FLOWTECH FLUIDPOWER

FLUID THINKING, MAKING A POWERFUL DIFFERENCE

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

WHO WE ARE

FLOWTECH FLUIDPOWER PLC IS A SPECIALIST GROUP, SUPPLYING TECHNICAL FLUID POWER COMPONENTS AND SERVICES.

OUR VISION

TO BE A TRUSTED PARTNER IN FLUID POWER, DELIVERING ADDED VALUE FOR OUR CUSTOMERS, SUPPLIERS AND INVESTORS.

INVEST IN OUR STRENGTHS

MOST COST-EFFICIENT PROVIDER OF A HIGH QUALITY, RELIABLE SERVICE

WIDEST BRAND AND PRODUCT CHOICE WITH TAILORED OPTIONS

RELIABLE REPEAT BUSINESS THROUGH A MULTI-CHANNEL STRATEGY

PROVEN ORGANIC AND ACQUISITIVE GROWTH

ROBUST REVENUE STREAM WITH CONSISTENTLY HEALTHY MARGINS

SUSTAINABLE LONG-TERM SHAREHOLDER VALUE WITH PROGRESSIVE DIVIDENDS

Read more about **Our Group** on pages 4 and 5

HIGHLIGHTS

Financial highlights

Revenue
£000

£111.1m

Gross profit
£000

£38.6m

Underlying operating profit*
£000

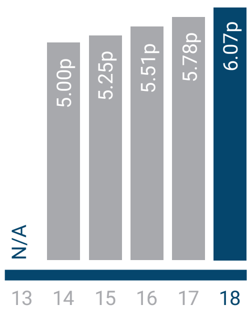
£11.4m

Operating profit
£000

£7.7m

Total dividend

6.07p



* Underlying operating profit is continuing operations operating profit before separately disclosed items (note 4) and the impact of fair value adjustment to inventory (note 24.1)

Operational highlights

- Revenue growth of 42% on previous year including organic growth in each division and 5.7% in aggregate.
- 0.9% increase in overall gross margin.
- Underlying operating profit growth of 25% on previous year.
- Successful acquisition and integration of Balu Limited and its subsidiaries; Beaumanor Engineering and Derek Lane & Co.
- Significant progress in establishing Components and Services divisional structure, under single Chief Operating Officer role.
- New Board appointments of Russell Cash as CFO, Bill Wilson as Independent Non-Executive Director and appointment of Bryce Brooks to CEO.
- Executive Management team enhanced and focused on cost and working capital management.

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CHAIRMAN'S STATEMENT

A FIRMER FOCUS ON LONG-TERM PROSPERITY

MALCOLM DIAMOND MBE, CHAIRMAN

Dear Shareholder,

It is widely accepted that one of the most demanding challenges for company senior managers is presiding over an organisation's desire to instigate continuous operational improvement preceded by structural changes.

During 2018, in order to achieve Group "joined up systemic thinking", it became obvious that with many immediate and achievable market opportunities on offer, there needed to be an evolving, strengthened and unified senior management team to take the Group to a higher resourced and performance level – both in the UK and Europe. I am proud to confirm to you that this action has now been successfully undertaken, resulting in a highly skilled and motivated senior team that has bedded in and is concentrating on the cost synergy consolidation and working capital management that awaits determined and immediate action.

I would also like to sincerely acknowledge our former CEO colleague, Sean Fennon's core strategic business foundations that he introduced over his nine-year tenure, and we all wish him well following his retirement in late 2018. Bryce Brooks (former CFO) has now taken on Sean's role as CEO. The Board has since brought in Russell Cash as the new CFO; Russell is a widely respected finance professional with an extensive advisory background, in particular in the key areas of cost and working capital management. In addition, we have expanded the role performed by Nick Fossey, the most senior non-board member of our team, who has been appointed as Chief Operating Officer for the Group with focus on ensuring each component of our business in both the UK and Europe is closely aligned in all commercial areas.

Finally, we have further strengthened our Board with Bill Wilson, a highly experienced international NED in the industrial distribution sector. I call our increased introduction of experienced and skilled managers as 'putting in an additional damp-proof course' where we can realistically achieve long-term prosperity as opposed to the short-term profitability that influences most plc boards.

It will probably come as no surprise to reiterate the feelings of insecurity and stress that corporate change can induce with staff, customers and suppliers; however, I am delighted to reassure you that all our stakeholders have been loyally supportive and upbeat throughout the 2018 realignment process, for which our Board is sincerely appreciative.

I would like to take this opportunity to thank several key Shareholders for their wise counsel in encouraging the Board to profitably leverage the cost benefits deriving from our existing acquisitions and demonstrate strong management in all areas of working capital before embarking on a subsequent buy and build period.

From a point that is now well into 2019, it remains disappointing that at the date of this report we are yet to gain clarity on the probable trading settlement between the United Kingdom and its main European trading partners after Brexit. Despite this our sector has remained resilient and we remain confident that whatever the outcome, any potential short-term effects will be suppressed by the strength of the wider Group and our position as the UK's leading fluid power distributor.

The scope for considerable future growth in investor returns from the amalgamation of our various synergy initiatives I believe remains compelling, and the restructured executive management team has a clear platform firmly established. I am honestly comforted by what the future holds for our Company - both within the UK and Europe, and we look forward to keeping you in regular touch with our positive progress.

Yours sincerely

Malcolm Diamond MBE
Chairman
29 April 2019

"I call our increased induction of experienced and skilled managers as 'putting in an additional damp-proof course' where we can realistically achieve long-term prosperity as opposed to the short-term profitability that influences most plc boards."

GROUP AT A GLANCE

A VITAL PARTNER IN THE FLUID POWER SUPPLY CHAIN

Our Group

We are a fast-moving, fast-growing Group of fluid power specialists. Working in partnership with customers and suppliers, we deliver essential components, custom solutions and high-quality servicing support. Through efficiency in operations and maximising business synergies, we are able to sustain healthy organic growth and operating margins.

573
Employees

29
Locations

250+
Superior brands

Geographies

Group revenue %

- UK – 78%
- Europe – 20%
- Rest of World – 2%

Our divisions

Flowtechnology (distribution)

Group revenue %

Employees

200

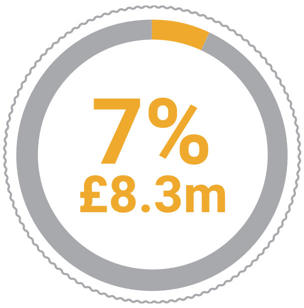
Supply urgently required components for maintenance, repair and overhaul (MRO) market for use in all industrial applications. Route to market through industry catalogues and e-commerce.

Read more about **Our Group** online:
www.flowtechfluidpower.com

"Fluid power uses fluid, either hydraulic liquid (oil or water) or pneumatic gas (compressed air) under pressure to generate, control and transmit power"

Process

Group revenue %



Employees

37

Supply, install and commission high-quality valves, actuation, specialist pipework and leak detection, predominantly to end users in processing, packaging and infrastructure sectors.

Power Motion Control (PMC) and Onsite Services

Group revenue %

Employees

321

Supply specialist technical components and design, build, install and service hydraulic systems for original equipment manufacturers (OEMs) across many manufacturing industries.

CEO'S YEAR IN REVIEW

STRATEGIC GROWTH THROUGH GROUP SYNERGY

BRYCE BROOKS, CHIEF EXECUTIVE OFFICER

Group strategy

The Group has a clear vision of its growth strategy; to create a specialist fluid power organisation, focused on the delivery of class-leading service and support, which will allow us to grow by both organic and acquisitive means in a highly fragmented distributor marketplace. The fluid power market itself has a long history of 'GDP plus' growth, coupled with a focus on strong margins, and this backdrop allows the Group significant scope to build a profitable long-term proposition for the benefit of all its key Stakeholders. Our position as a leading distributor ensures that we can also maintain a majority of sales associated with maintenance, repair and overhaul (MRO) applications, and the consistency of return that this sector brings, in addition to supplying a broad base of industries engaged in the manufacture of capital equipment.

The acquisition of Balu Limited in March 2018, and the successful £10.6 million fundraising to support the transaction, signified the culmination of a four-year period of significant growth, and has given the Group 'critical mass' in our current home geographies of the United Kingdom, the Republic of Ireland and the Netherlands. Our next period of development will focus clearly on extracting the considerable synergy potential, with emphasis on the following:

- Cross-selling opportunities.
- Improved procurement terms from our major supplier partners.
- Optimisation of our operational cost base.
- Making efficient use of our considerable working capital base, and wherever possible making improvements.

We believe it is now essential, having significantly grown our capital base since 2014, that the Group looks to support its future M&A activity from free cash flow and therefore create an expected 'compounding' effect on investor return.

Our market is also characterised by a relatively narrow group of multinational manufacturers with a global operational infrastructure, supplying both direct to the ultimate end user, and through a highly fragmented distributor network. Our growth strategy targets the development of strong, long-term relationships with this supplier base, ensuring that we become a trusted partner and their distributor 'of choice'. It is pleasing to note that from a relatively low base in 2014, the Group is now making significant progress with many of these global manufacturers which brings further opportunity for profitable growth.

Business model

Since our first acquisition, the Group has created a distinct "Profit Centre" structure where each business leader acts in a semi-autonomous manner, backed by relatively light touch support from our central services function. This philosophy encourages the following:

- Decision making and operating responsibility at an appropriate level – Profit Centre Directors are the core of day-to-day decision making.
- Creates a focus on a 'Sales Driven Culture', with inventory management at a local level.
- The centralisation of support functions such as accounting and IT.

This model is then supported by an annual Profit Share Scheme which rewards those business units that achieve a return on average working capital employed of more than 20%. Following the implementation of this scheme in 2017, I am pleased to report that we now have an increasing number of Profit Centres that have achieved this benchmark in 2018. Our total accrual for profit share payments earned under the scheme in the year was £515,000 (2017: £217,000), which was paid at the end of March 2019. The Board firmly believes that a profit-sharing culture across the Group focused on a 'return on capital' metric at a local level, is one of the keys to developing a sustainable organisation that will reward investors over the long term, and the Executive team has a clear plan to assist all our other Profit Centres in achieving this target by the end of 2019.

This approach naturally supports an entrepreneurial culture across the Group and ensures that we remain focused on delivering customer service at its highest level, responsive to both immediate and strategic needs, and safeguards growth before any centrally sponsored initiatives need to enhance this. This strategy has also been very attractive to both business vendors and their management teams alike, as it most closely reflects the agility of the small or medium-sized business but with the support of a much larger umbrella organisation.

Year in review

The operational highlight of the year was the acquisition of Balu Ltd and its subsidiaries, Beaumanor Engineering and Derek Lane & Co in March 2018. Beaumanor was the largest direct competitor to our original Flowtechnology business, and while we retained a clear Profit Centre identity for the new operation, the potential for coordination of activities between these two, very similarly structured organisations is attractive, and it is pleasing to note that good progress has been made in the 12 months since the deal took place. The senior team in each business, and in particular the Profit Centre Directors (PCDs), Mark Cropper and Rob Woodley, have also added considerably to the strength of our management grade.

Outside of this, with the Group achieving sales above £100 million for the first time, we have a very clear 'scale' within our home marketplaces, and with a gross margin overall back at *c.* 35% (2018: 34.8%, 2017: 33.9%).

> **"The Board firmly believes that a profit-sharing culture across the Group, focused on a 'return on capital' metric at a local level, is one of the keys to developing a sustainable organisation that will reward investors over the long term."**

In late 2018 the Executive Management team was enhanced to create a focused three-man structure of CEO, Russell Cash as Chief Financial Officer, and Nick Fossey as Chief Operating Officer. I believe that this structure provides the most effective method of coordinating our activities across the Group. As well as day-to-day leadership and guidance, the Executive team is responsible for chairmanship in steering groups covering working capital control, operational cost optimisation and IT strategy. Beneath this we have now instigated an effective series of regular conferences for our PCDs, covering essential areas of common interest such as sales coordination, procurement initiatives, and leadership training. This process culminates in an Annual Forecast presentation by each PCD to the main plc Board in January of each year, where individual target setting, both on a commercial and financial level, are debated and established. In addition to this, below PCD level, we have also created annual conferences covering our wider resources in both sales and technical manpower.

Following the retirement of Sean Fennon, there were clearly challenges to face in transitioning the senior management team into a position well placed to exploit the obvious growth potential that the Group possesses. As part of this transition we are at an advanced stage of developing an amended organisational structure that will move from the previous Flowtechnology, Process and PMC structure into a two-division format based around 'Components' and 'Services'. The key reason for this change is to ensure that we provide the most appropriate structure for the business to extract synergy, both in cost and working capital. As a natural by-product we can then provide investors with a clear picture of the Group's activities, split between our core 'distribution' activities – the Components division (which accounts for *c.* 87% of turnover), with the balance in added value activities in engineering services and the manufacture of hydraulic power packs and associated components – the Services division.

People

At PCD level, Ian Simpson who joined us with the acquisition of Indequip in 2016, after a near doubling of turnover in the intervening period, with commensurate bottom line effect, has now expanded his role to include coverage for the sister business within the Flowtechnology division in the Benelux. In addition, Jon Burke, having previously held a number of finance roles within the Group, stepped up to the position of PCD in charge of the services division of Primary Fluid Power. Both these promotions illustrate how the expansion of the Group via acquisitive and organic means is giving exceptional managers the opportunity to grow their careers within our organisation.

We are always acutely aware that our progress is achieved with the continued commitment and effort of all our employees, and with our profit-sharing scheme we are confident in our ability to retain and attract the best staff the industry can offer. The passion and commitment shown by the many staff members employed across the Group, particularly through periods of change, has been exemplary. On behalf of the Executive Management team, and the plc Board, I would like to thank everyone for their efforts, and the continued support that has been shown in 2019.

Bryce Brooks
Chief Executive Officer
29 April 2019

CEO'S YEAR IN REVIEW

IMPROVING OUR SOLUTIONS TO CUSTOMERS THROUGH GROUP SYNERGY

Our first Group sales conference

Members of every Profit Centre engaged with some inspiring training and enjoyed our first awards evening.

The event was run in January 2019 and attended by over 50 of our sales teams.

Added value to our business and customers by:

- Helping understand the synergy and strengths across the Group, maximising cross-selling opportunities.
- Rewarding our sales teams for their dedication.
- Group training initiatives to allow our team to grow and flourish.
- Attendance by major global suppliers which further enhanced these strong supplier relationships.

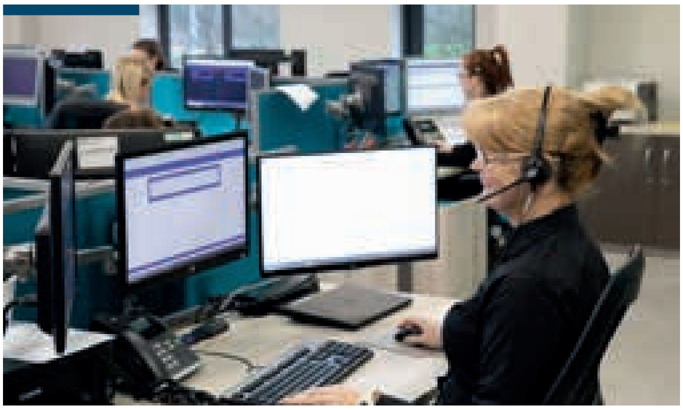
Biannual meeting of Group technical team

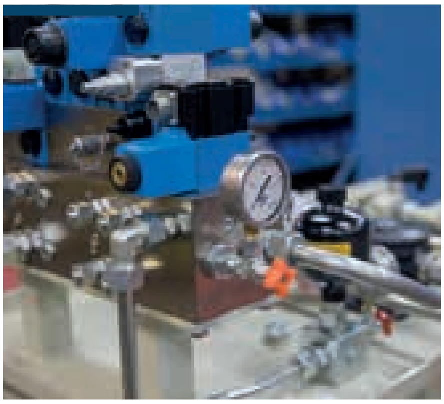
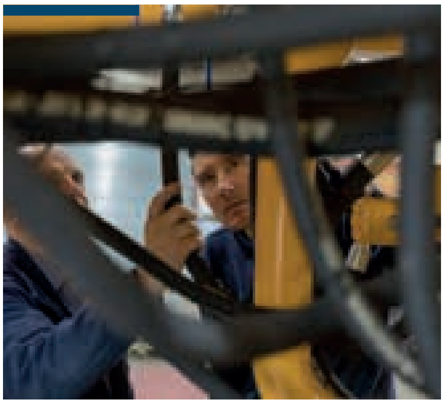
Over 30 team members across the Group attended events in Gloucester and Skelmersdale last year. Our first Group technical meeting was held on 4 July 2018, and saw over 40 of our technical team come together to share their ideas and experience, with a view to improving the solutions we provide for customers. As part of this programme, a new internal online technical portal was launched, enabling open discussion and a library of technical knowledge

Key strengths of the team:

- Wide range of skills from product sourcing experts and hose assemblers to fabrication welders and application engineers.
- Collaborative team with a desire to find simple solutions to complex problems.
- Over 1,000 years combined fluid power experience who understand customers' problems and how to solve them.





OUR BUSINESS MODEL

As a unique aggregator of fluid power specialists, we buy and develop complementary businesses; reducing their operating costs, while maximising their commercial value to ensure we're the most cost-efficient provider of high quality fluid power products and solutions in the market. Our sustainable business model makes fluid power supply convenient and efficient for customers and suppliers and drives growth and returns for Shareholders.

Resources

Widest product choice

- Leading industry brands (250+) through key supplier partnerships
- Central purchasing, allowing cost saving synergies
- Extensive stocks £28.7m

Expertise in our market

- Established businesses between 10 and 50 years in operation
- Highly skilled, highly knowledgeable employees with extensive supplier and business training
- Robust IT, systems and processes by working with expert third parties, e.g. ecommerce and logistic partners

Key Group Activities

Unrivalled, low cost full service provision in fluid power

Vital products and solutions
We have a healthy balance of operational and capex driven revenue. We have the largest market share in our sector for the indirect supply of urgently required fluid power components, vital for maintenance and repair operations across all industry segments. Additionally, we design, manufacture and install bespoke solutions across all industry sectors, predominantly sold to OEMs and driven by capital investment.

Vital high quality service
High quality service, which is both responsive and delivers significant value to customers, whether that be next day delivery from stock, technical support, customer training, onsite servicing or added value services such as bespoke sales and marketing support or e-commerce solutions.

Driving Force

Strong leadership culture

Through our decentralised structure, we promote an entrepreneurial spirit, where the leaders of each business within the Group have the freedom to run their businesses independently and at the same time benefit from central resource and support. Each business and its employees is further empowered through access to training and reward schemes.

