FLOWTECH FLUIDPOWER

FLUID THINKING, MAKING A POWERFUL DIFFERENCE

HALF-YEAR REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2018

Welcome to our Half-year 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 02

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.

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.

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.

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.

Contents

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

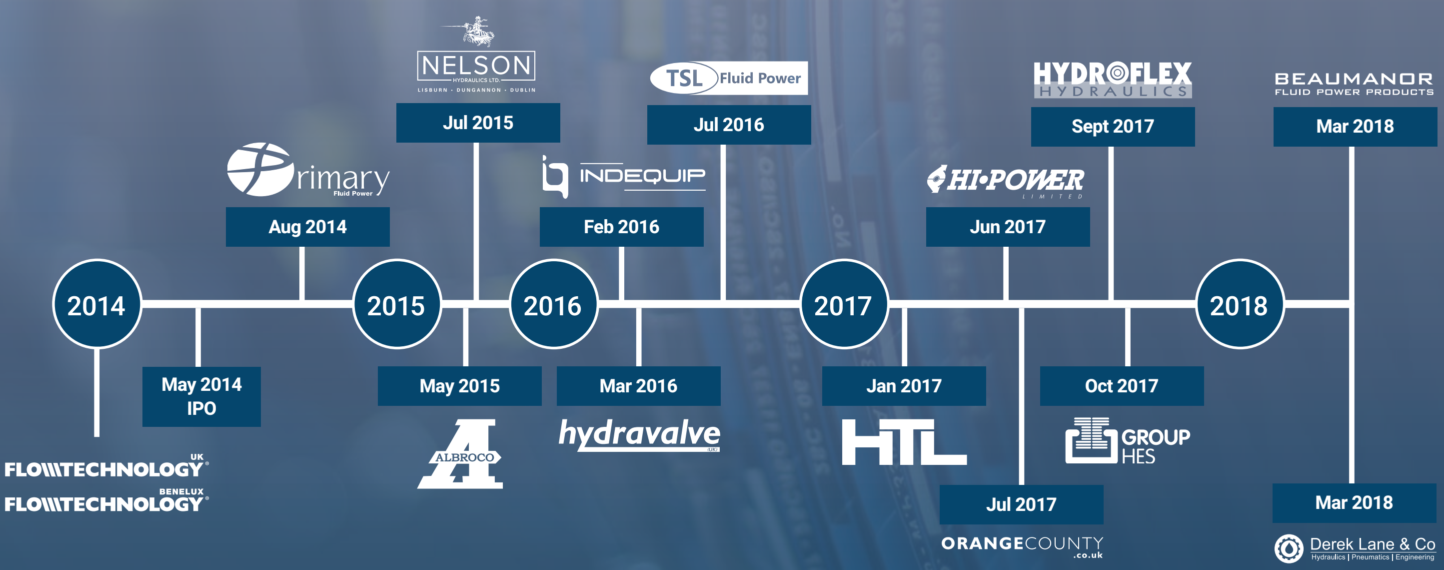
The management team is highly experienced and works in an environment driven by collaboration; this is mirrored through the organisation delivering a market-leading workforce committed to delivering excellence.

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



Group at a glance

Across our four divisions we employ over 630 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.

KEY FACTS

4 profit centres

211 employees

UK and Benelux

5,500 customers

99.5% delivery targets achieved

250 brands

1 acquisition in 2018

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 Original Equipment Manufacturers (OEMs) and end users.

KEY FACTS

2 profit centres

36 employees

UK based

597 customers

25 key supplier brands

1 acquisition in 2017

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.

KEY FACTS

8 profit centres

351 employees

UK, Ireland and Benelux

2,700 customers

100 brands

5 acquisitions in 2017

1 acquisition in 2018

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.

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.

Financial highlights

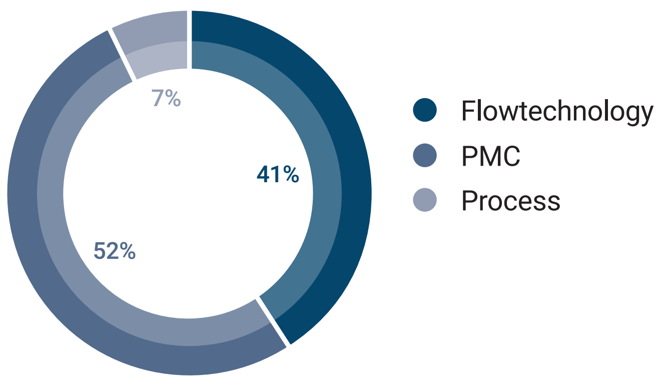
	HY2018 30.6.18 unaudited	HY2017 30.6.17 unaudited	Growth
Revenue	**£56.422m**	£34.173m	65.1%
Underlying operating result	**£5.701m**	£4.504m	26.6%
Operating profit	**£4.153m**	£3.392m	22.4%
Half-year dividend	**2.03p**	1.93p	5.2%
Earnings per share (basic)	**5.78p**	5.22p	10.7%
Net debt	**£18.0m**	£8.4m	114.3%

Operational highlights

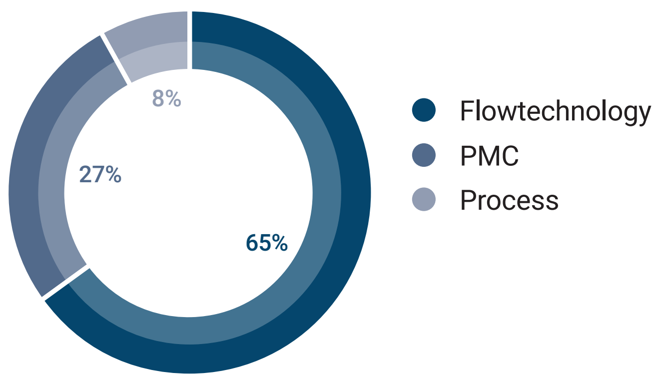
- Revenue again reflects growth across all divisions
- Completed acquisition of direct competitors in the UK – Beaumanor Fluid Power and Derek Lane
- £11m cash placing completed
- Gross margin % remains strong at 36.1%
- 26.6% growth in underlying operating profit
- Dividend increased in line with previous commitments

"We are again pleased to report further significant progress in the development of the Group during the first half of 2018 with acquisitions having also contributed significantly towards growth in sales and underlying operating profits."

