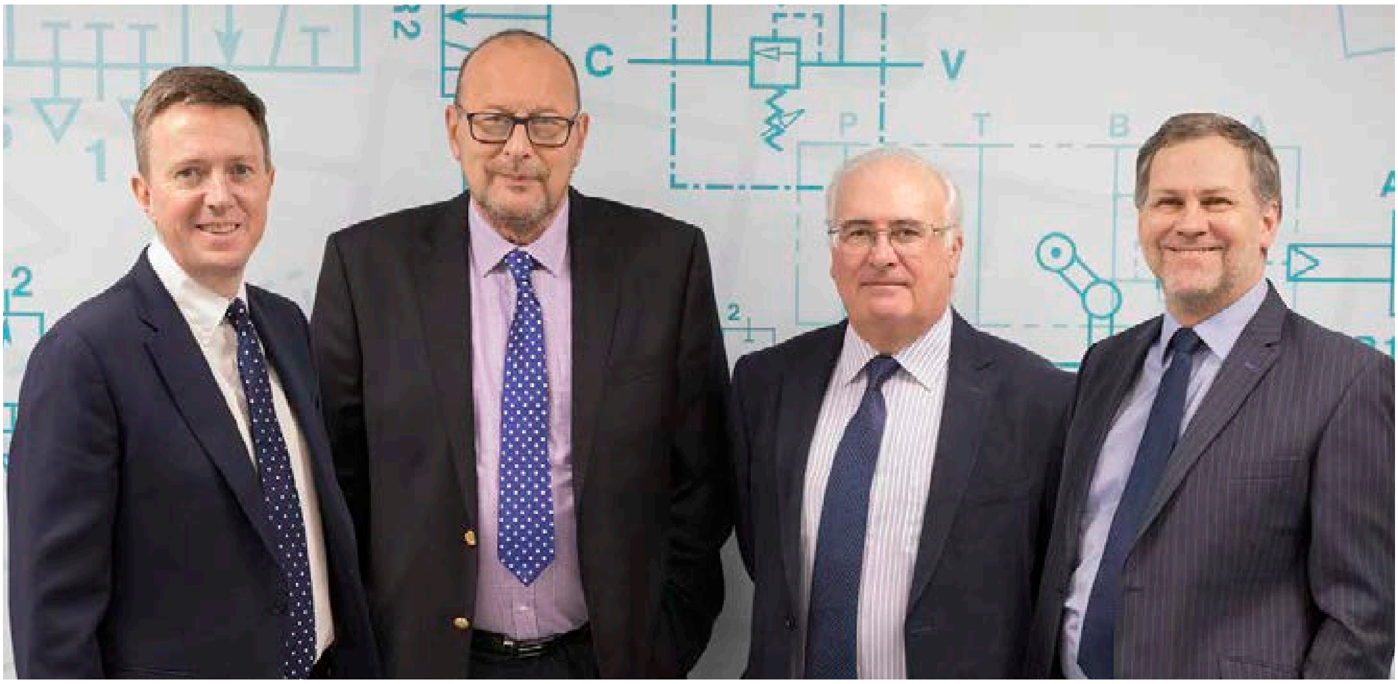
The Strategic Report as set out on pages 2 to 35 has been approved by the Board

Bryce Brooks
Chief Financial Officer
16 April 2017

Group management

Our management

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 a Regional Board assists in the control and delivery of the strategic goals as defined by the plc Board. Regional Boards include 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.



Bryce Brooks

Chief Financial Officer
Appointed: March 2010

Career: Holds a degree in civil engineering and qualified as a chartered accountant 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.

Malcolm Diamond MBE

Non-Executive Chairman
Appointed: May 2014

Career: 48 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: Non-Executive Chairman, Trifast plc, Non-Executive Chairman, discoverIE (formerly 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.

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.

Sean Fennon

Chief Executive Officer
Appointed: November 2009

Career: 33 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.

Centralised 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.

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

Additionally, the Group purchasing and logistics function based at Skelmersdale, with a secondary logistics site in Leicester (through the Beaumanor acquisition in March 2018), will see the Group maximise purchasing and stockholding opportunities for all Group members to benefit.

Acquisitions team

Sean Fennon, Bryce Brooks and Nick Fossey are responsible for target identification and lead negotiation, supported by Chris Kershaw who has previously worked in a series of M&A roles, including Group M&A Director at Spice plc. The typical criteria our experienced strategic Acquisitions team look for include:

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

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

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

The immediate post integration team covers business process, IT and financial control, with follow-on work undertaken in corporate governance, risk management and business continuity planning. This entire process is structured under a ‘100 Day’ project management philosophy led by the CFO.

Acquisitions team pictured left to right:
Chris Kershaw, M&A Consultant
Helen Barratt, Head of Corporate Governance and Accounting
Bryce Brooks, Chief Financial Officer
Anne Fogg, Head of Business Process
Jon Burke, Head of Commercial Finance and Credit

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 2017. 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 1 to 35. 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 2017 are set out in the consolidated income statement on page 52. The Group has reported an operating profit from its continuing activities of £6.614 million (2016: £6.137m). After accounting for net finance costs, the consolidated income statement shows a profit from continuing operations before taxation of £6.039 million (2016: profit of £5.527m).

The Directors are recommending a final dividend of 3.85p per ordinary share amounting to £2.3 million payable on 13 July 2018 to Shareholders on the Company's register at the close of business on 8 June 2018. The shares will be quoted ex-dividend from 7 June 2018.

Directors

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

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

Short biographies of each Director are provided on page 36.

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 2017 which is disclosed in the Directors' Remuneration report on pages 43 to 45.

Details of the Directors' share options are provided in the Directors' Remuneration report on pages 43 to 45.

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 25 to the consolidated financial statements.

The Company's share capital comprises one class of ordinary shares and as at 13 April 2018 there were in issue 59,672,531 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 13 April 2018 (being the last practicable date before the publication of this report):

	Number of shares held	% of issued share capital
Hargreave Hale	7,186,857	12.04
Premier Asset Managers	6,555,266	10.99
Close Brothers Asset Management	6,224,186	10.43
Miton Asset Management	5,710,162	9.57
City Financial Investment Company	4,009,757	6.72
Chelverton Asset Management	2,687,069	4.50
Lazard Freres Gestion	2,520,059	4.22
Janus Henderson Investors	1,800,000	3.02

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 31. 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 and profitability 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 (EMI) 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 2017 the total shares in the Company held by the Enterprise Management Incentive Plans were 1,027,248 representing 1.9% of the issued capital. Further details are provided in note 23 to the consolidated financial statements.

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

At 31 December 2017 the total shares in the Company held by the Company Share Option Plan was 575,000, representing 1.1% of the issued capital. Further details are provided in note 23 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.

Annual general meeting

The Annual General Meeting will be held on 6 June 2018 at 10.00 am at the offices of our solicitors, DLA Piper, One St Peter's Square, Manchester, M2 3DE.

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 18. 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 31.3 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

16 April 2018

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have 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 Kingdom Accounting Standards and applicable laws, including FRS 101 'Reduced disclosure framework'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and the Group for that period.

In preparing these financial statements, the Directors are required to:

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

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

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

The Directors confirm that:

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

Corporate governance report

The Board is accountable to the Company's Shareholders for good governance. The following statement describes the key corporate governance policies that have been adopted by the Company. The Company is not required to follow, and does not comply with, the UK Corporate Governance Code. Nevertheless, the Board is committed to high standards of corporate governance which it considers are critical to business integrity and to maintaining investors' trust. The Board is currently reviewing which corporate governance code to adopt as required from 28 September 2018.

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 is set out on page 36. The Board confirms that, having taken into consideration the results of the performance evaluation undertaken in the year, the Director being proposed for re-election has demonstrated commitment to his responsibilities and continues to perform effectively.

Role of the Board

During the year the Board has met formally on 11 occasions and undertaken several telephone discussions to cover specific matters such as acquisitions, strategy, fundraising and appointment of advisers. At the Board meeting, the CEO reports on the overall business performance and any matters which need to be brought to the attention of the Board. The CFO reports on the financial performance and any other secretarial matters. Health and safety compliance is reviewed at every meeting. Specific topics covered this year have been acquisitions, funding, IT resilience, group accounting systems and management below board level. 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 43 to 45.

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 reappointment of Grant Thornton UK LLP as external Auditor;
- considering the review of material business risks;
- monitoring of reporting and follow up of items reported by employees;
- considering the significant risks and issues in relation to the financial statements and how these were addressed including:
  - impairment reviews of goodwill
  - valuation of intangibles and share-based payments
  - provisions
  - fraud risk
  - going concern, covenants and cash headroom;
- considering the adequacy of accounting resource and the development of appropriate systems and controls;
- reviewing the risk register with specific focus on cyber exposure and approving an employee training programme on cyber risks;
- review of progress in introducing best practice systems and procedures Group-wide
- reviewing the plans and progress to interface and integrate IT systems post acquisition; and
- considering policies on non-audit engagements for the Company's Auditor.

Corporate governance report continued

Internal controls

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

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

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

Communication with Shareholders

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

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

Directors' remuneration report

The Remuneration Committee

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

Remuneration policy

The remuneration policy of the Group is:

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

The Committee makes recommendations to the Board.

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

Benefits in kind are the provision of medical insurance premiums.

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 23 to the consolidated financial statements.

Directors' detailed remuneration

	Salary and fees £000	Benefits £000	Bonus £000	Share-based payments £000	**Total 2017 £000**	Total 2016 £000
Executives						
Sean Fennon	235	2	–	54	**291**	352
Bryce Brooks	162	3	–	41	**206**	247
Non-Executives						
Malcolm Diamond MBE	78	–	–	–	**78**	76
Nigel Richens	50	–	–	–	**50**	43
	525	5	–	95	**625**	718

Directors' remuneration report
continued

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 2017 No. of ordinary shares	As at 31 December 2016 No. of ordinary shares
Executives		
Sean Fennon	**219,000**	219,000
Bryce Brooks	**94,000**	94,000
Non-Executives		
Malcolm Diamond MBE	**50,000**	50,000
Nigel Richens	**50,000**	50,000

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

	As at 31 December 2016 and 31 December 2017		
	A shares £1 ordinary	B shares £1 ordinary	D shares £1 ordinary
Executives			
Sean Fennon	340	3,100	5
Bryce Brooks	180	3,100	5

A and B shares were issued on admission to AIM at a cost of £10 per share on 21 May 2014. The D shares were issued at a cost of £400 per share on 1 June 2016. All shares were issued as part of an employee share-based remuneration scheme called the 'Management Incentive Plan'. For further details refer to note 23.

Directors' share options

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

	Scheme	As at 31 December 2016	Exercised	Cancelled	As at 31 December 2017
Sean Fennon	EMI (Approved)	249,999	–	–	249,999
Sean Fennon	EMI (Unapproved)	222,223	–	–	222,223
Bryce Brooks	EMI (Approved)	249,999	–	–	249,999

All options were granted on admission to AIM on 21 May 2014. The shares were issued as part of an employee share-based remuneration scheme called the 'Enterprise Management Incentive Plan'. Further details are provided in note 23 to the consolidated financial statements.

On behalf of the Board

Nigel Richens
Non-Executive Director

16 April 2018

Independent Auditor's report

to the members of Flowtech Fluidpower plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Flowtech Fluidpower plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017, which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the Company income statement, the Company statement of financial position, the Company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. 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 including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

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 2017 and of the Group's profit and Parent Company'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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality was set at £309,000, which represents 5% of the Group's profit before taxation
- Key audit matters were identified as revenue recognition, allocation, valuation and impairment of intangible assets and goodwill and provision for impairment of inventories
- We performed full scope audit procedures on the financial statements of Flowtech Fluidpower plc (the Parent), and on the financial information of all subsidiary companies. which are considered to be material components based upon Group materiality. We performed targeted procedures on Flowtechnology Benelux BV and Hi-Power Limited.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter – Group

Revenue recognition

Revenue is recognised in accordance with the Group's accounting policies and International Accounting Standard (IAS) 18: 'Revenue'.

The revenue recorded by the Group is one of the key determinants of the Group's underlying profitability.

We therefore identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- Testing of revenue recognition policies to assess whether the policies are in accordance with International Accounting Standard (IAS) 18: 'Revenue'
- Testing of whether revenue has been accounted for in accordance with the Group's accounting policies
- Obtaining an understanding of the processes through which the business initiates, records, processes and reports revenue transactions
- Obtaining an understanding of the application of revenue recognition policies, both in general and for selected complex contracts
- Testing a sample of revenue entries for material revenue streams to supporting documentation

The Group's accounting policy on revenue is shown in note 2 to the financial statements and related disclosures are included in note 3.

Key observations

We determined the recognition of revenue for the Group's material revenue streams to be acceptable. We consider the Group's accounting policies to provide sufficient information regarding the Group's material revenue streams, and to comply with International Accounting Standard (IAS) 18: 'Revenue'.