Our strategy for growth

SALES GROWTH

PROCUREMENT SYNERGY AND OPERATIONAL COST OUT SYNERGIES

CASH GENERATION

IT STRATEGY

PEOPLE

Value created

Short to medium term

Sustained annual growth with strong financial performance and attractive returns for **Investors** – total dividend of 6.07p for 2018.

Widest brand choice from a single source, with tailored options, supported by technical expertise and reliable added-value services for **customers** (98% on-time delivery for MRO).

Respected collaborative **supplier** partnerships.

Rewarding and progressive careers for **employees**, through training and profit share scheme.

Reliable, efficient solutions for **industry**.

Support for our local **communities** through local apprenticeships and charitable work.

Long term

- Most cost-efficient provider of a high quality service in fluid power
- Sustainable long-term growth, through reliable repeat business and carefully selected acquisitions
- Experience, stability and strength to support large long-term projects
- Critical mass, with resources to adapt and explore new market opportunities
- Thought leadership in fluid power with innovative solutions for industry

OUR STRATEGY

Strategic focus

KPIs

1 SALES GROWTH

Continuous "GDP+" sales growth with strong gross and net margin contribution.

At Profit Centre level we review sales and gross profit on a daily basis, comparing performance against either prior year or, in the case of a recently acquired business, plan. In addition, each business has additional reporting available from local systems detailing overall sales and gross margin performance on a summarised customer and product group basis, with further detail available at individual product level. The Group also measures organic sales growth on a quarterly basis and compares this to market information produced by our industry trade associations.

2 PROCUREMENT AND OPERATIONAL COST IMPROVEMENT

After an extended period of growth driven primarily by acquisition, the Group looks to use our wider resources to both improve purchasing terms with our major supplier partners, as well as improve our operational efficiency.

3 CASH GENERATION AND MANAGEMENT OF NET DEBT

A focus on reducing gearing in the balance sheet, and the creation of excess cash positions will protect the business from any macroeconomic uncertainties, provide strong dividend cover and support further acquisition activity.

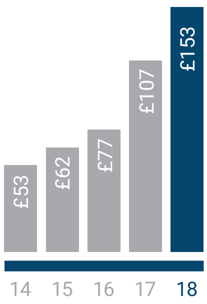
Working capital as a percentage of total revenue

32%

The Group has a clear view of growth objectives – to create a specialist fluid power organisation that remains focused on its core competencies through its delivery of “class leading” service and support. Our long-term growth model is based on organic growth, coupled with complementary acquisitions in UK and Europe in a very fragmented marketplace. The Board regularly monitors a range of financial and non-financial performance indicators to allow it to measure performance against expected targets

FY2019

Daily gross profit £000



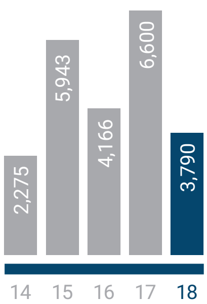
Organic sales growth %

- Continued daily reporting and analysis of sales and gross profit to the Executive Team
- Coordination of extensive training for all profit centre and using external agencies under the leadership of the Chief Operating Officer

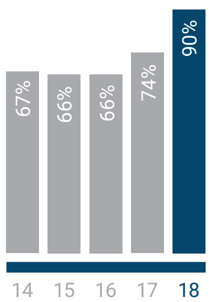
At individual Profit Centre level various KPIs are measured to cover service levels including stock availability. However, during 2019 the Group is developing a number of additional measures to be able to compare efficiency levels accurately between Profit Centres, and these will include such KPIs as overall cost per pick, cost per delivery (both in overall quantum and as percentage of sales), and number of suppliers for both stock and expense supplies, with an overall view to support the various cost improvement initiatives being undertaken.

- Under the leadership of the Chief Operating Officer, coordination of all purchasing activities operated by Profit Centres within each division
- Under the leadership of the Chief Executive Officer, an operating cost review steering group has been established to identify and implement short, medium and long-term initiatives to improve operational efficiencies across the Group
- Coordination of engineering resources under a single leadership team for a newly established Services division

Net operational cash flow



Net debt to total facilities ratio %



- Net operational cash flow in 2018 fell below expectations for the first time since IPO in 2014. Initiatives to improve the performance include the following:
- Under the leadership of the Chief Financial Officer, a working capital steering group has been established to provide a broad framework around cash collection, extension of payment terms, and inventory turn, including extended KPI set.
- Continued training and measurement on a monthly basis for all Profit Centre Directors of local return on average working capital employed during the course of the month and year-to-date.

OUR STRATEGY

Strategic Focus	KPIs
4 IT STRATEGY	Cost-effective, secure IT environments that provide long term stability for the Group's activities remains a key part of the Group's strategy. The Board believes that a reduction in the number of IT systems that operate within the Group is a key element in improving overall efficiency and control and reducing risk. The long-term objective is to have a single integrated process and accounting system. However, in the medium term the focus will be on reducing the number of process systems to three or less, and with a single accounting system for aggregating financial performance summaries, sales credit management and supplier payment processing. During 2019 the Board will also develop KPIs around overall IT costs that can be used to benchmark against comparable companies in the industrial distribution sectors.
5 PEOPLE	Investing in our management teams and staff 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. In October 2018 the Group introduced an Employee Engagement Programme to measure and strengthen employee satisfaction. It is expected that the initial review and determination of engagement 'score' will be completed by the end of June 2019. Following this the Group will look to create suitable KPIs to measure progress from that point.

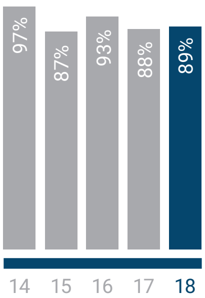
Process System

Accounting System

FY2019

- IT Steering Group established under the leadership of the Chief Executive Officer.
- Implementing a cloud hosted environment for all business systems to facilitate legal compliance, improvements against cyber threats, and deliver 99.99% uptime.
- Implementation of IT policies to deliver Cyber IASME plus accreditations for all Profit Centres.
- Reducing number of discrete legacy systems to provide future proof systems for Profit Centres, including selection of long-term global Enterprise Resource Planning (ERP) system partners.

Employee Retention



- Installation of a rolling two-year programme of executive leadership training for Profit Centre Directors and above.
- Extensive employee engagement and satisfaction survey to be completed by the end of June 2019 with follow-up programmes also completed by December 2090.
- Establishment of a Group-wide technical forum providing single point of reference for the Group's many technical support functions.

FLUID POWER IN ACTION

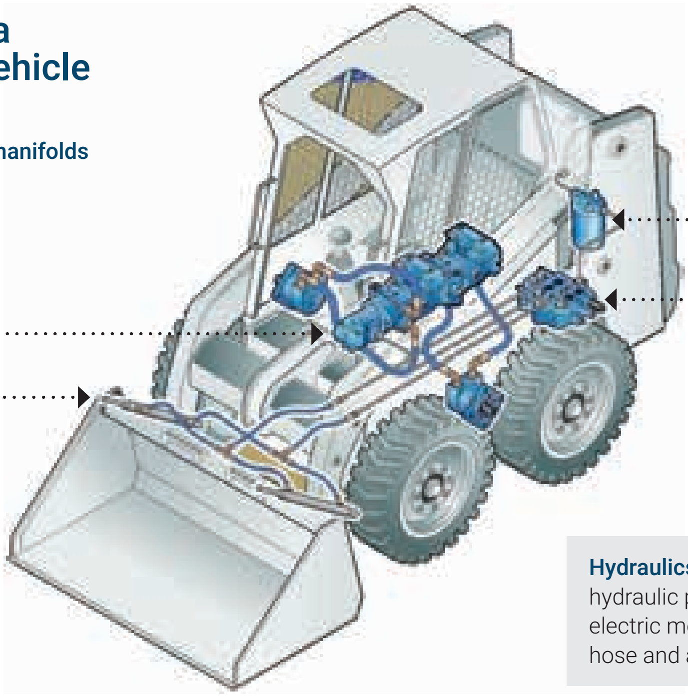
HYDRAULICS

POWER DENSITY AND PRECISION

Uses **hydraulic fluid (mineral oil or synthetics)** under pressure to control, manage and transmit power.

Hydraulics on a construction vehicle

Tubing, hoses, fittings, manifolds distribute pressurised fluid throughout the system.



Hydraulic pump pumps liquid from tank to the system.

Valves control pressure and direction of flow.

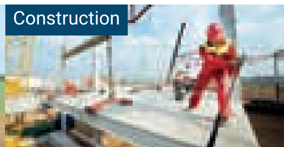
Hydraulic cylinder is driven by fluid to deliver mechanical power.

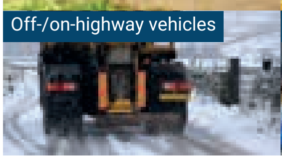
Hydraulics in industrial applications tend to use a hydraulic power unit consisting of a hydraulic tank, electric motor to drive the pump, as well as valves, hose and a filter to clean the system.

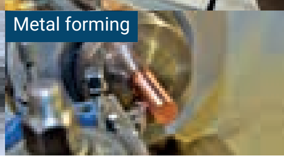
Core applications

Widely used in mobile applications where hydraulics provide the power and control to move equipment and machinery.

It's also used in heavy industrial equipment for lifting, pressing, bending and forming activities.







Associated technologies

In addition to mainstream fluid power, some of our businesses are involved with other technologies which involve either fluid transfer or fluid power to assist these applications.

Two examples are:

Fluid transfer

Using specialised pipework to move water, oil or gas around buildings and sites as part general infrastructure, such as cooling

PNEUMATICS

LIGHTWEIGHT, CLEAN, HIGH SPEED, LOW COST

Uses **pneumatic gas (normally compressed air)** under pressure to control and transmit power.

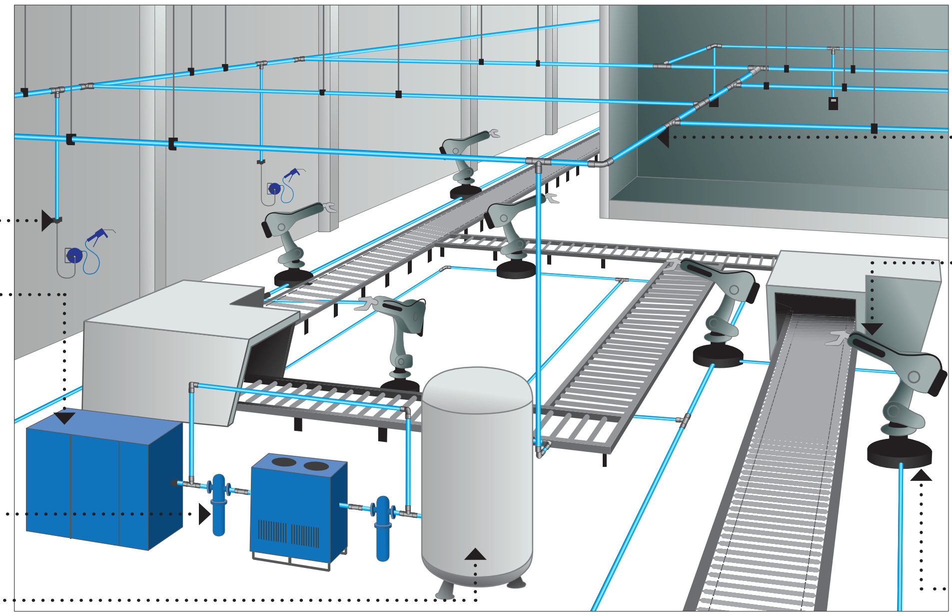
Pneumatics in a factory

Tubes, fittings and manifolds carry compressed air to components.

Compressor compresses air to desired pressure to feed pneumatic components.

Air preparation unit filters impurities, regulates pressure and lubricates the pneumatics.

Air receiver holds air needed for system.



Ring main system carries compressed air around the factory.

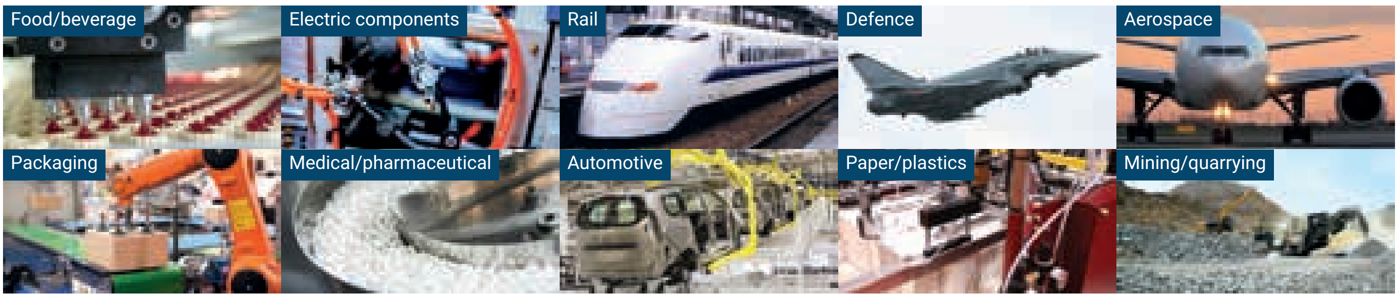
Valves control the flow of air.

Actuators: cylinders, motors, rotary actuators, grippers, vacuum cups and other components that perform the end function of the fluid power system.

Core applications

Typically used in more industrial than mobile applications, such as processing and packaging for repetitive, high-speed operations.

Pneumatics is a more cushioned approach than hydraulic or electric technology.



systems in data centres, backup generator systems for hospitals, fuel transfer systems at forecourts and petrochemical plants.

Process control
Using manual or actuated valves to direct fluid in large processing applications. Pneumatic or hydraulic actuators are used as a valve control mechanism over electrical actuation in potentially hazardous environments such as oil and gas plants.

MARKETPLACE

We operate in a growing fluid power market, worth £1 billion in the UK, €12.6 billion across Europe and $42.3 billion globally (British Fluid Power Association, (BFPA), 2017).

It is broadly estimated that 'distribution' accounts for between 30% and 50% of this market, with the balance covered by direct supply from product manufacturers to eventual end user.

Our market

Fluid power technology is widely utilised in all industrial sectors. It is split into two distinct sectors: hydraulics and pneumatics. Of the total UK fluid power market, hydraulics represents approximately 70%, pneumatics 20% and the remaining 10% in industrial products which act as conduits for gases and liquids.

The hydraulic market is highly fragmented comprising a large number of manufacturers, supplying direct to manufacturers of specialised equipment (OEMs) or resellers who sell onto OEMs. This market is further split between mobile hydraulics (56%) and industrial hydraulics (44%). Core products include: pumps, motors, valves, cylinders, filters, hose, fittings and tubing. Key industry drivers include: construction, agriculture, defence, aerospace, oil and gas, heavy machinery for lifting and moving equipment.

The pneumatic market comprises a smaller number of key players, who supply direct to end users or to resellers who then sell onto the end user. Core products include: compressors, filtration, valves, cylinders and vacuum products. Key industry drivers include; food processing, electronics, medical, automotive and packaging.

Our divisions

Flowtech Fluidpower is a full-service provider of fluid power. In 2018 we operated across three divisions, in 2019, Flowtech Fluidpower moved to a two-division structure to more clearly define its business under the broad categories as detailed below.

Components

Supply of both hydraulic and pneumatic consumables, predominantly through distribution for maintenance and repair operations across all industry markets, but supported by supply agreements direct to a broad range of OEMs.

Consistent operational high margin revenue.

87% Group Revenue
89% GP

Services

Bespoke design, manufacturing, commissioning, installation and servicing of systems to manufacturers of specialised industrial and mobile hydraulic original equipment manufacturers (OEMs) and additionally a wide range of industrial end users.

Capital project-based revenue.

13% Revenue
11% GP

Global landscape

In the UK and Ireland, we estimate Flowtech Fluidpower currently holds around 11% market share in fluid power. Across the Benelux, we hold around 2% market share (Benelux is €657 million – BFPA, 2016).

We partner with over 250 supplier brands, giving us potential access to a large share of the €12.6 billion fluid power market. As global manufacturers lean towards supply chain consolidation, through closer partnerships and purchasing synergies the Group aims to further support supplier supply chain consolidation and grow its market share. Below are some of the leading brands we sell and partner with.

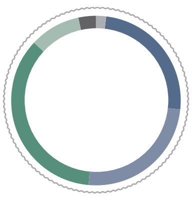
MARKETPLACE

CETOP – hydraulic products (estimated market): €8.8 billion

CETOP – pneumatic products (estimated market): €3.8 billion

Estimated €12.6 billion European fluid power market by country

Estimated €12.6 billion European fluid power market by product



Source: CETOP: European Fluid Power Directory 2017/18.
https://www.cetop.org/directory/hydraulics-buyers-guide/

Market trends in the UK

The BFPA provisional fluid power UK sales forecast for 2018 indicated that overall growth in sales for the sector was 5.1% (7.2% for hydraulic sales and 0.2% for pneumatic sales). This is largely attributed to an upturn in industrial activity, particularly across Europe, combined with renewed strength in oil prices, leading to investment. As a Group we experienced organic sales growth of 4.0% (unaudited) in the first quarter of 2019, and overall, we would expect to generally grow marginally ahead of the market forecast by the BFPA due to the strong market position that the Group has created. (At the date of this report market data on a similar basis is not available for the Republic of Ireland and the Netherlands, being the other countries in which the Group has operating centres, although the Board believes that the trend in these markets is broadly similar to that in the UK).

Hydraulic

The hydraulics market has shown significant expansion over the last two years, and the BFPA expects a more modest increase in 2019, with a further growth trend beyond that (average 3.9% between 2020 and 2022). Investment should regain momentum over the coming years as plans around Brexit become clearer, subject to a positive outcome.

While electric solutions are at the forefront of energy efficiency innovation, the power density delivered by hydraulic solutions is largely unmatched by electric technologies. Moreover, high purchase costs combined with limitations around battery charging for remote applications such as off-highway vehicles ensure hydraulics remains the preferred technology for such applications and limits any threat posed by electric only alternatives. As industry shifts towards more energy efficient solutions that still fulfil the required power density, a combined approach involving electro-hydraulic solutions is evident and expected to increase. As a Group we have been involved in a number of such projects for example railway shunters and train cooling systems.

Despite the short-term uncertainty around Brexit and the deficit apparent in the oil and gas and automotive sectors, long-term growth trends are expected across transportation, engineering and metal goods and construction (BFPA, 2018). For example in June the UK government approved a third runway at Heathrow, to support heightened passenger demand and the shipbuilding sector is likely to suffer least from Brexit, partly due to UK and US defence and rail budgets.