Revenue



Operating profit



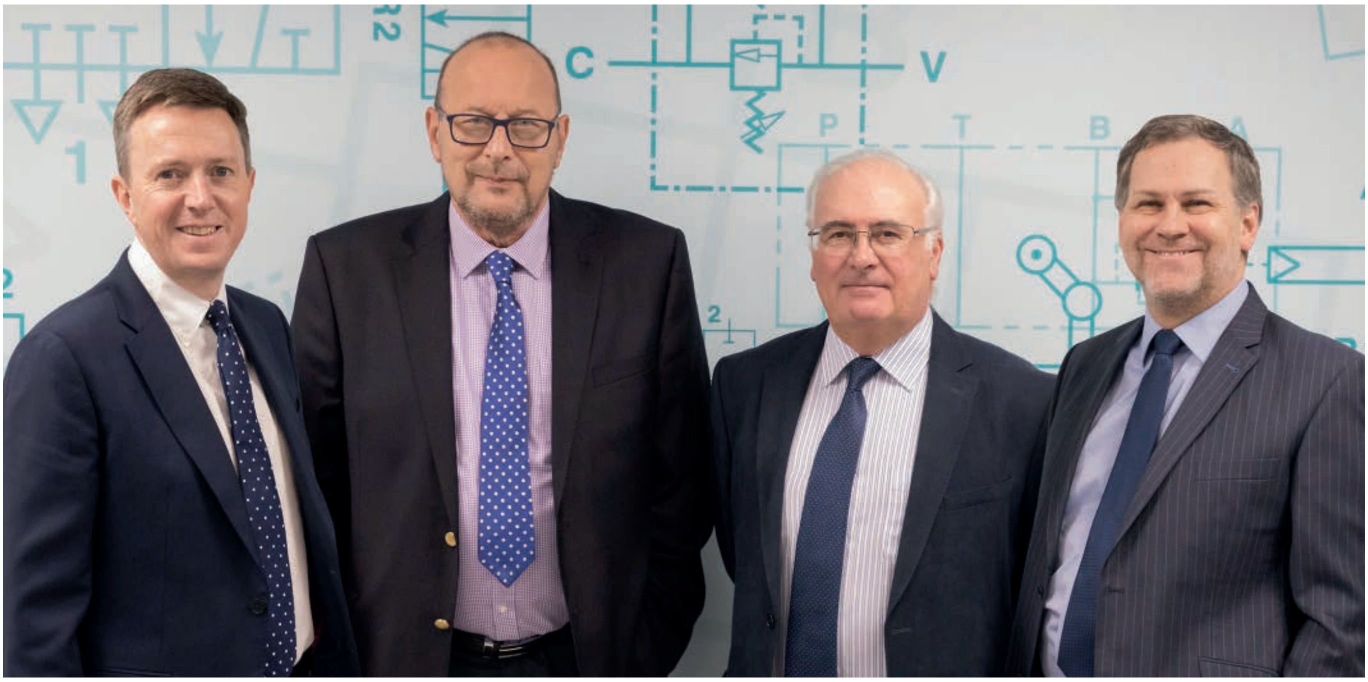
Strategy

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 internationally.

STRATEGIC FOCUS	DESCRIPTION
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.
Acquisition and Integration	The strategy is to acquire complementary 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. 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.
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 division. Business intelligence initiatives create insight which enables us to improve our stock profile and inventory usage and create strong pricing strategies.

STRATEGIC FOCUS	DESCRIPTION
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.
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.
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.

Directors' statement



Bryce Brooks,** Chief Financial Officer, **Malcolm Diamond MBE,** Non-Executive Chairman, **Nigel Richens,** Non-Executive Director, **Sean Fennon*,** Chief Executive Officer

Post period end:

* retired from the plc Board 18.09.18

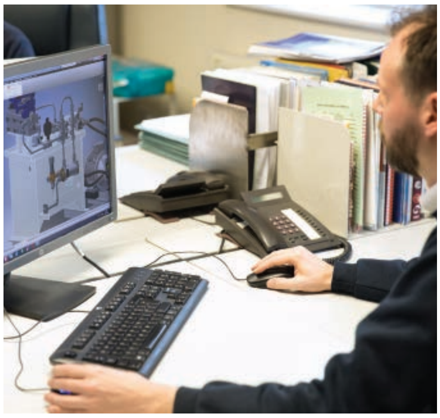
** appointed CEO and CFO 18.09.18, new CFO joins 1.11.18

Half-year financial performance and divisional analysis

We are again pleased to report further significant progress in the development of the Group during the first half of 2018, with four acquisitions completed in the second half of 2017 being Hi-Power, Orange County, Hydroflex Hydraulics and Group HES and more recently in March 2018, Beaumanor Fluid Power and Derek Lane & Co. These acquisitions have contributed significantly towards growth in sales of 65.1% and underlying operating profits of 26.6%.