Independent Auditor's report continued

to the members of Flowtech Fluidpower plc

Key audit matter – Group	How the matter was addressed in the audit – Group
Allocation, valuation and impairment of intangible assets and goodwill The Group holds significant intangible assets (customer relationships) and goodwill. The Group has undertaken a number of acquisitions during the year, and management have performed an assessment of the nature and value of the intangible assets acquired in the business combinations. Management have also assessed the fair value of all assets acquired in business combinations during the period. Management have performed an impairment review of the Group's intangible assets and goodwill, including sensitivity analysis to assess the impact of changes in key assumptions. The judgements made in respect of the valuation of intangible assets and the impairment review are subject to significant measurement uncertainty. We therefore identified allocation, valuation and impairment of intangible assets and goodwill as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Testing of the Group's accounting policies to assess whether the policies are in accordance with International Accounting Standard (IAS) 38: 'Intangible Assets' and International Accounting Standard (IAS) 36: 'Impairment of Assets' • Consideration of whether intangible assets have been accounted for in accordance with the Group's accounting policies • Consideration of the accounting for the business combinations in the period, including assessment of the fair value of consideration and net assets acquired • Testing of the allocation and valuation of intangible assets acquired with the acquisitions in the year, and review of the disclosures made in the financial statements to assess whether they are appropriate and complete • Consideration of the assumptions and calculations incorporated in the impairment review of goodwill and intangible assets • Performance of sensitivity analysis to understand the impact of any reasonably possible changes in key assumptions The Group's accounting policies on goodwill and acquired intangibles are shown in note 2.9 to the financial statements and related disclosures are included in notes 10 and 11. **Key observations** We determined the accounting for allocation and valuation of the Group's intangible assets and goodwill to be acceptable. No impairments of intangible assets or goodwill were identified from the work performed above. We concluded that the assumptions used in the valuation and impairment models were appropriate. We consider the disclosures in the financial statements to provide sufficient information regarding both the Group's business combinations and management's impairment review of goodwill and intangible assets.
Provision for impairment of inventories The Group trading entities holds material inventory, against which significant provisions have been recognised. The provision for impairment of inventories is based on sales trends for all inventory and management's estimation of recoverability. There is significant measurement uncertainty in management's estimation. Inventory management is one of the key challenges facing management and one of the main determinants of the Group's underlying performance. We therefore identified provision for impairment of inventories as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Testing of the Group's accounting policy in respect of the impairment of inventories to assess whether the policy is in accordance with International Accounting Standard (IAS) 2: 'Inventories' • Consideration of whether the Group's inventory provisions have been accounted for in accordance with the Group's accounting policies • Testing of the integrity of the underlying data used in the calculation of the inventory provisions • Comparison of inventory values to sales prices for a sample of inventory lines • Consideration of the suitability of the inventory provision, including re-performance of the calculation and consideration of historical experience The Group's accounting policy on provision for impairment of inventories is shown in note 2.25 to the financial statements and related disclosures are included in note 15. **Key observations** The results of our audit testing were satisfactory and we concur that the level of inventory provisioning is appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£309,000, which is 5% of the Group's profit before tax. This benchmark is considered the most appropriate because it is a prominent key performance indicator used by the Group's investors.	£232,000, which is 0.5% of the Company's total assets, capped at 75% of Group materiality. Total assets is considered the most appropriate benchmark because the Company's activities are those of a holding company which does not generate revenue.
	Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016 to reflect the increase in the Group's profitability.	Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016 to reflect the increase in the net assets of the Company.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We have applied a specific materiality to Directors' emoluments.	We have applied a specific materiality to directors' emoluments.
Communication of misstatements to the Audit Committee	£16,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£12,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on an understanding of the Group's business, its environment and risk profile and in particular included:

- evaluation by the Group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality calculated by considering the component's significance as a percentage of the Group's net assets, revenues and profit;
- a full scope audit of the financial statements of the Parent Company, Flowtech Fluidpower plc;
- an evaluation of the Group's internal control environment, including performance of process walkthroughs and documentation of controls covering all of the Key Audit Matters discussed in the Key Audit Matters section above;
- performance of a full scope audit on components representing 85% of the Group's revenue, 98% of the Group's profit before tax and 97% of the Group's net assets. The entities on which full scope audits were performed were selected based upon their significance to the Group's net assets, revenues and profits, and provide an appropriate basis for undertaking audit work to address the Key Audit Matters at Group level identified above;
- performance of targeted procedures on specific balances in entities which do not require full scope audit procedures for the purposes of the Group audit opinion. Our targeted procedures cover Flowtechnology Benelux BV and Hi-Power Limited, and focus on revenue, receivables, inventory and cash. The procedures have been performed in accordance with Group performance materiality;
- performance of analytical procedures to confirm our conclusion that there was no significant risk of material misstatement of the aggregated financial information of the remaining components not subject to a full audit;
- testing of the consolidation process, including re-performance of management's formulae and confirming that the Group financial statements are consistent with the audited statutory figures; and
- the only changes in scope from the prior year relate to procedures performed in relation to the Group's acquisitions.

Independent Auditor's report continued

to the members of Flowtech Fluidpower plc

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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

- 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; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of Directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 40, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Michael Frankish
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
16 April 2018

Consolidated income statement

	Note	2017 £000	2016 £000
Continuing operations			
Revenue	3	**78,287**	53,780
Cost of sales		**(51,722)**	(34,714)
Gross profit		**26,565**	19,066
Distribution expenses		**(3,175)**	(2,475)
Administrative expenses before separately disclosed items:		**(14,309)**	(9,137)
— Acquisition costs	4	**(1,081)**	(419)
— Amortisation of acquired intangibles	4	**(768)**	(569)
— Share-based payment costs	4	**(272)**	(353)
— Restructuring costs	4	**(117)**	(84)
— Change in amounts accrued for contingent consideration	4	**(229)**	108
Total administrative expenses		**(16,776)**	(10,454)
Operating profit	3,4	**6,614**	6,137
Financial income	6	**6**	1
Financial expenses	6	**(581)**	(611)
Net financing costs		**(575)**	(610)
Profit from continuing operations before tax	3	**6,039**	5,527
Taxation	7	**(1,207)**	(1,146)
Profit from continuing operations		**4,832**	4,381
Loss from discontinued operations, net of tax	27	**—**	(91)
Profit for the year attributable to the owners of the parent		**4,832**	4,290
Earnings per share	9		
Basic earnings per share			
Continuing operations		**9.69p**	10.17p
Discontinued operations		**—**	(0.21p)
Basic earnings per share		**9.69p**	9.96p
Diluted earnings per share			
Continuing operations		**9.58p**	10.08p
Discontinued operations		**—**	(0.21p)
Diluted earnings per share		**9.58p**	9.87p

Consolidated statement of comprehensive income

	2017 £000	2016 £000
Profit for the year	**4,832**	4,290
Other comprehensive income		
— items that will be reclassified subsequently to profit or loss		
Deferred tax movement on share-based payment reserve	**(28)**	—
Exchange differences on translating foreign operations	**279**	350
Total comprehensive income for the year attributable to the owners of the parent	**5,083**	4,640

Consolidated statement of financial position

	Note	2017 £000	2016 £000
Assets			
Non-current assets			
Goodwill	10	**57,938**	47,927
Other intangible assets	11	**7,430**	4,780
Property, plant and equipment	13	**6,070**	3,899
Total non-current assets		**71,438**	56,606
Current assets			
Inventories	15	**24,333**	16,592
Trade and other receivables	16	**20,866**	13,012
Prepayments		**801**	304
Cash and cash equivalents	17	**4,588**	3,824
Total current assets		**50,588**	33,732
Liabilities			
Current liabilities			
Interest-bearing loans and borrowings	18	**15,451**	12,888
Trade and other payables	19	**18,983**	8,625
Deferred and contingent consideration	20	**2,865**	1,420
Tax payable		**1,148**	975
Other financial liabilities	22	**11**	57
Total current liabilities		**38,458**	23,965
Net current assets		**12,130**	9,767
Non-current liabilities			
Interest-bearing loans and borrowings	18	**4,097**	4,081
Deferred and contingent consideration	20	**2,706**	212
Provisions	21	**341**	212
Deferred tax liabilities	14	**1,560**	1,019
Total non-current liabilities		**8,704**	5,524
Net assets		**74,864**	60,849
Equity directly attributable to owners of the Parent			
Share capital	25	**26,409**	21,539
Share premium		**52,370**	46,880
Other reserves		**187**	–
Share-based payment reserve		**589**	733
Shares owned by the Employee Benefit Trust		**(40)**	(338)
Merger reserve		**293**	293
Merger relief reserve		**3,194**	2,086
Currency translation reserve		**536**	257
Retained losses		**(8,674)**	(10,601)
Total equity		**74,864**	60,849

The financial statements on pages 52 to 101 were approved by the Board of Directors on 16 April 2018 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	Other reserve £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 2016	21,539	46,880	–	380	293	(338)	2,086	(93)	(12,604)	58,143
Profit for the year	–	–	–	–	–	–	–	–	4,290	4,290
Other comprehensive income	–	–	–	–	–	–	–	350	–	350
Total comprehensive income for the year	–	–	–	–	–	–	–	350	4,290	4,640
Transactions with owners										
Share-based payment charge	–	–	–	353	–	–	–	–	–	353
Equity dividends paid (note 8)	–	–	–	–	–	–	–	–	(2,287)	(2,287)
Total transactions with owners	–	–	–	353	–	–	–	–	(2,287)	(1,934)
Balance at 1 January 2017	21,539	46,880	–	733	293	(338)	2,086	257	(10,601)	60,849
Profit for the year	–	–	–	–	–	–	–	–	4,832	**4,832**
Other comprehensive income	–	–	–	–	–	–	–	279	(28)	**251**
Total comprehensive income for the year	–	–	–	–	–	–	–	279	4,804	**5,083**
Transactions with owners										
Issue of share capital	4,870	5,490	–	–	–	–	1,108	–	–	**11,468**
Share options issued as consideration	–	–	187	–	–	–	–	–	–	**187**
Shares owned by the EBT	–	–	–	–	–	(246)	–	–	–	**(246)**
Share-based payment charge	–	–	–	272	–	–	–	–	–	**272**
Share options settled	–	–	–	(416)	–	544	–	–	–	**128**
Equity dividends paid (note 8)	–	–	–	–	–	–	–	–	(2,877)	**(2,877)**
Total transactions with owners	4,870	5,490	187	(144)	–	298	1,108	–	(2,877)	**8,932**
Balance at 31 December 2017	**26,409**	**52,370**	**187**	**589**	**293**	**(40)**	**3,194**	**536**	**(8,674)**	**74,864**

Consolidated statement of cash flows

	Note	2017 £000	2016 £000
Cash flow from operating activities			
Net cash from operating activities	26	**6,600**	4,166
Cash flow from investing activities			
Acquisition of businesses, net of cash acquired	24	**(11,798)**	(3,677)
Acquisition of property, plant and equipment	13	**(1,802)**	(858)
Proceeds from sale of property, plant and equipment		**22**	52
Payment of deferred and contingent consideration		**(1,649)**	(1,031)
Net cash used in investing activities		**(15,227)**	(5,514)
Cash flows from financing activities			
Net proceeds from issue of share capital		**9,531**	–
Repayment of long term borrowings		**(857)**	(857)
Net change in short term borrowings		**3,000**	7,000
Repayment of finance lease liabilities		**(58)**	(37)
Interest received		**6**	1
Interest paid		**(476)**	(302)
Repayment of loan by EBT		**722**	–
Dividends paid	8	**(2,877)**	(2,287)
Net cash generated from/(used in) financing activities		**8,991**	3,518
Net change in cash and cash equivalents		**364**	2,170
Cash and cash equivalents at start of year		**3,824**	1,725
Exchange differences on cash and cash equivalents		**11**	(71)
Cash and cash equivalents at end of year	17,18	**4,199**	3,824
Cash and cash equivalents	17	**4,588**	3,824
Bank overdraft	18	**(389)**	–
Cash and cash equivalents at end of year		**4,199**	3,824

Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Long term borrowings £000	Short term borrowings £000	Lease liabilities £000	Total £000
At 1 January 2017	**4,000**	**12,857**	**112**	**16,969**
Cash flows:				
Repayment	**–**	**(857)**	**(59)**	**(916)**
Proceeds	**–**	**3,000**	**–**	**3,000**
Non cash:				
Acquisition	**–**	**–**	**106**	**106**
At 31 December 2017	**4,000**	**15,000**	**159**	**19,159**

Company number: 09010518

Notes to the consolidated financial information

1. General information

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

News updates, regulatory news, and financial statements can be viewed and downloaded from the Group's website, www.flowtechfluidpower.com. Copies can also be requested from: The Company Secretary, Flowtech Fluidpower plc, Pimbo Road, Skelmersdale, Lancashire, WN8 9RB. Email: info@flowtechfluidpower.com; or telephone +44 (0) 1695 52796.