Pneumatic

The BFPA expect previous sales growth to remain low during 2019, before picking up again in 2020 (average 3.6% growth between 2020 and 2022). Stability in food production, along with increased demand in the production of electronics will likely bolster any deficit from a continued decline in automotive activity. Rising import prices has generated a trend in food substitution and estimated a 5.9% increase in sector investment in 2018. Electronic production, the second most important driver for pneumatics, was expected to grow by 10.5% in 2018; an upward trend is likely to continue. With a strengthened emphasis on environmental and energy efficiency, we are experiencing increased demand for pneumatics in health and safety technologies, such as misting technology used for dust control.

Around £800 million will be invested in offshore wind power over the next 11 years, which is expected to provide one-third of the UK's electricity by 2030.* This will benefit both pneumatic and hydraulic markets.

* Source: https://www.theguardian.com/environment/2019/mar/07/government-throws-its-weight-behind-offshore-wind-power-expansion (08.03.2019).

How we are positioned to respond

The Flowtech Fluidpower Group services an extensive range of industry sectors, thus spreading the risk of adverse market conditions and creating many opportunities for the Group. Despite the uncertainty around Brexit, there are a number of positive trends and initiatives that we are ideally positioned to capitalise on:

- Securing new business in growing sectors such as transport and renewable energy.
- Driving down cost in our business by maximising purchasing synergies and operational efficiencies.
- Consolidation of stock, allowing us to maintain margins despite increased pressure on import costs.
- Market penetration as one Group, ensuring we cross-sell to keep business within the Group.
- Expansion into European markets through acquisition and e-commerce.

How we're preparing for Brexit

At the date of this report, the UK's exact trading relationship with the European Union remains unknown. While the potential impact of Brexit is difficult to assess, we have reviewed our business and consider our Group to be relatively stable. We have taken the following measures to safeguard our business as much as possible.

Risk	Response
Product compliance	We have reviewed product standards e.g. CE marking
Logistics – potential threat to supply chain	We have mapped out our supply chain, identifying any potential threat to our business. For 90% of our business, we hold 4–6 months stock as standard and the majority of any potential disruption relates to supply by global brands from their manufacturing sites in the EU. We therefore believe we have some "buffer" against short-term disruption, with medium and long-term issues to be negotiated in due course. We also have no significant EU supply lines where the product is unique to the Group. We also have a supplier base in Ireland and Europe, so have the option to ship to these countries if significant delays are apparent.
Tariffs and customs	We have reviewed trade tariffs, rules of origin and associated additional costs.
Employees right to work in the UK	We have audited all permanent employees and established their right to work in the UK.
Intellectual Property	Reviewed IP and international contracts. We were advised by our Patent Lawyers that a transition grace period will be in place until 31 December 2020.

The BFPA has been heavily involved with the European ISO/CETOP standards agencies to gain alignment with British standards. An agreement was reached that regardless of the outcome of Brexit, alignment would be maintained and they would continue working together.

FINANCIAL REVIEW

A CLEAR FOCUS ON MANAGING OUR COST BASE AND ALL COMPONENTS OF WORKING CAPITAL

RUSSELL CASH, CHIEF FINANCIAL OFFICER

Operational review

	2018	2017	Change %
Group revenue*	**£111.1m**	£78.3m	+41.9%
Gross profit*	**£38.6m**	£26.5m	+45.3%
Gross profit %	**34.8%**	33.9%	+0.9%
Group operating profit*	**£7.68m**	£6.61m	+16.1%
Underlying operating profit†	**£11.38m**	£9.08m	+25.3%

Reconciliation of underlying operating profit to operating profit

	2018 £000	2017 £000
Underlying operating profit	**11,381**	9,081
Add impact of fair value adjustment to inventory (note 24)	**(382)**	
Less separately disclosed items (note 4)	**(3,321)**	(2,467)
Operating profit	**7,678**	6,614

* All results relate to continuing operations.
† Underlying operating profit is continuing operations' operating profit before separately disclosed items (note 4) and the impact of fair value adjustment to inventory (note 24).

Once again, we are delighted to report a period of solid growth, both in terms of revenue but, more importantly, underlying and actual operating profit.

Revenue

Revenue increased by 42% (2017: 46%). While the impact of acquisitions accounts for the majority of the growth, there was underlying organic growth of 5.7%.

Gross profit margins

Our overall gross margin improved by 0.9%. Gross margin remains a key indicator for each of our businesses; this, combined with increasing focus on businesses within the Group working together to generate improved terms, sees us well placed to retain and improve on these strong margins in the future.

Underlying Operating Profit

Underlying operating profit increased by £2.3 million (25%); after taking account of separately disclosed items, actual operating profit rose by £1.1 million (16%). These figures compare favourably to 2017 growth of £1.6 million (22%) and £0.5 million (8%) respectively.

"An example of our commitment to our people is the tailored programme we have designed with valuable input from third party training providers to develop the skills of our current, and future, business leaders at profit centres and within central functions."

Separately disclosed items

	2018	2017
Share option costs	191	272
Amortisation intangibles	1,040	768
Additional deferred consideration	264	229
Restructuring costs	1,002	117
Acquisition costs	824	1,081
Total	**3,321**	2,467

Results by division

During 2018 we assessed performance within our three-segment structure. This is consistent with prior years.

The table immediately below summarises revenue, gross profit and underlying operating profit by segment.

Revenue	2018 £000	2017 £000
Flowtechnology	£45,218	£37,239
Power Motion Control	£57,533	£34,806
Process	£8,300	£6,242
Group	**£111,051**	£78,287

Gross Profit	2018 £000	%	2017 £000	%
Flowtechnology	£17,453	38.6	£13,831	37.1
Power Motion Control	£17,775	30.9	£10,122	29.1
Process	£3,376	40.7	£2,612	41.8
Group	**£38,604**	**34.8**	£26,565	33.9

Underlying Operating Profit/ Operating Margin	2018 £000	%	2017 £000	%
Flowtechnology	£9,574	21.2	£7,524	20.2
Power Motion Control	£3,694	6.4	£2,788	8.0
Process	£1,300	15.7	£1,105	17.7
	£14,568		£11,417	
Less allocation of central costs	(3,188)		(2,336)	
Group	**£11,380**		£9,081	

Revenue

Overall revenues grew by £32.8 million, split:

- Flowtechnology – £8.0 million (£6.5m through acquisition activity and £1.5 million (4.0%) organic)
- Power Motion Control – £22.7 million (£20.4 million through acquisition activity and £2.3 million (6.7%) organic)
- Process – £2.1 million (£1.6 million through acquisition activity and £0.5 million (8.3% organic)

FINANCIAL REVIEW

Gross profit margins
We have seen an improvement in gross margin in the Flowtechnology and PMC divisions.

Margins in the Process division remained healthy; the small erosion is not unexpected given the nature of the work which our businesses within this division perform with margins more variable than other businesses within the Group.

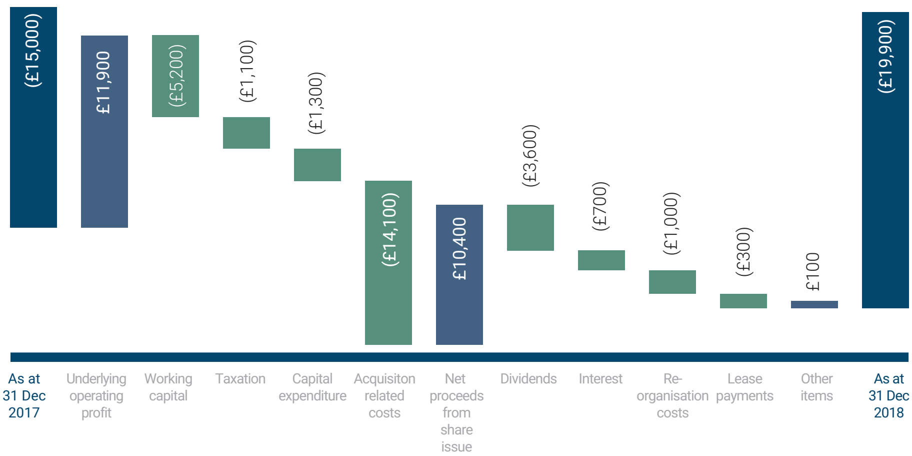
Underlying operating profit
We have seen material growth in each of our three divisions. 2019 will see focus on extracting cost savings from businesses acquired in recent years; we believe this, combined with modest levels of organic growth, will lead to increased underlying operating profit in each of our divisions.

Central costs
Central costs comprise executive management, finance and IT departments, divisional sales and the cost of running the plc.

We have made significant investment in these areas during 2018, both in terms of the recruitment of senior individuals into key roles and systems. An example of our commitment to our people is the tailored programme we have designed with valuable input from third party training providers to develop the skills of our current, and future, business leaders at profit centres and within central functions. In terms of systems we are focusing on investment in technology to provide us with ever improving platforms of information to gain commercial leverage and also a transition to common IT systems on a sensibly phased basis across all parts of our business. This provides a robust platform to deliver material cost and working capital savings. The Board believes we are well placed to capitalise on future growth opportunities, both organic and when the time is right through acquisition activity.

Acquisitions
We are delighted with the performance of the Balu businesses which were acquired in March 2018. In the nine-month period following acquisition the businesses contributed £1.1million of operating profit, very much in line with the expectation of annual operating profit of £1.5 million which supported the price paid. We are beginning to see the benefits of the expanded Flowtechnology business in terms of enhanced procurement opportunities.

Statement of financial position and cash flow £000



Statement of financial position and cash flow
The business generated £11.9 million of positive operating cash flow. Over the year the net Bank debt increased by £4.9 million to £19.9 million (2017: £15.0 million). If account is taken of £3.5 million paid out in respect of deferred/earn out consideration, the underlying increase in net debt was £1.5 million. Other major cash outflows included:

- Dividends – £3.6 million.
- Capital expenditure – £1.3 million.
- Taxation paid – £1.1 million.
- Interest – £0.7 million.

Overall, working capital increased by £5.2 million; the impact of the 5.7% organic growth accounts for approximately £2.0 million of this.

There has been a very clear focus on managing working capital towards the end of 2018 and into 2019. We are expecting the 2018 adverse trend to reverse and progress made in 2019 to date has been very encouraging. Our efforts are spread across each of the three working capital categories and across all areas of our business. In particular we anticipate significant cash savings through underlying stock reduction and extension of certain supplier payment terms.

Dividends
Subject to Shareholder approval at the Annual General Meeting, the Directors are proposing a final dividend of 4.04p per share. This, together with the interim dividend of 2.03p per share (paid on 26 October 2018), brings the total for the year to 6.07p per share. The total per annum dividend has therefore increased from 5.0p per share in respect of 2014 to 6.07p per share in respect of 2018. This, combined with the increased number of shares has seen the cash impact increasing from £2.2 million in 2015 to £3.6 million in 2018. 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 £1.99 million (2017: £1.21 million), with an effective tax rate of 27.6% (2017: 17.0%). The 27.6% effective rate results in part from an underprovision in 2017 of £202,000 (note 7) and in part from a prudent estimate as to what 2018 expenses may prove disallowable for tax purposes.

2019 segmentation

As outlined in the Chief Executive's review, 2019 will see the Group start monitoring and reporting our business performance based on two segments, Components and Services. Had this policy been in place in 2018 the Revenue results by segment would have been approximately as follows:

Revenue	2018 £000	%
Components	£96,985	87
Services	£14,066	13
Group	**£111,051**	

RISK

HOW THE BUSINESS MANAGES RISK

Risk management

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. However, 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 and this is done formally by the Board on an annual basis. From 2019 each significant risk area is managed via a subcommittee chaired by a member of the Executive Management team with attendance on an ad hoc basis by a Non-Executive member of the plc Board.

Risk management is a key part of the twice-yearly meetings that each Profit Centre Director (PCD) has with the Board. These meetings focus on financial and operational plans, opportunities presented by the market and by other businesses in the Group and the potential threats and risk that the PCDs consider may hamper progress.

The risks identified form the basis of the Board's risk management process designed to identify and manage significant risks wherever possible. Each risk is owned by a member of the executive management team and reported on regularly to the Board.

1 Talent management and succession planning

Trend

Owner
Chief Executive Officer

Description

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.

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 and enhanced in 2018.

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. Profit Centre Directors to attend rolling programme at Leadership Trust in 2019 and 2020.

Group-wide technical and sales conferences to aid skills sharing.

2 Inability to recognise and control cyber exposures

Trend

Owner
Chief Executive Officer

Description

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.

Mitigation

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.

Risk increasing | No risk movement | Risk decreasing

RISK
HOW THE BUSINESS MANAGES RISK

3 System and site disruption

Trend

Owner
Chief Executive Officer

Description
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.

Mitigation
Offsite disaster recovery provision for IT systems, including cloud-based technologies.

Business continuity plans in place at key operational locations. As the Group increases in size, resilience to disruption increases as distribution and production activities can be rerouted to other sites.

Business continuity plan has been tested successfully at the Skelmersdale Logistics Centre. A regular test programme has been introduced across the Group.

4 Quality control

Trend

Owner
Chief Executive Officer

Description
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 and customer relationships, and potential legal consequences.

Mitigation
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 majority at Group sites comply 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.

Risk increasing | No risk movement | Risk decreasing

5 Breach of regulations

Trend

Owner
Chief Operating Officer

Description
Inadvertent breaches of regulations could lead to prosecution and significant fines. Regulations impacting the Group include: Health and Safety at work, Control of Substances Hazardous to Health; packaging waste regulations.

Mitigation
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 being standardised across the Group with target for full compliance by the end of 2019.

6 Inability to effectively manage and control IT hardware and software changes

Trend

Owner
Chief Executive Officer

Description
A part of our strategic focus is to reduce the number of process systems operated by the Group and also operate from a single accounting environment. In order to create this position, the Group will need to identify, plan and implement a number of hardware and software changes that will require a significant amount of project management skill and resource.

Mitigation
Under the leadership of the Head of Business Process, in 2018 and early 2019 the central services function added full-time skills in User Acceptance Testing and Project Management. In addition, the Group is planning to transition towards software applications that are widely used in both the industry and the Group already, in particular Sage 200, and reduce the use of software systems that do not have a wide support framework.

In addition, the Group has also engaged external support from reputable consultants with a view to defining an internal "Standard Practice Instruction" covering project management best practice generally and have introduced the main components defined by this process to all current IT change projects.

CORPORATE RESPONSIBILITY STATEMENT

Flowtech Fluidpower seeks to create sustainable long-term value across all stakeholder groups. Its people and the service they deliver are at the heart of this objective.

Our people

Engaged and committed employees are integral to our overall Group performance and the delivery of great customer service. The Board places a strong emphasis on employee recruitment and retention, which starts from the top; giving leaders the appropriate support, training and tools to build confident, motivated teams. Employees across each business are supported and rewarded in varying degrees through performance reviews, training, additional holidays for attendance, profit share schemes and other softer perks.

This year a number of new employee development initiatives have been introduced. Each profit centre has the freedom to use whichever tools are appropriate for their business and is also supported with individual initiatives at a local level. Retention is currently measured by average turnover and length of service. These statistics are outlined in the table below;

Employee statistics	2018	2017	2016
Number of employees*	573	414	291
Length of service	7.5	8.9	9.6
Avg employee turnover	11%	9%	7%

* Annual average..

Apprentices

Many of our businesses have long traditions 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 2018 we retained all three apprentices who graduated across the Group, one in the FTUK supply chain team, one in purchasing at Group HES and one in business administration at Orange County UK.

Employee engagement

The Board recognises the value employee engagement has on business performance and customer loyalty. In October 2018 the Group introduced an Employee Engagement Programme to measure and strengthen employee satisfaction across the Group. All Profit Centres will have implemented this programme by June 2019 and be working on individual areas of improvement. This survey will be conducted annually by each Profit Centre Director.

Continuous learning through training

Business performance and ongoing success are directly related to the quality and effective performance of employees. It is the policy of the Group to ensure that employees are able to improve their performance by having appropriate access to effective training, development, coaching and counselling facilities. Induction training sets the foundation for all employees and introduces the Group's operational best and required practices which are documented in comprehensive Standard Practice Instructions (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), the North Notts College, local colleges or training with our company mentors. Across the Group, over 300 courses were attended by employees in 2018. To build and share technical knowledge across the Group, in 2018 an online technical forum was introduced, allowing engineers and salespeople across the Group to post and answer questions.

Leadership Trust

This year, the 'Leadership Trust' programme was introduced for all Profit Centre Directors, which includes an initial three-day or five-day course, followed by an ongoing coaching programme. The programme incorporates a 360-degree leader audit along with tailored expert coaching, designed to help managers understand and motivate teams and shape culture for maximum impact. It is expected all Profit Centre Directors will have completed by the programme by the end of 2020.

Mentor programme

Fluid power is a niche industry; loss of trained, specialist personnel poses a significant risk for the business. Each business is responsible for its own business continuity plans, which are supported by the Group in terms of training and development of key personnel. In 2018, the Group started a mentor programme, which sees former Group business owners and important industry contacts guide and assist various members of the Group on a one-to-one basis. This investment will ensure Group leaders have the appropriate knowledge and support to take their business forward in the years ahead.

Employee rewards

In 2017 a profit share scheme was introduced across the Company. All profit centres are invited to take part; however, they must meet a minimum performance threshold of 20% annual return on investment to be included in the scheme. Profit Centre Directors then have the autonomy to allocate this financial reward on an annual basis across their teams subject to approval by the Chief Operating Officer, which rewards employees and in many cases offers an additional motivational incentive for future years. Those profit centres not in the scheme can choose to reward employees from their own profits.

Diversity

The Company is an Equal Opportunity Employer and recruits based on merit. This means that the Company's established policy is to ensure that no unlawful discrimination occurs, 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. 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 24% females across the Group with 27% of senior management positions occupied by females. In 2018 the Group appointed its first female operations board member, Tamara Reiners, who was promoted to Profit Centre Manager for Flowtechnology Benelux in October 2018.

The Group recognises the importance of work-life balance, especially for employees with family commitments. Where the demands of the business allow, flexible working is encouraged. A number of females in the business have returned to work following maternity leave and this additional flexibility, and in many cases career progression, has increased their commitment and attitude towards the business.

> "Engaged and committed employees are integral to our overall Group performance and the delivery of great customer service."