Revenue	**Six months ended 30 June 2018 £000**	Six months ended 30 June 2017 £000	% Change	Year ended 31 December 2017 £000
Flowtechnology	**23,483**	19,336	**21.4%**	37,239
Power Motion Control	**28,957**	12,706	**127.9%**	34,806
Process	**3,982**	2,131	**86.9%**	6,242
Total Group revenue	**56,422**	34,173	**65.1%**	78,287
Gross profit %	**36.1%**	34.1%		





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

Continuing operations *Underlying operating result**	**Six months ended 30 June 2018 £000**	Six months ended 30 June 2017 £000	% Change	Year ended 31 December 2017 £000
Flowtechnology	**4,531**	4,138	**9.5%**	7,524
Power Motion Control	**1,901**	1,088	**74.7%**	2,788
Process	**537**	278	**93.2%**	1,105
Total divisions	**6,969**	5,504	**26.6%**	11,417
Central costs	**(1,268)**	(1,000)	**26.8%**	(2,336)
Underlying operating result*	**5,701**	4,504	**26.6%**	9,081

* Underlying operating result is continuing operations' operating profit before the fair value uplift of inventory acquired through business combinations, acquisition costs, amortisation of acquired intangibles, share-based payment costs and restructuring costs. Underlying operating result is reconciled to statutory profit before tax in note 3 to the HY Report.

Directors’ statement continued

Flowtechnology - the original core operation of the Group’s portfolio has now been further strengthened with the acquisition of its competitor, Beaumanor Fluid Power. We are pleased to report that in the six months since the deal was completed the Beaumanor business has traded strongly. Our decision to continue operating as an autonomous trading brand has underpinned strong engagement in the business by staff and customers alike and ensured service levels have remained high. This has given us a good basis from which to move forward with synergy initiatives, particularly with combining order requirements for generic product supported from the Far East. As detailed later in this Report, we are also currently reviewing projects with our IT advisory partners with regard to the transition to a common platform in the medium term, with the significant potential for further synergy in both warehousing costs and stock values, particularly in our Flowtechnology operations.

Our **Power Motion Control** (PMC) division was established in 2014 through the acquisition of Primary Fluid Power and, since then, it has developed into a broad-based fluid power division, focused on hydraulic component distribution and engineering. The result for the first half of the year represents a period of steady progress with comparisons for previous years boosted by the acquisitions of Hi-Power, Group HES and Hydroflex Hydraulics in 2017, and Derek Lane & Co. in 2018. This division is predominantly focused on supplying OEMs and broader manufacturing environments which have also performed well during the first half of 2018.

The **Process** division covers the Hydravalve and Orange County profit centres, both of which have traded favourably in the period. The sector represents an area with huge potential for development, with valves and actuators alone accounting for an estimated 46% of the €12.6bn European fluid power market, and whilst in the past three years acquisition activity has focused on progressing our Flowtechnology and PMC operations, the Board expects to take advantage of the many options for further expansion in this division in the years’ ahead.

As previously announced, the development of an **Onsite Services** division has not progressed as quickly as planned following the acquisition of Group HES in October 2017. Although the delivery of these services remains an important activity for the Group, whether as a separate division or part of a larger operation, the Board considers that a focus on a wider initiative to integrate activities within the PMC division sites, where opportunities to reduce operating costs, maximise technical capabilities and further improve our offer are clear. Consequently, Stuart Diesel, the previous owner and Managing Director of Group HES, has been asked to prioritise this initiative in preference to developing a stand-alone onsite services division for the time being. We look forward to updating you on this project at the year end.

Gross profit margins

Overall gross margin percent, one of our most important KPIs, has increased year-on-year by 2% to 36.1% (2017 H1: 34.1%) and on full year 2017 by 2.2%. The main factor behind these increases are mix related with our recent acquisitions being in high gross margin operations. However, it is important to note that amongst our legacy operations, Flowtechnology UK and Hydravalve, we have seen some immediate benefit from co-ordinated activities in Q2 following the acquisition of Beaumanor. In the medium term, the Board believes that the broad spread of our offer, both in product, customer base and diverse trading sites, will continue to provide resilience in this key measure in each division, particularly with the present apparent risk of further currency disruption post Brexit.

“Overall gross margin percent, one of our most important KPI’s has increased year-on-year. In the medium term, the Board believes that the broad spread of our offer, both in product, customer base and diverse trading sites, will continue to provide resilience in this key measure”

Operating costs

In the first half of the year our underlying cost base can be analysed as follows:

	Unaudited Six months ended 30 June 2018 £000	Unaudited Six months ended 30 June 2017 £000	Audited Year ended 31 December 2017 £000
Distribution expenses	**2,090**	1,452	3,175
As % of turnover	**3.7%**	4.2%	4.1%
Administrative expenses*:			
- Divisional	**11,291**	4,698	11,973
% of turnover	**20.0%**	13.7%	15.3%
- Central	**1,268**	1,000	2,336
% of turnover	**2.2%**	2.9%	3.0%
Total administrative expenses	**12,577**	5,698	14,309
% of turnover	**22.3%**	16.6%	18.3%

* before separately disclosed items

Distribution expenses are primarily costs paid to the various parcel and pallet carriers, principally FedEx, across the Group, and have moved in line with the mix of activities.

Administrative costs at divisional level represent the operational infrastructure to run the Group's trading activities and after our prolonged period of acquisition activity is now spread across 29 sites in the UK, Ireland and the Netherlands. The increase in proportion of turnover (being from 13.7% to 20.0%) is largely mix related amongst our newer acquisitions when compared to our legacy operations and illustrates the potential for cost reduction initiatives over the medium term, and therefore the Board is confident that the prospects for the rationalisation of our operational cost base remain good. This will be an important measure for the newly established Executive team in 2019 and beyond.