2. Accounting policies

2.1 Basis of preparation

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

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

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

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

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

2.2 Going concern

These financial statements have been prepared on a going concern basis. The Directors have prepared cash flow projections and are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group's forecasts and projections, which take into account reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current facilities. Included in the forecasts and projections are cash inflows from the placing of new ordinary shares on 15 March 2018 and 4 April 2018; see note 32 for further details. Current banking facilities are detailed in note 18; these were renegotiated in March 2018 and are due for renewal in March 2021.

Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

Notes to the consolidated financial information

continued

2.3 Basis of consolidation

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

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

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

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

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

Subsidiaries

The Group's financial statements consolidate those of the Parent Company and all of its subsidiaries as of 31 December 2017. 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.

Interest-bearing borrowings

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

Derivative financial instruments

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

Derecognition of financial liabilities

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

2.6 Property, plant and equipment

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

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

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

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

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

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

Notes to the consolidated financial information
continued

2.7 Leased assets

Finance leases
Management apply 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.

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

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

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

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

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

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

2.9 Intangible assets

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

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

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

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

2.10 Inventories

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

2.11 Impairment

Financial assets (including receivables)

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

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

Non-financial assets

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

The recoverable amount of an asset or operating segment is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together by operating segments as defined in note 2.18. 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.

Notes to the consolidated financial information

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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 site installation projects under stage payment are recognised based upon the stage of completion of the related contracts.

2.16 Cost of sales

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

2.17 Distribution expenses

Distributions costs are costs directly relating to despatch of goods and indirect costs including advertising and other sales related expenses.

2.18 Operating segments

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

Flowtechnology — distribution and assembly of engineering components, principally to distributors and end users in the UK, Ireland and the Benelux.

Power Motion Control — based in the UK, Eire and the Benelux, distribution and assembly of engineering components and hydraulic systems to distributors and end users in the international market.

Process – distribution of engineering components to the process sector, principally in the UK.

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

2.19 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.

2.20 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.

2.21 Adopted IFRS not yet applied

New standards and interpretations currently in issue (as at 28 February 2018) but not effective, for accounting periods commencing on 1 January 2017 are:

- IFRS 9 Financial Instruments (effective 1 January 2018)
- IFRS 14 Regulatory Deferral Accounts (IASB effective date 1 January 2016)*
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)
- IFRS 17 Insurance contracts (effective 21 January 2021)*
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date 1 January 2017)*
- Amendments to IAS 7: Disclosure Initiative (effective date 1 January 2017)*
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective date 1 January 2019)*
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective date 1 January 2019)*
- Amendments to IAS 40: Transfers of investment property (effective date 1 January 2018)*
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date 1 January 2018)*
- Amendments to IFRS 4: Applying IFRS 9 financial instruments with IFRS 4 Insurance Contracts (effective date 1 January 2018)
- Amendments to IFRS 9: Prepayment features with negative compensation (effective date 1 January 2019)*
- Annual Improvements to IFRSs 2014-2016 Cycle – Relating to IFRS 1 First time adoption of IFRS and IAS 28 Investment in associates and joint ventures (effective date 1 January 2017)*
- Annual Improvements to IFRSs 2014-2016 Cycle – Relating to IFRS 12 Disclosure of interest in other entities (effective date 1 January 2019)*
- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017)
- IFRIC Interpretation 22 Foreign currency transactions and advance considerations (effective date 1 January 2018)*
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective date 1 January 2016)*
- Clarifications to IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2018)

* Not adopted by the EU (as at 28 February 2018)

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

IFRS 9 'Financial Instruments'

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

IFRS 15 'Revenue from contracts with customers'

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

IFRS 15 is effective from periods beginning on or after 1 January 2018. The Group has design, build and install contracts which may have different performance obligations under IFRS 15. Management have started to review in detail the impact of the new Standard and preliminary investigations indicate that there will not be any material impact as the majority of contracts are for a short duration.

IFRS 16 'Leases'

IFRS 16 will replace IAS 17 and three related interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded on the statement of financial position in the form of a right of use asset and a lease liability. Depreciation of the right of use asset will be recognised in the income statement on a straight-line basis, with interest recognised on the lease liability, This will result in a change to the profile of the net charge taken to the income statement over the life of the lease. These charges will replace the lease costs currently charged to the income statement.

IFRS 16 is effective from periods beginning on or after 1 January 2019. The Group is progressing well in analysing the implementation of IFRS16 and expects the most significant leases to relate to property and vehicles. The Group expects to apply the standard retrospectively with the cumulative effect of the initial application recognised on 1 January 2019. Under this approach the Group will not restate comparative periods. Management are yet to fully assess the impact of the Standard and is therefore unable to provide quantified information. The payment profile of current leases is disclosed in note 28.

Notes to the consolidated financial information

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2.22 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
- 'Other reserves' relate to the issue of share options for consideration in respect of acquisition of subsidiaries
- 'Share-based payment reserve' represents the provision made to date for share-based payments as detailed in note 2.13
- 'Shares owned by the EBT' represents shares in the Group purchased for the Employee Benefit Trust
- 'Merger reserve' represents the difference between the Parent's capital and the acquired Group's capital retained losses and other equity balances before and after the share for share exchange which created the Group
- 'Merger relief reserve' represents merger relief arising on the acquisition of subsidiaries for which some or all of the consideration was settled in shares
- 'Currency translation reserve' comprises all foreign exchange differences arising since 1 January 2011, arising from the translation of foreign operations
- 'Retained losses' represent retained losses of the Group

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

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

2.23 Discontinued operations

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

2.24 Foreign currency translation

Functional and presentation currency

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

Foreign currency transactions and balances

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

Foreign operations

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

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

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

2.25 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 2017 is £57,938,000 (2016: £47,927,000). Refer to note 10 for further detail. There was no impairment charge during the year.

Acquired intangibles

Intangible assets (customer relationships and brand identity) have been acquired as part of the net assets of certain subsidiaries. These intangible assets were capitalised at their fair value at the date of acquisition. Determining the value of acquired intangibles required the calculation of estimated future cash flows expected to arise from the intangible assets at a suitable discount rate in order to calculate their present value. In addition, an estimate of the useful life of the intangible asset has to be made over the period in which the cash flows were expected to be generated. The carrying amount of the acquired intangibles at the reporting date was £7,430,000 (2016: £4,780,000). Refer to note 11 for further detail.

Provision for impairment of inventories

The carrying value of inventories as at 31 December 2017 is £24,333,000 (2016: £16,592,000) and included a provision against the inventories of £814,000 (2016: £931,000). During the year £329,000 (2016: £141,000) of the provision was utilised following the scrapping and sale of obsolete inventory. During the year a further provision of £212,000 (2016: £67,000) 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 23.

2.26 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.

2.27 Investment in own shares

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

2.28 Contingent consideration

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

Notes to the consolidated financial information

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3. Segment reporting

Management currently identify the Group's three operating segments based on trading activity (see note 2.18). These operating segments are monitored by the Group's Chief Operating Decision Maker and strategic decisions are made on the basis of adjusted segment operating results. Inter-segment revenue arises on the sale of goods between Group undertakings.

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

Segment information for the reporting periods is as follows:

	For the year ended 31 December 2017					
	Flowtechnology £000	Power Motion Control £000	Process £000	Inter-segmental transactions £000	Central costs £000	Total continuing operations £000
Income statement – continuing operations:						
Revenue from external customers	37,239	34,806	6,242	–	–	78,287
Inter-segment revenue	1,746	340	105	(2,191)	–	–
Total revenue	38,985	35,146	6,347	(2,191)	–	78,287
Underlying operating result	7,524	2,788	1,105	–	(2,336)	9,081
Net financing (costs)/income	(13)	(15)	(19)	–	(528)	(575)
Underlying segment result	7,511	2,773	1,086	–	(2,864)	8,506
Separately disclosed items (see note 4)	(103)	(1,018)	(200)	–	(1,146)	(2,467)
Profit before tax	7,408	1,755	886	–	(4,010)	6,039
Specific disclosure items				–		
Depreciation	447	179	24	–	–	650
Amortisation	19	609	140	–	–	768
Reconciliation of underlying operating result to operating profit:						
Underlying operating result	7,524	2,788	1,105	–	(2,336)	9 081
Separately disclosed items (see note 4)	(103)	(1,018)	(200)	–	(1,146)	(2,467)
Operating profit/(loss)	7,421	1,770	905	–	(3,482)	6,614

	For the year ended 31 December 2016					
	Flowtechnology £000	Power Motion Control £000	Process £000	Inter-segmental transactions £000	Central costs £000	Total continuing operations £000
Income statement – continuing operations:						
Revenue from external customers	35,113	15,830	2,837	–	–	53,780
Inter-segment revenue	1,645	585	199	(2,429)	–	–
Total revenue	36,758	16,415	3,036	(2,429)	–	53,780
Underlying operating result	7,626	1,823	402	–	(2,397)	7,454
Net financing (costs)/income	(1)	(65)	(39)	–	(505)	(610)
Underlying segment result	7,625	1,758	363	–	(2,902)	6,844
Separately disclosed items (see note 4)	(180)	40	(58)	–	(1,119)	(1,317)
Profit before tax	7,445	1,798	305	–	(4,021)	5,527
Specific disclosure items						
Depreciation	389	112	24	–	–	526
Amortisation	16	488	65	–	–	569
Reconciliation of underlying operating result to operating profit:						
Underlying operating result	7,626	1,823	401	–	(2,397)	7,454
Separately disclosed items (see note 4)	(180)	40	(57)	–	(1,119)	(1,317)
Operating profit/(loss)	7,446	1,863	344	–	(3,516)	6,137

The Group's revenue from external customers for each sales category is as follows:

	2017 £000	2016 £000
Sales of goods	**76,688**	53,780
Supply, installation and commissioning	**1,599**	–
	78,287	53,780

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 2017		31 December 2016	
	Revenue £000	**Non-current assets £000**	Revenue £000	Non-current assets £000
United Kingdom	**64,504**	**65,754**	44,133	55,118
Europe	**12,299**	**5,684**	8,806	1,488
Rest of the World	**1,484**	**–**	841	–
Total	**78,287**	**71,438**	53,780	56,606

No customers of the Group account for 10% or more of the Group's revenue for either of the years ended 31 December 2016 or 2017. Non-current assets are allocated based on their physical location.

Central costs relate to the Service Centre team and central activities, Executive Management team, plc costs and finance expenses associated with Group loans as detailed in note 6 and separately disclosed items, as detailed in note 4.

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4. Operating profit

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

	2017 £000	2016 £000
Impairment loss on other trade receivables and prepayments	27	103
Loss/(gain) on foreign currency transactions	266	(293)
Impairment loss on inventory	212	67
Depreciation of owned property, plant and equipment	627	515
Depreciation of property, plant and equipment held under finance leases	13	11
Amortisation of intangible assets	768	569
Changes in amounts accrued for contingent consideration (see note 31.1)	229	(108)
Profit on sale of plant and equipment	(3)	(21)
Operating lease rentals:		
– Land and buildings	1,014	584
– Other	289	215
Repairs and maintenance expenditure on plant and equipment	151	127

Services provided by the Group's Auditor

	2017 £000	2016 £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	117	80
All other taxation advisory services	–	8

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

Separately disclosed items

	2017 £000	2016 £000
Separately disclosed items within administration expenses:		
– Acquisition costs	1,081	419
– Amortisation of acquired intangibles (note 11)	768	569
– Share-based payment costs (note 23)	272	353
– Restructuring	117	84
– Changes in amounts accrued for contingent consideration (note 31.1)	229	(108)
Total separately disclosed items	2,467	1,317

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

5. Directors and employees

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

	Number 2017	Number 2016
Assembly and distribution	**197**	145
Administration	**217**	146
	414	291

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	**11,707**	7,672
Social security costs	**1,211**	751
Contributions to defined contribution pension plans	**328**	217
Share-based payments (note 23)	**136**	353
	13,382	8,993

Key management compensation

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

	2017 £000	2016 £000
Remuneration	**525**	587
Social security costs	**58**	62
Benefits in kind	**5**	4
	588	653

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

	2017 £000	2016 £000
Highest paid Director's remuneration		
Remuneration	**235**	280
Social security costs	**31**	38
Benefits in kind	**2**	2
Total highest paid Director's remuneration	**268**	320

Details of Directors' emoluments are included in the Directors' Remuneration Report on pages 43 to 45.