Human rights and modern slavery

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. Our Modern Slavery Statement can be found online at www.flowtechfluidpower.com/investors/governance/modern-slavery-statement

Environment, health & safety

The Group remains committed to providing a safe and healthy working environment and supports individual profit centre efforts which reduce the Group's overall impact on the environment. The Chief Operating Officer has overall responsibility for health and safety (H&S) practices, ensuring all PCDs review and address any concerns on a monthly basis in accordance with their business needs, risk profile and local regulations.

SPIs across the Group, along with local requirements provide guidance for each profit centre and must be included as part of new employee inductions and new acquisitions. Additional training is requested for employees depending on their job role and forms part of an ongoing improvement process. Over 120 H&S related courses were attended by employees in 2018.

Each business has either a H&S representative or H&S committee, responsible for monitoring and improving H&S procedures and practices. H&S is measured through accident rates. Our accident rates are very low given the number of employees and the amount of manual work, with only one RIDDOR incident and 11 lost time accidents (2017: No lost time accidents). We are currently working with Croner to standardise procedures across our UK and Irish sites. Croner advise the Board that all sites except for Skelmersdale will go into the programme later in 2019.

All incidents are investigated thoroughly and preventative measures put in place to mitigate any further reoccurrences.

Local initiatives towards health and fitness are encouraged, such as onsite gyms or subsidised membership to local leisure facilities, cycle to work schemes, fresh fruit and water for employees. Examples of local improvements made with various profit centres this year include: introduction of anti-fatigue mats, ergonomic work stations, air-purification plants, weekly fruit for employees.

CORPORATE RESPONSIBILITY STATEMENT

The environment

The Group is mindful of the impact that its operations have on the environment and is committed to reducing its carbon footprint, encouraging individual profit centres to introduce environmentally friendly practices available for their business.

Some of the measures in place include:

- Recycling of as much waste as possible including plastic, paper, metals and cardboard. One hundred percent of paper is recycled across all sites. Orange County UK recycle 100% of oil rags. At most warehousing and production sites, paper and cardboard are shredded and reused again in packaging. Personal recycling bins are used at most sites. This year Flowtechnology UK (FTUK) found a local source for recycling non-usable pallets.
- Low energy, motion-sensored lighting within warehouses.
- 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. 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 apps and scanners to aid customer ordering, Dropbox for data sharing and online meeting software. This year, Zoom software has proved to be a highly efficient tool to aid business performance and a reduced need to travel for meetings.
- Financial reports are issued to the majority of Shareholders as an interactive report on our website
- Reduced print of paper where possible. In 2018 FTUK made the decision to revert to a two-year rather than annual catalogue, reducing printing ink and paper use. The Company is also working on a "Digital Distributorship" where customers no longer requiring a hard copy catalogue will still be able to retain their distributor status, which would reduce the company's carbon footprint even further.

Partnerships with customers

As a trusted partner in fluid power, we aim to be the most cost-effective provider of a quality service to all customers, ensuring we deliver end-to-end fluid power solutions from a single source.

Regardless of size, our Group values every customer and is committed to developing mutually beneficial relationships at local, national and international level. Continued dialogue has enabled the Group to develop its product and service offer and so match these changing requirements.

Through our agile approach, our Group employees are driven towards finding solutions which create efficiencies for ourselves but more importantly our customers. This requires extensive knowledge, creativity and collaboration with customers and suppliers. Here are some of the ways the Group added value in 2018.

- Introducing a new website platform for customers to market to their own customers.
- New supplier partnership in dust suppression.
- Launch of new hose builder for customers.
- Growth through customer partnerships.

Partnerships with 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, the Group has placed increased emphasis on building strategic partnerships with key suppliers. New activities introduced in 2018 include:

- Invitation to present at Operational Board Meetings, technical forums and sales conferences, giving insight into the latest manufacturer trends and developments. This year the following suppliers have presented at these events: Parker, Eaton, Tec, Pareto Law.
- Joint marketing initiative with Roquet and Honeywell at the LAMMA trade shows to strengthen the marketing of both the manufacturer brand and the Flowtech Fluidpower Group profit centres, and training to Group sales personnel.
- Increased supplier training – a number of companies within the Group have travelled abroad to suppliers for specific product training and factory tours and equally suppliers have held training at our company premises.
- Enhanced communications through a biannual supplier newsletter.

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.

Four significant developments include:

- Group HES – partnership with National Instruments
- Group HES – distribution rights for Parker Complete Piping Solution product.
- Hydravalve being awarded sole distributorship in the UK for J&J Electric Actuators and formed a new supplier relationship with Prisma, through attendance at the BVAA Spring conference in May.
- Indequip – now partnering with Focgo and Aircom, and additionally securing sole distribution for Insert Deal and Eletrotec.

Representatives from the Group either exhibited at or attended over 15 supplier and end user trade shows in 2018 in the UK, Europe and Asia.

Highlights included the FTUK 2018 Distributor Convention, held at The Royal Armouries Museum in Leeds which was attended by over 40 key suppliers and 120 distributors, who enjoyed a Pioneers of Industry theme. In January four profit centres within the PMC division exhibited as one 'Fluidpower Group' at the LAMMA 2018 agricultural and machinery show. The wider Fluidpower Group also attended Hillhead Expo which brings together over 500 manufacturers in construction and quarry management. Over 20,000 visitors attended this three-day event. Hydravalve attended Valve World in Dusseldorf, enabling the Company to meet up with Chinese and European suppliers and additionally find new business.

We continue to have close ties with trade associations such as BFPA, FADA, BVAA and NFPC with various members across the Group sitting on their committees. This year we exhibited at the North Notts Training Centre, where over 60 distributors and manufacturers share ideas and new products, with student attendance also.

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 the Group raised over £10k for 12 charities.

The Strategic Report as set out on pages 01 to 33 has been approved by the Board.

Bryce Brooks
Chief Executive Officer
29 April 2019

THE BOARD

BRYCE BROOKS
CHIEF EXECUTIVE OFFICER

C

Appointed
March 2010 as CFO, promoted to CEO in September 2018.

Skills and experience
Holds a degree in civil engineering and qualified as a chartered accountant with Deloitte Haskins & Sells (now PwC) in 1989.

Ten years as a Finance Director at Marlowe Holdings, an American-owned industrial products distribution group, as well as a group corporate development role.

External appointments
None

Board Committees
Member of the AIM Compliance and Corporate Governance Committee and other committees by invitation.

RUSSELL CASH
CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

C

Appointed
November 2018.

Skills and experience
Qualified as a chartered accountant with Deloitte Haskins & Sells (now PwC) in 1991.

Spent 27 years working as a turnaround and restructuring professional, 20 years with PwC prior to taking Partner roles at Baker Tilly (now RSM International) from 2008 to 2013 and FRP Advisory from 2013 to 2018. At both Baker Tilly and FRP he played a key role in the success and expansion at both firms. Russell's experience in effecting change both in terms of operational improvement and cash management should serve the Group well given the focus in each of these areas in 2019 and beyond.

External appointments
None

Board Committees
Member of the AIM Compliance and Corporate Governance Committee and other committees by invitation.

MALCOLM DIAMOND MBE
NON-EXECUTIVE CHAIRMAN

N A R C

Appointed
May 2014

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

External appointments
Non-Executive Chairman, Trifast plc, Non-Executive Chairman, discoverIE.

Board Committees
Chair of Nomination Committee and a member of the Audit, Remuneration and AIM Compliance and Corporate Governance Committees.

GOVERNANCE

NIGEL RICHENS
NON-EXECUTIVE DIRECTOR AND
SENIOR INDEPENDENT DIRECTOR

A C N R

Appointed
May 2014

Skills and experience
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, bringing wide commercial experience and extensive knowledge of corporate governance, compliance, risk management and financial matters.

External appointments
Trustee of various charities.

Board Committees
Chair of the Audit, Remuneration (to September 2018) and AIM Compliance and Corporate Governance Committees and member of the Nomination and Remuneration Committees.

Other
In his role as Senior Independent Director, Nigel acts as a sounding board and intermediary for the Chairman and other Board members. He leads the performance evaluation of the Chairman and attends meetings with major Shareholders and analysts to gain an understanding of any issues or concerns.

BILL WILSON
NON-EXECUTIVE DIRECTOR

R A N C

Appointed
September 2018

Skills and experience
30+ years in global manufacturing and industry. Extensive domestic and international commercial experience in the private equity, private company and public company arena. Extensive involvement in international M&A.

Previously Non-Executive Chairman at Flowtech Holdings Ltd for 18 months prior to the IPO. Bill's appointment adds considerably to the Board's commercial and industrial knowledge and he will be of significant benefit to the executives in overcoming the challenges ahead.

External appointments
James Briggs Ltd (Chair), Coryton Advanced Fuels Ltd (Chair).

Board Committees
Chair of the Remuneration Committee and member of the Audit, Nomination and AIM Compliance and Corporate Governance Committees.

Key:
- Committee Chair
- A Audit
- N Nomination
- R Remuneration
- C AIM Compliance and Corporate Governance

CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

There are three key elements of my role as Chairman:

- To lead the Board ensuring its effective management of the Group's operations.
- To meet major Shareholders and take on board their concerns.
- To oversee the adoption, delivery and communication of the Group's corporate governance model.

This final element is vitally important as it underpins all our activities; without effective corporate governance we are considerably hampered in achieving our goals.

We welcome the recent requirement for all AIM companies to adopt a corporate governance code and believe that the QCA Code best suits Flowtech Fluidpower plc at this stage in our development.

We have aspirations, at some future point, to join the main market and, as such, we will be working hard to meet the requirements of the UK Corporate Governance Code.

We reported our adoption of the QCA Code in September. At this time we were pleased to note that the cornerstones of good corporate practice were firmly in place, and had been since we came to the market in 2014. We also recognised the need to demonstrate this by improving our documentation of processes as well as communicating ever more effectively with stakeholders.

We have a clear strategy and business model, focused risk management, an effective and experienced Board, appropriate governance structures and good dialogue with our major Shareholders. We will continue to develop our culture and our dialogue with the wider stakeholder interests as well as all classes of Shareholder.

We need to enhance our processes to ensure the effectiveness of the Board, not least being a formal assessment of my own performance. We have found, however, that with a small, tightly knit and enthusiastic Board, the openness and desire to contribute have led to almost constant suggestions for improvement. Examples of this have included:

- A clear focus on talent management and putting in plans to develop not only the leaders of our business right now but those who will be able to develop into such roles in the future.
- The establishment of a number of subcommittees to focus on a broad range of areas including product quality, business continuity, health & safety, IT steering and financial control.
- An assessment performed by external advisers as to the degree to which our staff are engaged with our management in each of our businesses. While the results overall are pleasing it is very encouraging to see actions being put in place to address any development points which have arisen as a result of this exercise.

The Board aims to promote and maintain a culture of integrity across all businesses within the Group.

All new Companies joining the Group are integrated quickly, removing any administrative burden, and enabling each company to focus on maximising commercial gain. A specific 100-day plan is rolled out by the Acquisitions Team which aims to streamline accounting, payroll, HR, systems and health and safety processes. Standard Practice Instructions (SPIs) help guide personnel and ensure consistency across the Group. These SPIs include chapters on business ethics and focus on the high standards expected as part of the Group. They are supplemented by a Group Employee Handbook, and are accessible to all employees either in written or electronic formats.

An open culture is encouraged within the Group, with regular communications to employees regarding progress and business updates. Employee feedback is encouraged through line management and committee discussions.

The Group places significant emphasis on developing talent from within, continually evaluating employee performance and supporting training requirements through a flexible appraisal process driven at 'local' level, which will add value for the business and its long-term goals.

Over the last year the restructuring of the executive team, our focus on people and talent management, the regular PCD conferences and training events have provided additional opportunities to promote and monitor a healthy corporate culture. The regular contact between the PCDs and the executive team, along with the employee engagement and satisfaction surveys provide important feedback to the Board as to the current state of the Group's culture.

Other than the changes to the Board and senior management described elsewhere, there have been no significant changes to our governance arrangements. A key objective of our IT strategy is to improve control and efficiency by centralising routine accounting and administrative procedures. During the year an interface design to transfer data regarding inventory purchase invoices from seven profit centres to the central payments system, despite assurances from our IT contractors, was found not to be working as intended. More labour-intensive manual procedures were implemented to replace the interface but there were backlogs in processing and reconciliation activities. Processing delays were eliminated quickly and most reconciliations had been completed by the commencement of the year-end audit. Unfortunately, some reconciliations took longer than expected to complete. This resulted in additional efforts for the central finance team and required extended audit procedures by Grant Thornton causing slippage in the overall audit timetable. All reconciliations were completed satisfactorily and procedures are now in place to prevent a recurrence of the situation. Further implementation in controls are planned before half year.

I am pleased that we have been able to start a programme whereby the operation of basic, but important, controls is tested on a regular basis.

We have made significant investment in the central team with recruitment into areas such as finance, internal audit, business processing and credit control. We believe we now have the foundations which see the Group well placed to control the operations we have today as well as those which we develop into in future years.

I believe that the current Board has an appropriate balance of sector specific and public market skills and experience to add strength and objectivity to the pursuit of our strategic goals. As the Group develops the composition of the Board will be reassessed regularly to ensure that its skills and experience remain appropriate.

CORPORATE GOVERNANCE REPORT

Framework for corporate governance

As an AIM listed entity, the Company complies with the corporate governance principles of the Quoted Companies Alliance Corporate Governance Code (the "QCA Code") except in respect of the evaluation of the Board which will be addressed in 2019. The QCA Code identifies ten principles to be followed as a guide to help companies deliver value for shareholders. This relies of efficient and effective management by the Board, accompanied by good communication which serves to develop confidence and trust.

The Statement of Compliance with the 2018 QCA Corporate Governance Code can be found online at www.flowtechfluidpower.com.

The Board

The main responsibilities of the Board are the creation and delivery of sustainable Shareholder value by promoting the long-term success of the Company and upholding good corporate governance.

The Board, in addition to routine consideration of both financial and operational matters, determines the strategic direction of the Group. The Board has a formal schedule of matters specifically reserved for it which includes:

- Development and approval of the Group's strategic aims and objectives.
- Approval of annual operating and capital expenditure budgets.
- Oversight of the Group's operations.
- Approval of the Group's announcements and financial statements.
- Declaration and recommendation of dividends.
- Approval of major acquisitions, disposals and capital expenditure.
- Succession planning and appointments to the Board and its Committees.
- Maintenance of sound internal control and risk management systems.
- Approval of the division of responsibilities between the Chairman, Chief Executive and other executive directors and the terms of reference of the Board Committees.

The Chairman

The main responsibilities of the Chairman are to lead the Board, ensuring its effective management of the Group's operations and governance, and to maintain relations with major Shareholders thus enabling the Board to gain an understanding of their views. The Chairman sets the Board's agenda and promotes a strong culture of challenge and debate.

The Chief Executive is responsible for the day-to-day management of all the Group's activities and the implementation and delivery of the Board's strategic objectives. He also promotes appropriate cultural values and standards and maintains good relationships and communications with investors.

In accordance with their terms of reference, certain matters are delegated to the Committees of the Board. These terms of reference are available on the Group's website and summarised later in this report along with the main activities of each Committee during the year.

Board composition

The Board comprises an independent Chairman, two Executive Directors and two independent Non-Executive Directors. Details of the Directors' remuneration and terms of appointment are set out in the Directors' Remuneration Report on pages 41 and 42. Biographical details of the Directors are included on pages 34 and 35.

Malcolm Diamond is Chairman of the Board and the Nomination Committee. Each of the independent Non-Executive Directors performs additional roles: Nigel Richens is the Senior Independent Director and Chairman of the Audit and AIM Compliance and Corporate Governance Committees and Bill Wilson is Chairman of the Remuneration Committee.

The Executive Directorships are full-time positions. The Roles of Chairman and Non-Executive Director require a commitment of approximately five days per month. All the Non-Executive Directors have confirmed their ability to meet such commitment. Each Non-Executive Director is required to inform the Board of any changes to their other appointments.

Executive Management

The Executive Directors, together with Nick Fossey (Chief Operating Officer) constitute a separate Executive Board. The activities of this Executive Board include:

- Implementing the strategy as set out/ agreed by the Board
- Overseeing all commercial operations of the Group, ensuring good communication in key areas and alignment of local business objectives to the strategic direction at Group level
- Assessment of growth opportunities, both organic and potential acquisition opportunities
- Talent management and succession planning
- Investor relations
- Product quality
- Health and safety
- Financial control and systems, including IT infrastructure and development
- Risk management

Meetings of the Board

There were eight formal Board meetings during the year, six prior to the retirement of Sean Fennon and appointment of Bill Wilson and Russell Cash and two thereafter. Other than the meeting in September, for which Sean Fennon gave his apologies, all meetings were attended by all eligible Directors.

Formal meetings are supplemented, when circumstances dictate, by other meetings often making use of teleconference facilities. In addition, the Chairman and Non-Executive Directors have met during the year without the Executive Directors.

Company Secretary

Russell Cash is the Company Secretary and is therefore responsible for legal and regulatory compliance as well as assisting the Chairman in preparation for and effective running of Board meetings.

Since he is also an Executive Director, Nigel Richens, as the Senior Independent Director and Chairman of the Audit Committee, acts as a conduit for all Directors, giving advice and guidance where appropriate. The Chairman plays a key role in investor relations and corresponds with major Shareholders as he sees fit.

CORPORATE GOVERNANCE REPORT

Board committees

The Board formally delegates responsibility to four committees: the Audit, Remuneration, Nomination and the AIM Compliance and Corporate Governance Committees. Full terms of reference for each committee can be found on our website.

The Nomination Committee
Chaired by Malcolm Diamond

During the year the Nomination Committee was heavily involved in the development of Board structure and succession planning, culminating in the appointment of Bill Wilson and Russell Cash and the promotion of Bryce Brooks. Sean Fennon retired during the year and, although not a Board position, the Nomination Committee was instrumental in the creation of the Chief Operating Officer role and the appointment of Nick Fossey.

The number of discussions held by Malcolm Diamond and Nigel Richens, both separately and together with other members of the Board, obviated the need for formal meetings of the Committee. The changes to the composition of the Board were approved by the Board as a whole.

Recruitment specialists were engaged to identify potential director candidates to add to the recommendations of other advisers and members of the Board. Those candidates shortlisted were interviewed by the recruitment specialists and Bryce Brooks. Candidates progressing to the next stage were interviewed by Malcolm Diamond and Nigel Richens and took part in a psychometric assessment. The appointees were further interviewed by our Nominated Adviser to assess their suitability for a public company directorship.

