FLOWTECH FLUIDPOWER PLC

ANNUAL REPORT

for the year ended 31 December 2014

www.flowtechfluidpower.com

Stock Code: FLO

Delivering Tailored Solutions

Nurturing Solid Partnerships

Continuing Strong Traditions

Welcome to our first
Annual Report

Who Are We?

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

The Group's headquarters and main distribution centre is in Skelmersdale, Lancashire with further centres in the UK, Netherlands and China; in total, the business employs 229 people

Our Mission

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

Our Vision

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

Our Values

Read more about Our Values online

Our Competitive Edge

- Unique position within the fluid power supply chain
- Scale –“one-stop shop” for fluid power products – access to over 500,000 lines
- Aligned with both global supply base and distributor network
- Global brands complemented by “Exclusive Brands”
- Bespoke fully integrated trading platform and IT system
- Dedicated distribution and logistics centres
- Technical “know-how” & high service levels
- Strategy to deliver growth both organic and acquisition

Read more about Our Strategy 12

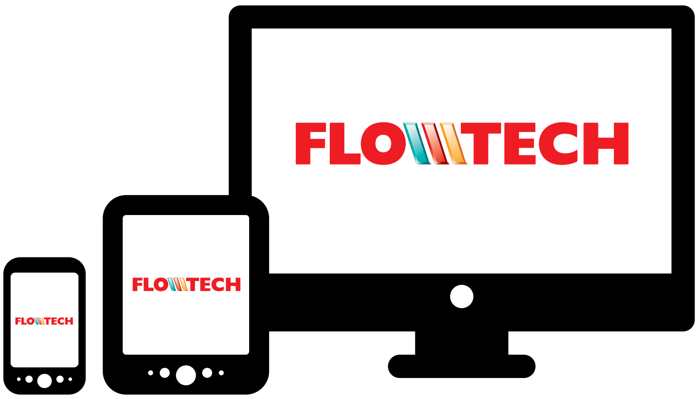
Read more about How we manage Risk 22

Read more about Our KPIs 21

Investor Website

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

- Latest news and press releases
- Annual Reports



What’s Inside

Strategic Report

Our Governance

Our Financials

Signposting icons to look out for within this Report:

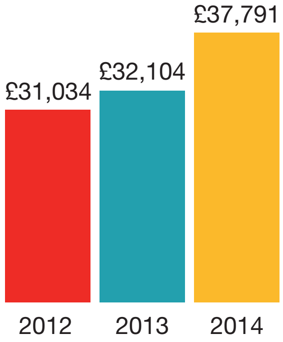
Read more in this Annual Report 00

Read more In our Online Report

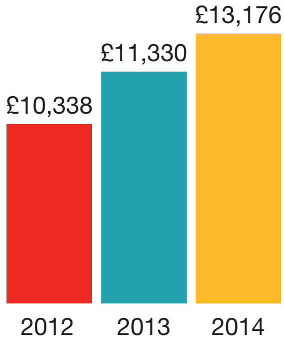
Financial and Operational Highlights

Financial Highlights

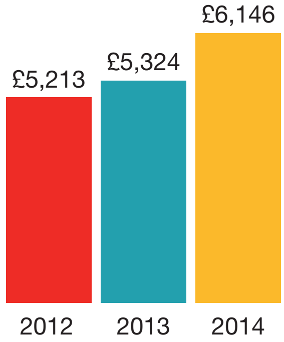
Revenue
£000



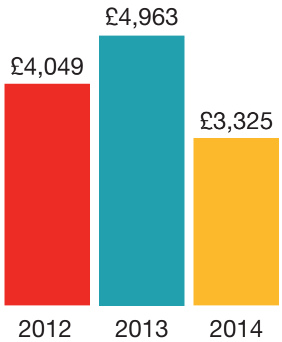
Gross Profit
£000



Underlying Operating Result*
£000



Operating Profit
£000



Total Dividend
Pence

5.00p

Final Dividend 3.33p
Interim Dividend 1.67p

Net Debt
£000

£6.7m

2013: £69.8m

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

Operational Highlights

- Delivering the strategy outlined at the IPO
- Solid growth in revenue with consistent product margins
- Working capital targets met with debt capacity in place
- Global brands complemented by Exclusive Brands
- Unique position within the fluid power sector - aligned with both global supply base and distributor network
- 2015 sees new catalogue launch with 8 new Exclusive Brands and 7,000 new products
- Investment in people and infrastructure to support future growth

"Flowtech is a market leader in its field and we have demonstrated that we can deliver profitable, as well as consistent, levels of service to our diverse customer base"

Sean Fennon
Chief Executive Officer

Read more in Our Strategy 12

Read more about Financial Review 18

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

Dear Shareholder,

On behalf of the Board and our colleagues around the business, we welcome you as a Shareholder in joining us on the next stage of our development.

From my point of view, having joined the Flowtech Board in May 2014, I am delighted to have the opportunity to give an overview on the Company's progress in its inaugural year as a public company.

The Executive team set a growth strategy back in 2013 that realistically could only be delivered by gaining financial independence from their then private equity shareholders. This was mutually agreed by both parties, with Zeus Capital being appointed as Nomad and Broker. We were encouraged by the successful conclusion of the Initial Public Offering ("IPO") in late May 2014, even more so as it was over-subscribed and secured strong support from a substantial group of highly respected institutional fund managers.

The team's objective is to deliver consistent growth by blending organic growth with carefully selected acquisitions, well within their business model parameters.

We were therefore delighted when we got off to a prompt start in August with the addition of the Primary Fluid Power brand to our portfolio. "Primary" is a long established, profitable and debt free, sourcing and bespoke assembly business that mainly serves OEMs. Apart from the attributable earnings, its addition gives the Group a much broader technical support base, and will allow us to consolidate the Vitassem custom hose assembly into the Primary operation, thus separating distribution and assembly activities and improving our focus and plant utilisation.

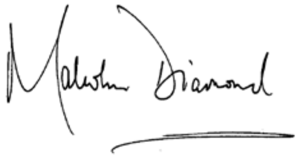
I am extremely enthused by the Management team's knowledge of their industry sectors and their determination and energy in revealing profitable growth opportunities within. This is further enhanced by their grasp of strong brand management, the margin opportunities afforded by selected sourcing of high quality generic products from lower cost manufacturers and their overall commitment to maintaining **lean and efficient** indirect costs such as administration, with **"need to haves"** eclipsing "nice to haves."

Finally, 21 May 2015 is the first anniversary since we were admitted to AIM and the date of our first AGM as a plc; we extend an invitation to you as a shareholder to join us in Skelmersdale and take the opportunity to look around the operations and meet more of the team.

Flowtech is a market leader in its field; we have demonstrated that we can profitably deliver consistent levels of service to our diverse customer base. We remain optimistic that there are significant opportunities for further growth, both organic and through acquisition, product development and international expansion.

If you have any points to discuss please feel free to contact us, and in the meantime, I look forward to keeping you updated with our progress during this second year of activity as a plc.

Yours sincerely



Malcolm Diamond MBE
Non-Executive Chairman
14 April 2015

Read more in
Governance 32

Strategic Report
Group at a Glance

The Group

Flowtech Fluidpower plc (“Flowtech” or “the Group”) is the leading distributor of technical fluid power products to over 3,000 customers in the UK and Northern Europe. With modern distribution facilities in the UK and Benelux we offer an unrivalled range of both Original Equipment Manufacturer (“OEM”) products, as well as our own ranges sourced exclusively to the Group (“Exclusive Brands”).

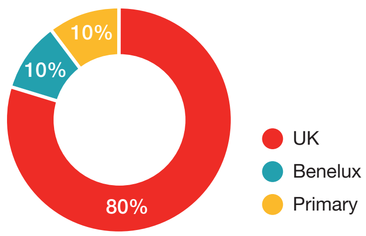
The Group focuses on supplying distributors and resellers of industrial MRO (maintenance, repair and operation) products, primarily serving urgent orders rather than bulk offerings. In addition, following the acquisition of Primary Fluid Power Limited in August 2014, the Group has added capabilities in the design and manufacture of hydraulic systems and purifiers, which are further complemented by a service and repair function.

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

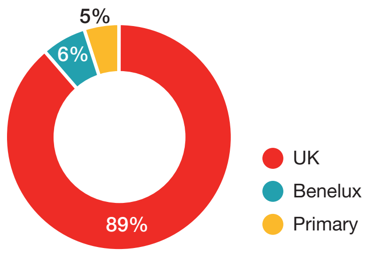
The main operating entity is Flowtech Limited, which trades as Flowtechnology UK and is based in Skelmersdale, Lancashire, where all Group functions are also located. Primary operates from a second site eight miles away in Knowsley, Merseyside. In Europe, Flowtechnology Benelux BV operates from a single site in Deventer in the eastern region of Holland and services customers principally in Holland and Belgium.

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

% Group Revenue



% Group Operating Profit*



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

Read more about Our Strategy 12

Read our Financial Review 18

Pictured: Operational Board:
Sean Fennon (CEO), Mark Richardson (Flowtechnology Benelux), Stephen Merrie (Primary), Bryce Brooks (CFO), Paul Watson (Flowtechnology UK)

Strategic Report
Group at a Glance continued

The main operating entity is Flowtech Limited, which trades as Flowtechnology UK and is based in Skelmersdale, Lancashire. Primary operates from a second site eight miles away in Knowsley, Merseyside. In Europe, Flowtechnology Benelux BV, operates from a single site in Deventer in the eastern region of Holland

Asia
Supply Chain

Far East procurement and sourcing is one of the cornerstones of Flowtech's strategy.

The ability to develop and extend the range of Exclusive Brands in line with industry requirements has been accomplished by developing stronger relationships and working closely with the Far East supply base to ensure targets in consistency of quality, high technical specification and product performance are achieved.

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

Primary Acquired 5 August 2014

Key Facts

58 EMPLOYEES	**25,000** SQ FT OPERATING FACILITY
96% DELIVERY TARGETS ACHIEVED	**81%** TENDERS WON

Primary Fluid Power, our first acquisition as a plc, added a significant distribution operation and new technical capabilities in design and assembly of hydraulic systems and purifiers. The business was acquired on the 5 August 2014 and has been smoothly integrated into the Group. The acquisition was in line with the strategy outlined in the admission document to develop separate sales channels within the fluid power market and benefit from the synergies created within the Group.

- Primary Fluid Power is a technically based hydraulics business with a strong design and assembly capability which has allowed it to develop a strong market position, it focuses on delivering components and power packs to the OEM marketplace.
- The business has a long standing reputation for assembly and service excellence, servicing a wide range of industrial sectors including:
  - Mobile
  - Oil & Gas
  - Environmental
  - Industrial
  - Life sciences
- Since acquisition the business has implemented a more proactive sales approach to the market place which will help develop the long term structure of the customer base and widen the sectors that they serve.
- Stock holding of over 11,000 product lines

Flowtechnology UK

Key Facts

126
EMPLOYEES

80,000
SQ FT MODERN DISTRIBUTION CENTRE

99%
OF ORDERS DESPATCHED IN FULL SAME DAY

4,690
AVERAGE PICKS PER DAY WITH AN ERROR RATE OF LESS THAN 0.2%

Flowtechnology UK was founded in 1983. It is a highly efficient business unit with a fully integrated end-to-end process delivering high service levels to its marketplace, and a deep stockholding to support its wide and varied customer base.

- Highly motivated staff and management are committed to delivering excellence to the customer base
- Continues to implement systems aimed at creating an 'ease of transaction' for its customers allowing a one-stop shop for fluid power products
- Innovative marketing programmes are in place to support customer growth
- Over 60% of orders are placed online, through a fully integrated web trading system
- Orders taken up until 10:00pm can be delivered next day
- Extensive stockholding of over 37,000 product lines supports a class leading service offering

Flowtechnology Benelux

Key Facts

24
EMPLOYEES

20,000
SQ FT MODERN DISTRIBUTION CENTRE

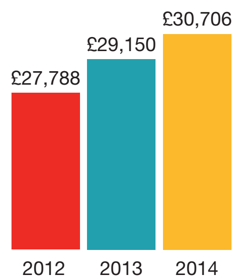
98%
OF ORDERS DESPATCHED IN FULL SAME DAY

550
AVERAGE PICKS PER DAY WITH AN ERROR RATE OF LESS THAN 0.2%

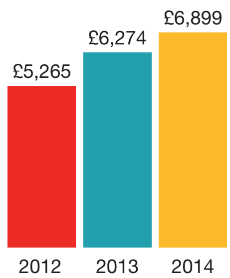
Flowtechnology Benelux was acquired in 2007. Since 2010 significant restructuring has been undertaken and by 2013 it was fully integrated into the Group's operating systems. The change process has delivered a business with solid foundations which is now establishing a strong reputation in its marketplace.