At Central cost level, which covers Service Centre activities such as accounting, as well as costs associated with operating the plc, the Board is continuing to ensure that personnel are recruited to cover not just for today, but to provide resilience for the expected growth in the future.

Directors' statement continued

Financial position including cash flow and bank debt

After reaching a peak during Q2, inventory has fallen and the outlook for the remainder of 2018 and early next year is positive as the Group looks to leverage off the benefits of being a multi-site organisation. Trade receivables at 30 June 2018 were £27.2m and clearly represent a significant element of our working capital. Credit collection resources remain spread across the Group, and with this in mind the new position of Group Credit Manager has been created with an appointment expected in early Q4. The remit will be to ensure we improve cash collection efficiencies where possible. With a combined inventory and trade receivables value of over £55m, the Board is determined to use the benefits of being part of an integrated Group to optimise our working capital position over the short to medium term, whilst retaining a customer-centric focus and high service offer at Profit Centre level.

Away from this, the Group has continued to service its commitments in terms of dividend payments, under various deferred arrangements, and has worked effectively within bank facilities and covenants.

Board update

The Board changes announced in September are set out in a separate announcement, to read follow this link.

http://www.flowtechfluidpower.com/investors/rns/rns-announcement/3514085

Our people

After the period of significant growth, we have seen since coming to market in 2014, we are now able to call on a wide range of skilled directors and managers who lead our operations at local and Group level. A key initiative over the next year and into the future, will be to ensure that these leaders, many of whom have come from previously family-owned organisations, have access to the high quality training and mentoring resources that can be obtained as part of a public company, and we firmly believe the likelihood of significant return in both employee engagement and financial return is compelling.

Our business strategy for growth

Our placing in Spring 2018 for £11m allowed us to complete the acquisition of Balu Limited, with its two trading subsidiaries Beaumanor Fluid Power and Derek Lane. After our previous placing for £10m in March 2017, and a series of 12 acquisitions starting in August 2014 with Primary Fluid Power, the Group has established a strong commercial position in the UK and Irish markets, and a good position in the Benelux from which to expand. Our activities have created many more opportunities to grow through acquisition and we plan to take advantage of this in the medium to long term. However, in the short term it is appropriate to work with the infrastructure we presently have and continue to focus on delivering on our four-layered synergy approach – back office, procurement, operational efficiency and commercial. We constantly seek to learn from the experiences, both positive and challenging, observed in each deal, and we strive to build a team attitude to risk management. However, our key experience to date is that our philosophy of allowing individual trading units to continue to trade independently under the umbrella of a shared services organisation, is giving us significant commercial traction post deal, with employee engagement established and, in many cases, enhanced. On the flip side, there remain important challenges around IT and accounting, with reporting to public company standards as well as the building of protections around cyber-crime, network and data security adding to local complexity, and, to some degree, cost.

Investment for the future

In late 2017, the Board engaged with our IT strategy adviser, PwC, to establish a clear framework on which to build a resilient plan for the future of our IT infrastructure. Whilst the plan that was subsequently approved was multi-faceted, there were essentially two clear building blocks.

1. A single IT system encompassing Business Process and Accounting must be the aim
2. The creation of a comprehensive cyber security framework and a resilient IT environment

"Our activities have created many more opportunities to grow through acquisition and we plan to take advantage of this in the medium to long term. However, in the short term it is appropriate to work with the infrastructure we presently have and continue to focus on delivering on our four-layered synergy approach – back office, procurement, operational efficiency and commercial"

The strong belief of the Board is that the benefits of this simple approach are likely to be significant, both in operational efficiency – the drive to 'best practice' – and the ability to leverage the value of the huge data pools of customers, products and suppliers that are held across the eight IT environments that we currently operate. Under the revised leadership team our plan is to move gradually towards this aim, whilst ensuring that local efficiency is not compromised. In short, the benefits of applying modern enterprise management systems to industrial markets is clear, and now is the time to start to address this situation to further underpin our long-term growth strategy. The implementation of the first stage of this process – Sage X3 financials (now rebranded as Sage Enterprise Management) – is progressing well and is expected to significantly improve information flow in 2019.

Earnings per share and dividend

In the first half, earnings per share increased to 5.78p, from 5.22p in 2017. With the continued outlook for growth at 'underlying' measures, the Board is pleased to declare a half-year dividend of 2.03p (2017: 1.93p), a 5% increase. This interim dividend will be paid on 26 October 2018 to members on the Register at close of business on 28 September 2018.

The shares will become ex-dividend on 27 September 2018.

Outlook

Our markets have experienced a strong period of growth over 2017 and early 2018, and we have been able to enhance this with our own commercial activities, again bolstered by the benefits from our acquisition programme. Whilst recent trading has remained positive, there are some signs, particularly in some engineering businesses, that growth may be softening. As such, while we remain confident in the prospects for the future growth in both our markets and the enhancement our coordinated activities will bring, we are cautious about prospects in the short term until clarity is achieved on the post-Brexit UK economy.

In late 2017 we were awarded an order for c£1.5m to design, manufacture and supply several hydraulic cylinders and power units to an appointed sub-contractor on the Thames Tideway project. The expected completion date was mid-2018, however, due to delays we currently understand that this project is unlikely to complete before early 2019 and further, that the contractual liabilities to be assumed have been subject to revision, to a point where we are currently discussing both these terms and pricing. The Board is firmly of the view that we will not accept risk that is disproportionate to our potential return, and inconsistent with our normal activities. Our ability to replace such income in the short term is very limited and it is likely, therefore, to result in a Group performance at underlying operating profit level being marginally below market expectations for the year ending 31 December 2018.