The Remuneration Committee
Chaired by Nigel Richens until September, thereafter by Bill Wilson

The Remuneration Committee meets at least once a year to determine and agree remuneration packages of the Chairman and Executive Directors and other employee benefits. This year it met in September prior to the appointment of Bill Wilson; both Nigel Richens and Malcolm Diamond participated. Where appropriate, the Committee seeks advice from remuneration consultants to gain an understanding of current trends and latest developments. In addition, taxation and legal advisors will usually be involved in drafting and finalising reward agreements.

The remuneration of the Non-Executive Directors is agreed by the Chairman and Executive Directors. Details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 41 to 42.

The AIM Compliance and Corporate Governance Committee
Chaired by Nigel Richens

The AIM Compliance and Corporate Governance Committee usually 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 meeting in May 2018 was attended by all Directors. The meeting scheduled for September was deferred until January 2019 to allow the recently appointed Directors to make a full contribution. All Directors attended that meeting.

The Audit Committee
Chaired by Nigel Richens

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; corruption, sanctions and whistleblowing
- 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
    - provisions
    - new accounting standards
    - going concern, covenants and cash headroom;
- considering the adequacy of accounting resource and the development of appropriate systems and controls;
- reviewing the risk register;
- 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.

Three Audit Committee meetings were held in the year, each attended by all eligible Directors. In addition, the Chairman of the Audit Committee met with the Audit partner privately on two occasions.

Board effectiveness

Collectively and individually, the Directors monitor the performance of the Board and its members on a range of measures, The Non-Executive Directors discuss regularly the performance of the Executive Directors. Hitherto this process, apart from the establishment of medium-term goals and targets, has been relatively informal. In 2019 the Executive Directors, together with the recently appointed COO, have been set challenging objectives covering a range of financial, operational and personal matters. These will be subject to a more formal process overseen by the Remuneration Committee. In addition, Nigel Richens will, in his role as Senior Independent Director, coordinate a review of the Chairman's effectiveness. The Chairman will manage the process to consider the effectiveness of the other Non-Executive Directors.

The Board continues to believe that a formal evaluation of Board performance by an outside agency would not be cost effective and is inappropriate given the size of the Board.

Knowledge and training

Each newly appointed Director is provided with an induction programme comprising visits to Group locations, meetings with key personnel and introductions to the Group's advisers. In addition, care is taken to ensure each new Director has as good an understanding as soon as possible with regards to the Group's strategy, risks, challenges and control and governance procedures.

The Chairman is responsible for ensuring that each Director is supplied with timely and relevant information of a quality, and in a form, that enables them to discharge their duties.

There is a policy in place by which a Director may obtain independent professional advice at the Group's expense where their duties so require.

The training needs of Directors are discussed and appropriate arrangements put in place. We work closely with external training providers and have a programme in place to deliver tailored training to all members of our central and divisional management teams.

Each Director is required to keep up to date with developments in the Group's areas of operation and their own knowledge base. Regular discussions with senior members of Group management and the Group's advisers together with their own professional development obligations and experience in other roles are usually sufficient to achieve this.

Our Nominated Adviser is invited to the AIM Compliance and Corporate Governance Committee to inform the Board of developments in these areas. The Non-Executive Directors also participate in teams set up to focus on key Group initiatives, currently IT, health and safety, talent management, product quality, business continuity planning and the financial control environment.

A recent initiative has seen the appointment of a number of Group Mentors. These part-time positions are designed to accommodate individuals with specific skills or recently retired former members of senior management so that the Group can have access to, and benefit from, their knowledge and experience.

Diversity

The Nomination Committee reviews various matters when considering the constitution of the Board, including diversity alongside other factors such as experience and capabilities. The Board is committed to this policy of equal opportunity and diversity to attract and retain the talent needed to fulfil our strategic aspirations. Our culture recognises the need for diversity across a wide spectrum of factors including experience, skills and potential as well as ethnicity, sexual orientation and gender. Appointment and advancement is based on merit with no positive or negative discrimination. We recognise that further strengthening our diversity as and when opportunities arise is important to our future well-being.

Internal controls and risk management

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 reconsidered the need to establish a formal internal audit function and such a process has started work in 2019.

CORPORATE GOVERNANCE REPORT

Communication with Shareholders

To ensure the Board is aware of Shareholder opinion and concerns, the Non-Executive Directors receive regular Shareholder feedback which is communicated at Board meetings. Additionally, independent information is received through the Company's Advisers, from both investors and analysts.

The Group aims to maintain a regular dialogue with both existing and potential Shareholders through an established investor relations programme, managed by the CEO, CFO and Company brokers.

All Shareholders receive a printed copy of the Annual Report and Accounts and at the same time receive the Notice of the Annual General Meeting (AGM). By way of proxy form, Shareholders may vote in advance of the AGM. All Shareholders are invited to attend the AGM at which the results are considered and questions may be answered by the Board. Following each AGM, a notice is posted on the corporate website confirming that all resolutions have been passed. To provide more information to Shareholders, following future AGMs, a notice will be posted outlining the specific results of voting on all resolutions including any actions to be taken as a result of resolutions for which votes against have been received from at least 20% of independent Shareholders.

Beyond the Annual General Meeting, the Chief Executive Officer, Chief Financial Officer and, where appropriate, other members of the senior management team meet regularly with investors, analysts and media to provide them with updates on the Group's business and to obtain feedback regarding the market's expectations of the Group.

The Company engages in a minimum of two investor roadshows per annum.

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

Furthermore, the Group invites investors and potential investors to visit the premises of its subsidiary companies, should they wish to see day-to-day operations and speak with representatives from the Group in a more informal setting.

General information about the Group is also available via the Company's corporate website, www.flowtechfluidpower.com, which includes further information about the business, reports and key documents and recent company announcements. Interested parties have the opportunity to register for RNS alerts, to keep them informed when important announcements are released.

Shareholder feedback is regularly presented and reviewed at Board meetings. On an ongoing basis, the Board is also furnished with brokers' and analysts' reports when published.

The Company maintains a dedicated email address and telephone number which investors may use to contact the Company which, together with the Company's address, are prominently displayed on the Contacts page of the Company's website. Investors may also make contact requests through the Company's joint brokers, Zeus Capital and FinnCap.

DIRECTORS' REMUNERATION REPORT

The Remuneration Committee

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.

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 and motor vehicles.

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.

One of the Executive Directors participates in the EMI option; these options are exercisable 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	Notice £000	**Total 2018 £000**	Total 2017 £000
Executives						
Sean Fennon	262	2	90*	188*	**542**	291
Bryce Brooks	175	9	–	–	**184**	206
Russell Cash	29	–	–	–	**29**	–
Non-Executives						
Malcolm Diamond MBE	80	–	–	–	**80**	78
Bill Wilson	13	–	–	–	**13**	–
Nigel Richens	55	–	–	–	**55**	50
	614	11	90	188	**903**	625

* Amounts relate to compensation for loss of office.

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 2018 No. of ordinary shares	As at 31 December 2017 No. of ordinary shares
Executives		
Bryce Brooks	**299,160**	94,000
Non-Executives		
Malcolm Diamond MBE	**66,028**	50,000
Bill Wilson	**20,000**	–
Nigel Richens	**73,500**	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 2017 and 31 December 2018		
	A shares £1 ordinary	B shares £1 ordinary	D shares £1 ordinary
Executives			
Bryce Brooks			
As at 31 December 2017	180	3,100	5
Acquired by Flowtech Fluidpower plc in consideration for share option exercise	(103)	–	–
As at 31 December 2018	77	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.

GOVERNANCE

DIRECTORS' REMUNERATION REPORT

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 2017	Exercised	Cancelled	**As at 31 December 2018**
Sean Fennon	EMI (Approved)	249,999	(249,999)	–	**–**
Sean Fennon	EMI (Unapproved)	222,223	(222,223)	–	**–**
Bryce Brooks	EMI (Approved)	249,999	(90,000)	–	**159,999**

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.

DIRECTORS' REPORT

The Directors present their Annual Report, together with the audited Group and Company financial statements for the year ended 31 December 2018. The Group financial statements have been prepared in accordance with International Reporting Standards as approved by the European Union (IFRS). The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced disclosure framework' (FRS 101).

A review of the Group's trading and an indication of future developments are contained in the Strategic Report on pages 12 to 15. 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 Bollin House, Bollin Walk, Wilmslow, SK9 1DP.

Results and dividends

The results for the year ended 31 December 2018 are set out in the consolidated income statement on page 54. The Group has reported an operating profit from its continuing activities of £7,678 million (2017: £6.614 million). After accounting for net finance costs, the consolidated income statement shows a profit from continuing operations before taxation of £6,923 million (2017: profit of £6.039 million).

The Directors are recommending a final dividend of 4.04 pence per ordinary share amounting to £2.5 million payable on 12 July 2019 to Shareholders on the Company's register at the close of business on 7 June 2018. The shares will be quoted ex dividend from 6 June 2019.

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
Bryce Brooks
Russell Cash (from 1 November 2018)
Bill Wilson (from 18 September 2018)

Short biographies of each Director are provided on pages 34 to 35.

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 2018 which is disclosed in the Directors' Remuneration report on pages 41 to 42.

Details of the Directors' share options are provided in the Directors' Remuneration report on pages 41 to 42.

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 29 April 2019 there were in issue 60,920,386 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 29 April 2019 (being the last practicable date before the publication of this report):

	Number of shares held	% of issued share capital
Close Brothers Asset Management	5,838,908	9.58
Premier Fund Management	5,338,886	8.76
Chelverton Asset Management	4,250,000	6.98
Miton Asset Management	4,201,401	6.90
Odyssean Capital	3,642,000	5.98
Canaccord Genuity Wealth Management	3,217,840	5.28
Charles Stanley	3,074,183	5.05
Lazard Freres Gestion	2,573,774	4.22
Hargreaves Lansdown Asset Management	2,408,112	3.95
Janus Henderson Investors	1,955,802	3.21

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 30. 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.

DIRECTORS' REPORT

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 2018 the total shares in the Company held by the Enterprise Management Incentive Plans were 644,999 representing 1.1% 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 2026.

At 31 December 2018 the total shares in the Company held by the Company Share Option Plan was 597,300 representing 0.98% 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.

Charitable donations

As a Group we are committed to supporting local and national charities and encourage employees to participate in regular fundraising events.

Conflicts of interest

In line with the Companies Act 2006, all Directors have a duty to avoid situations where they have or could have a direct or indirect conflict of interest with the Company. The Act allows directors of public companies to authorise conflicts and potential conflicts where appropriate to avoid a breach of duty. The Group has specific procedures in place to deal with any potential conflicts of interest and during this financial year, no actual or potential conflicts have arisen.

Board composition

The Board aims to ensure it has the required balance of skills and experience. In 2018 the following changes were made at Board level:

- Sean Fennon (Chief Executive Officer) retired on 19 September 2018. He remained with the Company in an advisory role until 31 December 2018.
- Bryce Brooks was appointed as new Chief Executive Officer on 19 September 2018 and continued his role as Chief Financial Officer, until Russell Cash was appointed.
- Russell Cash joined the Group on 1 November 2018 as Chief Financial Officer.
- Bill Wilson joined the Group on 18 September 2018 as Non-Executive Director.

Re-election

All Directors of the Board are subject to election by the Shareholders at the first AGM following their appointment by the Board and in accordance with the Code, all Directors will also stand for re-election annually at the AGM.

Liability insurance

In line with market practice, each Director is covered by appropriate Directors' and Officers' liability insurance ("D&O"), at the Company's expense. The D&O insurance covers the Directors and Officers against the costs of defending themselves in legal proceedings taken against them in that capacity and in respect of any damages resulting from those proceedings. The Company also indemnifies its Directors and Officers to the extent permitted by law. Neither the insurance nor the indemnity provides cover where the Director or Officer has acted fraudulently or dishonestly.

Annual general meeting

The Annual General Meeting will be held on 5 June 2019 at 10.00 am at our head office, at Bollin House, Bollin Walk, Wilmslow, SK9 1DP.

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 30.3 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

Russell Cash
Chief Financial Officer and Company Secretary

29 April 2019

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 applicable IFRSs, as adapted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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;
- 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.

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 2018 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 2018 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; 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.

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 twelve months from the date when the financial statements are authorised for issue.

Grant Thornton

Overview of our audit approach

- Overall materiality: £346,000, 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, provision for impairment of inventories, implementation of new IT system and sufficiency of reconciliation procedures, and impairment of the parent Company's investments in its subsidiaries and amounts due from subsidiary undertakings.
- 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 significant components based upon Group materiality. We performed specified procedures on Flowtechnology Benelux BV and Hydraulic Group BV

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FLOWTECH FLUIDPOWER PLC

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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	How the matter was addressed in the audit – Group
Revenue recognition Revenue is recognised in accordance with the Group's accounting policies and International Financial Reporting Standard (IFRS) 15: 'Revenue from contracts with customers'. 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 the most significant assessed risks of material misstatement	Our audit work included, but was not restricted to: • Consideration of revenue recognition policies to assess whether the policies are in accordance with International Financial Reporting Standard (IFRS) 15: 'Revenue from contracts with customers'; • Assessment 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; and • Agreement of a sample of revenue entries for material revenue streams to supporting documentation. The group's accounting policy on revenue is shown in note 2.15 to the financial statements and related disclosures are included in note 3. **Key observations** Our procedures did not identify any material misstatements in respect of the recognition of revenue for the Group's material revenue streams. We are satisfied that the Group's accounting policies provide sufficient information regarding the Group's material revenue streams and that they comply with International Financial Reporting Standard (IFRS) 15: 'Revenue from contracts with customers'.

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 and goodwill. The group has undertaken an acquisition during the year and performed an assessment of the nature and value of the intangible assets acquired in the business combination. Management have also assessed the fair value of all assets acquired in the business combination. 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 the 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: • Consideration 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' • Assessment of whether intangible assets have been accounted for in accordance with the group's accounting policies; • Assessing management's impairment review and challenging the valuation approach used; • Assessing the accuracy of management's forecasting through a comparison of historical data to actual results and projections for following periods; • Challenging the appropriateness of management's assumptions, including the growth rate and discount rate used; • Performance of sensitivity analysis to understand the impact of any reasonably possible changes in assumptions, and evaluate the headroom available from different outcomes so as to assess whether goodwill and intangible assets could be impaired; • Assessing the adequacy of the disclosures in the financial statements for the requirements of IAS 36 'Impairment of Assets'. The group's accounting policy on goodwill and intangibles are shown in note 2.9 to the financial statements and related disclosures are included in notes 10 and 11. **Key observations** Our procedures did not identify any material misstatements in respect of the allocation and valuation of the Group's intangible assets and goodwill. No impairments of intangible assets or goodwill were identified from the work performed. The assumptions used in the valuation and impairment model were considered appropriate. We consider the disclosures in the financial statements to provide sufficient information regarding both the acquisition in the year and management's impairment review of goodwill and intangible assets.
Provision for impairment of inventories The Group trading entities hold 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: • Consideration of the Group's accounting policy in respect of the impairment of inventories to assess whether it 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 provision • Comparison of inventory values to sales prices for a sample of inventory lines • Consideration of the reasonableness of the inventory provision, including re-performance of the calculation of the provision and consideration of historical performance. The Group's accounting policy on provision for impairment of inventories is shown in note 2.11 to the financial statement and related disclosures are included in note 15. **Key observations** We consider the inventory provision to be reasonable.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FLOWTECH FLUIDPOWER PLC

Key audit matter – Group	How the matter was addressed in the audit – Group
Implementation of new IT system and sufficiency of reconciliation procedures The Group introduced a new IT system into several of its subsidiaries during the year. The implementation of the new IT system proved challenging due to difficulties experienced with an IT interface and insufficient reconciliation procedures performed during the year. In particular, this gave rise to concerns regarding the completeness of payables and accruals and the accuracy of payables cut off. The implementation of the new system also resulted in the requirement to process a higher than expected number of manual transactions and journals, particularly at the year end. Management has assessed the impact of the challenges presented by the implementation of the new system by performing a detailed review of trade payables, accruals and cut off. Management has also performed a detailed review of the reconciliations performed at the year end, including associated journals. The challenges presented by the implementation of the new IT system and sufficiency of the reconciliation procedures, and the resulting requirement for a higher than expected number of manual transactions and journals, increase the risk of material misstatement of the financial statements. These matters were initially brought to our attention by management at the planning stage of the audit. However, the full extent of the challenges presented by these matters did not become apparent until later in the audit process. We accordingly reassessed the risk of material misstatement of the financial statements based upon our revised understanding. We consequently identified the implementation of the new IT system and sufficiency of the reconciliation procedures as a significant risk, and therefore one of the most significant assessed risks of material misstatement	Our work included, but was not restricted to: • Assessment of management's reconciliation process and investigation of unusual reconciling items. • Investigation and agreement of transactions processed post year end, to determine whether liabilities recorded at 31 December 2018 were materially complete. • Consideration of payables cut off and agreement of transactions processed at the year end, to determine whether liabilities were recorded in the correct period. • Assessment of payables ledgers and accruals which involved consideration of large or unusual balances, testing a sample of debit balances to assess whether they had been accounted for appropriately and using analytical procedures in evaluate the reasonableness of payables and accruals. • Agreement of a sample of payables and accruals to underlying records, to assess the accuracy of the information and calculations prepared by management. • Identification and investigation of unusual journals associated with these processes. **Key observations** We determined management's response to the challenges presented by the system implementation and reconciliation processes to be appropriate. No material unrecorded liabilities or cut off errors were identified from the audit procedures listed above. Our testing of unusual journals and transactions did not identify any material misstatements.

Key audit matter – Parent	How the matter was addressed in the audit – Parent
Impairment of investments in subsidiaries and amounts due from subsidiary undertakings The parent Company holds significant investments in subsidiary undertakings. The parent Company also has significant amounts due from subsidiary undertakings. Management have performed an impairment review of the parent Company's investments in subsidiary undertakings. Management have also assessed whether amounts owed by subsidiary undertakings to the parent Company are impaired at the year end. The judgements made in respect of the impairment review are subject to significant measurement uncertainty. We therefore identified impairment of investment in subsidiaries and amounts due from subsidiary undertakings 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: • Assessing management's impairment review and challenging the valuation approach used; • Assessing the accuracy of management's forecasting through a comparison of historical data to actual results and projections for following periods; • Challenging the appropriateness of management's assumptions, including the growth rate and discount rate used; • Performance of sensitivity analysis to understand the impact of any reasonably possible change in key assumptions; and • Assessing the adequacy of the disclosures in the financial statements for the requirements of IAS 36 'Impairment of Assets'. The company's accounting policy on impairment is shown in note B to the parent Company financial statements and related disclosures are included in note J to the parent Company financial statements. **Key observations** No impairment of investment in subsidiary undertakings and amounts owed by subsidiary undertakings were identified from the work performed.