- Single purpose-built unit, with integrated links to the UK business
- The Group's IT systems have been fully implemented. These give us a major advantage in our ability to provide and support a market leading service
- The ongoing focus on sales development, service levels and increased customer support has seen the business increase its market penetration
- Customer development programmes are in place aimed at matching the regional requirements of each of the key sectors we serve
- Stock holding of over 13,000 product lines

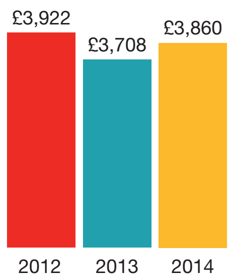
UK Revenue
£000



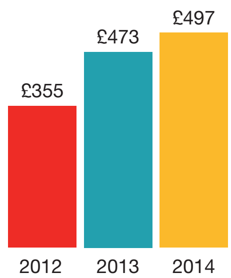
UK Underlying Operating Result*
£000



Benelux Revenue
£000



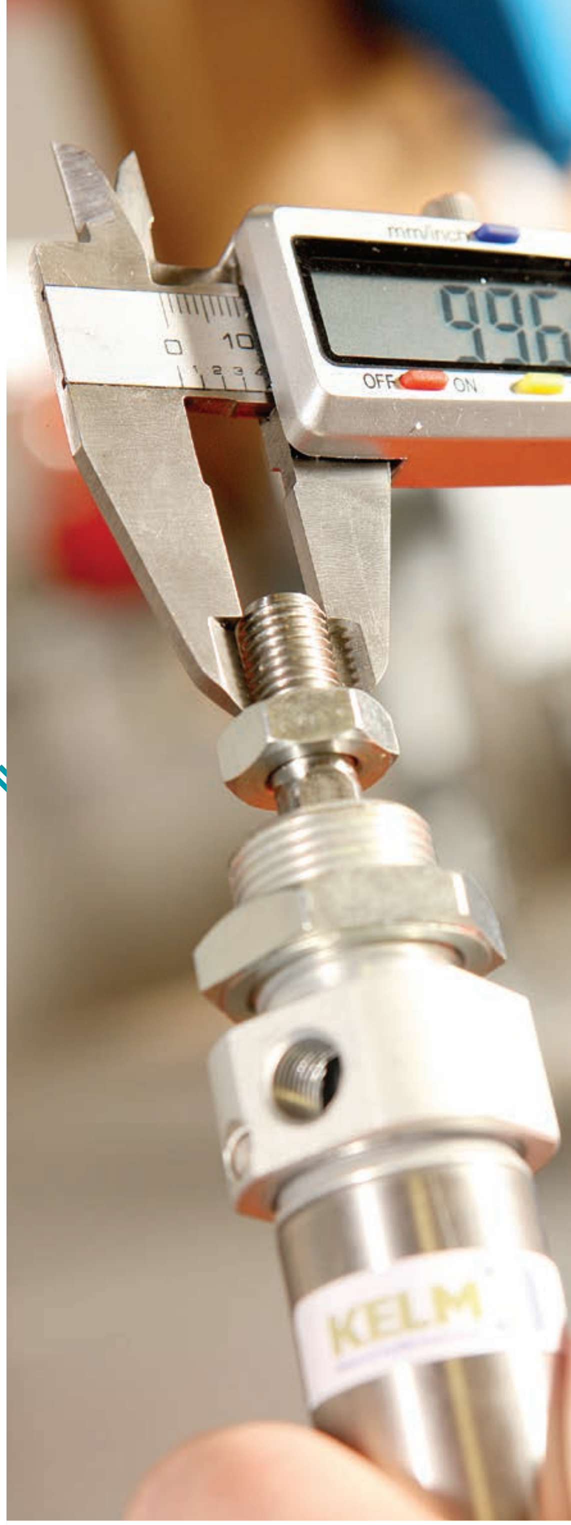
Benelux Underlying Operating Result*
£000



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

Strategic Report
Creating Value for Shareholders

A pivotal position



"The IPO represented a major milestone in Flowtech's development with the move from private equity to public company status, a memorable and huge step forward for us all"

Sean Fennon
Chief Executive Officer

This fundamental change in both ownership and financial structure has allowed the business to concentrate on its growth strategy as outlined in the admission document. The AIM market provides a platform for smaller companies like Flowtech who have aspirations to grow, to enhance our profile, and access new channels to support future development.

The focus on core competencies within the fluid power market has been central to supporting the long term strategy of the Group – these skills were boosted further in August with the acquisition of Primary.

Read more In our
Admission Document

http://www.flowtechfluidpower.com/investors/key-documents-and-downloads/aim-admission-document

The strategy of complementary acquisitions linked to organic growth will ensure Flowtech maintains its competitive advantage.

As a business we are in a unique position within the fluid power supply chain, as we are aligned to both the global supply base and its distributor network. This pivotal role has seen Flowtech develop, and market, an offering which matches the changing requirements of customers as well as delivering OEM brands, complemented by the Group's Exclusive Brands. The continuous product development programme, when coupled with necessary stock investment, gives the business strength and depth through wide product selection, thereby guaranteeing choice and availability is maintained at all times.

Read more about
Our Strategy 12

Read more about
Our KPIs 21

Read more about
How we manage Risk 22


Eye protection must be worn
Guards must be in position before starting


QK
QJ

Strategic Report
Marketing

Delivering for our customers

Innovative marketing with a fully integrated approach, promotions material, catalogue and web trading platform, presented with customers corporate branding.

Flowtech's marketing and design team work in collaboration with customers to create targeted promotions throughout the year.

"Seek to understand before seeking to be understood"

As part of the customer centric approach it has become vitally important to work closely with the customer base to understand the underlying drivers in their marketplace. Continued dialogue has enabled the Group to develop its product offer and so match these changing requirements.

Our catalogue development programme is aimed at delivering a product range which satisfies these changing needs; an inclusive offer which promotes both the Global OEM brands alongside the Group's Exclusive Brands.

The catalogue is printed with corporate branding for the larger Flowtechnology customers and is linked to a web trading site. Further promotional material is provided to create a fully integrated approach to customer requirements.

This makes Flowtechnology the cornerstone of its customers' marketing strategies.

The catalogue, often referred to as 'the industry bible', is produced annually and distributed to over 90,000 end-users (i.e. distributors and their customers); it comprises 52,000 products from across 18 product sections, including 7,000 new products for 2015. The content continues to evolve as the hydraulic, pneumatic and industrial product ranges are refined to suit the market. The product development programme has continued to deliver complementary Exclusive Brands aimed at increasing choice to the channel. This coverage creates our unique position of a consolidator and one-stop shop.

In addition full technical support is provided to the customer base. This includes general training courses in hydraulics and pneumatics, as well as product training courses based around specific industrial applications. Support on product and application requirements can be provided by the Flowtechnology internal technical support team.

A specialist contract sourcing team also works with customers to source tailored requirements for varying industrial applications or industry sectors.

"As part of the customer centric approach it has become vitally important to work closely with the customer base to understand the underlying drivers in their marketplace"

Paul Watson
Marketing Director

Introduction of an additional 8 new Exclusive Brands to the 2015/16 Fluid Power catalogue

Strategic Report
Our Strategy

The strategy for growth - our future ahead

"We have a clear view of our objectives - to create a specialist fluid power organisation that remains focused on its core competencies"

Sean Fennon
Chief Executive Officer

"Whilst cost control will be paramount, the Group will continue to invest as appropriate in the necessary resources to support its growth strategy"

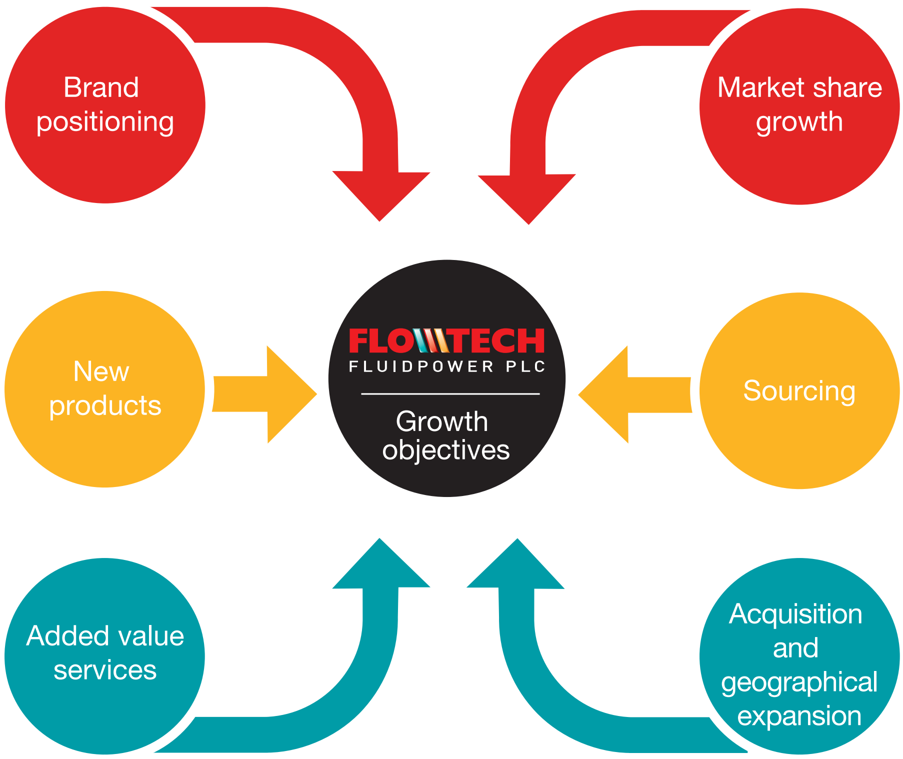
Bryce Brooks
Chief Financial Officer

"Our product development programme and stock investment gives the business strength and depth, guaranteeing choice and availability at all times to our customers"

Paul Watson
Marketing Director

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

This will be achieved through:



STRATEGIC REPORT

Brand positioning

- Brand and the ability to maintain and build a reputation is critical to the long term development of the Group. Not only is this related to product but also to the operating units themselves such as our core "Flowtechnology" brand in distribution services and "Vitassem" in hose assembly and tube manipulation.
- Product brand expansion has been fundamental to the Group's progress, with the formulated approach to product placement and development to be expanded across the business units.
- As part of any acquisition process, brand and reputation will be paramount with the intention to maintain any local company branding and build on its existing position.

Market share growth

To maintain the growth strategy, the overall service that is delivered to the market needs to continually develop, creating an integrated service offer which is linked to both customer needs and to industry requirements:

- Wider product offer – continued development to align to market requirements and more technical content within the core product groups.
- Technical Support – focused approach to increase reference data through the online platform as well as internal support.
- Training – programmes designed to develop expertise, improve the overall customer experience and develop a culture of customer support.
- Accreditation – delivering "excellence" to the fluid power marketplace requires the business to continually revisit its processes and ensure that it has full accreditation for the products and services it delivers.

New products

Having over recent years successfully introduced new hydraulic and industrial hosing ranges to its pneumatics focused product offer, further development will support our market position as a one-stop shop supplier of fluid power products. The ongoing expansion of ranges will see the Group capture a greater percentage of current customer spend and also open up new business opportunities in the wider market.

Sourcing

Linked directly to the need to optimise the product offering, the business nurtures its relationships with its OEM suppliers whilst developing its complementary Exclusive Brands; this process has been accelerated with the creation of a sourcing team based in the Far East, which will be extended as the business grows.

Added value services

As part of the business development programme, new added-value services are being introduced to complement the Group's product ranges.

- Hose assembly and tube manipulation
- Power packs
- Web system integration
- Contract sourcing
- Training
- Technical support and design

Acquisition and geographical expansion

- The Group has an acquisition strategy with a clear focus – complementary fluid power businesses operating in specific channels. Commercially independent operations delivering quality customer service at all times.
- Primary Fluid Power added a significant distribution operation and new technical capabilities in design and assembly of hydraulic systems and purifiers, which are complemented by a service and repair function. Primary has an established reputation and a customer base which is extensive and varied.
- The Directors believe that the Flowtechnology model can be replicated outside of the UK and this has been evidenced by the recent restructuring of the Benelux operation. This created a blueprint for the implementation of a process driven sales and service operation. In addition, our growing presence in China is ideally positioned to be used as a hub from which to potentially supply Exclusive Brands to fast growing economies around the world.