Notes to the consolidated financial information

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6. Financial income and expense

Finance income for the year consists of the following:

	2017 £000	2016 £000
Finance income arising from:		
Interest income from cash and cash equivalents	6	1
Total finance income	6	1

Finance expenses for the year consist of the following:

	2017 £000	2016 £000
Finance expense arising from:		
Interest on invoice discounting and stock loan facilities	8	3
Interest on revolving credit facility	262	241
Finance lease interest	10	3
Bank loans	88	116
Other credit related interest	12	1
Total bank and other credit interest	380	364
Imputed interest on deferred and contingent consideration	190	174
Fair value losses on forward exchange contracts held for trading	11	73
Total non-credit related interest	201	247
Total finance expense	581	611

7. Taxation

Recognised in the income statement

Continuing operations:	2017 £000	2016 £000
Current tax expense		
Current year charge	1,258	1,285
Overseas tax	167	20
Adjustment in respect of prior periods	(89)	12
Current tax expense	1,336	1,317
Deferred tax		
Origination and reversal of temporary differences	(111)	(118)
Adjustment in respect of prior periods	–	(7)
Change in tax rate	(18)	(46)
Deferred tax credit	(129)	(171)
Total tax expense – continuing operations	1,207	1,146

Discontinued operations:	2017 £000	2016 £000
Current year credit	–	(22)
Total tax expense – discontinued operations	–	(22)
Total tax expense in the income statement	**1,207**	1,124

No income tax was recognised in other comprehensive income or directly in equity for either of the years ended 31 December 2016 or 2017.

Reconciliation of effective tax rate

	2017 £000	2016 £000
Profit for the year	**4,832**	4,290
Total tax expense	**1,207**	1,124
Profit excluding taxation	**6,039**	5,414
Tax using the UK corporation tax rate of 19.25% (2016: 20.00%)	**1,162**	1,083
Deferred tax movements not recognised	**38**	33
Effect of share option exercises	**(101)**	–
Effect of tax rates in foreign jurisdictions	**29**	1
Effect of foreign branch exemption	**(12)**	
Impact of change in tax rate on deferred tax balances	**(8)**	(46)
Income not taxable	**(96)**	(22)
Amounts not deductible	**284**	70
Adjustment in respect of prior periods	**(89)**	5
Total tax expense in the income statement – continuing and discontinued	**1,207**	1,124

Change in corporation tax rate

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

8. Dividends

	2017 £000	2016 £000
Final dividend of 3.67p (2016: 3.50p) per share	**1,878**	1,499
Interim dividend of 1.93p (2016: 1.84p) per share	**999**	788
Total dividends	**2,877**	2,287

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2017 of 3.85p (2016: 3.67p) per share which will absorb an estimated £2.3 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 13 July 2018 to Shareholders who are on the register of members on 8 June 2018.

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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 2017			Year ended 31 December 2016		
	Earnings £000	**Weighted average number of shares**	**Earnings per share Pence**	Earnings £000	Weighted average number of shares	Earnings per share Pence
Basic earnings per share						
Continuing operations	**4,831**	**49,835**	**9.69**	4,381	43,078	10.17
Discontinued operations	**—**	**49,835**	**—**	(91)	43,078	(0.21)
Basic earnings per share	**4,831**	**49,835**	**9.69**	4,290	43,078	9.96
Diluted earnings per share						
Continuing operations	**4,831**	**50,409**	**9.58**	4,381	43,456	10.08
Discontinued operations	**—**	**50,409**	**—**	(91)	43,456	(0.21)
Diluted earnings per share	**4,831**	**50,409**	**9.58**	4,290	43,456	9.87

	2017 £000	2016 £000
Weighted average number of ordinary shares for basic and diluted earnings per share	**49,835**	43,078
Impact of share options	**574**	378
Weighted average number of ordinary shares for diluted earnings per share	**50,409**	43,456

10. Goodwill

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

	2017 £000	2016 £000
Gross carrying value		
Balance at 1 January	**47,927**	46,412
Fair value amendment relating to prior year acquisition	**227**	—
Acquired through business combinations	**9,784**	1,515
Balance at 31 December	**57,938**	47,927
Accumulated impairment		
Balance at 1 January	**—**	—
Impairment charge	**—**	—
Balance at 31 December	**—**	—
Carrying amount at 31 December	**57,938**	47,927

The goodwill acquired during the year relates to the acquisition of Hydraulics and Transmissions Limited, Hewi Slangen, Hi-Power Hydraulics, Hi-Power Limited, Orange County Limited, The Hydraulic Group BV and Group HES Limited; see note 24.

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

	Flowtechnology £000	Power Motion Control £000	Process £000	Total £000
Hydraulics and Transmissions Limited (note 24.1)	–	2,447	–	2,447
Hewi Slangen (note 24.2)	175	–	–	175
Hi-Power Limited (note 24.3)	–	564	–	564
Hi-Power Hydraulics (note 24.4)	–	3	–	3
Orange County Limited (note 24.5)	–		2,790	2,790
The Hydraulic Group BV (note 24.6)	–	1,918	–	1,918
Group HES Limited (note 24.7)	–	1,887	–	1,887
Total goodwill acquired through business combinations	**175**	**6,819**	**2,790**	**9,784**

Goodwill analysed by segment is as follows:

	2017 £000	2016 £000
Flowtechnology UK (Fluidpower Limited, Flowtechnology Cz Limited, Flowtechnology Benelux B.V.)	43,330	43,516
Power Motion Control (PMC Fluidpower Group Limited, PMC Fluidpower Limited, Nelson Hydraulics Limited, Hi-Power Limited, The Hydraulic Group BV)	10,864	4,043
Process (Process Fluidpower Limited)	3,744	728
Total at 31 December	**57,938**	47,927

Impairment testing

For the purpose of annual impairment testing, goodwill is allocated to the Group's individual statutory trading entities, as they are deemed to be cash generating units. It is anticipated that the Group's cash generating units will be reviewed during the year ending 31 December 2018, as it is expected that the entities will start to benefit from the synergies of the business combinations on which the goodwill arises and will be integrated.

Recoverable amounts for each cash generating unit (CGU) are based on value in use.

Growth rates

The value in use is calculated from cash flow projections based on the Group's forecasts for the year ending 31 December 2018, which are extrapolated for a further four years*. The Group's latest financial forecasts, which cover a three year period, are reviewed by the Board.

* Using growth rates as follows: Fluidpower Limited and Flowtechnology Benelux: 5.7%; PMC Fluidpower Limited, The Hydraulic Group BV, Hi-Power Limited and Nelson Hydraulics Limited: 7.2%; Process Fluidpower Limited: 1.5%

Discount rates

The pre-tax discount rate used to calculate value is 9% (2016: 11%). 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 Fluidpower Limited, the headroom compared to the carrying value exceeds £29 million. Increasing the discount rate to 22% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the goodwill attributed to Fluidpower Limited.

The Directors do not believe that any other reasonably possible changes in the value of the key assumptions noted above would cause a CGU's carrying amount to exceed its recoverable amount.

Notes to the consolidated financial information

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11. Other intangible assets

	Customer relationships		Brands		Total	
	2017 £000	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Gross carrying value						
Balance at 1 January	**5,796**	4,722	**96**	–	**5,892**	4,722
Acquired through business combinations – brands	**–**	–	**–**	96	**–**	96
Acquired through business combinations – customer relationships (note 24)	**3,418**	1,074	**–**	–	**3,418**	1,074
Balance at 31 December	**9,214**	5,796	**96**	96	**9,310**	5,892
Amortisation and impairment						
Balance at 1 January	**1,096**	543	**16**	–	**1,112**	543
Amortisation	**749**	553	**19**	16	**768**	569
Balance at 31 December	**1,845**	1,096	**35**	16	**1,880**	1,112
Carrying amount at 31 December	**7,369**	4,700	**61**	80	**7,430**	4,780

Additions in the year to customer relationships relate to the acquisitions of Hydraulics and Transmissions Limited, Hi-Power Limited, Orange County Limited, The Hydraulic Group BV and Group HES 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 and brands is charged to administration costs in the Consolidated Income Statement and is referred to as the amortisation of acquired intangibles.

12. Subsidiary undertakings

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

	Country of incorporation	Principal activity	Ownership
Hydraulics (Ireland) Limited	UK	Dormant	100%
Process Fluidpower Group Limited (formerly Process Fluidpower Limited)	UK	Assembly and distribution of engineering components	100%
Process Fluidpower Limited (formerly Hydravalve (UK) Limited)	UK	Distributors of engineering components	100%
Haitima Flow Control UK Limited	UK	Dormant	100%
HUK Valves Limited	UK	Dormant	100%
Hydraulics and Transmissions Limited	UK	Assembly and distribution of engineering components	100%
Hi-Power Limited	ROI	Assembly and distribution of engineering components	100%
Orange County Limited	UK	Assembly and distribution of engineering components	100%
Primary Fluid Power Limited	UK	Dormant	100%
Hydravalve UK Limited	UK	Dormant	100%
The Hydraulic Group BV	Netherlands	Holding company	100%
Hydroflex-Hydraulics BV	Netherlands	Assembly and distribution of engineering components	100%
Hydroflex-Hydraulics Rotterdam BV	Netherlands	Assembly and distribution of engineering components	100%
Hydroflex-Hydraulics Belgium NV	Belgium	Assembly and distribution of engineering components	100%
Group HES Limited	UK	Assembly and distribution of engineering components	100%
Hydraulic Equipment Supermarkets Limited	UK	Dormant	100%
Branch Hydraulic Systems Limited	UK	Dormant	100%
HES Tractec Limited	UK	Dormant	100%
HES Lubemec Limited	UK	Dormant	100%
HES Automatec Limited	UK	Dormant	100%

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

On 20 January 2017, the Group acquired 100% of the ordinary shares in Hydraulics and Transmissions Limited.

On 23 June 2017, the Group acquired 100% of the ordinary shares in Hi-Power Limited.

On 7 July 2017, the Group acquired 100% of the ordinary shares in Orange County Limited.

On 23 June 2017 the Group acquired 100% of the ordinary shares in Primary Fluid Power Limited, a newly incorporated company.

On 23 June 2017 the Group acquired 100% of the ordinary shares in Hydravalve UK Limited, a newly incorporated company.

On 7 September 2017, the Group acquired 100% of the ordinary shares in The Hydraulic Group BV and its trading subsidiaries Hydroflex-Hydraulics BV, Hydroflex-Hydraulics Rotterdam BV and Hydroflex-Hydraulics Belgium NV.

On 11 October 2017, the Group acquired 100% of the ordinary shares in Group HES Limited, and its dormant subsidiaries Hydraulic Equipment Supermarkets Limited, Branch Hydraulic Systems Limited, HES Tractec Limited, HES Lubemec Limited and HES Automatec Limited.

Notes to the consolidated financial information
continued

13. Property, plant and equipment

	Land and property £000	Plant, machinery and equipment £000	Motor vehicles £000	Total £000
Cost				
Balance at 1 January 2016	1,088	6,755	242	8,085
Additions	43	782	33	858
Disposals	—	—	(61)	(61)
Acquisitions through business combinations	—	292	21	313
Effect of movements in foreign exchange	—	100	—	100
Balance at 31 December 2016 and 1 January 2017	1,131	7,929	235	9,295
Additions	—	1,831	9	1,840
Disposals	—	(87)	(22)	(109)
Acquisitions through business combinations (note 24)	—	792	243	1,035
Effect of movements in foreign exchange	—	20	—	20
Balance at 31 December 2017	**1,131**	**10,485**	**465**	**12,081**
Depreciation and amortisation				
Balance at 1 January 2016	33	4,739	48	4,820
Depreciation charge for the year	26	436	64	526
Disposals	—	—	(30)	(30)
Effect of movements in foreign exchange	—	80	—	80
Balance at 31 December 2016 and 1 January 2017	59	5,255	82	5,396
Depreciation charge for the year	29	570	41	640
Disposals	—	(41)	(10)	(51)
Effect of movements in foreign exchange	—	26	—	26
Balance at 31 December 2017	**88**	**5,810**	**113**	**6,011**
Net book value				
At 31 December 2017	**1,043**	**4,675**	**352**	**6,070**
At 1 January 2017	1,072	2,674	153	3,899
At 1 January 2016	1,055	2,016	194	3,265

At year end the net book value of leased plant, machinery and equipment was £169,000 (2016: £121,000). Included in land and property is land at a cost of £145,000 which is not depreciated (2016: £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	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Intangible assets	**–**	–	**(1,418)**	(950)
Property, plant and equipment	**–**	–	**(248)**	(182)
Financial assets	**–**	–	**–**	–
Provisions	**37**	47	**–**	–
Employee share-based payments	**69**	66	**–**	–
Tax assets/(liabilities)	**106**	113	**(1,666)**	(1,132)
Net deferred tax liability			**(1,560)**	(1,019)

A deferred tax asset of £117,000 (2016: £84,000) in respect of cumulative share-based payments of £615,000 (2016: £494,000) has not been recognised due to uncertainty surrounding the availability of future profits, against which these payments can be utilised.