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:

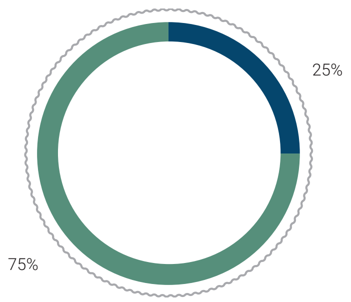
Materiality measure	Group	Parent
Financial statements as a whole	£346,000, which is 5% of the Group's profit before tax. This benchmark is considered the most appropriate because it is a prominent key performance indicator used by the Group's investors. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2017 to reflect the increase in the Group's profit before tax.	£260,000, which is based on 2% of the company's net assets, capped at Group performance materiality. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2017 to reflect the increase in the Group's profit before tax, which is the key driver of Parent materiality.
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	£17,300 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£13,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

FINANCIAL STATEMENTS

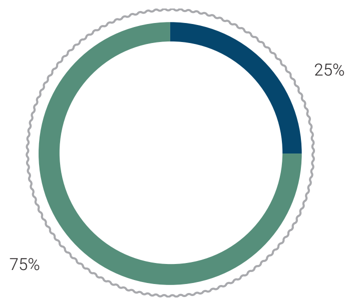
INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FLOWTECH FLUIDPOWER PLC

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group



Overall materiality – Parent



■ Tolerance for potential uncorrected mis-statements ■ Performance materiality

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough 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 total assets, revenues and profit before tax;
- 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 84% of the Group's revenue, 94% of the Group's profit before tax and 62% of the Group's total 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;
- Performance of specified procedures on specific balance in entities which do not require full scope audit procedures for the purposes of the Group audit opinion. Our specified procedures covered Flowtechnology Benelux BV and Hydraulics Group BV, and focused 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; and
- 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.

The only changes in scope from the prior year relate to specified procedures being performed in respect of Hydraulic Group BV and procedures performed in relation to the Group's acquisitions.

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 46, 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.

Use of our report

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.

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

29 April 2019

CONSOLIDATED INCOME STATEMENT

	Note	2018 £000	2017 £000
Continuing operations			
Revenue	3	**111,051**	78,287
Cost of sales		**(72,447)**	(51,722)
Gross profit		**38,604**	26,565
Distribution expenses		**(4,216)**	(3,175)
Administrative expenses before separately disclosed items:		**(23,389)**	(14,309)
— Separately disclosed items	4	**(3,321)**	(2,467)
Total administrative expenses		**(26,710)**	(16,776)
Operating profit	3, 4	**7,678**	6,614
Financial income	6	**11**	6
Financial expenses	6	**(766)**	(581)
Net financing costs		**755**	(575)
Profit from continuing operations before tax	3	**6,923**	6,039
Taxation	7	**(1,992)**	(1,207)
Profit from continuing operations		**4,931**	4,832
Profit for the year attributable to:			
Non-controlling interest		**20**	–
Owners of the parent		**4,911**	4,832
		4,931	4,832
Earnings per share	9		
Basic earnings per share – continuing operations		**8.34p**	9.69p
Diluted earnings per share – continuing operations		**8.28p**	9.58p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2018 £000	2017 £000
Profit for the year	**4,931**	4,832
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	**128**	279
Total comprehensive income for the year	**5,059**	5,083
Total comprehensive income for the year attributable to:		
Non-controlling interest	**20**	–
Owners of the parent	**5,039**	5,083
	5,059	5,083

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2018 £000	2017 £000
Assets			
Non-current assets			
Goodwill	10	**63,022**	57,938
Other intangible assets	11	**7,624**	7,430
Property, plant and equipment	13	**6,735**	6,070
Total non-current assets		**77,381**	71,438
Current assets			
Inventories	15	**28,667**	24,333
Trade and other receivables	16	**25,475**	20,866
Prepayments		**668**	801
Cash and cash equivalents	17	**2,248**	4,588
Total current assets		**57,058**	50,588
Liabilities			
Current liabilities			
Interest-bearing borrowings	18	**18,078**	15,451
Trade and other payables	19	**18,372**	18,983
Deferred and contingent consideration	20	**2,240**	2,865
Tax payable		**2,115**	1,148
Other financial liabilities	22	**–**	11
Total current liabilities		**40,805**	38,458
Net current assets		**16,253**	12,130
Non-current liabilities			
Interest-bearing borrowings	18	**4,051**	4,097
Deferred and contingent consideration	20	**–**	2,706
Provisions	21	**399**	341
Deferred tax liabilities	14	**1,751**	1,560
Total non-current liabilities		**6,201**	8,704
Net assets		**87,433**	74,864
Equity directly attributable to owners of the Parent			
Share capital	25	**30,460**	26,409
Share premium		**60,793**	52,370
Other reserves		**187**	187
Shares owned by the Employee Benefit Trust		**(413)**	(40)
Merger reserve		**293**	293
Merger relief reserve		**3,575**	3,194
Currency translation reserve		**664**	536
Retained losses		**(8,146)**	(8,085)
Total equity attributable to the owners of the Parent		**87,413**	74,864
Non-controlling interest		**20**	–
Total equity		**87,433**	74,864

The financial statements on pages 54 to 105 were approved by the Board of Directors on 29 April 2019 and were signed on its behalf by:

Russell Cash
Chief Financial Officer

Company number: 09010518

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Other reserve £000	Merger reserve £000	Shares owned by the EBT £000	Merger relief reserve £000	Currency translation reserve £000	Retained losses £000	Non-controlling interest £000	Total equity £000
Balance at 1 January 2017	21,539	46,880	–	293	(338)	2,086	257	(9,868)	–	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	–	–	–	–	544	–	–	(416)	–	128
Equity dividends paid (note 8)	–	–	–	–	–	–	–	(2,877)	–	(2,877)
Total transactions with owners	4,870	5,490	187	-	298	1,108	-	(3,021)	–	8,932
Balance at 1 January 2018	**26,409**	**52,370**	**187**	**293**	**(40)**	**3,194**	**536**	**(8,085)**	**–**	**74,864**
Profit for the year	–	–	–	–	–	–	–	4,911	20	4,931
Other comprehensive income	–	–	–	–	–	–	128	–	–	128
Total comprehensive income for the year	–	–	–	–	–	–	128	4,911	20	5,059
Transactions with owners									–	
Issue of share capital	3,450	8,423	–	–	–	381	–	–	–	12,254
Share owned by the EBT	–	–	–	–	(650)	–	–	–	–	(650)
Issue of shares in exchange for shares in subsidiary undertaking	601	–	–	–	–	–	–	(1,303)	–	(702)
Share-based payment charge	–	–	–	–		–	–	191	–	191
Share options settled	–	–	–	–	277	–	–	(302)	–	(25)
Equity dividends paid (note 8)	–	–	–	–	–	–	–	(3,558)	–	(3,558)
Total transactions with owners	4,051	8,423	–	–	(373)	381	–	(4,972)	–	7,510
Balance at 31 December 2018	**30,460**	**60,793**	**187**	**293**	**(413)**	**3,575**	**664**	**(8,146)**	**20**	**87,433**

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**2018 £000**	2017 £000
Cash flow from operating activities			
Net cash from operating activities	26	**3,790**	6,600
Cash flow from investing activities			
Acquisition of businesses, net of cash acquired	24	**(9,703)**	(11,798)
Acquisition of property, plant and equipment	13	**(1,343)**	(1,802)
Proceeds from sale of property, plant and equipment		**64**	22
Payment of deferred and contingent consideration		**(3,546)**	(1,649)
Net cash used in investing activities		**(14,528)**	(15,227)
Cash flows from financing activities			
Net proceeds from issue of share capital		**10,161**	9,531
Repayment of long-term borrowings		**–**	(857)
Net change in short-term borrowings		**1,000**	3,000
Repayment of finance lease liabilities		**(343)**	(58)
Interest received		**–**	6
Interest paid		**(722)**	(476)
Repayment of loan by EBT		**276**	722
Dividends paid	8	**(3,558)**	(2,877)
Net cash generated from financing activities		**6,813**	8,991
Net change in cash and cash equivalents		**(3,925)**	364
Cash and cash equivalents at start of year		**4,199**	3,824
Exchange differences on cash and cash equivalents		**(21)**	11
Cash and cash equivalents at end of year	17,18	**253**	4,199
Cash and cash equivalents	17	**2,248**	4,588
Bank overdraft	18	**(1,995)**	(389)
Cash and cash equivalents at end of year		**253**	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	**–**	**–**	**(343)**	**(343)**
Proceeds	**–**	**1,000**	**–**	**1,000**
Non cash:				
Acquisition	**–**	**–**	**318**	**318**
At 31 December 2018	**4,000**	**16,000**	**134**	**20,134**

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 Bollin House, Bollin Walk, Wilmslow, SK9 1DP. 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, Bollin House, Bollin Walk, Wilmslow, SK9 1DP. 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.

New standards adopted as at 1 January 2018

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customer' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. Management have reviewed the impact of IFRS 15 on the Group's revenue streams, and have concluded that the new standard does affect the timing or measurement of revenue recognised in relation to the Group's revenue streams for the year ended 31 December 2018 or the year ended 31 December 2017. In making their assessment, management considered how the standard applied to contracts which were incomplete as at 1 January 2018, as required by the standard.

IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

Management have reviewed the impact of IFRS 9 on the Group's financial instruments, and have not identified any differences arising from the adoption of IFRS 9 in relation to classification, measurement and impairment of financial assets or liabilities. In making their assessment, management have considered how the standard applied to financial assets and liabilities held at 1 January 2018, and have not identified any transitional adjustments.

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. Current banking facilities 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

2. Accounting policies 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 2018. 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.

IFRS 9 'Financial instruments' was adopted during the year, there was no impact on transition. There would be no material impact from applying the expected credit loss model to the Group's financial assets.

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

2. Accounting policies 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 cash generating units. The goodwill acquired in a business combination, for the purpose of impairment testing, is also allocated to the relevant cash generating unit. Goodwill acquired in a business combination is allocated to cash generating units 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 cash generating units exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units, and then to reduce the carrying amounts of the other assets in the cash generating unit 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

2. Accounting policies continued

2.15 Revenue

Revenue for sale of goods 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 at a point in time 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 services provided are recognised at a point in time when the service has been delivered to the customer.

Revenues from contracts with customers for site installation projects is recognised as a performance obligation satisfied over time. Revenue is recognised for each contract based upon its stage of completion. Revenue is measured on an output basis, as the transfer of economic benefit depends on the value transferred relative to the remaining goods and services promised under the contract. The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises a receivable in its statement of financial position.

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 2 November 2019) but not effective, for accounting periods commencing on 1 January 2019 are:

- IFRS 16 Leases (effective date 1 January 2019).
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective date 1 January 2019).
- Amendments to IFRS 9: Prepayment features with negative compensation (effective date 1 January 2019).
- Annual Improvements to IFRS Standards 2015 — 2017 Cycle (not yet endorsed).
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (not yet endorsed).
- Amendments to IFRS 3: Business Combinations (not yet endorsed).
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (not yet endorsed).
- Amendments to References to the Conceptual Framework in IFRS Standards (not yet endorsed).
- Annual improvements to IFRS 2014 — 2016 Cycle (Issued 8 December 2016) - Relating to IFRS 12 Disclosure of interest in other entities (not yet endorsed).

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 16 'Leases'

This standard, which will replace IAS 17, requires lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset is low value. As at 31 December 2018, the Group holds a significant number of operating leases which currently, under IAS 17, are expensed on a straight-line basis over the lease term (see note 27).

Retrospective application in the comparative year ended 31 December 2018 is optional. The Group is not taking this optional application and will apply the standard from the transitional date using the modified retrospective approach, adjusting opening retained earnings and not restating comparatives. This involves calculating the right-of-use asset and lease liability based on the present value of remaining lease payments on all applicable lease contracts as at the transition date.

The Group is progressing well in analysing the implementation of IFRS 16 and expects the most significant leases to relate to property and vehicles. Management are yet to fully assess the impact of the standard and are therefore unable to provide quantifiable information.

The discount rate, the renewal of and changes to the lease portfolio and exchange rates on translation of non-sterling operations are all subject to change in future years, which will impact the actual transitional adjustment as at the expected transition date.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

2. Accounting policies continued

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.
- 'Non-controlling interest' relates to profits attributable to non-material non-controlling interests held in subsidiaries.

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 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 re-translated 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 re-translated 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.

2.24 Significant judgements, key assumptions and estimates

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

Significant management judgements

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

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.

Estimation uncertainty

Information about estimations and assumptions that may have the most significant affect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

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 2018 is £63,022,000 (2017: £57,938,000). 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 £7,624,000 (2017: £7,430,000). Refer to note 11 for further detail.

Provision for impairment of inventories

The carrying value of inventories as at 31 December 2018 was £28,667,000 (2017: £24,333,000) and included a provision against the inventories of £767,000 (2017: £814,000). During the year £201,000 (2017: £329,000) of the provision was utilised following the scrapping and sale of obsolete inventory. During the year a further provision of £154,000 was made (2017: provision of £212,000). 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.

2.25 Separately disclosed items

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

2.26 Investment in own shares

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

2.27 Contingent consideration

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

2.28 Non-controlling interests

The Group attributes total comprehensive income or losses of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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 2018					
	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	45,218	57,533	8,300	–	–	111,051
Inter-segment revenue	2,031	772	151	(2,954)	–	–
Total revenue	47,249	58,305	8,451	(2,954)	–	111,051
Underlying operating result*	9,574	3,694	1,300	–	(3,187)	11,380
Net financing costs	(13)	(41)	(73)	–	(629)	(755)
Underlying segment result	9,562	3,653	1,226	–	(3,816)	10,625
Impact of fair value adjustment to inventory	(382)	–	–	–	–	(382)
Separately disclosed items (see note 4)	(432)	(2,199)	779	–	(1,468)	(3,321)
Profit before tax	8,748	1,454	2,005	–	(5,284)	6,923
Specific disclosure items						
Depreciation	605	286	50	–	–	941
Amortisation	100	747	193	–	–	1,040
Reconciliation of underlying operating result to operating profit:						
Underlying operating result*	9,574	3,694	1,300	–	(3,187)	11,380
Impact of fair value adjustment to inventory	(382)	–	–	–	–	(382)
Separately disclosed items (see note 4)	(432)	(2,199)	779	–	(1,468)	(3,321)
Operating profit/(loss)	8,760	1,495	2,079	–	(4,655)	7,678

* Underlying operating result is continuing operations' operating profit before the fair value adjustment to inventory acquired through business combinations, acquisition costs, amortisation of acquired intangibles, share-based payment costs and restructuring costs.

	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

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 2018					31 December 2017				
	Sale of goods £000	**Contracts £000**	**Services £000**	**Total revenue £000**	**Non-current assets £000**	Sale of goods £000	Contracts £000	Services £000	Total revenue £000	Non-current assets £000
United Kingdom	**83,886**	**732**	**1,916**	**86,534**	**72,526**	62,905	543	1,056	64,504	65,754
Europe	**22,606**	**–**	**–**	**22,606**	**5,732**	12,299	–	–	12,299	5,684
Rest of the World	**1,911**	**–**	**–**	**1,911**	**–**	1,484	–	–	1,484	–
Total	**108,403**	**732**	**1,916**	**111,051**	**78,258**	76,688	543	1,056	78,287	71,438

Revenue from contracts relate to contracts completed during the year and there are no assets or liabilities relating to contracts at the year end. No new long term contracts were entered into during the year.

No customers of the Group account for 10% or more of the Group's revenue for either of the years ended 31 December 2018 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.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

4. Operating profit

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

	2018 £000	2017 £000
Impairment loss on other trade receivables and prepayments	**64**	27
(Gain)/loss on foreign currency transactions	**(262)**	266
Impairment loss on inventory	**154**	212
Depreciation of owned property, plant and equipment	**899**	627
Depreciation of property, plant and equipment held under finance leases	**42**	13
Amortisation of intangible assets	**1,040**	768
Changes in amounts accrued for contingent consideration (see note 30.1)	**264**	229
Loss/(profit) on sale of plant and equipment	**9**	(3)
Operating lease rentals:		
– Land and buildings	**1,369**	1,014
– Other	**482**	289
Repairs and maintenance expenditure on plant and equipment	**203**	151

Services provided by the Group's Auditor

	2018 £000	2017 £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	**149**	117

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

Separately disclosed items

	2018 £000	2017 £000
Separately disclosed items within administration expenses:		
– Acquisition costs	**824**	1,081
– Amortisation of acquired intangibles (note 11)	**1,040**	768
– Share-based payment costs (note 23)	**191**	272
– Restructuring	**1,002**	117
– Changes in amounts accrued for contingent consideration (note 30.1)	**264**	229
Total separately disclosed items	**3,321**	2,467

- 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 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 2018	Number 2017
Assembly and distribution	**258**	197
Administration	**315**	217
	573	414

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	**17,806**	11,707
Social security costs	**1,815**	1,211
Contributions to defined contribution pension plans	**475**	328
Share-based payments (note 23)	**99**	136
	20,195	13,382

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'.

	2018 £000	2017 £000
Remuneration*	**704**	525
Notice pay*	**188**	–
Social security costs	**78**	58
Benefits in kind	**11**	5
	981	588

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

	2018 £000	2017 £000
Highest paid Director's remuneration		
Remuneration*	**352**	235
Notice pay*	**188**	–
Social security costs	**34**	31
Benefits in kind	**2**	2
Total highest paid Director's remuneration	**576**	268

Details of Directors' emoluments are included in the Directors' Remuneration Report on pages 41 to 42.