Read our Financial Review 18

Read more about Our KPIs 21

Read more about How we manage Risk 22

Strategic Report
Case Study

Added value services

"As part of the progressive market focus, the Group continues to develop and implement added value services to its sales offer. With the pivotal position of the Group within the fluid power supply chain, it is ideally placed to deliver both product and service propositions and also training and development programmes to the marketplace"

Sean Fennon
Chief Executive Officer

Product Development
The continued introduction of new Exclusive Brands along with increased depth and width of the global OEM brands will allow the Group to access new market sectors; this extension is driven by close interactions with customers and suppliers.

Contract Sourcing
The introduction of contract sourcing in 2014 utilising the existing Far East supply chain has opened opportunities for the customer base to purchase bulk products which are specific for them. The sourcing team work with the Group's employees in the Far East to coordinate and expedite these special requirements.

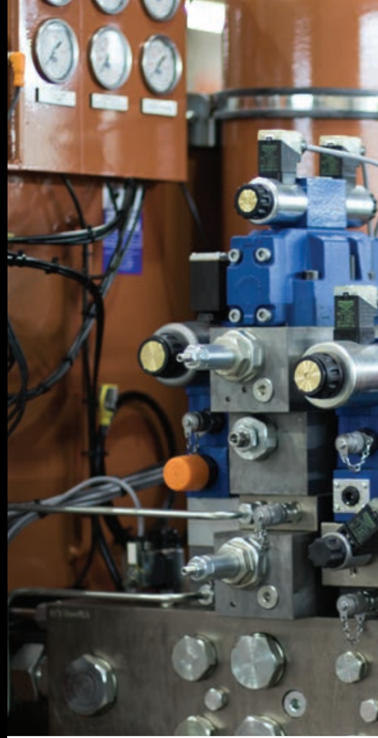
Vitassem
To increase market penetration the existing hose assembly and tube manipulation service has been aligned with the engineering excellence of Primary Fluid Power, offering assemblies and manipulations to industry. The service covers hydraulic, pneumatic and industrial applications with fast turnaround and fully accredited processes.

Primary Fluid Power
The acquisition of Primary Fluid Power, a technically based hydraulic business with a strong and long standing reputation in the marketplace, has allowed the Group to increase its hydraulic offer to its distinct customer channels. The business offers a wide range of hydraulic parts, design and assembly of systems and purifiers.

Technical Support
The enlarged Group is able to support and advise its wide and varied customer base on all aspects of fluid power applications, from product requirements to design and build. The continued expansion of the Group will ensure that this ability to support and advise customers will be extended.

Training
The training programmes across hydraulic, pneumatic and industrial applications will be extended as the Group's technical depth increases over the coming years, and this development will complement the existing programmes already in place.

System Integration
The constant development of the online trading platform linked to a highly focused marketing programmes, is aimed at achieving an ease of transaction for our customers with rich content supplemented by extensive technical information.




CUSTOM CRIMP
CC650
HAND HAZARD! Watch your fingers
Safety glasses and gloves MUST be worn at all times when operating this machine

Our people

Esprit de Corps:
"the spirit of pride within a business that makes the members want the Group to succeed"

The Group today employs 229 people through its five locations across three countries.

In order to gain a deeper insight into inter-departmental communications, enhance customer satisfaction (both internal and external) and to augment teamwork, Flowtechnology UK introduced its **Esprit de Corps** initiative – an **integrated communications programme** with the objective of creating a seamless process of efficient and transparent communications, which both **exceed expectations** and deliver **greater efficiencies** within the organisation.

Incorporating an annual "Continual Development Survey", Esprit de Corps has been developed to encompass all departments and instil a **culture of passion** for continually being proficient in everything the Group undertakes. This approach ensures the programme has become embedded into the fabric of the business and that each department is given a "voice" to enhance operational efficiency.

Learning & Development

The business has a clearly articulated vision for the future and invests in learning and development initiatives for its workforce. It has introduced a range of training programmes for the benefit of its employees including communication based NLP principles; upskilling employees on product and technical awareness and education in Health & Safety **best practice**.

Reward and Recognition

Flowtech has built an excellent reputation for its employee relations based on its reward and recognition schemes for existing staff members, which it also offers to attract high calibre new employees. Every employee has the opportunity to achieve additional bonus payments based on positive operational results and many have also benefitted from receiving share options in the Group. Flowtech also records its appreciation for those members of staff who achieve perfect attendance and recognises performances which are "over and above the call of duty" by rewarding such efforts with an "Employee of the Month" award.

Strategic Report
Financial Review

"The IPO was a vehicle to fundamentally reduce debt and interest burden, and be a springboard for long-term growth"

Bryce Brooks
Chief Financial Officer

Underlying operating result (£000)

£6,146

+15.4%

Net debt position

£6.7m

2013: £69.8m

Read more about Our Financials 36

Underlying Operating Results

The underlying operating result can be summarised as follows:

Continuing operations Underlying Operating Result*	**2014 £000**	2013 £000	Change	%
Flowtechnology:				
UK	**6,899**	6,274	625	9.3%
Benelux	**497**	473	24	5.1%
	7,396	6,747	649	9.6%
Primary	**369**	—	369	
Central costs	**(1,619)**	(1,423)	(196)	(13.8)%
Underlying operating result	**6,146**	5,324	822	15.4%

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

The Flowtechnology businesses have delivered very satisfactory increases in operating result before central costs, driven largely by volume increases on consistent gross margins, supported by sensible local cost control. The Benelux result is further emphasised by a negative exchange impact of 2.5% and in local currency growth was 7.5%. Despite increasing challenges in its offshore sector, Primary traded in line with expectations post acquisition and being based close to the main Group facility will allow greater sharing of operational and staffing resources in the medium term.

Central costs include Group departments covering Accounting, Creative Services, Marketing and IT, as well as all costs relating to the operation of the plc itself including Directors' remuneration. The conversion to plc status has by necessity increased this cost base. Moving forward the Directors believe that cost control measures should be balanced with a need to ensure appropriate investment in central services which will support growth as it occurs.

Following the IPO, the Group now enjoys a significantly reduced interest burden which is highlighted by the table below detailing financial expense costs pre and post 21 May 2014:

Analysis of finance expense	Pre IPO 1 January to 21 May 2014 £000	Post IPO 22 May 2014 to 31 December 2014 £000	Year ended 31 December 2014 £000
Shareholder loans	1,648	—	1,648
Bank loans and short term borrowing	234	108	342
Finance expense	1,882	108	1,990

IPO and Associated Costs

The IPO was a vehicle to fundamentally reduce debt and interest burden, and be a springboard for long-term growth.

After funding the overall costs of the IPO of £4.6 million (which has been allocated as £2.3 million charged to operating profit, see note 4 for details, and £2.3 million charged to share premium account), the balance of the £47.0 million equity and net bank debt raised was used to part clear loans from the previous private equity owners. The remaining £29.0 million of shareholder loans were subject to a debt for equity swap with the resultant gain on settlement being recognised in the consolidated income statement.

As a result of the options issued under the Enterprise Management Incentive plan, the vast majority of which were issued to staff members of the Flowtechnology businesses on 21 May 2014, the Group is required to account for the fair value of these incentives as "Share-based Payments", calculated using the Black Scholes method over the period from issuance to the earliest vesting date which is May 2017. The charge for the year was £148,000. The Directors believe that the share option schemes will have a positive effect on staff motivation and morale, and the ability to share the financial rewards of profitable growth between all stakeholders is a principle which will underpin our development strategy.

Taxation

The tax charge for the year was £1.2 million (2013: £0.9m), with an effective tax rate of 20.3% and a blended tax rate based on the geographical regimes of 21.5%. As detailed in note 7, the Group incurred an adjustment to the current year tax charge in respect of prior years of £67,000 which related to charges resulting from an Advanced Thin Capitalisation Agreement with HMRC. This agreement fixed the element of shareholder loan interest which was allowable for corporation tax purposes for the period 2007 to 2014.

Statement of Financial Position and Cash Flow

The net debt position at the year-end was £6.7 million (as detailed in notes 18 and 19) (2013: £69.8m). The Directors believe this represents a satisfactory performance in both working capital and cash management, which was ahead of expectations and ensures the Group enters 2015 in a strong position.

During the year the Group has continued to invest in its core information technology systems. This includes the commencement of a process to upgrade all the Group's computer servers, which will be concluded in 2015, and will ensure that both response times and reliability are leading-edge for the sectors in which we operate.

Final dividend

3.33p

Total dividend

5.00p

Read more about
Our Financials 36

Strategic Report
Financial Review continued

The Group currently operates from a mixture of property facilities which are either owned or leased from third parties. Where sensible to do so the Board's strategy is to examine options wherever possible to acquire any sites that are likely to form the basis for the Group's long term operational structure.

Investment in stock is seen as the lifeblood of the business and a delicate balance is always required between the requirement to ensure high service levels are maintained against the need to ensure appropriate protection against the cost of maintaining any slow-moving and redundant items. The Board believes that it maintains prudent and appropriate policies for provision against such items and ensures that sensible key performance indicators with regard to their measurement are maintained across all Group companies.

The principal use of cash flow from operating activities was the investment in the Primary acquisition which was part satisfied by £2.7 million funded through our own resources at completion (being £5.1 million in cash less the purchase of £2.4 million of cash held by Primary). Deferred consideration of £1.6 million will be paid in August 2015. Further details are given in note 25. The acquisition increased the balance of goodwill by £2.1 million and created intangible assets of £3.1 million, on which annual amortisation of £0.3 million will be charged.

Group Banking

The Group had combined facilities within the UK of £13.0 million at 31 December 2014, and the business traded well within its facilities and covenants. As indicated in note 19, the annual repayment commitment under these facilities is £0.9 million for 2015, which will be replicated in 2016 and the 2017, followed by a final "bullet" payment in 2018 of £4.0 million. The Board expects to renegotiate well ahead of this date and therefore believes the overall financial commitments under these banking arrangements remains amply covered by the Group's free cash flow. As described previously, the strategy for growth includes the pursuit of appropriate acquisition opportunities as and when they arise. It is believed that many of these opportunities can be funded from within these existing facilities, as well as additional facilities that we believe can be sensibly added without undue risk to the Group's strong financial position.

Dividend

Subject to Shareholder approval at the Annual General Meeting which is to be held on 21 May 2015, the Directors are proposing a final dividend of 3.33p per share. This, together with the interim dividend of 1.67p (paid on 24 October 2014), brings the total for the year to 5.00p, and matches the commitment made at the date of the IPO. The Board sees the retention of a strong dividend policy as a cornerstone for the investment case in the Group, and will work hard to ensure that the Group's development, both organically and by acquisition, will continue to balance the requirement for both self-generated growth capital and dividend flow.

> "The Board sees the retention of a strong dividend policy as a cornerstone for the investment case in the Group"
>
> **Bryce Brooks**
> **Chief Financial Officer**

Read more about Our Strategy 12

Read more about How we manage Risk 22

Key Performance Indicators (KPIs)

The main KPIs that management monitor within the Group are:

- **Daily gross profit generated against forecast and prior year**

  The Directors believe that the accurate daily reporting of gross profit achieved by each trading entity across the Group and comparison to forecast and prior year is a fundamental performance measure. This is further supported by additional calculations giving indicative full month estimates on a daily basis. As part of any acquisition programme, new businesses that join the Group will be required to comply with this daily reporting requirement as soon as it is practicable. The main benefit is to allow the Directors to reinforce close scrutiny of trading performance and provide local management focus, as well as providing an early indication of any negative growth. The majority of staff reward schemes by way of monthly bonus payments are linked to any growth in gross profit achieved.

  Performance achieved:

	Average gross profit per day £000		
Operating segment	**Year**	**Prior year**	**Forecast**
Flowtechnology UK	51.19	48.59	51.87
Flowtechnology Benelux	8.98	8.45	9.27
Primary	11.09	11.71	11.36

The gross profit monitored is related to product and direct labour only and is not calculated on the same basis as presented in the consolidated income statement.