Movement in deferred tax during the year ended 31 December 2017

	1 January 2017 £000	Recognised in profit or loss £000	Acquired during the year £000	**31 December 2017 £000**
Intangible assets (note 24)	(950)	148	(616)	**(1,418)**
Property, plant and equipment	(182)	(12)	(54)	**(248)**
Provisions	47	(10)	–	**37**
Employee share-based payments	66	3	–	**69**
	(1,019)	129	(670)	**(1,560)**

Movement in deferred tax during the year ended 31 December 2016

	1 January 2017 £000	Recognised in profit or loss £000	Acquired during the year £000	**31 December 2017 £000**
Intangible assets	(844)	124	(230)	**(950)**
Property, plant and equipment	(165)	42	(59)	**(182)**
Financial assets	1	(1)	–	**–**
Provisions	70	(23)	–	**47**
Employee share-based payments	37	29	–	**66**
	(901)	171	(289)	**(1,019)**

Notes to the consolidated financial information

continued

15. Inventories

	2017 £000	2016 £000
Finished goods and goods for resale	**24,333**	16,592

Charges in finished goods recognised as cost of sales in the year amounted to £46,797,000 (2016: £30,999,000). The write-down or reversal of inventories to net realisable value amounted to a write-down of £212,000 (2016: write-down of £67,000). The write-downs and reversals are included in cost of sales. The provision made against inventories at the year end was £814,000 (2016: £931,000).

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

16. Trade and other receivables

	2017 £000	2016 £000
Trade receivables	**20,248**	12,570
Other receivables	**618**	442
Trade receivables and other receivables	**20,866**	13,012

17. Cash and cash equivalents

	2017 £000	2016 £000
Cash and cash equivalents:		
Sterling	**3,189**	3,176
Euro	**1,278**	564
Dollar	**121**	84
Total cash and cash equivalents	**4,588**	3,824

18. 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 31.

	2017 £000	2016 £000
Non-current liabilities		
Secured bank loans	**4,000**	4,000
Finance lease liabilities	**97**	81
Total non-current liabilities	**4,097**	4,081
Current liabilities		
Secured bank loans	**—**	857
Bank overdraft	**389**	—
Revolving credit facility	**15,000**	12,000
Finance lease liabilities	**62**	31
Total current liabilities	**15,451**	12,888
Total	**19,548**	16,969

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	**Carrying value 2017 £000**	Carrying value 2016 £000
Secured bank loan	GBP	Libor + 2.1%	2021	**4,000**	4,000
Secured revolving credit facility	GBP	Libor + 2.1%	n/a	**15,000**	12,000
Finance lease liabilities	GBP	Various 4.8% to 31.0%	2018 to 2021	**159**	112
				19,159	16,112

The revolving credit facility is up to £16,000,000 and is subject to a non-utilisation fee of 0.7% and is due for renewal in 2021. 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 2017 £000	**Interest 2017 £000**	**Principal 2017 £000**	Minimum lease payments 2016 £000	Interest 2016 £000	Principal 2016 £000
Less than one year	**73**	**14**	**59**	40	9	31
Between one and five years	**116**	**16**	**100**	103	22	81
More than five years	**—**	**—**	**—**	—	—	—
	189	**30**	**159**	143	31	112

19. Trade and other payables

	2017 £000	2016 £000
Current		
Trade payables	**12,208**	4,960
Accrued expenses	**4,455**	2,181
Social security and other taxes	**2,320**	1,484
	18,983	8,625

20. Contingent consideration

	2017 £000	2016 £000
Non-current liabilities		
Contingent consideration	**2,706**	212
Total non-current liabilities	**2,706**	212
Current liabilities		
Contingent consideration	**2,865**	1,420
Total current liabilities	**2,865**	1,420
Total	**5,571**	1,632

The contingent consideration is payable to the former owners of Hydravalve Limited and Hi-Power Limited on the first and second anniversaries of the acquisition by the Group. Contingent consideration is also payable to the former owners of Hydraulics and Transmissions Limited and Orange County Limited at six-monthly intervals over the next two years following the date of acquisition. Details of acquisitions in the current year are given in note 24.

Notes to the consolidated financial information
continued

21. Provisions

	Dilapidation provision £000	Total £000
Balance at 1 January 2017	212	212
Acquisitions through business combinations	192	192
Amount utilised	(63)	(63)
Balance at 31 December 2017	**341**	**341**

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

	2017 £000	2016 £000
Current	**–**	–
Non-current	**341**	212
Total	**341**	212

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.

22. Other financial liabilities

	2017 £000	2016 £000
Current		
Financial liabilities – foreign exchange contracts	**11**	57

23. Employee benefits

23.1 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 £328,000 (2016: £217,000).

23.2 Share-based employee remuneration

As at 31 December 2017, the Group maintained four share-based payment schemes for employee remuneration: the Management Incentive Plan; the Enterprise Management Incentive Plan, which has two sub plans, Approved and Unapproved; and the Company Share Option Plan.

Management Incentive Plan

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

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

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

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

	MIP scheme £000	MIP scheme £000
Grant date	21 May 2014	1 June 2016
Vesting period ends	3 April 2017	31 May 2019
Share price at date of grant	£1.00	£1.45
Volatility	30.7%	31.6%
Option life	6.25 years	5 years
Dividend yield	5.15%	5.3%
Risk-free investment rate	2.11%	1.29%
Fair value at grant date	£1.00	£1.99
Exercise price at date of grant	£1.30	£1.51
Exercisable from/to	4 April 2017 to 20 May 2021	1 June 2019 to 31 May 2023
Weighted average remaining contractual life	6 years	4 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**	**2017 Number 000s**	2016 Number 000s
Approved Plan				
21 May 2014	£1.00	4 April 2017 to 20 May 2024	**1,001**	1,635
8 August 2014	£1.26	4 April 2017 to 7 August 2024	**25**	138
30 June 2015	£1.36	4 April 2017 to 7 August 2024	**–**	50
			1,026	1,823
Unapproved Plan				
21 May 2014	£1.00	4 April 2017 to 20 May 2024	**384**	467
11 August 2015	£1.32	4 April 2018 to 10 August 2025	**130**	140
1 July 2016	£1.00	4 April 2019 to 30 June 2026	**45**	45
			559	652
			1,585	2,475

Notes to the consolidated financial information
continued

23. 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 2017	1,823	1.03	652	1.06	2,475
Granted	—	—	—	—	—
Lapsed	—	—	—	—	—
Forfeited	(11)	1.00	—	—	(11)
Exercised	(786)	1.06	(93)	1.03	(879)
Outstanding at 31 December 2017	**1,026**	**1.00**	**559**	**1.07**	**1,585**
Exercisable at 31 December 2017	**1,026**	**1.00**	**384**	**1.00**	**1,410**
Exercisable at 31 December 2016	—	—	—	—	—

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

	Unapproved EMI scheme	Unapproved EMI scheme	Approved EMI scheme	Approved EMI scheme	EMI scheme Unapproved and Approved
Grant date	1 July 2016	11 August 2015	30 June 2015	8 August 2014	21 May 2014
Vesting period ends	3 April 2019	10 August 2018	3 April 2017	3 April 2017	3 April 2017
Share price at date of grant	£1.00	£1.44	£1.34	£1.26	£1.00
Volatility	31.6%	36.6%	36.6%	36.6%	36.6%
Option life	6.5 years	6.5 years	6.25 years	6.25 years	6.25 years
Dividend yield	5.3%	5.0%	5.0%	5.0%	5.0%
Risk-free investment rate	2.11%	1.5%	1.5%	1.5%	1.5%
Fair value at grant date	£1.05	£1.46	£1.35	£1.11	£1.11
Exercise price at date of grant	£1.00	£1.32	£1.36	£1.26	£1.00
Exercisable from/to	4 April 2019 to 20 May 2026	11 August 2018 to 10 August 2025	4 April 2017 to 20 May 2024	4 April 2017 to 20 May 2024	4 April 2017 to 20 May 2024
Weighted average remaining contractual life	8 years	7 years	6 years	6 years	6 years

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

Company Share Option Plan

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

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

Date of grant	Exercise price	Exercise period	2017 Number 000s	2016 Number 000s
11 August 2015	£1.43	11 August 2018 to 10 August 2025	**110**	130
1 July 2016	£1.00	4 April 2019 to 30 June 2026	**440**	445
			550	575

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 2017	575	1.10
Granted	—	—
Exercised	(20)	1.00
Forfeited	(5)	1.43
Outstanding at 31 December 2017	**550**	**1.05**
Exercisable at 31 December 2017	**—**	**—**
Exercisable at 31 December 2016	—	—

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

	CSOP scheme 2016	CSOP scheme 2015
Grant date	1 July 2016	11 August 2015
Vesting period ends	3 April 2019	10 August 2018
Share price at date of grant	£1.00	£1.44
Volatility	31.6%	36.6%
Option life	6.5 years	6.5 years
Dividend yield	5.3%	5.0%
Risk-free investment rate	2.11%	1.5%
Fair value at grant date	£1.05	£1.46
Exercise price at date of grant	£1.00	£1.43
Exercisable from/to	4 April 2019 to 20 May 2026	11 April 2018 to 20 May 2025
Weighted average remaining contractual life	8 years	7 years

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

In total, £272,000 (2016: £353,000) of employee remuneration expenses, all of which related to equity-settled share-based payment transactions, has been included in the Consolidated Income Statement.

Notes to the consolidated financial information
continued

24. Acquisitions and disposals

24.1 Acquisition of Hydraulics and Transmissions Limited

On 20 January 2017, the Group acquired 100% of the share capital of Hydraulics and Transmissions Limited ("HTL"), a UK-based company. HTL provides fluid power solutions predominantly to the mobile market segment and supplies some of the market leaders such as JCB, McConnell and Alamo. The acquisition strengthened our position with key global suppliers including Eaton, Walvoil and Casappa, and complemented our previous acquisitions of Primary Fluid Power and Nelson Hydraulics.

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	31	–	–	**31**
Intangible assets[1]	–	–	449	**449**
Inventories	1,226	(81)	–	**1,145**
Trade and other receivables	1,018	(22)	–	**996**
Cash and cash equivalents	(1,010)	–	–	**(1,010)**
Trade and other payables	(1,456)	–	–	**(1,456)**
Current tax balances	(45)	–	–	**(45)**
Deferred tax liability	(5)	–	(81)	**(86)**
Total net assets	(241)	(103)	368	**24**

[1] Intangible assets of £322,000 owned by HTL were not acquired.

	£000
Fair value of consideration paid	
Amount settled in cash	**830**
Fair value of contingent consideration	**1,641**
Total consideration	**2,471**
Less net assets acquired	**(24)**
Goodwill on acquisition (note 10)	**2,447**

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

Consideration transferred

The total consideration was £2,471,000. This comprised £830,000 in cash and £1,641,000 contingent cash consideration. The additional consideration is based on profit targets for the Company's customer base and is payable in two instalments over the next two years. The fair value of £1,641,000 has been calculated using management forecasts of HTL's performance discounted at the weighted average cost of capital.

Acquisition costs amounting to £44,000 have been recognised as an expense in the Consolidated Income Statement as part of separately disclosed administration costs.

Goodwill

Goodwill of £2,447,000 is primarily related to expected future profitability and expected cost synergies. Goodwill has been allocated to the Power Motion Control operating segment and is not expected to be deductible for tax purposes.

Intangible asset

An intangible asset of £449,000 has been provisionally identified related to customer relationships. The estimated useful life has been determined as ten years based on the expected future cash flows that they would generate in arriving at their fair value. The customer relationships considered in the valuation comprise the sales to significant customers. Long term sales growth over the ten-year period has been assumed to be 5.2% with an attrition rate of 12.8% for customers. Growth and attrition rates are based on management experience and expectations. Amortisation of customer relationships is not expected to be deductible for tax purposes.

Fair value adjustments

The value of inventories has been decreased by £81,000 to reflect the alignment of stock valuation methods with those of the Group.

The value of debtors has been decreased by £22,000 to reflect the alignment of HTL's debtor provisioning policy with that of the Group.

Hydraulics and Transmissions Limited's contribution to the Group results

Hydraulics and Transmissions Limited was acquired on 20 January 2017, for the purpose of the Group's consolidated accounts it has been treated as if purchased on 1 January 2017 and consolidated from that date as the difference would not have a material impact on the Group results.

Summary aggregated estimated financial information on HTL for the 12 month period consolidated:

	2017 £000
Revenue	6175
Profit	384

Profits are stated after deducting inter company recharges and acquisition costs of £185,000.

24.2 Acquisition of Hewi Slangen

On 7 April 2017, the Group acquired the trade and certain assets of Hewi Slangen B.V., a Netherlands-based business. Complementary to our existing Dutch division, Flowtechnology Benelux, Hewi Slangen brings synergistic savings through relocation of operations and additional abilities and skills in hose production.

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	80	–	**100**
Inventories	197	(163)	–	**34**
Total net assets	217	(83)	–	**134**

	£000
Fair value of consideration paid	
Amount settled in cash	309
Total consideration	**309**
Less net assets acquired	(134)
Goodwill on acquisition (note 10)	**175**

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

Consideration transferred

The total consideration was £309,000 (€355,000) in cash.