Beyond this short-term view, the Board remains confident in the overall Group strategy being adopted. After a short period to allow the new leadership/executive team to become established, the outlook for future growth remains strong. We will continue to keep investors informed over the coming months and will provide further information on progress in our Q3 Trading Update which we expect to announce on 23 October 2018.

By order of the Board

17 September 2018

Consolidated Income Statement

for the six months ended 30 June 2018

	Notes	**Unaudited Six months ended 30 June 2018 £000**	Unaudited Six months ended 30 June 2017 £000	Audited Year ended 31 December 2017 £000
Continuing operations				
Revenue		**56,422**	34,173	78,287
Cost of sales before separately disclosed items:		**(36,054)**	(22,519)	(51,722)
– Fair value uplift of inventory acquired through business combinations	3	**(211)**	–	–
Gross profit		**20,157**	11,654	26,565
Distribution expenses		**(2,090)**	(1,452)	(3,175)
Administrative expenses before separately disclosed items:		**(12,577)**	(5,698)	(14,309)
— Acquisition costs	3	**(444)**	(510)	(1,081)
— Amortisation of acquired intangibles	3	**(470)**	(325)	(768)
— Share-based payment costs	3	**(102)**	(172)	(272)
— Restructuring costs	3	**(18)**	(90)	(117)
— Change in amounts accrued for contingent consideration		**–**	(15)	229
Total administrative expenses		**(13,611)**	(6,810)	(16,776)
Operating profit		**4,456**	3,392	6,614
Financial income		**–**	–	6
Financial expenses		**(303)**	(282)	(581)
Net financing costs		**(303)**	(282)	(575)
Profit from continuing operations before tax		**4,153**	3,110	6,039
Taxation	4	**(867)**	(634)	(1,207)
Profit from continuing operations after tax		**3,286**	2,476	4,832
Profit for the period attributable to the owners of the parent		**3,286**	2,476	4,832
Earnings per share				
Basic earnings/(loss) per share				
Continuing operations		**5.78p**	5.22p	9.69p
Discontinued operations		**–**	–	–
Basic earnings per share	6	**5.78p**	5.22p	9.69p
Diluted earnings/(loss) per share				
Continuing operations		**5.73p**	5.17p	9.58p
Discontinued operations		**–**	–	–
Diluted earnings per share	6	**5.73p**	5.17p	9.58p

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2018

	Unaudited Six months ended 30 June 2018 £000	Unaudited Six months ended 30 June 2017 £000	Audited Year ended 31 December 2017 £000
Profit for the period	**3,286**	2,476	4,832
Other comprehensive income			
— Items that will be reclassified subsequently to profit or loss			(28)
— Exchange differences on translating foreign operations	**16**	72	279
Total comprehensive income in the period attributable to the owners of the parent	**3,302**	2,548	5,083

Consolidated Statement of Financial Position

as at 30 June 2018

	Unaudited 30 June 2018 £000	Unaudited 30 June 2017 £000	Audited 31 December 2017 £000
Assets			
Non–current assets			
Goodwill	**62,781**	51,609	57,938
Other intangible assets	**7,369**	4,893	7,430
Property, plant and equipment	**6,959**	4,344	6,070
Total non–current assets	**77,109**	60,846	71,438
Current assets			
Inventories	**28,974**	17,317	24,333
Trade and other receivables	**27,217**	16,625	20,866
Prepayments	**1,554**	807	800
Cash and cash equivalents	**2,414**	4,142	4,588
Total current assets	**60,159**	38,891	50,588
Liabilities			
Current liabilities			
Interest–bearing loans and borrowings	**16,218**	8,527	15,451
Trade and other payables	**18,896**	11,627	18,983
Deferred and contingent consideration	**3,977**	1,637	2,865
Tax payable	**1,657**	1,074	1,148
Other financial liabilities	**–**	–	11
Total current liabilities	**40,748**	22,865	38,458
Net current assets	**19,411**	16,026	12,130
Non–current liabilities			
Deferred and contingent consideration	**1,704**	476	2,706
Interest–bearing loans and borrowings	**4,150**	4,000	4,097
Provisions	**350**	204	341
Deferred tax liabilities	**1,162**	1,039	1,560
Total non–current liabilities	**7,366**	5,719	8,704
Net assets	**89,154**	71,153	74,864
Equity directly attributable to owners of the parent			
Share capital	**30,438**	25,830	26,409
Share premium	**60,853**	52,435	52,370
Share–based payment reserve	**162**	690	589
Other reserves	**480**	293	480
Shares owned by the Employee Benefit Trust (EBT)	**(413)**	(507)	(40)
Merger relief reserve	**3,548**	2,086	3,194
Currency translation reserve	**552**	329	536
Retained losses	**(6,466)**	(10,003)	(8,674)
Total equity	**89,154**	71,153	74,864