- **Monthly sales and gross profit by customer account and product against forecast and prior year**

  Both the Flowtechnology and Primary businesses have a clear focus on the management of profitability at customer and product levels. Within the Group's IT systems, appropriate business intelligence modules are maintained to allow ease of analysis on a timely basis to underpin sales development initiatives at a strategic and tactical level, as well as quickly identify underperformance.

- **Stock provisions calculated at item level**

  The Group maintains accurate stock provision measures down to item level on a minimum twice monthly basis, or as otherwise required in specific cases. This can then be analysed by individual product group or supplier to ensure that action to alleviate any potential costs associated with slow-moving or redundant items can be made at the earliest point in a product life-cycle.

  Regular review of the provision calculations and prompt remedial action has resulted in no further provision being required against stock in the Flowtechnology UK and Benelux segments during the year.

- **Operating profit before separately disclosed items against forecast and prior year**

  The Group reports on a standard calendar monthly basis using a consistent format across all trading businesses and, as well as sales and the gross margin measures, will include comparison of cost types detailing actual against forecast, 12 month average, year-to-date and prior year-to-date. The Group achieved this measure against prior year in 8 out of 12 months, which for the year overall was 10% above the prior year. Against forecast, the measure was 3% down.

- **Service levels**

  The distribution segments of the Group monitor service level achievement for stock availability against required customer delivery date. Performance is measured against prior year levels and by product rank.

  Performance achieved:

	Service level	
Operating segment	**Year**	**Prior year**
Flowtechnology UK		
Top 500 products	99.4%	98.9%
Average all products	96.0%	95.9%
Flowtechnology Benelux		
Top 500 products	98.4%	98.3%
Average all products	92.7%	92.8%

Strategic Report
Risk Management

How the business manages risk

In common with all organisations, Flowtech faces risks which may affect its performance. The Group operates a system of internal control and risk management in order to provide assurance that we are managing risk whilst achieving our business objectives. No system can fully eliminate risk and therefore the understanding of operational risk is central to management processes. The long term success of the Group depends on the continual review, assessment and control of the key business risks it faces. In view of this the Board has recently engaged with a team of risk specialists to ensure risk identification and mitigation is a key strategy focus for the Group.

The principal risks identified include:

Risk	Mitigation
Inability to recognise and control cyber exposures	
The Group recognises there is an increasing exposure to cyber risk, including advanced techniques to disrupt our websites and direct attacks on Group systems with the potential loss of confidential information.	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 and daily backup procedures.
Quality control	
Many of the key components and products supplied by the Group are for industrial use, often in hazardous environments. These components and products must be fit for purpose to ensure that their reliability, performance and safety is of the necessary standard. Failure in this quality will cause damage to the Group's reputation, customer relationships and potential legal consequences.	The Group has quality specialists based in China who regularly visit suppliers' manufacturing sites to ensure that high quality standard operating procedures are being adhered to. The Group complies with ISO9001 ensuring quality standards are maintained through all its operations. Continual testing procedures are in place for both components and manufactured products. Employees involved in assembly processes are qualified with the relevant industry body awards and continue with regular internal and external training.

Risk	Mitigation
System and site disruption	
There is heavy operational dependence on the resilience of warehousing and IT infrastructure to support business operations and maintain high service levels. The risk is present that unplanned events could disrupt the functioning of key elements of the operational infrastructure damaging customer service and business reputation.	Off-site disaster recovery provision for IT systems including call centre relocation. Business continuity plans in place at operational locations. These are currently being reviewed with input from external consultants specifically engaged to ensure compliance with up-to-date industry standards.
Breach of regulations	
Inadvertent breaches of regulations could lead to prosecution and significant fines. Regulations impacting the Group include COSHH, packaging waste regulations, health and safety at work, Bribery and Corruption Act and corporate governance.	The Group engages external specialists as required to ensure internal procedures and policies are in place to ensure compliance with the regulatory frameworks. There is an ongoing review of relevant national and international compliance requirements.
Employee retention	
There is a risk that the business is not able to attract and retain high performing employees. The Group also needs to maintain engagement with the employees to ensure they remain supportive of the business strategy.	Attraction and retention of employees is supported by bonus plans, recognition and reward programmes and innovative benefit packages. Engagement is maintained through programmes such as the Esprit de Corps. 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.
Failure to integrate acquisitions and align strategies to existing business model.	
The Group has limited recent experience in the necessary controls and project management skills required to successfully integrate new acquisitions into the Group's commercial and administrative functions. The Directors believe that the fluid power marketplace is highly fragmented, and the Group's core trading entities operate in well-defined channels. Acquisition opportunities that fit within these channels will be key targets. However, this fragmented nature will often introduce channel overlap that could undermine trading performance in other parts of the Group.	The Board includes both Executive and Non-Executive Directors with considerable acquisition experience. Given that the development of the Group in the fluid power market is likely to include multiple opportunities to acquire trading companies in both the UK and Europe, future appointments will also be made as required to strengthen skills and knowledge in this area. Since the IPO, the Group has also added professionals in both general accounting and mergers and acquisitions to its internal resources in support of this process. Prior to engaging in any process the Chief Financial Officer will review any acquisition opportunity for conformance with the Board's strategy on channel management. Further detailed assessment with regard to channel conflict will be a key part of the due diligence process which will include consultation with the Group's Operational Board prior to plc Board approval and any commitment to buy.

Read more about Our Strategy 12

Read more about Our KPIs 21

Strategic Report
Summary

The Group has been able to continue its growth trend, with a resilience based around the wide and varied customer base which in turn services an extensive range of industrial sectors.

We have demonstrated that we can deliver profitable, as well as consistent levels of service to our diverse customer base. There is also significant opportunity for us to achieve organic growth through product development and international expansion and enhancing this through acquiring businesses that have high quality management and staff who can work with us to deliver our corporate strategy.

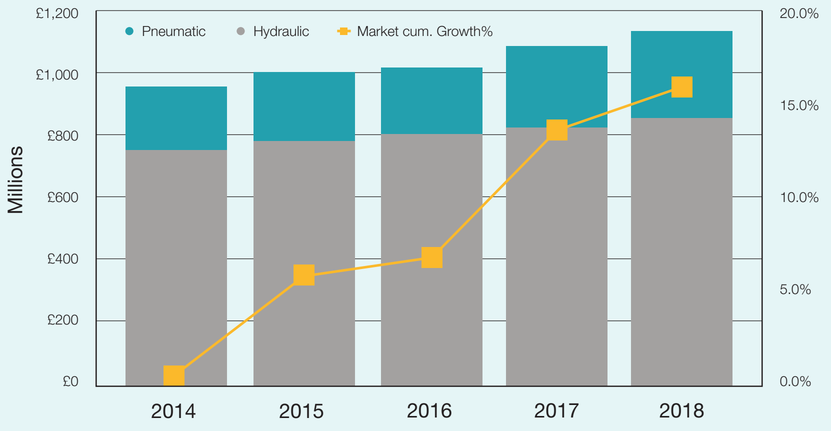
We continue to see this strategy as paramount for all stakeholders and we have started to successfully deliver on this philosophy. Primary is the first step in our strategic development to deliver our objective of expanding our reliable, customer focused, broad-based fluid power group. This business has a strong brand and commanding position in its marketplace. The initial integration process has been extremely smooth and whilst some synergies will be generated within the Group, we continue to retain the way the Primary and Flowtechnology portfolio models currently operate — highly focused, commercially independent operations delivering quality customer service at all times.

The acquisition has already added significant value to the Group's brand portfolio by strengthening our offering in hydraulics. It has also been a great opportunity to extend our in-house knowledge and expertise and not least, the additional strengthening of our leading position in the industry.

Outlook

The British Fluid Power Association ("BFPA") has estimated that underlying demand for hydraulic and pneumatic fluid power products in the UK was £954 million in 2014 and this same forecast, which was released last October, suggests that between 2015 and 2018 the market is set to continue to grow at an annual rate of 4%.

The Group's markets generally have an exposure to the performance of a wide range of industrial segments. It is expected that the recent negative impacts widely seen within the oil and gas industry, as a result of substantial oil price reductions, as well as those markets with significant exports to the Eurozone, will have some detrimental impact on the growth performance of the industry in the early part of 2015. In particular, the Primary operation has some direct exposure to both these markets and action has been taken to alleviate the impact by transferring its focus to alternative sectors. However, the Board also expects that the robust outlook predicted by the BFPA, when coupled with the business strategy being implemented, will in the medium to long term allow the Group to continue to improve results and cash flow within all our operating sectors.



- Flowtech has historically outperformed the market, increasing its market share
- Highly fragmented market - estimated at £954m in 2014 increasing to £1,118m in 2018

Source: BFPA Economic Forecast October 2014

Whilst cost control will be paramount, at the same time the Group will seek to ensure that it is able to exploit any upturn in these markets when this arises and will continue to invest as appropriate in the necessary resources to support its growth strategy. For example, in March 2015 the Flowtechnology UK business launched its new catalogue with a distributor convention for over 100 decision makers in its largest customers and which was for the first time held overseas. Whilst the cost of event was underwritten by the Group, the feedback from customers has been excellent and is expected to be the first in a bi-annual series that reinforces the partnerships between ourselves and our key distributors.

Finally, the key to our Group's success is our people, and we would like to also thank all our colleagues and staff around the globe for their hard work, dedication and commitment, all of which has helped us to deliver a very creditable and solid performance in our first year as a plc; 2014 marked a year of significant change for the businesses and opened up our commercial opportunities immeasurably. As a team, we look forward to continuing to share with everyone, our future success over many years to come.

The Strategic Report as set out on pages 4 to 24 has been approved by the Board.

On behalf of the Board

Sean Fennon
Chief Executive Officer
14 April 2015

"Key to our Company's success is our people, and we would like to also thank all our colleagues and staff around the globe for their hard work, dedication and commitment, all of which has helped us to deliver a very creditable and solid performance in our first year as a plc"

Sean Fennon
Chief Executive Officer

Our Governance
Officers and Professional Advisers

Bryce Brooks
Chief Financial Officer

Appointed: March 2010

Career: Qualified with PwC in 1989.

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

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

Nigel Richens
Non-Executive Director

Appointed: April 2014

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

Current role: Chairman of IPT Group.

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

Sean Fennon
Chief Executive Officer

Appointed: November 2009

Career: 30 years in industry – in design, manufacturing, wholesale, retail and industrial distribution.

Previous role: Managing Director of a large UK industrial distributor, a subsidiary of the Wurth Group.

Board committees: By invitation.

Paul Watson
Group Marketing Director

Appointed: January 2011

Career: Paul has worked in the industrial sector for the past 30 years across marketing and industrial distribution.

Previous role: Managing Director at a UK marketing consultancy.

Board committees: By invitation.

Malcolm Diamond MBE
Non-Executive Chairman

Appointed: May 2014

Career: 35 year career in industry. Strong commercial and marketing experience as well as City investor knowledge and expertise. Experienced Non-Executive having worked across industrial, pharmaceutical and investment sectors.

Current role: Executive Chairman, Trifast plc.

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

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Company Secretary
Bryce Brooks

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Solicitors
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The Registry
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Beckenham
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Bankers
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Investor Relations
TooleyStreet Communications Ltd
Regent Court
Birmingham
West Midlands B3 1UG

Our Governance
Directors' Report (Other Disclosures)

The Directors present their annual report, together with the audited Group and Company financial statements for the year ended 31 December 2014. 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 UK Generally Accepted Accounting Practice (UK GAAP).

A review of the Group's trading and an indication of future developments are contained in the Strategic Report on pages 04 to 24. Details of revenue and operating profits for each operating segment are contained in note 3 to the consolidated financial statements. The principal subsidiaries contributing to the profits and net assets of the Group are listed in note 12 to the consolidated financial statements.

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

Results and dividends

The results for the year ended 31 December 2014 are set out in the consolidated income statement on page 38. The Group has reported an operating profit from its continuing activities of £3.325 million (2013: £4.963 million). After accounting for net finance costs, the consolidated income statement shows a profit from continuing operations before taxation of £30.411 million (2013: loss of £0.234 million). The profit for the year includes a non-recurring item: the gain on settlement of debt of £29.043 million created by a debt for equity swap with the previous Private Equity owners.

The Directors are recommending a final dividend of 3.33p per ordinary share amounting to £1.426 million payable on 24 June 2015 to Shareholders on the Company's register at the close of business on 5 June 2015. The shares will be quoted ex dividend from 4 June 2015.