Goodwill

Goodwill of £175,000 is primarily related to expected future profitability, technical know-how and expected cost synergies from the closure of the operational site and transfer of activities into existing Group locations. Goodwill has been allocated to the Flowtechnology operating segment and is not expected to be deductible for tax purposes.

Fair value adjustments

The value of property, plant and equipment has been increased by £80,000 based on market valuations at the time of acquisition.

The value of inventories has been decreased by £163,000 to reflect the alignment of stock valuation methods with those of the Group.

Notes to the consolidated financial information
continued

24. Acquisitions and disposals continued

Hewi Slangen's contribution to the Group results
Hewi Slangen generated a profit after tax of £12,000 for the nine months from 7 April 2017 to the reporting date. If Hewi Slangen had been acquired on 1 January 2017, revenue for the Group would have been £78,415,000 and profit after tax for the year would have increased by £33,000.

Summary aggregated financial information on Hewi Slangen for the period from 1 January 2017 to 7 April 2017 when it became a subsidiary:

	2017 £000
Revenue	128
Profit	33

24.3 Acquisition of Hi-Power Limited
On 23 June 2017 the Group acquired 100% of the share capital of Hi-Power Limited, a company based in the Republic of Ireland. It is a specialist distributor of hydraulic equipment components predominantly to the mobile and transport sectors. It is based in Cork, Dublin and Belfast. This acquisition is complementary to the PMC division and will strengthen the Group position with key European suppliers.

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	109	(8)	—	**101**
Intangible assets	—	—	374	**374**
Inventories	1,319	(31)	—	**1,288**
Trade and other receivables	1,818	(112)	—	**1,706**
Cash and cash equivalents	185	—	—	**185**
Trade and other payables	(1,604)	—	—	**(1,604)**
Current tax balances	(26)	—	—	**(26)**
Finance leases	(16)	—	—	**(16)**
Provisions	—	—	—	**—**
Deferred tax liability	—	—	(67)	**(67)**
Total net assets	1,785	(151)	307	**1,941**

	£000
Fair value of consideration paid	
Amount settled in cash	1,610
Fair value of contingent consideration	895
Total consideration	**2,504**
Less net assets acquired	(1,941)
Goodwill on acquisition (note 10)	**564**

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

Consideration transferred
The total consideration was £2,504,000. This comprised £1,610,000 (€1,836,000) in cash and £895,000 contingent cash consideration. The additional consideration is based on profit targets for the Company's customer base and is payable in two instalments over the next two years. The fair value of £895,000 has been calculated using management forecasts of Hi-Power Limited performance discounted at the weighted average cost of capital.

Acquisition costs amounting to £142,000 have been recognised as an expense in the Consolidated Income Statement as part of separately disclosed administration costs.

Goodwill
Goodwill of £564,000 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 £374,000 has been provisionally identified related to customer relationships. The estimated useful life has been determined as ten years based on the expected future cash flows that they would generate in arriving at their fair value. The customer relationships considered in the valuation primarily comprise those buying P.T.O.s, wet kits, bulk discharge, auto-greasing, speed limiters and winches which are new products to the segment. Long term sales growth over the ten-year period has been assumed to be 3.0% with an attrition rate of 10.0% for customers. Growth and attrition rates are based on management experience and expectations. Amortisation of customer relationships is not expected to be deductible for tax purposes.

Fair value adjustments
The value of property, plant and equipment has been decreased by £8,000 to reflect the alignment of the useful life review policy with that of the Group.

The value of inventories has been decreased by £31,000 to reflect the alignment of stock valuation methods with those of the Group.

The value of debtors has been decreased by £112,000 to reflect the alignment of Hi-Power's debtor provisioning policy with that of the Group.

Hi-Power Limited's contribution to the Group results
Hi-Power Limited generated a profit after tax of £22,000 for the six months from 23 June 2017 to the reporting date. Profits are stated after deducting intercompany charges and acquisition costs of £162,000. If Hi-Power Limited had been acquired on 1 January 2017, revenue for the Group would have been £82,060,000 and profit after tax for the year would have increased by £234,000.

Summary aggregated financial information on Hi-Power Limited for the period from 1 January 2017 to 23 June 2017 when it became a subsidiary:

	2017 £000
Revenue	3,773
Profit	234

24.4 Acquisition of Hi-Power Hydraulics
On 30 June 2017, the Group acquired certain trade and assets of Hi-Power Hydraulics Limited, a UK division of Hi-Power Limited which was acquired on 23 June 2017 (see note 24.3). Hi-Power Hydraulics is the exclusive UK importer and stockist of Pedro Roquet S.A. products. This acquisition is complementary to the PMC division and will strengthen the Group position with key European suppliers.

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	(14)	–	6
Inventories	371	(35)	–	336
Total net assets	391	(49)	–	**342**

	£000
Fair value of consideration paid	
Amount settled in cash	345
Total consideration	**345**
Less net assets acquired	(342)
Goodwill on acquisition (note 10)	**3**

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

Notes to the consolidated financial information

continued

24. Acquisitions and disposals continued

Consideration transferred

The total consideration was £345,000, paid in cash

Goodwill

Goodwill of £3,000 is primarily related to expected future profitability and expected cost synergies. Goodwill has been allocated to the Power Motion Control operating segment and is not expected to be deductible for tax purposes.

Fair value adjustments

The value of property, plant and equipment has been decreased by £14,000 to reflect the alignment of the useful life review policy with that of the Group.

The value of inventories has been decreased by £35,000 to reflect the alignment of stock valuation methods with those of the Group.

Hi-Power Hydraulics' contribution to the Group results

Hi-Power Hydraulics generated a profit after tax of £114,000 for the six months from 1 July 2017 to the reporting date. Profits are stated after deducting intercompany charges and acquisition costs of £162,000. If Hi-Power Hydraulics had been acquired on 1 January 2017, revenue for the Group would have been £78,833,000 and profit after tax for the year would have increased by £82,000.

Summary aggregated financial information on Hi-Power Hydraulics for the period from 1 January 2017 to 30 June 2017 when it became a subsidiary:

	2017 £000
Revenue	546
Profit	82

24.5 Acquisition of Orange County Limited

On 7 July 2017, the Group acquired 100% of the share capital of Orange County Limited, a UK-based company. It is a specialist supplier and distributor of high quality products for the storage and movement of fuel, liquid and gases based in Spennymoor, County Durham. Orange County provides a further complementary business to the Group and establishes relationships with world-leading manufacturers of pipes, valves, gauges and leak detection equipment. It is focused on technical sales to a wide range of end users from fuel supply systems for the automotive industry to cooling systems on the London Underground, as well as large Data Centres across the UK.

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	34	(4)	–	30
Intangible assets	–		1,049	1,049
Inventories	302	(26)	–	276
Trade and other receivables	785	(23)	–	762
Cash and cash equivalents	1,936		–	1,936
Trade and other payables	(340)	–	–	(340)
Current tax balances	(284)	–	–	(284)
Deferred tax liability	(7)	–	(189)	(196)
Total net assets	2,426	(53)	860	3,233

	£000
Fair value of consideration paid	
Amount settled in cash	3,200
Fair value of contingent consideration	2,823
Total consideration	**6,023**
Less net assets acquired	(3,233)
Goodwill on acquisition (note 10)	**2,790**

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

Consideration transferred

The total consideration was £6,023,000. This comprised £3,200,000 in cash and £2,823,000 contingent cash consideration. The additional consideration is based on profit targets for the Company's customer base and is payable in four instalments over the next two years. The fair value of £2,823,000 has been calculated using management forecasts of Orange County Limited's performance discounted at the weighted average cost of capital.

Acquisition costs amounting to £76,000 have been recognised as an expense in the Consolidated Income Statement as part of separately disclosed administration costs.

Goodwill

Goodwill of £2,790,000 is primarily related to expected future profitability, the substantial skill and expertise of its workforce and technical know-how. Goodwill has been allocated to the Process operating segment and is not expected to be deductible for tax purposes.

Intangible asset

An intangible asset of £1,049,000 has been provisionally identified related to customer relationships. The estimated useful life has been determined as ten years based on the expected future cash flows that they would generate in arriving at their fair value. The customer relationships considered in the valuation comprise the sales to customers of equipment for storage and movement of fuel, liquid and gases, which are new products for the segment. Long term sales growth over the ten-year period has been assumed to be 2.0% with an attrition rate of 10.0% for customers. Growth and attrition rates are based on management experience and expectations. Amortisation of customer relationships is not expected to be deductible for tax purposes.

Fair value adjustments

The value of property, plant and equipment has been decreased by £4,000 to reflect the alignment of the useful life review policy with that of the Group.

The value of inventories has been decreased by £27,000 to reflect the alignment of stock valuation methods with those of the Group.

The value of debtors has been decreased by £23,000 to reflect the alignment of the debtor provisioning policy with that of the Group.

Orange County Limited's contribution to the Group results

Orange County Limited generated a profit after tax of £276,000 for the six months from 7 July 2017 to the reporting date. Profits are stated after deducting intercompany charges of £57,000. If Orange County Limited had been acquired on 1 January 2017, revenue for the Group would have been £79,451,000 and profit after tax for the year would have increased by £114,000.

Summary aggregated financial information on Orange County Limited for the period from 1 January 2017 to 7 July 2017 when it became a subsidiary:

	2017 £000
Revenue	**1,164**
Profit	**114**

Notes to the consolidated financial information

continued

24. Acquisitions and disposals continued

24.6 Acquisition of The Hydraulic Group BV

On 7 September 2017, the Group acquired 100% of the share capital of The Hydraulic Group BV and its subsidiaries, a Netherlands-based company. Based in Oud-Beijerland and Rotterdam, with a sales presence in Brussels, it is a distributor of hydraulic equipment and components, predominantly to the mechanical engineering, marine and agricultural sectors into Maintenance, Repair and Operations applications, as well as original equipment manufacturers. The acquisition extends the Group's position with important global suppliers, in particular Eaton Corporation.

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
Investments	387	(387)	–	**–**
Property, plant and equipment	225	–	–	**225**
Intangible assets	–	–	976	**976**
Inventories	1,033	(33)	–	**1,000**
Trade and other receivables	1,119	(173)	–	**946**
Cash and cash equivalents	77	–	–	**77**
Trade and other payables	(1,048)	–	–	**(1,048)**
Current tax balances	(37)	–	–	**(37)**
Finance leases	(62)			**(62)**
Provisions	–	(103)	–	**(103)**
Deferred tax liability	43	–	(176)	**(133)**
Total net assets	1,737	(696)	800	**1,841**

	£000
Fair value of consideration paid	
Amount settled in cash	2,885
Amount settled in shares in Flowtech Fluidpower plc	687
Amount settled in share options in Flowtech Fluidpower plc	187
Total consideration	**3,759**
Less net assets acquired	(1,841)
Goodwill on acquisition (note 10)	**1,918**

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

Consideration transferred

The total consideration was £3,759,000. This comprised £2,149,000 (€2,250,000) in cash, assumption of £736,000 (€802,000) of net debt at acquisition, £687,000 represented by the issue of new Flowtech Fluidpower plc ordinary shares at a value of 1.387p each and £187,000 represented by the issue of 495,178 unapproved share options in Flowtech Fluidpower plc. The premium on share issue arising of £439,000 has been credited to the merger relief reserve. The share options have been valued using a variation of the Black-Scholes model that takes into account factors specific to share incentive plans, such as the vesting period. The options are exercisable from April 2020 and have an exercise value of £1.387p. The fair value of the options of £187,000 has been recognised as an other reserve.

Acquisition costs amounting to £45,000 have been recognised as an expense in the Consolidated Income Statement as part of separately disclosed administration costs.

Goodwill

Goodwill of £1,918,000 is primarily related to expected future profitability 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 £976,000 has been provisionally identified related to customer relationships. The estimated useful life has been determined as ten years based on the expected future cash flows that they would generate in arriving at their fair value. The customer relationships considered in the valuation comprise the sales to significant customers. Long term sales growth over the ten-year period has been assumed to be 1.9% with an attrition rate of 10.0% for customers. Growth and attrition rates are based on management experience and expectations. Amortisation of customer relationships is not expected to be deductible for tax purposes.

Fair value adjustments

The value of investments has been decreased by £322,000 based on market valuations at the time of acquisition.

The value of inventories has been decreased by £31,000 to reflect the alignment of stock valuation methods with those of the Group.

The value of debtors has been decreased by £16,000 to reflect the alignment of The Hydraulics Group's debtor provisioning policy with that of the Group and also by £158,000 based on market valuations of other debt at the time of acquisition.

The value of provisions has been increased by £103,000 to reflect a provision for dilapidation costs relating to properties leased by the Company.

The Hydraulic Group BV's contribution to the Group results

The Hydraulic Group BV generated a profit after tax of £109,000 for the four months from 7 September 2017 to the reporting date. Profits are stated after deducting intercompany charges of £166,000. If The Hydraulic Group BV had been acquired on 1 January 2017, revenue for the Group would have been £82,939,000 and profit after tax for the year would have increased by £148,000.