* Remuneration includes £90,000 in respect of compensation for loss of office. Notice pay of £188,000 also relates to compensation for loss of office.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

6. Financial income and expense

Finance income for the year consists of the following:

	2018 £000	2017 £000
Finance income arising from:		
Interest income from cash and cash equivalents	**–**	6
Fair value gains on forward exchange contracts held for trading	**11**	–
Total finance income	**11**	6

Finance expenses for the year consist of the following:

	2018 £000	2017 £000
Finance expense arising from:		
Interest on invoice discounting and stock loan facilities	**20**	8
Interest on revolving credit facility	**454**	262
Finance lease interest	**21**	10
Bank loans	**191**	88
Other credit related interest	**17**	12
Total bank and other credit interest	**703**	380
Imputed interest on deferred and contingent consideration	**63**	190
Fair value losses on forward exchange contracts held for trading	**–**	11
Total non-credit related interest	**63**	201
Total finance expense	**766**	581

7. Taxation

Recognised in the income statement

Continuing operations:	2018 £000	2017 £000
Current tax expense		
Current year charge	**1,623**	1,258
Overseas tax	**164**	167
Adjustment in respect of prior periods	**202**	(89)
Current tax expense	**1,989**	1,336
Deferred tax		
Origination and reversal of temporary differences	**(24)**	(111)
Adjustment in respect of prior periods	**27**	–
Change in tax rate	**–**	(18)
Deferred tax charge/(credit)	**3**	(129)
Total tax expense – continuing operations	**1,992**	1,207

No income tax was recognised in other comprehensive income or directly in equity for either of the years ended 31 December 2017 or 2018.

Reconciliation of effective tax rate

	2018 £000	2017 £000
Profit for the year	**4,931**	4,832
Total tax expense	**1,992**	1,207
Profit excluding taxation	**6,923**	6,039
Tax using the UK corporation tax rate of 19.00% (2017: 19.25%)	**1,315**	1,162
Deferred tax movements not recognised	**(40)**	38
Effect of share option exercises	**(38)**	(101)
Effect of tax rates in foreign jurisdictions	**(47)**	29
Effect of foreign branch exemption	**–**	(12)
Impact of change in tax rate on deferred tax balances	**(4)**	(8)
Deferred tax arising on acquisition	**(6)**	–
Income not taxable	**(314)**	(96)
Amounts not deductible	**897**	284
Adjustment in respect of prior periods	**229**	(89)
Total tax expense in the income statement – continuing and discontinued	**1,992**	1,207

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 2018 have been calculated based on these rates.

8. Dividends

	2018 £000	2017 £000
Final dividend of 3.85p (2017: 3.67p) per share	**2,330**	1,878
Interim dividend of 2.03p (2017: 1.93p) per share	**1,228**	999
Total dividends	**3,558**	2,877

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2018 of 4.04p (2017: 3.85p) per share which will absorb an estimated £2.5 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 12 July 2019 to Shareholders who are on the register of members on 7 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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 2018			Year ended 31 December 2017		
	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	**4,911**	**58,889**	**8.34**	4,831	49,835	9.69
Diluted earnings per share						
Continuing operations	**4,911**	**59,278**	**8.28**	4,831	50,409	9.58

	2018 £000	2017 £000
Weighted average number of ordinary shares for basic and diluted earnings per share	**58,889**	49,835
Impact of share options	**389**	574
Weighted average number of ordinary shares for diluted earnings per share	**59,278**	50,409

10. Goodwill

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

	2018 £000	2017 £000
Gross carrying value		
Balance at 1 January	**57,938**	47,927
Fair value amendment relating to prior year acquisitions	**399**	227
Acquired through business combinations	**4,685**	9,784
Balance at 31 December	**63,022**	57,938
Accumulated impairment		
Balance at 1 January	**–**	–
Impairment charge	**–**	–
Balance at 31 December	**–**	–
Carrying amount at 31 December	**63,022**	57,938

The goodwill acquired during the year relates to the acquisition of Balu Limited; see note 24.

The goodwill has been recognised in the Flowtechnology operating segment.

Goodwill analysed by segment is as follows:

	2018 £000	2017 £000
Flowtechnology (Fluidpower Limited, Flowtechnology Cz Limited, Balu Limited, Flowtechnology Benelux B.V.)	**48,016**	43,330
Power Motion Control (PMC Fluidpower Group Limited, PMC Fluidpower Limited, Nelson Hydraulics Limited, Hi-Power Limited, The Hydraulic Group BV)	**11,249**	10,864
Process (Process Fluidpower Limited)	**3,757**	3,744
Total at 31 December	**63,022**	57,938

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. 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 2019, which are extrapolated for a further four years.* The Group's latest financial forecasts, which cover a two year period, are reviewed by the Board.

* Using growth rates as follows: Fluidpower Limited, Balu Limited and Flowtechnology Benelux: 2.5%; PMC Fluidpower Limited, The Hydraulic Group BV, Hi-Power Limited and Nelson Hydraulics Limited: 2.5%; Process Fluidpower Limited: 2.5%

Discount rates

The pre-tax discount rate used to calculate value is 9% (2017: 9%). 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 £51 million. Increasing the discount rate to 27% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the fixed assets attributed to Fluidpower Limited.

In respect of the goodwill attributed to PMC Fluidpower Limited, the headroom compared to the carrying value exceeds £31 million. Increasing the discount rate to 28% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the fixed assets attributed to PMC Fluidpower Limited.

In respect of the goodwill attributed to Process Fluidpower Limited, the headroom compared to the carrying value exceeds £11 million. Increasing the discount rate to 48% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the fixed assets attributed to Process 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.

11. Other intangible assets

	Customer relationships		Brands		Total	
	2018 £000	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Gross carrying value						
Balance at 1 January 2019	**9,214**	5,796	**96**	96	**9,310**	5,892
Acquired through business combinations – brands	**–**	—	**1,077**	—	**1,077**	—
Acquired through business combinations – customer relationships (note 24)	**157**	3,418	—	—	**157**	3,418
Balance at 31 December 2018	**9,371**	9,214	**1,173**	96	**10,544**	9,310
Amortisation and impairment						
Balance at 1 January 2018	**1,845**	1,096	**35**	16	**1,880**	1,112
Amortisation	**941**	749	**99**	19	**1,040**	768
Balance at 31 December 2018	**2,786**	1,845	**134**	35	**2,920**	1,880
Carrying amount at 31 December 2018	**6,585**	7,369	**1,039**	61	**7,624**	7,430

Additions in the year to customer relationships relate to the acquisition of Balu 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.

Additions in the year to brands relate to the acquisitions of Balu 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.

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NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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%
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%
Balu Limited	UK	Holding company	100%
Beaumanor Limited	UK	Distributors of engineering components	100%
Derek Lane & Co Limited	UK	Assembly and distribution of engineering components	90%
Derek Lane (Contracts) Limited	UK	Dormant	100%
Derek Lane & Co (South West) Limited	UK	Dormant	100%
DLC Defence Ltd	UK	Dormant	100%

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

On 13 March 2018, the Group acquired 100% of the ordinary shares in Balu Limited, and its trading subsidiaries, Beaumanor Limited and Derek Lane & Co Limited and also its dormant subsidiaries Derek Lane (Contracts) Limited, Derek Lane & Co (South West) Limited and DLC Defence Ltd.

The group includes one subsidiary with a non-material non-controlling interest, Derek Lane & Co Limited. The proportion of ownership interest and voting rights held by the non-controlling interest is 10%.

13. Property, plant and equipment

	Land and property £000	Plant, machinery and equipment £000	Motor vehicles £000	Total £000
Cost				
Balance at 1 January 2017	1,131	7,929	235	9,295
Additions	–	1,831	9	1,840
Disposals	–	(87)	(22)	(109)
Acquisitions through business combinations	–	792	243	1,035
Effect of movements in foreign exchange	–	20	–	20
Balance at 31 December 2017 and 1 January 2018	1,131	10,485	465	12,081
Additions	–	1,248	95	1,343
Disposals	–	–	(82)	(82)
Acquisitions through business combinations (note 24)	–	359	266	625
Fair value amendment relating to prior year acquisitions	–	(312)	–	(312)
Effect of movements in foreign exchange	–	4	–	4
Balance at 31 December 2018	1,131	11,784	744	13,659
Depreciation and amortisation				
Balance at 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 and 1 January 2018	88	5,810	113	6,011
Depreciation charge for the year	29	779	133	941
Disposals	–	–	(28)	(28)
Effect of movements in foreign exchange	–	–	–	–
Balance at 31 December 2018	117	6,589	218	6,924
Net book value				
At 31 December 2018	**1,014**	**5,195**	**526**	**6,735**
At 1 January 2018	1,043	4,675	352	6,070
At 1 January 2017	1,072	2,674	153	3,899

At year end the net book value of leased plant, machinery and equipment was £229,000 (2017: £169,000). Included in land and property is land at a cost of £145,000 which is not depreciated (2017: £145,000).

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14. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Intangible assets	**–**	–	**(1,513)**	(1,418)
Property, plant and equipment	**–**	–	**(315)**	(248)
Provisions	**51**	37	**–**	–
Employee share-based payments	**26**	69	**–**	–
Tax assets/(liabilities)	**77**	106	**(1,828)**	(1,666)
Net deferred tax liability			**(1,751)**	(1,560)

A deferred tax asset of £77,000 (2017: £117,000) in respect of cumulative share-based payments of £405,000 (2017: £615,000) 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 2018

	1 January 2018 £000	Recognised in profit or loss £000	Acquired during the year £000	**31 December 2018 £000**
Intangible assets (note 24)	(1,418)	115	(210)	**(1,513)**
Property, plant and equipment	(248)	(8)	(60)	**(315)**
Provisions	37	11	3	**51**
Employee share-based payments	69	(43)	–	**26**
	(1,560)	75	(267)	**1,751**

Movement in deferred tax during the year ended 31 December 2018

	1 January 2018 £000	Recognised in profit or loss £000	Acquired during the year £000	**31 December 2018 £000**
Intangible assets	(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)**

15. Inventories

	2018 £000	2017 £000
Finished goods and goods for resale	**28,667**	24,333

Charges in finished goods recognised as cost of sales in the year amounted to £63,683,000 (2017: £46,797,000). The write-down of inventories to net realisable value amounted to £154,000 (2017: write-down of £212,000). The write-downs and reversals are included in cost of sales. The provision made against inventories at the year end was £767,000 (2017: £814,000).

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

	2018 £000	2017 £000
Trade receivables	**24,805**	20,248
Other receivables	**670**	618
Trade receivables and other receivables	**25,475**	20,866

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

	Gross 2018 £000	Impairment 2018 £000	Gross 2017 £000	Impairment 2017 £000
Not past due	**22,949**	**240**	18,364	81
Past due 0–30 days	**1,317**	**36**	1,433	32
More than 30 days	**1,124**	**309**	919	355
	25,390	**585**	20,716	468

The movement in the allowance of impairment in respect of trade receivables during each year was as follows:

	2018 £000	2017 £000
Balance at 1 January	**468**	240
Net change due to acquisitions and disposals of subsidiaries	**146**	266
Provision utilised	**(94)**	(65)
Increase in provision	**65**	27
Balance at 31 December	**585**	468

17. Cash and cash equivalents

	2018 £000	2017 £000
Cash and cash equivalents:		
Sterling	**1,606**	3,189
Euro	**371**	1,278
Dollar	**271**	121
Total cash and cash equivalents	**2,248**	4,588

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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 30.

	2018 £000	2017 £000
Non-current liabilities		
Secured bank loans	**4,000**	4,000
Finance lease liabilities	**51**	97
Total non-current liabilities	**4,051**	4,097
Current liabilities		
Bank overdraft	**1,994**	389
Revolving credit facility	**16,000**	15,000
Finance lease liabilities	**84**	62
Total current liabilities	**18,078**	15,451
Total	**22,129**	19,548

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	**Carrying value 2018 £000**	Carrying value 2017 £000
Secured bank loan	GBP	Libor + 2.9%	2021	**4,000**	4,000
Secured revolving credit facility	GBP	Libor + 2.9%	n/a	**16,000**	15,000
Finance lease liabilities	GBP	Various 4.8% to 31.0%	2018 to 2021	**135**	159
				20,135	19,159

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. The Group also has a £5,000,000 overdraft facility which expires on 30 June 2019; the Bank has indicated a willingness to extend this beyond 30 June 2019 should it be required.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2018 £000	**Interest 2018 £000**	**Principal 2018 £000**	Minimum lease payments 2017 £000	Interest 2017 £000	Principal 2017 £000
Less than one year	**84**	**16**	**100**	73	14	59
Between one and five years	**51**	**12**	**63**	116	16	100
	135	**28**	**163**	189	30	159

19. Trade and other payables

	2018 £000	2017 £000
Current		
Trade payables	**10,853**	12,208
Accrued expenses	**4,776**	4,455
Social security and other taxes	**2,743**	2,320
	18,372	18,983

20. Contingent consideration

	2018 £000	2017 £000
Non-current liabilities		
Contingent consideration	**–**	2,706
Total non-current liabilities	**–**	2,706
Current liabilities		
Contingent consideration	**2,240**	2,865
Total current liabilities	**2,240**	2,865
Total	**2.240**	5,571

The contingent consideration is payable to the former owners of Hi-Power Limited in the first quarter of 2019. Contingent consideration is also payable to the former owners of Orange County Limited in two instalments at six-monthly intervals in the coming year. A final instalment of contingent consideration is payable to the former owners of Hydraulics and Transmissions Limited in 2019. Details of acquisitions in the current year are given in note 24.

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21. Provisions

	Dilapidation provision £000	Total £000
Balance at 1 January 2018	341	341
Acquisitions through business combinations	35	35
Amount provided in the year	23	23
Balance at 31 December 2018	**399**	**399**

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

	2018 £000	2017 £000
Current	**–**	–
Non-current	**399**	341
Total	**399**	341

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

	2018 £000	2017 £000
Current		
Financial liabilities – foreign exchange contracts	**–**	11

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 £475,000 (2017: £328,000).

23.2 Share-based employee remuneration

As at 31 December 2018, 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	**2018 Number**	2017 Number
21 May 2014	11 April 2017 to 10 August 2024	**77**	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	5 years	3 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	2018 Number 000s	2017 Number 000s
Approved Plan				
21 May 2014	£1.00	4 April 2017 to 20 May 2024	**645**	1,001
8 August 2014	£1.26	4 April 2017 to 7 August 2024	**12**	25
			657	1,026
Unapproved Plan				
21 May 2014	£1.00	4 April 2017 to 20 May 2024	**37**	384
11 August 2015	£1.32	4 April 2018 to 10 August 2025	**130**	130
1 July 2016	£1.00	4 April 2019 to 30 June 2026	**45**	45
			212	559
			869	1,585

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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 000	Weighted average exercise price per share	Number of shares 000	Weighted average exercise price per share	Total number of shares 000
Outstanding at 1 January 2018	1,026	1.01	559	1.07	1,585
Granted	–	–	–	–	
Lapsed	–	–	(8)	1.00	(8)
Forfeited	–	–	(100)	1.00	(100)
Exercised	(369)	1.01	(239)	1.00	(608)
Outstanding at 31 December 2018	**657**	**1.01**	**212**	**1.20**	**869**
Exercisable at 31 December 2018	**657**	**1.01**	**167**	**0.80**	**824**
Exercisable at 31 December 2017	1,026	1.00	384	1.00	1,410

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	7 years	6 years	5 years	5 years	5 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:

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

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 2018	550	1.09
Granted	–	–
Exercised	–	–
Forfeited	–	–
Outstanding at 31 December 2018	**550**	**1.09**
Exercisable at 31 December 2018	**110**	**1.43**
Exercisable at 31 December 2017	–	–

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 2017	**CSOP scheme 2016**
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	7 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.

In total, £191,000 (2017: £272,000) of employee remuneration expenses, all of which related to equity-settled share-based payment transactions, has been included in the Consolidated Income Statement.

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24. Acquisitions and disposals

24.1 Acquisition of Balu Limited

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 £8,391,000 in cash and £500,000 in shares in the ultimate parent company, Flowtech Fluidpower plc. 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, 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	918	(298)	–	620
Intangible assets	–		1,234	1,234
Inventories	2,706	828	–	3,534
Trade and other receivables	2,945	(90)	–	2,855
Overdrafts	(1,312)	–	–	(1,312)
Finance leases	(318)	–	–	(318)
Trade and other payables	(2,183)	–	–	(2,183)
Current tax balances[1]	24	–	–	24
Deferred tax liability	(57)	–	(156)	(213)
Provisions	–	(35)	–	(35)
Total net assets	**2,723**	**405**	**1,078**	**4,206**

1. Tax assets of £143,000 owned by a subsidiary, Beaumanor Limited, were not acquired.

	£000
Fair value of consideration paid	
Amount settled in cash	8,391
Fair value of contingent consideration	500
Total consideration	**8,891**
Less net assets acquired	(4,206)
Goodwill on acquisition (note 10)	**4,685**

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

Consideration transferred

The total consideration was £8,891,000. This comprised £8,391,000 in cash and £500,000 represented by the issue of new Flowtech Fluidpower plc ordinary shares at a value of 1.70p each. The premium on share issue arising of £354,000 has been credited to the merger relief reserve.

Acquisition costs amounting to £92,000 have been recognised as an expense in the Consolidated Income Statement as part of separately disclosed administration costs.

Goodwill

Goodwill of £4,685,000 is primarily related to expected future profitability, expected cost synergies, the substantial skill and expertise of its workforce and technical know-how. Goodwill for Balu Limited has been allocated to the Flowtechnology operating segment and is not expected to be deductible for tax purposes.

Intangible assets

An intangible asset of £1,077,000 has been provisionally identified related to the brand identity of Balu's subsidiary Beaumanor Limited. The estimated useful life has been determined as ten years based on the expected future cash flows that it would generate in arriving at their fair value. The components of the brand considered in the valuation comprised the website, catalogue and awareness of brand in the industry. Sales growth over the ten-year period has been assumed to be 1.9%. Amortisation of brand identity is not expected to be deductible for tax purposes. An intangible asset of £157,000 has been provisionally identified related to the customer relationships of Balu's subsidiary Derek Lane & Co 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 customer relationships considered in the valuation comprise the sales to significant customers. Long-term sales growth over the ten-year period has been assumed to be 1.0% with an attrition rate of 3.0% 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 £298,000 based on market valuations at the time of acquisition.

The book value of inventories acquired was increased by £828,000 to reflect its estimated fair value, as required by IFRS 3 – Business Combinations. At 31 December 2018, the inventory related to £382,000 of this increase had been sold. Accordingly, the gross profit margin recorded was £382,000 lower than it would have been had the inventory been recorded at its book value on acquisition.

The value of debtors has been decreased by £90,000 to reflect the alignment of the Company's debtor provisioning policy with that of the Group.

The value of provisions has been increased by £35,000 to reflect a provision for dilapidation costs relating to properties leased by the Company.

Balu Limited's contribution to the Group results

Balu Limited generated a profit after tax of £1,044,000 for the nine months from 19 March 2018 to the reporting date. If Balu Limited had been acquired on 1 January 2018, revenue for the Group would have been £113,511,000 and profit after tax for the year would have increased by £181,000.