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 (appointed 8 May 2014)
- Nigel Richens (appointed on incorporation)
- Sean Fennon (appointed on incorporation)
- Bryce Brooks (appointed on incorporation)
- Paul Watson (appointed on incorporation)

Short biographies of each Director are provided on pages 26 and 27.

Those Directors serving at the end of the year, or date of this report, had an interest in the ordinary share capital of the Company, and its subsidiaries, at 31 December 2014 which is disclosed in the Directors' Remuneration Report on page 35.

Details of the Directors' share options are provided in the Directors' Remuneration report on page 35.

Material interest in contracts

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

Share capital

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

The Company's share capital comprises one class of ordinary shares and as at 14 April 2015 there were in issue 42,828,283 fully paid ordinary shares of 50p each. All shares are fully transferable and rank pari passu for voting and dividend rights.

The Company has been notified of the following interest in more than 3% of the Company's issued share capital at 31 March 2015 (being the last practicable date before the production of this report):

	Number of shares	per cent
Miton Group plc	8,809,731	20.57
Hargreave Hale	4,091,657	9.55
BlackRock Investment Management	3,028,983	7.07
Stephen Merrie	2,828,283	6.66
Schroder Investment Management	2,640,000	6.16
River & Mercantile Asset Management	2,565,000	5.99
Close Brothers Asset Management	2,208,443	5.16
Henderson Global Investors	2,148,500	5.02
Premier Asset Managers	1,975,650	4.61
Legal & General Investment Management	1,642,700	3.84
Ruffer LLP	1,622,532	3.79

Financial instruments and risk management

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

Social responsibility

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

Employees

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

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

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

Employee share scheme incentives

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

At 31 December 2014 the total shares in the Company held by the Enterprise Management Incentive Plans were 2,749,720 representing 6.4% of the issued capital. Further details are provided in note 24 to the consolidated financial statements.

Our Governance
Directors' Report (Other Disclosures) continued

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.

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

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

Annual General Meeting
The Annual General Meeting will be held at the Company's head office, Pimbo Road, Skelmersdale, Lancashire, WN8 9RB at on 21 May 2015 at noon.

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

The Group meets it day-to-day working capital requirements through its bank facilities. The year end amounts outstanding on each are discussed within note 19. The Directors have carefully considered the banking facilities and their future covenant compliance in light of the current and future cash flow forecasts and they believe that the Company and the Group are appropriately positioned to ensure the conditions of its funding will continue to be met and therefore enable the Company and the Group to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

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

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

Disclosure of information to auditors
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 Auditors are unaware; and 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 Auditors are aware of that information.

Auditors
Grant Thornton UK LLP were appointed as first Auditors of the Company during the year and a resolution to appoint them will be proposed at the Annual General Meeting.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the consolidated financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Reporting Standards as adopted by the European Union (IFRS). The Company financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP). 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 Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report 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 Auditors are 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 Auditors are aware of that information.

By order of the Board

Bryce Brooks
Chief Financial Officer and Company Secretary
14 April 2015

Our Governance
Corporate Governance Report

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

The Board

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

Biographical information for each of the directors are set out on pages 26 to 27. The Board confirms that, having taken into consideration the results of the performance evaluation undertaken in the year, the Director being proposed for re-election has demonstrated commitment to his responsibilities and continues to perform effectively.

Role of the Board

The Board of Flowtech Fluidpower plc was established in May 2014 following the Company's admission to the Alternative Investment Market. Since formation the Board has met on six occasions. At the Board meeting, the CEO reports on the overall business performance for the month any matters which need to be brought to the attention of the Board. The CFO reports on the financial performance and any other secretarial matters. Minutes of the previous Board meeting are approved.

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

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

The Nomination Committee

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

The Remuneration Committee

The Remuneration Committee meets at least once a year to determine and agree remuneration packages and other employee benefits. Details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 34 to 35.

The AIM Compliance and Corporate Governance Committee

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

The Audit Committee

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

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

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 Auditors' reports thereon;
- reviewing the external Auditors' 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 Auditors and recommending to the Board the re-appointment of Grant Thornton UK LLP as external Auditors;
- considering the review of material business risks;
- reviewing Group Directors' expenses;
- monitoring of reporting and follow up of items reported by employees.

- considering the significant risks and issues in relation to the financial statements and how these were addressed including:
  - impairment reviews of inventory and goodwill
  - accounting policies and disclosures in relation to IPO transactions, business combinations and disposals and segmental analyses
  - going concern
- considering the adequacy of accounting resource following the IPO and the development of appropriate systems and controls;
- reviewing progress on the plans to integrate Primary Fluid Power, enhance business continuity and disaster recovery procedures and the implementation of whistleblowing and anti-bribery and corruption policies; and
- considering policies on non-audit engagements for the Company's Auditors.

Internal controls

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

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

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

Communication with shareholders

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

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

Our Governance
Directors' Remuneration Report

The Remuneration Committee

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

Remuneration policy

The remuneration policy of the Group is:

- To provide a suitable remuneration package to attract, motivate and retain Executive Directors who will run the Group successfully
- To ensure that all long term incentive schemes for the Directors are approved by the Shareholders

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 include the provision of medical insurance premiums and a car. The pension contributions represent the Group's contribution to defined contribution schemes.

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

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

Directors' detailed emoluments

	Salary and fees £000	Benefits £000	Bonus £000	Pension £000	Share based payments £000	Total 2014 £000	Total 2013 £000
Executives							
Sean Fennon	202	1	—	—	25	228	250
Bryce Brooks	112	4	—	27	14	157	153
Paul Watson	134	1	12	—	14	161	134
Non-executives							
Malcolm Diamond MBE	38	—	—	—	—	38	—
Nigel Richens	25	—	—	—	—	25	—
	511	6	12	27	53	609	537

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 2014 No of ordinary shares	As at 31 December 2013 No of ordinary shares
Executives		
Sean Fennon	189,000	—
Bryce Brooks	81,000	—
Non-Executives		
Malcolm Diamond MBE	25,000	—
Nigel Richens	25,000	—

All shares were purchased on admission to AIM at a cost of £1 per share on 21 May 2014.

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 2014		As at 31 December 2013	
Executives	A shares £1 ordinary	B shares £1 ordinary	A shares £1 ordinary	B shares £1 ordinary
Sean Fennon	340	3,100	—	—
Bryce Brooks	180	3,100	—	—
Paul Watson	180	3,100	—	—

All shares were issued on admission to AIM at a cost of £10 per share on 21 May 2014. The shares were issued as part of an employee share-based remuneration scheme called the "Management Incentive Plan". For further details refer to note 24.

Directors' share options

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

	Scheme	Granted	Exercised	Cancelled	As at 31 December 2014
Executives					
Sean Fennon	EMI (Approved)	249,999	—	—	249,999
Sean Fennon	EMI (Unapproved)	222,223	—	—	222,223
Bryce Brooks	EMI (Approved)	249,999	—	—	249,999
Paul Watson	EMI (Approved)	249,999	—	—	249,999

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

On behalf of the Board

Nigel Richens
14 April 2015

Our Financials
Independent Auditors' Report

We have audited the consolidated financial statements of Flowtech Fluidpower plc for the year ended 31 December 2014 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the parent company balance sheet, the parent company reconciliation of movements in shareholders' funds and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 31, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

14 April 2015

Our Financials
Consolidated Income Statement

	Note	2014 £000	2013 £000
Continuing operations			
Revenue	3	**37,791**	32,104
Cost of sales		**(24,615)**	(20,774)
Gross profit		**13,176**	11,330
Distribution expenses		**(2,034)**	(1,704)
Administrative expenses before separately disclosed items:		**(4,996)**	(4,302)
— Acquisition costs	4	**(206)**	—
— Amortisation of acquired intangibles	4	**(130)**	—
— Share based payment costs	4	**(148)**	—
— Restructuring costs	4	**(45)**	(361)
— IPO costs	4	**(2,292)**	—
Total administrative expenses		**(7,817)**	(4,663)
Operating profit	3,4	**3,325**	4,963
Financial income	6	**33**	—
Financial expenses	6	**(1,990)**	(5,197)
Gain on settlement of debt	19	**29,043**	—
Net financing income/(costs)		**27,086**	(5,197)
Profit/(loss) from continuing operations before tax		**30,411**	(234)
Taxation	7	**(1,184)**	(866)
Profit/(loss) from continuing operations		**29,227**	(1,100)
Loss from discontinued operations, net of tax	28	**(496)**	(699)
Profit/(loss) for the year attributable to the owners of the parent		**28,731**	(1,799)

	Note	2014	2013
Earnings/(loss) per share	9		
Basic earnings/(loss) per share			
Continuing operations		**114.42p**	(1,100.00p)
Discontinued operations		**(1.94p)**	(699.00p)
Basic earnings/(loss) per share		**112.48p**	(1,799.00p)
Diluted earnings/(loss) per share			
Continuing operations		**112.86p**	(1,100.00p)
Discontinued operations		**(1.92p)**	(699.00p)
Diluted earnings/(loss) per share		**110.94p**	(1,799.00p)

Consolidated Statement of Comprehensive Income

	2014 £000	2013 £000
Profit/(loss) for the year	**28,731**	(1,799)
Other comprehensive (expense)/income		
– items that will be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	**(141)**	27
Total comprehensive income/(expense) for the year attributable to the owners of the parent	**28,590**	(1,772)

Our Financials
Consolidated Statement of Financial Position

	Note	2014 £000	2013 £000
Assets			
Non-current assets			
Goodwill	10	**44,583**	42,524
Other intangible assets	11	**2,995**	—
Property, plant and equipment	13	**2,887**	1,729
Total non-current assets		**50,465**	44,253
Current assets			
Inventories	15	**11,163**	9,804
Trade and other receivables	16	**9,529**	7,626
Prepayments		**270**	195
Other financial assets	17	**24**	—
Cash and cash equivalents	18	**1,979**	2,265
Total current assets		**22,965**	19,890
Liabilities			
Current liabilities			
Interest-bearing loans and borrowings	19	**2,973**	11,267
Trade and other payables	20	**5,415**	4,555
Deferred consideration	21	**1,603**	—
Tax payable		**881**	492
Provisions	22	**71**	67
Other financial liabilities	23	**27**	32
Total current liabilities		**10,970**	16,413
Net current assets		**11,995**	3,477
Non-current liabilities			
Interest-bearing loans and borrowings	19	**5,716**	60,760
Provisions	22	**162**	104
Deferred tax liabilities	14	**676**	54
Total non-current liabilities		**6,554**	60,918
Net assets/(liabilities)		**55,906**	(13,188)
Equity directly attributable to owners of the parent			
Share capital	26	**21,414**	50
Share premium		**46,664**	—
Share based payment reserve		**148**	—
Merger reserve		**293**	293
Merger relief reserve		**2,086**	—
Currency translation reserve		**(178)**	(37)
Retained losses		**(14,521)**	(13,494)
Total equity		**55,906**	(13,188)

The financial statements on pages 38 to 78 were approved by the Board of Directors on 14 April 2015 and were signed on its behalf by:

Bryce Brooks
Chief Financial Officer

Company number: 09010518

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Share based payment reserve £000	Merger reserve £000	Merger relief reserve £000	Currency translation reserve £000	Retained losses £000	Total equity £000
Balance at 1 January 2013	50	—	—	293	—	(64)	(11,695)	(11,416)
Loss for the year	—	—	—	—	—	—	(1,799)	(1,799)
Other comprehensive income	—	—	—	—	—	27	—	27
Total comprehensive income/(expense) for the year	—	—	—	—	—	27	(1,799)	(1,772)
Total transactions with owners	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Balance at 1 January 2014	**50**	**—**	**—**	**293**	**—**	**(37)**	**(13,494)**	**(13,188)**
Profit for the year	—	—	—	—	—	—	28,731	28,731
Other comprehensive loss	—	—	—	—	—	(141)	—	(141)
Total comprehensive (expense)/ income for the year	**—**	**—**	**—**	**—**	**—**	**(141)**	**28,731**	**28,590**
Transactions with owners								
Issue of share capital	21,364	19,950	—	—	—	—	—	41,314
Share issue expenses	—	(2,329)	—	—	—	—	—	(2,329)
Merger relief arising on acquisition of subsidiary (note 25.1)	—	—	—	—	2,086	—	—	2,086
Gain on settlement of debt capitalised as share premium on issue of ordinary shares	—	29,043	—	—	—	—	(29,043)	—
Share based payment charge	—	—	148	—		—	—	148
Equity dividends paid (note 8)	—	—	—	—	—	—	(715)	(715)
Total transactions with owners	**21,364**	**46,664**	**148**	**—**	**2,086**	**—**	**(29,758)**	**40,504**
Balance at 31 December 2014	**21,414**	**46,664**	**148**	**293**	**2,086**	**(178)**	**(14,521)**	**55,906**

Our Financials
Consolidated Statement of Cash Flows

	Note	2014 £000	2013 £000
Cash flow from operating activities			
Net cash from operating activities	27	**2,275**	3,348
Cash flow from investing activities			
Acquisition of subsidiary, net of cash acquired	25.1	**(2,683)**	—
Disposal of subsidiary, net of overdraft disposed of	25.2	**103**	—
Acquisition of property, plant and equipment	13	**(496)**	(385)
Proceeds from sale of property, plant and equipment		**—**	11
Net cash used in investing activities		**(3,076)**	(374)
Cash flows from financing activities			
Net proceeds from the issue of share capital		**37,571**	—
Proceeds from new loan		**7,000**	10,000
Repayment of long term borrowings		**(37,532)**	(10,149)
Net change in short term borrowings		**(5,409)**	3,692
Repayment of finance lease liabilities		**(16)**	(17)
Interest received		**3**	—
Interest paid		**(341)**	(4,339)
Dividends paid	8	**(715)**	—
Net cash generated from/(used in) financing activities		**561**	(813)
Net change in cash and cash equivalents		**(240)**	2,161
Cash and cash equivalents at start of year		**2,265**	104
Exchange differences on cash and cash equivalents		**(46)**	—
Cash and cash equivalents at end of year	18	**1,979**	2,265

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 and was admitted to the Alternative Investment Market (AIM) on 21 May 2014. The Company is incorporated and domiciled in the United Kingdom. The address of its registered office is Pimbo Road, Skelmersdale, Lancashire, WN8 9RB. The registered number is 09010518.