Summary aggregated financial information on The Hydraulic Group BV's for the period from 1 January 2017 to 7 September 2017 when it became a subsidiary:

	2017 £000
Revenue	**4,652**
Profit	**148**

24.7 Acquisition of Group HES Limited

On 11 October 2017, the Group acquired 100% of the share capital of Group HES Limited ("HES") and its subsidiaries, a UK-based group. HES is a multi-faceted solutions provider to the Fluidpower sector located in Birmingham, Durham, Gloucester and Leeds. The business operates under five trading brands: Hydraulic Equipment Supermarkets; Branch Hydraulic Systems; and more recently established specialist distributor brands in HES Tractec, HES Lubemec and HES Automatec. The acquisition provides another complementary business to the Group's PMC division, delivering incremental revenue through a mix of wider technical applications, reinforces our offer to the off-highway market and adds aerospace to our sector coverage. In addition, the acquisition extends the Group's position with important global suppliers, including Danfoss Power Solutions.

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	574	(26)	–	**548**
Intangible assets	–		570	**570**
Inventories	3,093	(200)	–	**2,893**
Trade and other receivables	2,941	(28)	–	**2,913**
Cash and cash equivalents	(722)	–	–	**(722)**
Trade and other payables	(3,669)	–	–	**(3,669)**
Finance leases	(28)	–	–	**(28)**
Current tax balances	(25)	–	–	**(25)**
Provisions	–	(90)	–	**(90)**
Deferred tax liability	(84)	–	(103)	**(187)**
Total net assets	2,080	(344)	467	**2,203**

Notes to the consolidated financial information
continued

24. Acquisitions and disposals continued

	£000
Fair value of consideration paid	
Amount settled in cash	3,090
Amount settled in shares in Flowtech Fluidpower plc	1,000
Total consideration	**4,090**
Less net assets acquired	(2,203)
Goodwill on acquisition (note 10)	**1,887**

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

Consideration transferred
The total consideration was £4,090,000. This comprised £3,090,000 in cash and £1,000,000 represented by the issue of new Flowtech Fluidpower plc ordinary shares at a value of 1.511p each. The premium on share issue arising of £669,000 has been credited to the merger relief reserve.

Acquisition costs amounting to £65,000 have been recognised as an expense in the Consolidated Income Statement as part of separately disclosed administration costs.

Goodwill
Goodwill of £1,887,000 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 £570,000 has been provisionally identified related to customer relationships. The estimated useful life has been determined as ten years based on the expected future cash flows that they would generate in arriving at their fair value. The customer relationships considered in the valuation comprise the sales to the aerospace sector, HES's service division sales and customer revenue streams served by the LubeMec and Tractec brands which are all new revenue streams to the segment. Long term sales growth over the ten-year period has been assumed to be 2.0% with an attrition rate of 10.0% for customers. Growth and attrition rates are based on management experience and expectations. Amortisation of customer relationships is not expected to be deductible for tax purposes.

Fair value adjustments
The value of property, plant and equipment has been decreased by £26,000 to reflect the alignment of the useful life review policy with that of the Group.

The value of inventories has been decreased by £200,000 to reflect the alignment of stock valuation methods with those of the Group.

The value of debtors has been decreased by £28,000 to reflect the alignment of the debtor provisioning policy with that of the Group.

The value of provisions has been increased by £90,000 to reflect a provision for dilapidation costs relating to properties leased by the Company.

Group HES Limited's contribution to the Group results
HES generated a loss after tax of £45,000 for the three months from 11 October 2017 to the reporting date. Losses are stated after deducting intercompany charges and acquisition costs of £106,000. If HES had been acquired on 1 January 2017, revenue for the Group would have been £94,224,000 and profit after tax for the year would have increased by £1,009,000.

Summary aggregated financial information on Group HES Limited for the period from 1 January 2017 to 11 October 2017 when it became a subsidiary:

	2017 £000
Revenue	**15,957**
Profit	**1,009**

25. 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 2017	52,818,997	26,409
Shares authorised for share-based payments	6,666,667	3,333
Total shares authorised at 31 December 2017	59,485,664	29,742

	Number	£000
Allotted and fully paid ordinary shares of 50p each		
At 1 January 2017	43,078,282	21,539
Shares issued	8,333,333	4,166
Shares issued in respect of exercise of employee share options	15,000	7
Shares issued in respect of loan to Employee Benefit Trust	235,400	118
Shares issued in respect of acquisition (note 24.6)	495,178	248
Shares issued in respect of acquisition (note 24.7)	661,804	331
At 31 December 2017	52,818,997	26,409

On 30 March 2017, 8,333,333 ordinary shares were issued at 120.0 pence each to fund acquisitions.

On 22 May 2017, 197,901 ordinary shares were issued at 100.0 pence each and 37,500 ordinary shares were issued at 1.255 pence each. The aggregate issue of 235,401 was purchased by the Flowtech Fluidpower Employee Benefit Trust (EBT) under a loan agreement with the EBT. On the same date a further 15,000 were issued at 100 pence each directly to employees in satisfaction of EMI share option exercises.

On 7 September, a further 495,178 ordinary shares were issued for 1.387 pence each, in partial consideration for an indirect subsidiary's acquisition of 100% of the share capital of The Hydraulic Group BV.

On 11 October, a further 661,804 ordinary shares were issued for 1.511 pence each, in partial consideration for an indirect subsidiary's acquisition of 100% of the share capital of Group HES Limited and its subsidiaries.

26. Net cash from operating activities

	2017 £000	2016 £000
Reconciliation of profit before taxation to net cash flows from operations		
Profit from continuing operations before tax	**6,039**	5,527
Loss from discontinued operations before tax	**—**	(113)
Depreciation	**640**	526
Financial income	**(6)**	(1)
Financial expense	**581**	611
Profit on sale of plant and equipment	**(3)**	(21)
Amortisation of intangible assets	**768**	569
Cash settled share options	**(415)**	—
Equity-settled share-based payment charge	**272**	353
Change in amounts accrued for contingent consideration	**229**	(108)
Operating cash inflow before changes in working capital and provisions	**8,105**	7,343
Change in trade and other receivables	**(823)**	(1,384)
Change in stocks	**(931)**	(1,486)
Change in trade and other payables	**1,922**	1,126
Change in provisions	**(63)**	(86)
Cash generated from operations	**8,210**	5,513
Tax paid	**(1,610)**	(1,347)
Net cash generated from operating activities	**6,600**	4,166

Notes to the consolidated financial information

continued

27. Discontinued operations

Discontinued operation costs in the prior year relate to surplus property costs incurred following the relocating of operations to existing Group properties.

	2017 £000	2016 £000
Discontinued operations:		
Administrative expenses	–	(113)
Operating loss	–	(113)
Taxation (note 7)	–	22
Loss from discontinued operations	–	(91)

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

28. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017 £000	2016 £000
Less than one year	**1,450**	788
Between one and five years	**3,103**	1,909
More than five years	**3,479**	3,410
	8,032	6,107

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 2017, the property lease periods range from less than one year to fifteen years. The disclosures above for non-cancellable operating lease rentals have been split out below to show the split between land and buildings and other assets which include motor vehicles.

	2017		2016	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Less than one year	**1,059**	**391**	570	218
Between one and five years	**2,654**	**449**	1,521	388
More than five years	**3,479**		3,410	–
	7,192	**840**	5,501	606

During the year £1,303,000 was recognised as an expense in the income statement in respect of operating leases relating to continuing operations (2016: £799,000). Operating lease costs recognised in discontinued operations were £nil (2016: 45,000).

29. Contingent liabilities and commitments

The Group had capital expenditure of £510,000 contracted for but not provided at 31 December 2017 (2016: £63,000).

30. 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 43 to 45.

Dividends paid to Directors of the plc were as follows:

	2017 £000	2016 £000
Sean Fennon	12	12
Bryce Brooks	5	5
Malcolm Diamond MBE	3	3
Nigel Richens	3	3
	23	23

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.

31. Financial instruments

31.1 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 2017 £000	Fair value 2017 £000	Level 2 2017 £000	Level 3 2017 £000	Carrying amount 2016 £000	Fair value 2016 £000	Level 2 2016 £000	Level 3 2016 £000
Financial liabilities at fair value through profit or loss (including all derivatives) (note 22)								
Forward exchange contracts	(11)	(11)	(11)	–	(57)	(57)	(57)	–
Contingent consideration (note 20)	(5,571)	(5,571)	–	(5,571)	(1,631)	(1,631)	–	(1,631)
Total financial liabilities at fair value through profit or loss	(5,582)	(5,582)	(11)	(5,571)	(1,688)	(1,688)	(57)	(1,631)

There have been no transfers in either direction during the years ended 31 December 2017 and 31 December 2016.

Notes to the consolidated financial information
continued

31. Financial instruments continued

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

	2017 £000	2016 £000
Balance at 1 January	**1,631**	2,148
Arising on business combinations	**5,361**	622
Payment of contingent consideration	**(1,649)**	(1,031)
Changes in amounts accrued for contingent consideration	**229**	(108)
Balance at 31 December	**5,572**	1,631

The payment of under provision of contingent consideration relates to the calculation of the contingent consideration as follows:

- £215,000 in final settlement for the acquisition of Nelson Hydraulics Limited acquired in 2015. The consideration was based on net profit targets.
- £14,000 additional payment due on the first instalment for the acquisition of Hydravalve Limited, acquired in 2016. The consideration was based on net profit targets.

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

	Carrying amount 2017 £000	**Fair value 2017 £000**	**Level 2 2017 £000**	**Level 3 2017 £000**	Carrying amount 2016 £000	Fair value 2016 £000	Level 2 2016 £000	Level 3 2016 £000
Loans and receivables								
Cash and cash equivalents (note 17)*	**4,588**				3,824			
Trade and other receivables (note 16)*	**20,866**				13,012			
Total financial assets not measured at fair value	**25,454**				16,836			
Total financial assets at fair value	**—**	**—**	**—**		—	—	—	
Financial assets	**25,454**				16,836			
Financial liabilities measured at amortised cost								
Other interest-bearing loans and borrowings (note 18)	**(19,548)**				(16,969)			
Trade payables and accruals (note 19)*	**(16,663)**				(7,141)			
Total financial liabilities measured at amortised cost	**(36,211)**				(24,110)			
Financial liabilities at fair value								
Forward exchange contracts	**(11)**	**(11)**	**(11)**		(57)	(57)	(57)	
Contingent consideration (note 20)	**(5,572)**	**(5,572)**	**—**	**(5,572)**	(1,632)	(1,632)	—	(1,632)
Total financial liabilities at fair value	**(5,583)**	**(5,583)**	**(11)**	**(5,572)**	(1,689)	(1,689)	(57)	(1,632)
Total financial liabilities	**(41,794)**	**(5,583)**	**(11)**	**(5,572)**	(25,799)			
Total financial instruments	**(16,340)**	**(5,583)**	**(11)**	**(5,572)**	(8,963)			

* 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 currency hedging contracts are not traded in active markets. These have been fair valued using observable exchange rates corresponding to the maturity of the contract, through direct confirmation from the provider of the contract.
Contingent consideration	The fair value of contingent consideration at 31 December 2017 relates to the acquisitions of Hydravalve Limited in 2016 and in 2017, Hydraulics and Transmissions Limited, Hi-Power Limited and Orange County Limited. It is estimated using a present value technique. The £5,571,000 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.

31.2 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:

	2017 £000	2016 £000
UK	**16,343**	11,025
Europe	**3,561**	1,272
Rest of the World	**344**	273
	20,248	12,570

Credit quality of financial assets and impairment losses

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

	Gross 2017 £000	**Impairment 2017 £000**	Gross 2016 £000	Impairment 2016 £000
Not past due	**18,364**	**81**	12,222	84
Past due 0-30 days	**1,433**	**32**	393	6
More than 30 days	**919**	**355**	195	150
	20,716	**468**	12,810	240

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.

Notes to the consolidated financial information
continued

31. Financial instruments continued

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:

	2017 £000	2016 £000
Balance at 1 January	240	187
Net change due to acquisitions and disposals of subsidiaries	266	66
Provision utilised	(65)	(116)
Increase in provision	27	103
Balance at 31 December	468	240

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.

31.3 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 2017	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000
Non-derivative financial liabilities					
Secured bank loan	4,000	4,260	80	80	4,100
Finance lease liabilities	159	190	74	117	–
Revolving credit facility	15,000	15,342	15,342	–	–
Trade payables	12,208	12,208	12,208	–	–
Derivative financial liabilities					
Other forward exchange contracts:					
Net payment	11	11	11	–	–
	31,378	32,011	27,715	197	4,100

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

There are no contractual maturities over five years.

31.4 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.