Summary aggregated financial information on Balu Limited for the period from 1 January 2018 to 19 March 2018 when it became a subsidiary:

	2018 **£000**
Revenue	**2,460**
Profit	**181**

Profits post acquisition are stated after deducting inter company recharges of £267,000.

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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 2018	60,920,383	30,460
Shares authorised for share-based payments	6,666,667	3,333
Total shares authorised at 31 December 2018	**67,587,050**	**33,793**

	Number	£000
Allotted and fully paid ordinary shares of 50p each		
At 1 January 2018	52,818,997	26,409
Shares issued	6,470,589	3,235
Shares issued in respect of exercise of employee share options	927,431	464
Shares issued in respect of loan to Employee Benefit Trust	366,644	184
Shares issued in respect of acquisition (note 24.1)	292,942	146
Shares issued in respect of settlement of deferred consideration	43,780	22
At 31 December 2018	**60,920,383**	**30,460**

On 15 March 2018, 3,235,284 ordinary shares were issued at 170.0 pence each to fund acquisitions.

On 16 March 2018, 90,000 ordinary shares were issued at 100.0 pence each directly to an employee in satisfaction of MIP share option exercises. The Flowtech Fluidpower Employee Benefit Trust (EBT) immediately acquired 55,000 shares relating to this issue under a loan agreement with the EBT.

On 20 March 2018, 292,942 ordinary shares were issued for 170.0 pence each, in partial consideration for an indirect subsidiary's acquisition of 100% of the share capital of Balu Limited and its subsidiaries.

On 3 April 2018, 3,235,305 ordinary shares were issued at 170.0 pence each to fund acquisitions.

On 11 May 2018, 472,222 ordinary shares were issued at 100.0 pence each and 731,853 ordinary shares were issued at 178.0 pence each directly to an employee in satisfaction of MIP share option exercises. Shares were issued in exchange for shares in a subsidiary undertaking which was already under 100% control of Flowtech Fluidpower plc. The Flowtech Fluidpower Employee Benefit Trust (EBT) immediately acquired 311,644 shares relating to this issue under a loan agreement with the EBT.

On 30 October 2018, 43,780 ordinary shares were issued for 114.2 pence each, in partial consideration for an indirect subsidiary's settlement of deferred consideration due.

26. Net cash from operating activities

	2018 £000	2017 £000
Reconciliation of profit before taxation to net cash flows from operations		
Profit from continuing operations before tax	**6,923**	6,039
Depreciation	**941**	640
Financial income	**(11)**	(6)
Financial expense	**766**	581
Profit on sale of plant and equipment	**(9)**	(3)
Amortisation of intangible assets	**1,040**	768
Cash-settled share options	**(23)**	(415)
Equity-settled share-based payment charge	**191**	272
Change in amounts accrued for contingent consideration	**264**	229
Operating cash inflow before changes in working capital and provisions	**10,082**	8,105
Change in trade and other receivables	**(1,509)**	(823)
Change in stocks	**(844)**	(931)
Change in trade and other payables	**(2,843)**	1,922
Change in provisions	**(23)**	(63)
Cash generated from operations	**4,863**	8,210
Tax paid	**(1,073)**	(1,610)
Net cash generated from operating activities	**3,790**	6,600

27. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018 £000	2017 £000
Less than one year	**1,623**	1,450
Between one and five years	**3,615**	3,103
More than five years	**3,419**	3,479
	8,657	8,032

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 2018, 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.

	2018		2017	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Less than one year	**1,287**	**336**	1,059	391
Between one and five years	**3,374**	**241**	2,654	449
More than five years	**3,419**	**–**	3,479	–
	8,080	**577**	7,192	840

During the year £1,852,000 was recognised as an expense in the income statement in respect of operating leases relating to continuing operations (2017: £1,303,000).

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

28. Contingent liabilities and commitments

The Group had capital expenditure of £105,000 contracted for but not provided at 31 December 2018 (2017: £510,000).

29. 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 41 to 42.

Dividends paid to Directors of the plc were as follows:

	2018 £000	2017 £000
Bryce Brooks	**17**	5
Malcolm Diamond MBE	**3**	3
Bill Wilson	**–**	–
Nigel Richens	**4**	3
	24	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.

30. Financial instruments

30.1 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 2018 £000	**Fair value 2018 £000**	**Level 2 2018 £000**	**Level 3 2018 £000**	Carrying amount 2017 £000	Fair value 2017 £000	Level 2 2017 £000	Level 3 2017 £000
Financial liabilities at fair value through profit or loss (including all derivatives) (note 22)								
Forward exchange contracts	**–**	**–**	**–**	**–**	(11)	(11)	(11)	–
Contingent consideration (note 20)	**(2,240)**	**(2,240)**	**–**	**(2,240)**	(5,571)	(5,571)	–	(5,571)
Total financial liabilities at fair value through profit or loss	**(2,240)**	**(2,240)**	**–**	**(2,240)**	(5,582)	(5,582)	(11)	(5,571)

There have been no transfers in either direction during the years ended 31 December 2018 and 31 December 2017.

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

	2018 £000	2017 £000
Balance at 1 January	**5,571**	1,630
Arising on business combinations	**–**	5,361
Payment of contingent consideration	**(3,595)**	(1,649)
Changes in amounts accrued for contingent consideration	**264**	229
Balance at 31 December	**2,240**	5,571

Changes in amounts accrued for contingent consideration relates to the calculation of the contingent consideration as follows:

Underprovided consideration:

- £684,000 in final settlement for the acquisition of Hydravalve Limited, acquired in 2016. The consideration was based on net profit targets.
- £525,000 in final settlement for the acquisition of Hydraulics and Transmissions Limited acquired in 2017. The consideration was based on net profit targets. £684,000 in final settlement for the acquisition of Nelson Hydraulics Limited acquired in 2015. The consideration was based on net profit targets.
- £694,000 in final settlement for the acquisition of Hi-Power Limited acquired in 2017. The consideration was based on net profit targets.
- £13,000 in final settlement for the acquisition of Balu Limited acquired in 2018. The consideration was based on net working capital targets.

Overprovided consideration:

- £1,652,000 in final settlement for the acquisition of Orange County Limited acquired in 2017. 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 2018 £000	**Fair value 2018 £000**	**Level 2 2018 £000**	**Level 3 2018 £000**	Carrying amount 2017 £000	Fair value 2017 £000	Level 2 2017 £000	Level 3 2017 £000
Loans and receivables								
Cash and cash equivalents (note 17)*	**2,248**				4,588			
Trade and other receivables (note 16)*	**25,475**				20,866			
Total financial assets not measured at fair value	**27,723**				25,454			
Total financial assets at fair value	**–**				–			
Financial assets	**27,723**				25,454			
Financial liabilities measured at amortised cost								
Other interest-bearing loans and borrowings (note 18)	**(22,129)**				(19,548)			
Trade payables and accruals (note 19)*	**(15,629)**				(16,663)			
Total financial liabilities measured at amortised cost	**(37,758)**				(36,211)			
Financial liabilities at fair value								
Forward exchange contracts	**–**	**–**	**–**	**–**	(11)	(11)	(11)	
Contingent consideration (note 20)	**(2,240)**	**(2,240)**	**–**	**(2,240)**	(5,572)	(5,572)	–	(5,572)
Total financial liabilities at fair value	**(2,240)**	**(2,240)**	**–**	**(2,240)**	(5,583)	(5,583)	(11)	(5,572)
Total financial liabilities	**(39,998)**	**(2,240)**	**–**	**(2,240)**	(41,794)	(5,583)	(11)	(5,572)
Total financial instruments	**(12,275)**	**(2,240)**	**–**	**(2,240)**	(16,340)	(5,583)	(11)	(5,572)

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

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

30. Financial instruments continued

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 2018 relates to the acquisitions of Hydraulics and Transmissions Limited, Hi-Power Limited and Orange County Limited, all in 2017. It is estimated using a present value technique. The £2,240,000 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.

30.2 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:

	2018 £000	2017 £000
UK	**20,319**	16,343
Europe	**4,017**	3,561
Rest of the World	**469**	344
	24,805	20,248

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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables, see note 16. 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.

30.3 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 2018	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**	**4,348**	**116**	**116**	**4,116**
Finance lease liabilities	**135**	**161**	**99**	**62**	**–**
Revolving credit facility	**16,000**	**16,464**	**16,464**	**–**	**–**
Trade payables	**10,823**	**10,823**	**10,823**	**–**	**–**
	30,958	**31,796**	**27,502**	**178**	**4,116**

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

There are no contractual maturities over five years.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

30. Financial instruments continued

30.4 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 2018	**Sterling £000**	**Euro £000**	**US Dollar £000**	**Total £000**
Cash and cash equivalents	**1,606**	**371**	**271**	**2,248**
Trade and other receivables	**21,544**	**3,870**	**61**	**25,475**
Secured bank loans	**(4,000)**	**–**	**–**	**(4,000)**
Revolving credit facility	**(16,000)**	**–**	**–**	**(16,000)**
Finance lease liabilities	**(96)**	**(39)**	**–**	**(135)**
Trade payables	**(5,084)**	**(4,744)**	**(1,025)**	**(10,853)**
Net exposure	**(2,030)**	**(542)**	**(693)**	**(3,265)**

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)

Sensitivity analysis

A 10% weakening of the following currencies against the pound sterling at 31 December 2018 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 2018.

	Profit or loss and equity	
	2018 £000	2017 £000
€	**(10)**	(138)
$	**73**	38

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.

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

	Profit or loss and equity	
	2018 £000	2017 £000
€	**12**	169
$	**(90)**	(47)

Market risk – interest rate risk

Profile

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

	2018 £000	2017 £000
Fixed rate instruments		
Financial liabilities	**135**	159
Variable rate instruments		
Financial liabilities (carrying value)	**21,995**	19,389

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 2017.

	2018 £000	2017 £000
Equity		
Increase of 100 basis points	**(220)**	(190)
Decrease of 100 basis points	**220**	190
Profit or loss		
Increase of 100 basis points	**(220)**	(190)
Decrease of 100 basis points	**220**	190

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

30. Financial instruments continued

30.5 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.

31. Subsequent events

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

COMPANY INCOME STATEMENT

	Note	2018 £000	2017 £000
Continuing operations			
Administrative expenses		**(929)**	(242)
Operating loss	C	**(929)**	(242)
Financial income	F	**4,890**	4,495
Financial expenses	F	**(628)**	(350)
Net financing income		**4,262**	4,145
Profit from continuing operations before tax		**3,333**	3,903
Taxation	G	**–**	–
Profit for the year attributable to the owners of the Parent		**3,333**	3,903

COMPANY STATEMENT OF FINANCIAL POSITION

	Note	2018 £000	2017 £000
Fixed assets			
Investments	J	**58,881**	57,367
Total fixed assets		**58,881**	57,367
Current assets			
Trade and other debtors	K	**63,715**	51,546
Cash and cash equivalents	L	**–**	11
Total current assets		**63,715**	51,557
Creditors: amounts falling due within one year			
Interest-bearing loans and borrowings	M	**16,000**	15,000
Trade and other creditors	N	**3,611**	3,005
Total creditors: amounts falling due within one year		**19,611**	18,005
Net current assets		**44,104**	33,552
Total assets less current liabilities		**102,985**	90,919
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		**98,985**	86,919
Capital and reserves			
Called up share capital	P	**30,460**	26,409
Share premium account		**60,793**	52,370
Share-based payment reserve		**109**	447
Other reserves		**187**	187
Merger relief reserve		**382**	–
Retained earnings		**7,054**	7,506
Total equity		**98,985**	86,919

The financial statements on pages 97 to 105 were approved by the Board of Directors on 29 April 2019 and were signed on its behalf by:

Russell Cash
Chief Financial Officer

Company Registration Number: 09010518

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Other reserve £000	Merger relief reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017	21,539	46,880	–	–	7,069	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	187	–	(3,019)	7,528
Balance at 1 January 2018	26,409	52,370	187	–	7,953	86,919
Profit for the year	–	–	–	–	3,333	3,333
Total comprehensive income for the year	–	–	–	–	3,333	3,333
Transactions with owners						
Issue of share capital	4,051	8,423	–	–	–	12,473
Merger relief arising on shares issued in consideration for acquisition of an indirect subsidiary	–	–	–	382	–	382
Share options – granted to subsidiary employees	–	–	–	–	(564)	(564)
Equity dividends paid (note H)	–	–	–	–	(3,558)	(3,558)
Total transactions with owners	4,051	8,423	–	382	(4,122)	8,733
Balance at 31 December 2018	30,460	60,793	187	382	7,163	98,985

FINANCIAL STATEMENTS

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 2018 were authorised for issue by the Board of Directors on 29 April 2019 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 2018.

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.

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.

Significant judgements, key assumptions and estimates
In the process of applying the Company'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.

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

Impairment of investments and Group balances
The carrying value of investments and Group balances are assessed for impairment. This requires an estimation of the value in use of the operations underpinning the investments and Group balances.

The value in use of the investment is calculated from cash flow projections for the relevant entity based on financial projections covering a period of 5 years plus a terminal value, assumed growth rates and discount rates relevant to the individual entity.

The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected cash flows. Changes in revenues and expenditure are based on past experience and expectations of future growth.

The pre-tax discount rate applied in the impairment review is 9% (2017: 9%). This discount rate is derived from the Group's weighted average cost of capital.

The carrying value of the investments at 31 December 2018 is £58,881,000 (2017: £57,367,000) and amounts owed by subsidiary undertakings were £63,715,000 (2017: £51,489,000). There was no impairment charge during the year.

NOTES TO THE COMPANY FINANCIAL INFORMATION

C. Operating loss

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

	2018 £000	2017 £000
Acquisition costs	**135**	297
Share-based payment costs (note 23)	**–**	33
Restructuring	**422**	–

- 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:

	2018 £000	2017 £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:

	2018 £000	2017 £000
Administration	**4**	4

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Remuneration*	**704**	524
Notice pay*	**188**	–
Social security costs	**78**	61
Benefits in kind	**11**	5
	981	590

* Remuneration includes £90,000 in respect of compensation for loss of office. Notice pay of £188,000 also relates to compensation for loss of office.

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

	2018 £000	2017 £000
Highest paid Director’s remuneration		
Remuneration*	**352**	235
Notice pay*	**188**	–
Social security costs	**34**	31
Benefits in kind	**2**	2
Total highest paid Director’s remuneration	**576**	268

* Remuneration includes £90,000 in respect of compensation for loss of office. Notice pay of £188,000 also relates to compensation for loss of office.

Details of Directors’ emoluments are included in the Directors’ Remuneration Report on pages 41 to 42.

F. Financial income and expense

Finance income for the year consists of the following:

	2018 £000	2017 £000
Finance income arising from:		
Dividends received from Group undertakings	**4,890**	4,495
Total finance income	**4,890**	4,495

Finance expenses for the year consist of the following:

	2018 £000	2017 £000
Finance expense arising from:		
Bank loans and revolving credit facility	**628**	350
Total finance expense	**628**	350

G. Taxation

No income tax was recognised in other comprehensive income or directly in equity for either of the years ended 31 December 2018 or 2017.

Reconciliation of effective tax rate

	2018 £000	2017 £000
Profit for the year	**3,335**	3,903
Total tax expense	**–**	–
Profit excluding taxation	**3,335**	3,903
Tax using the UK corporation tax rate of 19.00% (2016: 19.25%)	**634**	751
Deferred tax movements not recognised	**(40)**	10
Group relief	**351**	133
Effect of share option exercises	**(42)**	–
Income not taxable	**(929)**	(961)
Amounts not deductible	**26**	67
Total tax expense in the income statement	**–**	–

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 2018 have been calculated based on these rates.

H. Dividends paid and proposed

	2018 £000	2017 £000
Final dividend of 3.85p (2017: 3.67p) per share	**2,330**	1,878
Interim dividend of 2.03p (2017: 1.93p) per share	**1,228**	999
	3,558	2,877

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 December 2018 of 4.04p (2017: 3.85p) per share which will absorb an estimated £2.5 million of Shareholders' funds. It will be paid on 12 July 2019 to Shareholders who are on the register of members on 7 June 2019.

I. Share-based payments

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

NOTES TO THE COMPANY FINANCIAL INFORMATION

J. Investments

Cost and net book value	Investments in subsidiaries' unlisted shares £000	Subsidiaries' share-based payment reserves £000	Total £000
At 1 January 2018	56,919	448	57,367
Increase in holding in direct subsidiary	1,303	–	1,303
Shares issued in consideration for acquisition of indirect subsidiaries	550	–	550
Additions net of exercise of options in the year	–	(339)	(339)
At 31 December 2018	**58,772**	**109**	**58,881**

Details of the Company's investments are shown in note 12 to the consolidated financial statements.

K. Trade and other debtors

	2018 £000	2017 £000
Current:		
Prepayments and accrued income	**492**	57
Amounts owed by Group undertakings	**63,223**	51,489
Total trade and other debtors	**63,715**	51,546

L. Cash and cash equivalents

	2018 £000	2017 £000
Sterling	**–**	11
Total cash and cash equivalents	**–**	11

M. Interest-bearing loans and borrowings

	2018 £000	2017 £000
Non-current liabilities:		
Secured bank loans	**4,000**	4,000
Total non-current liabilities	**4,000**	4,000
Current liabilities:		
Revolving credit facility	**16,000**	15,000
Total current liabilities	**16,000**	15,000
Total interest bearing loans and borrowings	**20,000**	19,000

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

	2018 £000	2017 £000
Social security and other taxes	**42**	26
Accruals and deferred income	**525**	379
Amounts owed to other Group undertakings	**3,044**	2,600
Total trade and other creditors	**3,611**	3,005

O. Deferred taxation

Deferred tax assets comprise:

	2018 £000	2017 £000
Provisions	–	–
Total deferred tax	–	–
At start of year	–	–
Deferred tax credit in profit and loss account for the year	–	–
At end of year	–	–

A deferred tax asset of £4,000 (2018: £44,000) in respect of cumulative share-based payments of £22,000 (2017: £255,000) 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 2018	52,819,000	26,409
Shares issued	6,470,589	3,235
Shares issued in respect of exercise of employee share options	927,431	464
Shares issued in respect of loan to Employee Benefit Trust	366,644	184
Shares issued in respect of acquisition (note 24.1)	292,942	146
Shares issued in respect of settlement of deferred consideration	43,780	22
At 31 December 2018	**60,920,386**	**30,460**

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 2018.

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. Shares of value £650,000 were issued to the Flowtech Fluidpower Employee Benefit Trust and repayments of £278,000 were made; £412,000 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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