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

2 Accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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 financial statements of the Company have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

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

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

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

The Group has not previously prepared annual consolidated financial statements in accordance with EU endorsed IFRSs. However, three years of consolidated financial statements prepared under IFRS 1 "First time adoption of International Financial Reporting Standards" are presented in the Group's AIM Admission document dated 9 May 2014. Reconciliations of how the Group's transition from UK GAAP to IFRS affected its reported financial position, financial performance and cash flows are presented in that document.

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

2.2 Basis of consolidation

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

In the absence of an IFRS which specifically deals with similar transactions, management judge it appropriate to refer to other similar accounting frameworks for guidance in developing an accounting policy that is relevant and reliable. The Directors consider the share for share exchange transaction to be a group reconstruction rather than a business combination in the context of IFRS 3 (revised), 'Business Combinations', which has been accounted for using merger accounting principles. Therefore, although the share for share exchange did not occur until 7 May 2014, the consolidated financial statements of Flowtech Fluidpower plc are presented as if the Flowtech Group of companies had always been part of the same group. Accordingly, the results of the Group for the entire year ended 31 December 2014 are shown in the consolidated statement of comprehensive income and the comparative figures for the year ended 31 December 2013 are also prepared on this basis.

Our Financials
Notes to the Consolidated Financial Information continued

2 Accounting policies continued
Accordingly, the following accounting treatment has been applied in respect of the share for share exchange:

- The assets and liabilities of Flowtech Holdings Limited and its subsidiaries are 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 2014 reflect the retained losses and other equity balances of Flowtech Holdings Limited and its subsidiaries recorded before the share for share exchange. However, the equity structure (share capital and share premium balances) shown in the consolidated financial statements reflects the equity structure of the legal parent (Flowtech Fluidpower plc), including the equity instruments issued under the share for share exchange. The resulting difference between the parent's capital and the acquired Group's capital has been recognised as a component of equity being the 'merger reserve'.
- Comparative figures have been restated on the same basis as above.

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 2014. 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.

2.3 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.

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

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

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

2 Accounting policies continued

Cash and cash equivalents

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

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.

2.5 Property, plant and equipment

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

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

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

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

Property	50 years
Plant, machinery and equipment	5 to 15 years
Motor vehicles	3 to 4 years

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

2.6 Leased assets

Finance leases

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

See note 2.5 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

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.

Our Financials
Notes to the Consolidated Financial Information continued

2 Accounting policies continued

2.7 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.

2.8 Intangible assets

Goodwill

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

Acquired intangibles

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

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

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

2.9 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 Accounting policies continued

2.10 Impairment

Financial assets (including receivables)

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

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

Non-financial assets

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

The recoverable amount of an asset or operating segment is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together by operating segments as defined in note 2.15. The goodwill acquired in a business combination, for the purpose of impairment testing, is also allocated to the relevant operating segment. Goodwill acquired in a business combination is allocated to operating segments that are expected to benefit from the synergies of the combination and represent the lowest level within the Group at which management monitor the related goodwill.

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

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

2.11 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.

2.12 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. Fair value is measured by use of the Black–Scholes model.

2.13 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.

Our Financials
Notes to the Consolidated Financial Information continued

2 Accounting policies continued

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

2.15 Operating segments
The Group comprises of the following three operating segments which are defined by geographic area and trading activity:

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

Flowtechnology Benelux — distribution of engineering components, to distributors and end users in the Netherlands and Belgium.

Primary — based in the UK, distribution and assembly of engineering components and hydraulic systems, to distributors and end users in the international market.

On 4 April 2014, the Group completed the sale of its subsidiary Industrial Products and Supplies Limited which was considered to be a separate segment. This segment was not a discontinued operation or classified as held for sale at 31 December 2013 and the comparative consolidated income statement has been restated to show the discontinued operation separately from continuing operations. Refer to note 28 for further details and segmental analysis in relation to this subsidiary.

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.

2.16 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.

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

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

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

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

2 Accounting policies continued

2.18 Adopted IFRS not yet applied

New standards and interpretations currently in issue (as at 2 February 2015) but not effective, for accounting periods commencing on 1 January 2014 are:

- IFRS 9 Financial Instruments (IASB effective date 1 January 2018)[1]
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2017)[1]
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) (IASB effective date 1 July 2014)[2]
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (IASB effective date 1 January 2016)[1]
- Annual Improvements to IFRSs 2010-2012 Cycle (IASB effective date generally 1 July 2014)[2]
- Annual Improvements to IFRSs 2011-2013 Cycle (IASB effective date 1 July 2014)[3]
- Annual Improvements to IFRSs 2012-2014 Cycle (effective 1 January 2016)[1]
- Amendments to IAS 27: Equity Method in Separate Financial Statements (effective 1 January 2016)[1]

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

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

2.19 Equity, reserves and dividend payments

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares
- "Share premium" represents the excess over nominal value of consideration received for equity share net of expenses of the share issue, less any costs associated with the issuing of shares
- "Currency translation reserve" comprises all foreign exchange differences arising since 1 January 2011, arising from the translation of foreign operations
- "Retained losses" represent retained losses of the Group
- "Merger reserve" represents the difference between the parent's capital and the acquired Group's capital retained losses and other equity balances before and after the share for share exchange which created the Group
- "Merger relief reserve" represents merger relief arising on the acquisition of subsidiaries for which some or all of the consideration was settled in shares
- "Share-based payment reserve" represents the provision made to date for share-based payments as detailed in note 2.12

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.

2.20 Discontinued operations

The results of operations disposed of in the year ended 31 December 2014 were consolidated up until the date on which control passed and are included within "profit or loss from discontinued operations" as part of a single line item.

Any profit or loss arising from the sale of discontinued operations is presented in the income statement as part of a single line item, "profit or loss from discontinued operations".

Our Financials
Notes to the Consolidated Financial Information continued

2 Accounting policies continued

2.21 Admission and share issue costs

Transaction costs of equity transactions relating to the issue of the Company's shares are shown as a deduction from equity. Listing and Admission costs are charged to profit or loss as an administration expense. The Directors have reviewed the expenditure related to the Admission and, where appropriate, made judgments as to how much of the expenditure related to the Admission process and how much related to the issue of new equity and should therefore be charged against the share premium account.

2.22 Going concern

The Group meets its day-to-day working capital requirements through its bank facilities. The Directors have carefully considered the banking facilities and their future covenant compliance in light of the current and future cash flow forecasts and they believe that the Group is appropriately positioned to ensure the conditions of its funding will continue to be met and therefore enable the Group to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. Notes 19 and 32 to the financial information include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

2.23 Foreign currency translation

Functional and presentation currency

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

Foreign currency transactions and balances

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

Foreign operations

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

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

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

2 Accounting policies continued

2.24 Significant judgements, key assumptions and estimates

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

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

Impairment of goodwill

The carrying value of goodwill must be assessed for impairment annually. This requires an estimation of the value in use of the operating segments to which goodwill is allocated. Value in use is dependent on estimations of future cash flows from the operating segment and the use of an appropriate discount rate to discount those cash flows to their present value. The carrying value of goodwill as at 31 December 2014 is £44,583,000 (2013: £42,524,000). Refer to note 10 for further detail. There was no impairment charge during the year.

Acquired intangibles

Intangible assets (customer relationships) have been acquired as part of the net assets of certain subsidiaries. These intangible assets were capitalised at their fair value at the date of acquisition. Determining the value of acquired intangibles required the calculation of estimated future cash flows expected to arise from the intangible assets at a suitable discount rate in order to calculate their present value. In addition, an estimate of the useful life of the intangible asset has to be made, over which period the cash flows were expected to be generated. The carrying amount of the acquired intangibles at the reporting date was £2,995,000 (2013: nil). Refer to note 11 for further detail.

Provision for impairment of inventories

The carrying value of inventories as at 31 December 2014 is £11,163,000 (2013: £9,804,000) and included a provision against the inventories of £1,045,000 (2013: £1,132,000). During the year £17,000 (2013: £nil) of the provision was utilised following the scrapping and sale of obsolete inventory. A further provision of £15,000 (2013: £174,000) was made. The provision for impairment of inventories is based on sales trends for all inventory and management's estimation of recoverability. There is a risk that the provision will not match the inventories that ultimately prove to be impaired.

Share-based payments

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

Admission and share issue costs

Transaction costs of equity transactions relating to the issue of the Company's shares are shown as a deduction from equity. Listing and Admission costs are charged to profit or loss as an administration expense.

The Directors have reviewed the expenditure related to the Admission and, where appropriate, made judgements as to how much of the expenditure related to the Admission process and how much related to the issue of new equity and should therefore be charged against the share premium account.

Costs wholly attributable to listing have been expensed, with those wholly related to the raising of equity finance taken to the share premium account. Fees that related to both elements have been apportioned in accordance with the level of new equity raised compared to previous equity. This calculation has provided a ratio of 58% share premium and 42% income statement.

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.

Our Financials
Notes to the Consolidated Financial Information continued

3 Segment reporting

Management currently identifies the Group's three operating segments based on geographic area and trading activity (see note 2.15). These operating segments are monitored by the Group's Chief Operating Decision Maker and strategic decisions are made on the basis of adjusted segment operating results.

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

Segment information for the reporting periods is as follows:

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

OUR FINANCIALS

3 Segment reporting continued

	For the year ended 31 December 2013					
	Flowtech-nology UK £000	Flowtech-nology Benelux £000	Primary £000	Inter-segmental transactions £000	Central Costs £000	Total Continuing Operations £000
Income statement – continuing operations:						
Revenue from external customers	28,578	3,526	—	—	—	32,104
Inter segment revenue	572	182	—	(754)	—	—
Total revenue	29,150	3,708	—	(754)	—	32,104
Underlying operating result	6,274	473	—	—	(1,423)	5,324
Net financing costs	(214)	(4)	—	—	(4,979)	(5,197)
Underlying segment result	6,060	469	—	—	(6,402)	127
Separately disclosed items (see note 4)	(96)	—	—	—	(265)	(361)
Profit/(loss) before tax	5,964	469	—	—	(6,667)	(234)
Specific disclosure items						
Depreciation	380	48	—	—	—	428
Reconciliation of underlying operating result to operating profit:						
Underlying operating result	6,274	473	—	—	(1,423)	5,324
Separately disclosed items (see note 4)	(96)	—	—	—	(265)	(361)
Operating profit/(loss)	6,178	473	—	—	(1,688)	4,963

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 2014		31 December 2013	
	Revenue £000	**Non-current assets £000**	Revenue £000	Non-current assets £000
United Kingdom	**30,636**	**49,537**	26,110	43,306
Europe	**6,958**	**928**	5,789	947
Rest of world	**197**	**—**	205	—
Total	**37,791**	**50,465**	32,104	44,253

All revenue is derived from the sale of goods. No customers of the Group account for 10% or more of the Group's revenue for either of the years ended 31 December 2013 or 2014. Non-current assets are allocated based on their physical location. The above table does not include discontinued operations for which revenue and assets can be attributed to the UK.