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2018

	Share capital £000	Share premium £000	Share-based payment reserve £000	Other reserves £000	Merger relief reserve £000	Currency translation reserve £000	Shares owned by EBT £000	Retained losses £000	**Total equity £000**
Six months ended 30 June 2018 unaudited									
Balance at 1 January 2018	26,409	52,370	589	480	3,194	536	(40)	(8,674)	**74,864**
Profit for the period	–	–	–	–	–	–	–	3,286	**3,286**
Other comprehensive income	–	–	–	–	–	16	–	–	**16**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**16**	**–**	**3,286**	**3,302**
Transaction with owners									
Issue of share capital	4,029	8,483	–	–	354	–	–	–	**12,866**
Purchase of minority shares held in subsidiary undertakings	–	–	–	–	–	–	–	(1,304)	**(1,304)**
Shares owned by the EBT	–	–	–	–	–	–	(650)	–	**(650)**
Share-based payment charge	–	–	102	–	–	–	–	–	**102**
Share options settled	–	–	(529)	–	–	–	277	226	**(26)**
Total transactions with owners	**4,029**	**8,483**	**(427)**	**–**	**354**	**–**	**(373)**	**(1,078)**	**10,988**
Balance at 30 June 2018	**30,438**	**60,853**	**162**	**480**	**3,548**	**552**	**(413)**	**(6,466)**	**89,154**

	Share capital £000	Share premium £000	Share-based payment reserve £000	Other reserves £000	Merger relief reserve £000	Currency translation reserve £000	Shares owned by EBT £000	Retained losses £000	**Total equity £000**
Six months ended 30 June 2017 unaudited									
Balance at 1 January 2017	21,539	46,880	733	293	2,086	257	(338)	(10,601)	**60,849**
Profit for the period	–	–	–	–	–	–	–	2,476	**2,476**
Other comprehensive income	–	–	–	–	–	72	–	–	**72**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**72**	**–**	**2,476**	**2,548**
Transaction with owners									
Issue of share capital	4,291	5,555	–	–	–	–	–	–	**9,846**
Shares owned by the EBT	–	–	–	–	–	–	(244)	–	**(244)**
Share-based payment charge	–	–	172	–	–	–	–	–	**172**
Share options settled	–	–	(215)	–	–	–	75	–	**(140)**
Equity dividends paid (note 5)	–	–	–	–	–	–	–	(1,878)	**(1,878)**
Total transactions with owners	**4,291**	**5,555**	**(43)**	**–**	**–**	**–**	**(169)**	**(1,878)**	**(7,756)**
Balance at 30 June 2017	**25,830**	**52,435**	**690**	**293**	**2,086**	**329**	**(507)**	**(10,003)**	**71,153**

Consolidated Statement of Changes in Equity continued

for the six months ended 30 June 2018

Twelve months ended 31 December 2017 – audited

	Share capital £000	Share premium £000	Share-based payment reserve £000	Other reserves £000	Merger relief reserve £000	Currency translation reserve £000	Shares owned by EBT £000	Retained losses £000	**Total equity £000**
Balance at 1 January 2017	21,539	46,880	733	293	2,086	257	(338)	(10,601)	**60,849**
Profit for the year	–	–	–	–	–	–	–	4,832	**4,832**
Other comprehensive income	–	–	–	–	–	279	–	(28)	**251**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**279**	**–**	**4,804**	**5,083**
Transaction with owners									
Issue of share capital	4,870	5,490	–	–	1,108	–	–	–	**11,468**
Share options issued as consideration	–	–	–	187	–	–	–	–	**187**
Shares purchased by the EBT	–	–	–	–	–	–	(246)	–	**(246)**
Share-based payment charge	–	–	272	–	–	–	–	–	**272**
Share options settled	–	–	(416)	–	–	–	544	–	**128**
Equity dividends paid (note 5)	–	–	–	–	–	–	–	(2,877)	**(2,877)**
Total transactions with owners	**4,870**	**5,490**	**(144)**	**187**	**1,108**	**–**	**298**	**(2,877)**	**8,932**
Balance at 31 December 2017	**26,409**	**52,370**	**589**	**480**	**3,194**	**536**	**(40)**	**(8,674)**	**74,864**

Consolidated Statement of Cash Flows

for the six months ended 30 June 2018

	Unaudited Six months ended 30 June 2018 £000	Unaudited Six months ended 30 June 2017 £000	Audited Year ended 31 December 2017 £000
Cash flow from operating activities			
Net cash from operating activities	**(2,341)**	2,784	6,600
Cash flow from investing activities			
Acquisition of businesses, net of cash/(debt) acquired	**(7,371)**	(4,345)	(11,798)
Acquisition of property, plant and equipment	**(944)**	(669)	(1,802)
Proceeds from sale of property, plant and equipment	**18**	14	22
Payment of deferred and contingent consideration	**(2,220)**	(411)	(1,649)
Net cash used in investing activities	**(10,517)**	(5,411)	(15,227)
Cash flows from financing activities			
Net proceeds from the issue of share capital	**10,220**	9,602	9,531
Repayment of long-term borrowings	**–**	(429)	(857)
Net change in short-term borrowings	**1,000**	(4,000)	3,000
Repayment of finance lease liabilities	**(110)**	(13)	(58)
Net cash settled share options	**(23)**	(140)	–
Interest received	**–**	–	6
Interest paid	**(288)**	(186)	(476)
Repayment of loan by EBT	**276**	–	722
Dividends paid	**–**	(1,878)	(2,877)
Net cash generated from/(used in) financing activities	**11,075**	2,956	8,991
Net change in cash and cash equivalents	**(1,783)**	329	364
Cash and cash equivalents at start of period	**4,199**	3,824	3,824
Exchange differences on cash and cash equivalents	**(2)**	(11)	11
Cash and cash equivalents at end of period	**2,414**	4,142	4,199

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 2018	4,000	15,000	159	**19,159**
Cash flows:				
– Repayment	–	–	(110)	**(110)**
– Proceeds	–	1,000	–	**1,000**
Non-cash:				
– Acquisition	–	–	319	**319**
At 30 June 2018	**4,000**	**16,000**	**368**	**20,368**

Notes to the Half-year Report

for the six months ended 30 June 2018

1. General Information

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

The registered number is 09010518.