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 2017	**Sterling £000**	**Euro £000**	**US Dollar £000**	**Total £000**
Cash and cash equivalents	**3,189**	**1,278**	**121**	**4,588**
Trade and other receivables	**15,133**	**5,629**	**104**	**20,866**
Secured bank loans	**(4,000)**	**—**	**—**	**(4,000)**
Revolving credit facility	**(15,000)**	**—**	**—**	**(15,000)**
Finance lease liabilities	**(101)**	**(59)**	**—**	**(160)**
Trade payables	**(6,434)**	**(4,998)**	**(776)**	**(12,208)**
Forward exchange contracts	**—**	**(698)**	**—**	**(698)**
Net exposure	**(7,213)**	**1,152**	**(551)**	**(6,612)**

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

Sensitivity analysis

A 10% weakening of the following currencies against the pound sterling at 31 December 2017 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 2016.

	Profit or loss and equity	
	2017 £000	2016 £000
€	**(138)**	95
$	**38**	(20)

A 10% strengthening of the following currencies against the pound sterling at 31 December 2017 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.

Notes to the consolidated financial information
continued

31. Financial instruments continued

The analysis is performed on the same basis for the year ended 31 December 2017.

	Profit or loss and equity	
	2017 **£000**	2016 £000
€	**169**	(116)
$	**(47)**	25

Market risk – interest rate risk

Profile

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

	2017 **£000**	2016 £000
Fixed rate instruments		
Financial liabilities	**159**	112
Variable rate instruments		
Financial liabilities (carrying value)	**19,389**	16,857

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 2016.

	2017 **£000**	2016 £000
Equity		
Increase of 100 basis points	**(190)**	(168)
Decrease of 100 basis points	**190**	168
Profit or loss		
Increase of 100 basis points	**(190)**	(168)
Decrease of 100 basis points	**190**	168

31.5 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 18 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 to 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.

32. Subsequent events

Balu Limited and its UK subsidiaries was acquired on 19 March 2018 for an initial consideration of £4.65 million in cash, £0.5 million in shares with additional estimated consideration of £3 million anticipated to be paid within 12 months. The cash consideration was funded through existing resources, supplemented by a share issue on 4 April as detailed below. The acquisition will add significantly to the Group's procurement relationship with key global suppliers of hydraulic components, in particular Parker Hannafin. Balu Limited has two trading subsidiaries. Beaumanor is an importer and distributor of fluid power equipment in the UK. Based in Leicester, it will form part of the Flowtechnology division. Secondly, Derek Lane is a supplier of fluid power products and engineered solutions based in Newton Abbot, Devon. Derek Lane will form part of the PMC division.

The Group will disclose the book value of the identifiable assets and liabilities and their fair values in the 2018 interim financial statements as required under IFRS 3 'Business Combinations'. The initial accounting and fair value exercise is incomplete at the time of this announcement due to the proximity of the accounting date.

On 15 March 2018 and 4 April 2018 Flowtech Fluidpower plc raised approximately £11 million (before expenses) via the placing of 6,470,589 new ordinary shares at 1.70 pence per share.

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

Company income statement

	Note	2017 £000	2016 £000
Continuing operations			
Administrative expenses		**(242)**	(194)
Operating loss	C	**(242)**	(194)
Financial income	F	**4,495**	5,000
Financial expenses	F	**(350)**	(116)
Net financing income		**4,145**	4,884
Profit from continuing operations before tax		**3,903**	4,690
Taxation	G	**—**	(34)
Profit for the year attributable to the owners of the Parent		**3,903**	4,656

Company statement of financial position

	Note	2017 £000	2016 £000
Fixed assets			
Investments	J	**57,367**	57,541
Total fixed assets		**57,367**	57,541
Current assets			
Trade and other debtors	K	**51,546**	36,546
Cash and cash equivalents	L	**11**	11
Total current assets		**51,557**	36,557
Creditors: amounts falling due within one year			
Interest-bearing loans and borrowings	M	**15,000**	12,857
Trade and other creditors	N	**3,005**	1,753
Total creditors: amounts falling due within one year		**18,005**	14,610
Net current assets		**33,552**	21,947
Total assets less current liabilities		**90,919**	79,488
Creditors: amounts falling due after more than one year			
Interest-bearing loans and borrowings	M	**4,000**	4,000
Total creditors: amounts falling due after more than one year		**4,000**	4,000
Net assets		**86,919**	75,488
Capital and reserves			
Called up share capital	P	**26,409**	21,539
Share premium account		**52,370**	46,880
Share-based payment reserve		**447**	622
Other reserves		**187**	—
Retained earnings		**7,506**	6,447
Total equity		**86,919**	75,488

The financial statements on pages 102 to 111 were approved by the Board of Directors on 16 April 2018 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	Other reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2016	21,539	46,880	332	—	4,015	72,766
Profit for the year	—	—	—	—	4,656	4,656
Total comprehensive income for the year	—	—	—	—	4,656	4,656
Transactions with owners						
Share options – cost	—	—	—	—	63	63
Share options – granted to subsidiary employees	—	—	290	—	—	290
Equity dividends paid (note H)	—	—	—	—	(2,287)	(2,287)
Total transactions with owners	—	—	290	—	(2,224)	(1,934)
Balance at 1 January 2017	21,539	46,880	622	—	6,447	75,488
Profit for the year	—	—	—	—	3,903	3,903
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**3,903**	**3,903**
Transactions with owners						
Issue of share capital	4,870	5,490	—	—	—	10,360
Share options issued as consideration	—	—	—	187	—	187
Share options – cost	—	—	—	—	33	33
Share options – granted to subsidiary employees	—	—	(175)	—	—	(175)
Equity dividends paid (note H)	—	—	—	—	(2,877)	(2,877)
Total transactions with owners	**4,870**	**5,490**	**(175)**	**187**	**(2,844)**	**7,528**
Balance at 31 December 2017	**26,409**	**52,370**	**447**	**187**	**7,506**	**86,919**

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 2017 were authorised for issue by the Board of Directors on 16 April 2018 and the Statement of Financial Position was signed on the Board's behalf by Bryce Brooks. Flowtech Fluidpower plc is incorporated and domiciled in England and Wales.

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

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

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

B. Accounting policies

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017.

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

a. the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
    i. paragraph 79(a)(iv) of IAS 1;
    ii. paragraph 73(e) of IAS 16 'Property, Plant and Equipment';
b. the requirements of paragraphs 10(d), and 134-136 of IAS 1 'Presentation of Financial Statements' and the requirements of IAS 7 'Statement of Cash Flows';
c. the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
d. the requirements of paragraph 17 of IAS 24 'Related Party Disclosures';
e. the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

The disclosure requirements of IFRS 7 'Financial Instruments' are as follows:

Investments

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

Financial instruments

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

Trade and other debtors

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

Trade and other creditors

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

Notes to the Company financial information

continued

B. Accounting policies continued

Derivative financial instruments

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

Derecognition of financial liabilities

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

Share-based payments

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

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

Financing income and expenses

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

Taxation

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

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

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

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

Dividends

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

Pensions

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

C. Operating loss

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

	2017 £000	2016 £000
Acquisition costs	297	151
Share-based payment costs (note 23)	33	63
Restructuring	–	60

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

D. Services provided by the Company's Auditor

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

	2017 £000	2016 £000
Audit of the statutory financial statements of Flowtech Fluidpower plc	20	20

E. Directors and employees

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

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

	2017 £000	2016 £000
Administration	4	4

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Remuneration	524	587
Social security costs	61	62
Benefits in kind	5	4
	590	653

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

	2017 £000	2016 £000
Highest paid Director's remuneration		
Remuneration	235	280
Social security costs	31	38
Benefits in kind	2	2
Total highest paid Director's remuneration	268	320

Details of Directors' emoluments are included in the Directors' Remuneration Report on pages 43 to 45.

Notes to the Company financial information

continued

F. Financial income and expense

Finance income for the year consists of the following:

	2017 £000	2016 £000
Finance income arising from:		
Dividends received from Group undertakings	**4,495**	5,000
Total finance income	**4,495**	5,000

Finance expenses for the year consist of the following:

	2017 £000	2016 £000
Finance expense arising from:		
Bank loans	**350**	116
Total finance expense	**350**	116

G. Taxation

Recognised in the income statement

	2017 £000	2016 £000
Deferred tax		
Origination and reversal of temporary differences	–	2
Adjustment in respect of prior periods	–	32
Total tax expense/(income) in the income statement	–	34

No income tax was recognised in other comprehensive income or directly in equity for either of the years ended 31 December 2017 or 2016.

Reconciliation of effective tax rate

	2017 £000	2016 £000
Profit for the year	**3,903**	4,656
Total tax expense	–	34
Profit excluding taxation	**3,903**	4,690
Tax using the UK corporation tax rate of 19.25% (2016: 20.00%)	**751**	938
Deferred tax movements not recognised	**10**	11
Group relief	**133**	15
Impact of change in tax rate on deferred tax balances	–	1
Income not taxable	**(961)**	(1,000)
Amounts not deductible	**67**	37
Adjustment in respect of prior periods	–	32
Total tax expense in the income statement	–	34

Change in corporation tax rate

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

H. Dividends paid and proposed

	2017 £000	2016 £000
Final dividend of 3.67p (2016: 3.50p) per share	**1,878**	1,499
Interim dividend of 1.93p (2016: 1.84p) per share	**999**	788
	2,877	2,287

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 December 2017 of 3.85p (2016: 3.67p) per share which will absorb an estimated £2.0 million of Shareholders' funds. It will be paid on 13 July 2018 to Shareholders who are on the register of members on 8 June 2018.

I. Share-based payments

Details of share-based payments are shown in note 23 to the consolidated financial statements.

J. Investments

Cost and net book value	Investments in subsidiaries' unlisted shares £000	Subsidiaries' share-based payment reserves £000	Total £000
At 1 January 2017	56,919	622	57,541
Additions net of exercise of options in the year	—	(174)	(174)
At 31 December 2017	**56,919**	**448**	**57,367**

K. Trade and other debtors

	2017 £000	2016 £000
Current:		
Prepayments and accrued income	**57**	379
Amounts owed by Group undertakings	**51,489**	36,167
Total trade and other debtors	**51,546**	36,546

L. Cash and cash equivalents

	2017 £000	2016 £000
Sterling	**11**	11
Total cash and cash equivalents	**11**	11

Notes to the Company financial information

continued

M. Interest-bearing loans and borrowings

	2017 £000	2016 £000
Non-current liabilities:		
Secured bank loans	**4,000**	4,000
Total non-current liabilities	**4,000**	4,000
Current liabilities:		
Revolving credit facility	**15,000**	12,000
Secured bank loans	**–**	857
Total current liabilities	**15,000**	12,857
Total interest bearing loans and borrowings	**19,000**	16,857

The secured bank loan is repayable on 1 March 2021 and is secured by legal charges over certain assets of the Flowtech Group which include trade receivables and stock.

The revolving credit facility is up to £16,000,000 and is subject to a non-utilisation fee of 0.7% and is due for renewal in March 2021. A further £5,000,000 is available to draw down on the revolving credit facility subject to the availability of Group trade receivables and stock as security. 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.

N. Trade and other creditors

	2017 £000	2016 £000
Social security and other taxes	**26**	22
Accruals and deferred income	**379**	104
Amounts owed to other Group undertakings	**2,600**	1,627
Total trade and other creditors	**3,005**	1,753

O. Deferred taxation

Deferred tax assets comprise:

	2017 £000	2016 £000
Provisions	**–**	–
Total deferred tax	**–**	–
At start of year	**–**	34
Deferred tax credit in profit and loss account for the year	**–**	(34)
At end of year	**–**	–

A deferred tax asset of £44,000 (2016: £38,000) in respect of cumulative share-based payments of £255,000 (2016: £223,000) has not been recognised due to uncertainty surrounding the availability of future profits, against which these payments can be utilised.

P. Share capital

Allotted, called up and fully paid:

	Number	£000
At 1 January 2017	43,078,282	21,539
Shares issued	8,333,333	4,166
Shares issued in respect of exercise of employee share options	15,000	7
Shares issued in respect of loan to Employee Benefit Trust	235,400	118
Shares issued in respect of acquisition (note 24.6)	495,178	248
Shares issued in respect of acquisition (note 24.7)	661,804	331
At 31 December 2017	52,818,997	26,409

Potential issue of shares

Details of the potential issue of shares relating to employee share-based payment schemes are shown in note 23 to the consolidated financial statements.

Q. Contingent liabilities and commitments

The Company has no capital expenditure contracted for but not provided at 31 December 2017.

R. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with entities that are wholly owned subsidiaries of the Flowtech Fluidpower plc Group. Repayments of £298,000 have been made by the Flowtech Fluidpower Employee Benefit Trust; £40,000 remains outstanding. There are no other related party transactions other than those relating to Directors that have been disclosed in note 30 to the consolidated financial statements.

S. Company principal subsidiaries

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

T. Ultimate controlling party

The Directors consider that there is no ultimate controlling party.

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