Central costs relate to finance expenses associated with Group loans and separately disclosed items, as detailed in notes 4 and 6 and the gain on settlement of debt as detailed in note 19.

Our Financials
Notes to the Consolidated Financial Information continued

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

	2014 £000	2013 £000
Impairment loss on other trade receivables and prepayments	**84**	87
Loss on foreign currency transactions	**8**	36
Impairment loss on inventory	**15**	174
Depreciation of owned property, plant and equipment	**487**	422
Depreciation of property, plant and equipment held under finance leases	**16**	6
Amortisation of intangible assets	**130**	—
Loss on sale of plant and equipment	**—**	10
Operating lease rentals:		
— Land and buildings	**515**	385
— Other	**148**	109
Repairs and maintenance expenditure on plant and equipment	**111**	55

Services provided by the Group's Auditors

	2014 £000	2013 £000
Audit of the statutory consolidated and Company financial statements of Flowtech Fluidpower plc	**20**	—
Disclosure below based on amounts receivable in respect of other services to the Company and its subsidiaries		
Amounts receivable by the Company's Auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**45**	40
Audit-related assurance services	**34**	—
Services relating to corporate finance transactions (IPO)	**180**	104

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

4 Operating profit continued

Separately disclosed items

	2014 £000	2013 £000
Separately disclosed items within administration expenses:		
– Acquisition costs	206	—
– Amortisation of acquired intangibles (note 11)	130	—
– Share-based payment costs (note 24)	148	—
– Restructuring	45	361
– IPO costs	2,292	—
Total separately disclosed items	2,821	361

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

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	
	2014	2013
Assembly and distribution	104	75
Administration	92	97
	196	172

The aggregate payroll costs of these persons were as follows:

	2014 £000	2013 £000
Wages and salaries	4,725	4,463
Social security costs	498	474
Contributions to defined contribution pension plans	124	59
Share-based payments (note 24)	148	—
	5,495	4,996

Key management compensation

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

	2014 £000	2013 £000
Remuneration	523	569
Social security costs	63	71
Contributions to defined contribution pension plans	27	—
Benefits in kind	6	28
Share-based payments	53	—
	672	668

Details of Directors’ emoluments are included in the Directors’ Remuneration report on pages 34 to 35.

Our Financials
Notes to the Consolidated Financial Information continued

6 Financial income and expense

Finance income for the year consists of the following:

	2014 £000	2013 £000
Finance income arising from:		
Interest income from cash and cash equivalents	**2**	—
Fair value gains on forward exchange contracts held for trading	**31**	—
Total finance income	**33**	—

Finance expenses for the year consist of the following:

	2014 £000	2013 £000
Finance expense arising from:		
Interest on invoice discounting and stock loan facilities	**126**	213
Overdraft interest	**1**	6
Finance lease interest	**3**	2
Bank loans – existing loans	**87**	—
Other interest	**14**	8
Shareholder loans	**1,648**	4,253
Bank loans	**111**	715
Total finance expense	**1,990**	5,197

7 Taxation

Recognised in the income statement

Continuing operations:	2014 £000	2013 £000
Current tax expense		
Current year charge	**1,058**	597
Overseas tax	**21**	45
Adjustment in respect of prior periods	**67**	248
Current tax expense	**1,146**	890
Deferred tax		
Origination and reversal of temporary differences	**43**	(12)
Adjustment in respect of prior periods	**(7)**	2
Change in tax rate	**2**	(14)
Deferred tax charge/(credit)	**38**	(24)
Total tax expense – continuing operations	**1,184**	866

Discontinued operations:	2014 £000	2013 £000
Current tax expense	**—**	—
Deferred tax		
Origination and reversal of temporary differences	**8**	9
Change in tax rate	**—**	1
Deferred tax expense	**8**	10
Total tax expense – discontinued operations	**8**	10
Total tax expense in the income statement	**1,192**	876

No income tax was recognised in other comprehensive income or directly in equity for either of the years ended 31 December 2013 or 2014.

7 Taxation continued

Reconciliation of effective tax rate

	2014 £000	2013 £000
Profit/(loss) for the year	**28,731**	(1,799)
Total tax expense	**1,192**	876
Profit/(loss) excluding taxation	**29,923**	(923)
Tax using the UK corporation tax rate of 21.50% (2013: 23.25%)	**6,433**	(215)
Deferred tax movements not recognised	**12**	—
Effect of tax rates in foreign jurisdictions	**—**	6
Other temporary differences	**36**	—
Impact of change in tax rate on deferred tax balances	**2**	(14)
Gains not chargeable	**(6,244)**	—
Amounts not deductible	**886**	851
Adjustment in respect of prior periods	**67**	248
Total tax expense	**1,192**	876

Change in corporation tax rate

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset/liabilities at 31 December 2014 have been calculated based on the rates of 20% substantively enacted at the reporting date.

8 Dividends

	2014 £000	2013 £000
Interim dividend of 1.67p per share	**715**	—

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2014 of 3.33p per share which will absorb an estimated £1.426 million of Shareholders' funds. This has not been accrued as it had not been approved at the year end. Subject to approval, it will be paid on 24 June 2015 to Shareholders who are on the register of members on 5 June 2015.

Our Financials
Notes to the Consolidated Financial Information continued

9 Earnings/(loss) per share

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

For diluted earnings/(loss) per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The dilutive shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. For the year ended 31 December 2013 these are considered to be anti-dilutive due to of the loss arising and therefore basic and diluted EPS are the same.

Given the changes in capital structure prior to the IPO, the weighted average number of shares for 2013 is based on the shares in issue immediately before the IPO.

	Year ended 31 December 2014			Year ended 31 December 2013		
	Earnings £000	**Weighted average number of shares 000s**	**Earnings per share Pence**	Earnings £000	Weighted average number of shares 000s	Earnings per share Pence
Basic earnings/(loss) per share						
Continuing operations	**29,227**	**25,542**	**114.42**	(1,100)	100	(1,100.00)
Discontinued operations	**(496)**	**25,542**	**(1.94)**	(699)	100	(699.00)
Basic earnings/(loss) per share	**28,731**	**25,542**	**112.48**	(1,799)	100	(1,799.00)
Diluted earnings/(loss) per share						
Continuing operations	**29,227**	**25,897**	**112.86**	(1,100)	100	(1,100.00)
Discontinued operations	**(496)**	**25,897**	**(1.92)**	(699)	100	(699.00)
Diluted earnings/(loss) per share	**28,731**	**25,897**	**110.94**	(1,799)	100	(1,799.00)

	2014 000	2013 £000
Weighted average number of ordinary shares for basic and diluted earnings per share	**25,542**	100
Impact of share options	**355**	—
Weighted average number of ordinary shares for diluted earnings per share	**25,897**	100

10 Goodwill

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

	2014 £000	2013 £000
Gross carrying value		
Balance at 1 January	**42,684**	42,684
Acquired through business combinations (note 25.1)	**2,059**	—
Amounts eliminated on disposal	**(160)**	—
Balance at 31 December	**44,583**	42,684
Accumulated impairment		
Balance at 1 January	**160**	—
Impairment charge	**–**	160
Amounts eliminated on disposal	**(160)**	–
Balance at 31 December	**—**	160
Carrying amount at 31 December	**44,583**	42,524

10 Goodwill continued

The goodwill acquired during the year relates to the acquisition of Primary Fluid Holdings Limited and its subsidiary, Primary Fluid Power Limited; see note 25.1. The acquisitions have been recognised as a separate operating segment.

The amounts eliminated on disposal relate to the sale of the subsidiary Industrial Product & Supplies Limited ("IPS"); see note 25.2.

Impairment testing

For the purpose of annual impairment testing, goodwill is allocated to the operating segments as detailed in note 2.15 as they are expected to benefit from the synergies of the business combinations on which the goodwill arises, as follows:

	2014 £000	2013 £000
Flowtechnology UK	**41,676**	41,676
Flowtechnology Benelux	**848**	848
Primary	**2,059**	—
Total at 31 December	**44,583**	42,524

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

Growth rates

The value in use is calculated from cash flow projections for the Group based on the Group's latest financial forecasts which are for a period of two years, which are extrapolated for a further three years and are completed with a ten year perpetuity. The annual growth rate used is 2.7%. The Group's latest financial forecasts, which cover a two year period, are reviewed by the Board.

Discount rates

The pre-tax discount rate used to calculate value is 10% (2013: 14%).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 value in use calculation reflect the average growth rate experienced by the Group for the industry.

In respect of the goodwill attributed to the Flowtechnology UK segment, the headroom compared to the carrying value exceeds £10 million. Increasing the discount rate to 15% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the goodwill attributed to the Flowtechnology UK segment.

In respect of the goodwill attributed to the Flowtechnology Benelux segment, the headroom compared to the carrying value exceeds £600,000. Increasing the discount rate to 23% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the goodwill attributed to the Flowtechnology Benelux segment.

In respect of the goodwill attributed to the Primary segment, the headroom compared to the carrying value exceeds £8 million. Increasing the discount rate to 64% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the goodwill attributed to the Primary segment.

Our Financials
Notes to the Consolidated Financial Information continued

11 Other intangible assets

	Customer relationships 2014 £000	2013 £000
Gross carrying value		
Balance at 1 January	**–**	–
Acquired through business combinations – customer relationships (note 25.1)	**3,125**	–
Balance at 31 December	**3,125**	
Amortisation and impairment		–
Balance at 1 January	**–**	–
Amortisation	**130**	–
Balance at 31 December	**130**	–
Carrying amount at 31 December	**2,995**	–

Additions in the year relate to customer relationships acquired with the business of Primary Fluid Holdings Limited. The estimated useful life has been determined as ten years based on the expected future cash flows that they would generate in arriving at their fair value.

The amortisation of customer relationships is charged to administration costs in the Consolidated Income Statement and is referred to as the amortisation of acquired intangibles.

12 Subsidiary undertakings

	Country of Incorporation	Principal activity	Ownership 2014
Flowtech Mid-Co Limited	UK	Holding company	**100%**
Flowtech IPL Limited	UK	Holding company	**100%**
Flowtech Limited	UK	Distributors of engineering components	**100%**
Flowtechnology Benelux B.V.	Netherlands	Distributors of engineering components	**100%**
Vitassem Limited	UK	Non trading	**100%**
Flowtechnology CZ Limited	UK	Assembly of engineering components	**100%**
Flowtech Europe Limited	UK	Holding company	**100%**
Flowtechnology Asia Limited	UK	Holding company	**100%**
IPL Fluid Power Limited	UK	Dormant	**100%**
Flowtechnology HK Limited	China	Holding company	**100%**
Flowtech Holdings Limited	UK	Holding company	**100%**
Flowtech MIP Limited	UK	Holding company	**100%**
Primary Fluid Holdings Limited	UK	Holding company	**100%**
Primary Fluid Power Limited	UK	Assembly and distribution of engineering components	**100%**

For all the subsidiaries above the class of shares held are ordinary shares and all subsidiaries, except Flowtech MIP Limited, are indirect subsidiaries of Flowtech Fluidpower plc. On 7 May 2014 Flowtech Fluidpower plc acquired the entire issued share capital of Flowtech Holdings Limited; ownership has been stated as if the Flowtech Group of companies had always been part of the same group.

On 4 August 2014, the Group acquired 100% of the ordinary shares in Primary Fluid Holdings Limited.