As permitted, this Half-year Report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 'Interim Financial Reporting'.

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

This consolidated Half-year Report and the financial information for the six months ended 30 June 2018 does not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 and are unaudited. This unaudited Half-year Report was approved by the Board of Directors on 17 September 2018.

The Group's financial statements for the year ended 31 December 2017 have been filed with the Registrar of Companies. The Group's Auditor's report on these financial statements was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Electronic communications

The Company is not proposing to bulk print and distribute hard copies of this Half-year Report unless specifically requested by individual shareholders.

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

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

2. Accounting Policies

Basis of preparation

The financial information set out in this consolidated Half-year Report has been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the accounting policies which will be adopted in presenting the Group's Annual Report and Financial Statements for the year ended 31 December 2018. These are consistent with the accounting policies used in the Financial Statements for the year ended 31 December 2017, except for:

- Taxes - taxes on income in the interim periods are accrued using the rate of tax that would be applicable to expected total annual earnings
- Inventory acquired in business combinations has been measured at fair value as required by IFRS 3 (para 18)
- IFRS 15 became effective on 1 January 2018, the standard has been implemented but has not had a material impact

Going concern

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

3. Operating Segments

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

- **Flowtechnology division** - distribution and assembly of engineering components, principally to distributors and end users in the UK, the Republic of Ireland and the Benelux
- **Power Motion Control division** - based in the UK and the Republic of Ireland, distribution and assembly of engineering components and hydraulic systems to distributors and end users in the international market
- **Process division** - the distribution and supply of industrial components to the process sectors, principally in the UK

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

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

	Flowtechnology £000	Power Motion Control £000	Process £000	Inter-segmental transactions £000	Central costs £000	**Total continuing operations £000**
Six months ended 30 June 2018						
Income statement – continuing operations:						
Revenue from external customers	23,483	28,957	3,982	–	–	**56,422**
Inter-segment revenue	1,034	190	62	(1,286)	–	**–**
Total revenue	24,517	29,147	4,044	(1,286)	–	**56,422**
Underlying operating result	4,531	1,901	537	–	(1,268)	**5,701**
Net financing costs	(17)	(6)	(34)	–	(246)	**(303)**
Underlying segment result	4,515	1,895	502	–	(1,514)	**5,398**
Separately disclosed items	(280)	(381)	(96)	–	(488)	**(1,245)**
Profit/(loss) before tax	4,235	1,514	406	–	(2,002)	**4,153**
Specific disclosure items						
Depreciation	245	196	23	–	–	**464**
Amortisation	10	364	96	–	–	**470**
Reconciliation of underlying operating result to operating profit:						
Underlying operating result	4,531	1,901	537	–	(1,268)	**5,701**
Separately disclosed items	(280)	(381)	(96)	–	(488)	**(1,245)**
Operating profit/(loss)	4,251	1,520	441	–	(1,756)	**4,456**

Notes to the Half-year Report continued

for the six months ended 30 June 2018

3. Operating Segments continued

	Flowtechnology £000	Power Motion Control £000	Process £000	Inter-segmental transactions £000	Central costs £000	**Total continuing operations £000**
Six months ended 30 June 2017						
Income statement – continuing operations:						
Revenue from external customers	19,336	12,706	2,131	–	–	**34,173**
Inter-segment revenue	823	159	40	(1,022)	–	**–**
Total revenue	20,159	12,865	2,171	(1,022)	–	**34,173**
Underlying operating result	4,138	1,088	278	–	(999)	**4,504**
Net financing costs	–	(10)	(4)	–	(268)	**(282)**
Underlying segment result	4,138	1,078	274	–	(1,267)	**4,222**
Separately disclosed items	(154)	(48)	–	–	(910)	**(1,112)**
Profit/(loss) before tax	3,984	1,030	274	–	(2,177)	**3,110**
Specific disclosure items						
Depreciation	203	50	14	–	–	**267**
Amortisation	10	271	44	–	–	**325**
Reconciliation of underlying operating result to operating profit:						
Underlying operating result	4,138	1,087	278	–	(999)	**4,504**
Separately disclosed items	(154)	(48)	–	–	(910)	**(1,112)**
Operating profit/(loss)	3,984	1,039	278	–	(1,909)	**3,392**

	Flowtechnology £000	Power Motion Control £000	Process £000	Inter-segmental transactions £000	Central costs £000	**Total continuing operations £000**
For the year ended 31 December 2017						
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	(13)	(15)	(19)	–	(528)	**(575)**
Underlying segment result	7,511	2,773	1,086	–	(2,864)	**8,506**
Separately disclosed items	(103)	(1,018)	(200)	–	(1,146)	**(2,467)**
Profit/(loss) 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	(103)	1,018	(200)	–	(1,146)	**(2,467)**
Operating profit/(loss)	7,421	1,770	905	–	(3,482)	**6,614**

3. Operating Segments continued

Separately Disclosed Items

- The fair value uplift of inventory acquired through business combinations is recognised in accordance with IFRS 3 'Business Combinations' to record the inventory acquired at fair value and its subsequent release into the income statement
- 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 related 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.

	Six months ended 30 June 2018 £000	Six months ended 30 June 2017 £000	Year ended 31 December 2017 £000
Separately disclosed items within cost of sales:			
– Fair value uplift of inventory acquired through business combinations	**211**	–	–
Separately disclosed items within administration expenses:			
– Acquisition costs	**444**	510	1,081
– Amortisation of acquired intangibles	**470**	325	768
– Share-based payment costs	**102**	172	272
– Restructuring	**18**	90	117
– Changes in amounts accrued contingent consideration	**–**	15	229
Total separately disclosed items	**1,245**	1,112	2,467

4. Taxation

	Six months ended 30 June 2018 £000	Six months ended 30 June 2017 £000	Year ended 31 December 2017 £000
Current tax on income for the period – continuing operations:			
UK tax	**1,062**	680	1,258
Foreign tax	**–**	–	167
Deferred tax credit	**(195)**	(46)	129
Adjustments in respect of prior years	**–**	–	(89)
Total taxation	**867**	634	1,207

The taxation for the period has been calculated by applying the estimated tax rate for the financial year ending 31 December 2018. Deferred tax liabilities have also been adjusted to £1,162,000 to reflect capital allowances in excess of depreciation and other short-term timing differences.

Notes to the Half-year Report continued

for the six months ended 30 June 2018

5. Dividends

	Six months ended 30 June 2018 £000	Six months ended 30 June 2017 £000	Year ended 31 December 2017 £000
Final dividend of (2017: 3.67p) per share	**–**	1,878	1,878
Interim dividend of (2017: 1.93p per share	**–**	–	999
Total dividends	**–**	1,878	2,877

A final dividend of 3.85p per share was paid on 13 July 2018. In addition, the Directors are proposing a half-year dividend in respect of the financial year ending 31 December 2018 of 2.03p per share which will absorb an estimated £1.2 million of shareholders' funds. It will be paid on 26 October 2018 to Shareholders who are on the Register of Members at close of business on 28 September 2018.

6. Earnings Per Share

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

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

	Six months ended 30 June 2018			Six months ended 30 June 2017			Year ended 31 December 2017		
	Earnings £000	**Weighted average number of shares 000's**	**Earnings per share Pence**	Earnings £000	Weighted average number of shares 000's	Earnings per share Pence	Earnings £000	Weighted average number of shares 000's	Earnings per share Pence
Basic earnings/(loss) per share									
Continuing operations	**3,286**	**56,888**	**5.78**	2,476	47,402	5.22	4,831	49,835	9.69
Discontinued operations	**–**	**56,888**	**–**	–	47,402	–	–	49,835	–
Basic earnings per share	**3,286**	**56,888**	**5.78**	2,476	47,402	5.22	4,831	49,835	9.69
Diluted earnings/(loss) per share									
Continuing operations	**3,286**	**57,355**	**5.73**	2,476	47,886	5.17	4,831	50,409	9.58
Discontinued operations	**–**	**57,355**	**–**	–	47,886	–	–	50,409	–
Diluted earnings per share	**3,286**	**57,355**	**5.73**	2,476	47,886	5.17	4,831	50,409	9.58

	Six months ended 30 June 2018 £000	Six months ended 30 June 2017 £000	Year ended 31 December 2017 £000
Weighted average number of ordinary shares for basic and diluted earnings per share	**56,888**	47,402	49,835
Impact of share options	**467**	484	574
Weighted average number of ordinary shares for diluted earnings per share	**57,355**	47,886	50,409

7. Acquisitions

On 19 March 2018, the Company acquired 100% of the share capital of Balu Limited, a UK-based holding company, and its UK subsidiaries, thereby obtaining control.

The initial consideration paid was £6,059,000 in cash, £500,000 in shares in the ultimate parent company, Flowtech Fluidpower plc, with additional estimated consideration of £2,332,000 anticipated to be paid within 12 months. The cash consideration was funded through existing resources, supplemented by a share issue by Flowtech Fluidpower plc on 4 April. The acquisition will add significantly to the Company's procurement relationship with key global suppliers and enhance our position in the supply of MRO fluid power products in the UK and Ireland.

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

	Book value £000	Fair value adjustment £000	**Provisional fair value £000**
Fixed assets	918	–	**918**
Stocks	2,965	–	**2,965**
Trade and other debtors	3,274	–	**3,274**
Cash and cash equivalents	(1,310)	–	**(1,310)**
Trade and other creditors	(2,359)	–	**(2,359)**
Finance leases	(319)	–	**(319)**
Current tax balances	283	–	**283**
Deferred tax liability	(57)	–	**(57)**
Total net assets	3,395	–	**3,395**

	£000
Fair value of consideration paid	
Amount settled in cash	6,059
Amount settled in shares in Flowtech Fluidpower plc	500
Contingent consideration	2,332
Stamp duty	42
Total consideration	**8,933**

8. Subsequent Events

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

Notes to the Half-year Report continued

for the six months ended 30 June 2018

9. Net Cash From Operating Activities

	Six months ended 30 June 2018 £000	Six months ended 30 June 2017 £000	Year ended 31 December 2017 £000
Reconciliation of profit before taxation to net cash flows from operations:			
Profit from continuing operations before tax	**4,153**	3,110	6,039
Depreciation	**464**	267	640
Financial income	**–**	–	(6)
Financial expense	**303**	282	581
Profit on sale of plant and equipment	**(5)**	–	(3)
Amortisation of intangible assets	**470**	325	768
Cash settled share options	**–**	–	(415)
Equity settled share-based payment charge	**102**	172	272
Change in amounts accrued contingent consideration	**–**	15	229
Operating cash inflow before changes in working capital and provisions	**5,487**	4,171	8,105
Change in trade and other receivables	**(4,798)**	(2,569)	(823)
Change in stocks	**(1,003)**	452	(931)
Change in trade and other payables	**(1,506)**	1,383	1,922
Change in provisions	**9**	(9)	(63)
Net cashflow from operations	**(1,811)**	3,428	8,210
Tax paid	**(530)**	(644)	(1,610)
Net cashflow from operating activities	**(2,341)**	2,784	6,600

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