13 Property, plant and equipment

	Land & property £000	Plant, machinery & equipment £000	Motor vehicles £000	Total £000
Cost				
Balance at 1 January 2013	—	5,282	45	5,327
Additions	—	385	—	385
Disposals	—	(25)	(45)	(70)
Effect of movements in foreign exchange	—	14	—	14
Balance at 31 December 2013 and 1 January 2014	—	5,656	—	5,656
Additions	5	491	—	496
Disposals	—	(75)	—	(75)
Acquisitions through business combinations (note 25.1)	1,070	46	103	1,219
Effect of movements in foreign exchange	—	(50)	—	(50)
Balance at 31 December 2014	1,075	6,068	103	7,246
Depreciation and amortisation				
Balance at 1 January 2013	—	3,479	38	3,517
Depreciation charge for the year	—	445	3	448
Disposals	—	(8)	(41)	(49)
Effect of movements in foreign exchange	—	11	—	11
Balance at 31 December 2013 and 1 January 2014	—	3,927	—	3,927
Depreciation charge for the year	8	476	19	503
Disposals	—	(27)	—	(27)
Effect of movements in foreign exchange	—	(44)	—	(44)
Balance at 31 December 2014	8	4,332	19	4,359
Net book value				
At 31 December 2014	**1,067**	**1,736**	**84**	**2,887**
At 1 January 2014	—	1,729	—	1,729
At 1 January 2013	—	1803	7	1,810

At year end the net book value of leased plant, machinery and equipment was £47,000 (2013:£50,000). Included in land and property is land at a cost of £145,000 which is not depreciated (2013: £145,000).

Our Financials
Notes to the Consolidated Financial Information continued

14 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Intangible assets	**—**	—	**(598)**	—
Property, plant and equipment	**—**	—	**(133)**	(109)
Financial assets	**1**	11	**—**	—
Interest-bearing loans and borrowings	**6**	38	**—**	—
Provisions	**35**	6	**—**	—
Employee share-based payments	**13**	—	**—**	—
Tax assets/(liabilities)	**55**	55	**(731)**	(109)
Net deferred tax liability			**(676)**	(54)

A deferred tax asset of £96,000 (2013: £147,000) in respect of unused tax losses of £480,000 (2013:£735,000) has not been recognised due to uncertainty surrounding the availability of future profits, for which these losses can be utilised. There is no time limit in respect of the use of these losses.

Movement in deferred tax during the year ended 31 December 2014

	1 January 2014 £000	**Recognised in profit or loss £000**	**Acquired during the year £000**	**31 December 2014 £000**
Intangible assets (note 25.1)	—	27	(625)	**(598)**
Property, plant and equipment	(109)	9	(33)	**(133)**
Financial assets	11	(10)	—	**1**
Interest-bearing loans and borrowings	38	(32)	—	**6**
Provisions	6	39	(10)	**35**
Employee share-based payments	—	13	—	**13**
	(54)	46	(668)	**(676)**

Movement in deferred tax during the year ended 31 December 2013

	1 January 2013 £000	**Recognised in profit or loss £000**	**Acquired during the year £000**	**31 December 2013 £000**
Property, plant and equipment	(90)	(19)	–	**(109)**
Financial assets	16	(5)	–	**11**
Interest-bearing loans and borrowings	–	38	–	**38**
Provisions	6	–	–	**6**
	(68)	14	–	**(54)**

15 Inventories

	2014 £000	2013 £000
Finished goods and goods for resale	**11,163**	9,804

Changes in finished goods recognised as cost of sales in the year amounted to £21,831,000 (2013: £19,623,000). The write down or reversal of inventories to net realisable value amounted to a write down of £15,000 (2013: write down of £174,000). The write downs and reversals are included in cost of sales. The provision made against inventories at the year end was £1,045,000 (2013: £1,132,000).

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

	2014 £000	2013 £000
Trade receivables	**9,311**	7,450
Other receivables	**218**	176
Trade receivables and other receivables	**9,529**	7,626

17 Other financial assets

	2014 £000	2013 £000
Current		
Financial assets – forward exchange contracts	**24**	—

18 Cash and cash equivalents

	2014 £000	2013 £000
Cash and cash equivalents:		
Sterling	**1,125**	1,519
Euro	**845**	744
Dollar	**9**	2
Total cash and cash equivalents	**1,979**	2,265

19 Other interest-bearing loans and borrowings

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

	2014 £000	2013 £000
Non-current liabilities		
Secured bank loans	**5,714**	5,625
Finance lease liabilities	**2**	12
Shareholder loan	**—**	55,123
Total non-current liabilities	**5,716**	60,760
Current liabilities		
Secured bank loans	**857**	3,750
Stock loan facility	**—**	2,775
Invoice discounting facility	**2,096**	4,730
Finance lease liabilities	**20**	12
Total current liabilities	**2,973**	11,267
Total	**8,689**	72,027

Our Financials
Notes to the Consolidated Financial Information continued

19 Other interest bearing loans and borrowings continued
Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Carrying value 2014 £000	Carrying value 2013 £000
Secured bank loan	GBP	Libor + 1.5%	2018	**6,571**	—
Secured bank loan	GBP	Libor + 3%	2016	**—**	9,375
Invoice discounting facility	GBP	Libor + 3%	n/a	**2,096**	4,730
Finance lease liabilities	GBP	4.8%	2015	**22**	24
Stock loan	GBP	Libor + 4%	n/a	**—**	2,775
Shareholder loan	GBP	Libor + 4.5% with de minimus level of 8%	2015	**—**	55,123
				8,689	72,027

During the year, the Group repaid shareholder loans of £27,826,000. In addition £29,043,000 of debt was exchanged for one 50p ordinary share of Flowtech Fluidpower plc. Management have recognised a gain on settlement of the debt of £29,043,000 in profit or loss as the 50p ordinary share had minimal value. The share premium arising of £29,043,000 has been recognised by way of transfer from consolidated retained profits to share premium in the consolidated statement of changes in equity.

During the year, the Group repaid its banking facilities with its existing provider. The facilities were replaced with a bank loan of £7,000,000 which is repayable in instalments over the period to 8 May 2018. The stock loan facility was repaid during the year. The bank loans and invoice discounting facility are secured by legal charges over certain of the Group's assets which include trade receivables.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2014 £000	Interest 2014 £000	Principal 2014 £000	Minimum lease payments 2013 £000	Interest 2013 £000	Principal 2013 £000
Less than one year	**24**	**4**	**20**	14	2	12
Between one and five years	**2**	**—**	**2**	15	3	12
More than five years	**—**	**—**	**—**	—	—	—
	26	**4**	**22**	29	5	24

20 Trade and other payables

	2014 £000	2013 £000
Current		
Trade payables	**3,657**	3,013
Accrued expenses	**1,076**	893
Social security and other taxes	**682**	649
	5,415	4,555

21 Deferred consideration

	2014 £000	2013 £000
Payable in less than one year	**1,603**	—

The deferred consideration is payable to the former owner of Primary Fluid Holdings Limited on the first anniversary of the acquisition by the Group being 4 August 2014 as detailed in note 25.1.

22 Provisions

	Dilapidation provision £000	Other £000	Total £000
Balance at 1 January 2014	104	67	171
Provisions made during the year	—	247	247
Amount utilised	—	(185)	(185)
Balance at 31 December 2014	**104**	**129**	**233**
Analysis:			
Non-current	104	58	162
Current	—	71	71
Total provision	**104**	**129**	**233**

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

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

23 Other financial liabilities

	2014 £000	2013 £000
Current		
Financial liabilities – foreign exchange contracts	**27**	32

Our Financials
Notes to the Consolidated Financial Information continued

24 Employee benefits
24.1 Pension plans
Defined contribution plans
The Group operates a number of defined contribution pension plans. The total expense relating to these plans in each year was £124,000 (2013: £59,000).

24.2 Share-based employee remuneration
As at 31 December 2014, the Group maintained three share-based payment schemes for employee remuneration, the Management Incentive Plan and the Enterprise Management Incentive Plan, which has two sub plans, Approved and Unapproved.

The Management Incentive Plan is part of the remuneration package of the Group's senior management. Shares held under this plan may be sold if certain conditions, as defined in the Articles of Association of Flowtech MIP Limited, are met. It is based on the growth of Flowtech Fluidpower plc's share value within a specified holding period. In addition, participants in this scheme have to be employed 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. Further details of the Management Incentive Plan are disclosed on page 35 of the Directors' Remuneration Report.

The Enterprise Management Incentive Plan 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	2014 Number 000s	2013 Number 000s
21 May 2014	£1.00	11 April 2017 to 20 May 2024	**2,095**	—
21 May 2014	£1.00	11 April 2017 to 20 May 2024	**517**	—
8 August 2014	£1.26	11 April 2017 to 7 August 2024	**138**	—
			2,750	—

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

	Enterprise Management Incentive Plan				
	Approved scheme		Unapproved scheme		
	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share	Total number of shares
Outstanding at 1 January 2014	—	—	—	—	—
Granted	2,308	1.02	522	1.00	2,830
Forfeited	(75)	1.00	(5)	1.00	(80)
Exercised	—	—	—	—	—
Outstanding at 31 December 2014	**2,233**	**1.02**	**517**	**1.00**	**2,750**
Exercisable at 31 December 2013	—	—	—	—	—
Exercisable at 31 December 2014	—	—	—	—	—

24 Employee benefits continued

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

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

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

In total, £148,000 (2013: £nil) of employee remuneration expenses, all of which related to equity-settled share-based payment transactions, has been included in the consolidated income statement.

25 Acquisitions and disposals

25.1 Acquisition of Primary Fluid Holdings Limited

On 4 August 2014, the Group acquired 100% of the share capital of Primary Fluid Holdings Limited ("PFP"), a UK-based business, thereby obtaining control. The acquisition was made to enhance the Group's position in the hydraulic market.

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

	Book value £000	Fair value adjustment £000	Intangible asset recognised on acquisition £000	Provisional fair value £000
Property, plant and equipment	1,308	(89)	—	1,219
Intangible assets	—	—	3,125	3,125
Inventories	1,732	(209)	—	1,523
Trade and other receivables	2,686	—	—	2,686
Cash and cash equivalents	2,380	—	—	2,380
Finance leases	(14)	—	—	(14)
Trade and other payables	(1,779)	—	—	(1,779)
Current tax balances	(453)	—	—	(453)
Deferred tax liability	—	45	(625)	(580)
Total net assets	**5,860**	**(253)**	**2,500**	**8,107**

Our Financials
Notes to the Consolidated Financial Information continued

25 Acquisitions and disposals continued

	£000
Fair value of consideration paid	
Amount settled in cash	5,063
Amount settled in shares in Flowtech Fluidpower plc	3,500
Fair value of deferred consideration	1,603
Total consideration	**10,166**
Less net assets acquired	(8,107)
Goodwill on acquisition (note 10)	**2,059**

Consideration transferred
Primary Fluid Holdings Limited was acquired on 4 August 2014 for a total consideration of £10,166,000 comprising £5,063,000 in cash, £1,603,000 deferred cash consideration and £3,500,000 represented by the issue of new Flowtech Fluidpower plc ordinary shares at a value of 123.7p each. The premium arising of £2,086,000 has been credited to the merger relief reserve.The additional consideration will be paid on 4 August 2015. The fair value of £1,603,000 has been calculated using a discount rate of 1.05% being the 12 month maturity rate of LIBOR during the month of acquisition.

Acquisition costs and stamp duty amounting to £193,000 have been recognised as an expense in the consolidated income statement as part of separately disclosed administration costs.

Goodwill
Goodwill of £2,059,000 is primarily related to expected future profitability, the substantial skill and expertise of its workforce and expected cost synergies. Goodwill has been allocated to the Primary operating segment and is not expected to be deductible for tax purposes.

Intangible asset
An intangible asset of £3,125,000 has been identified related to customer relationships. The estimated useful life has been determined as ten years based on the expected future cash flows that they would generate in arriving at their fair value. The customer relationships considered in the valuation comprise the top 6% of customers by turnover who account for 80% of turnover. Sales growth over the ten year period has been assumed to be 1.5% with an attrition rate of 3% for customers. Growth and attrition rates are based on a review of 14 years of sales and customer records. Amortisation of customer relationships is not expected to be deductible for tax purposes.

Fair value adjustments
The value of the property has been decreased by £89,000 based on market valuations carried out during the acquisition process.

The value of inventories has been decreased by £209,000 to reflect the alignment of the PFP stock provisioning policy with that of the Group.

The value of deferred tax liabilities has been decreased by £45,000 reflect the alignment of the PFP taxation policy with that of the Group. Previously no deferred tax was recognised.

Primary Fluid Holdings Limited's contribution to the Group results
Primary Fluid Holdings Limited generated a profit after tax of £265,000 for the five months from 4 August to the reporting date. If Primary Fluid Holdings Limited had been acquired on the 1 January 2014, revenue for the Group would have been £44,330,000 and profit after tax for the year would have increased by £446,000.

Summary aggregated financial information on Primary Fluid Holdings Limited for the period from 1 January 2014 to 31 July 2014, when it became a subsidiary:

	2014 £000
Revenues	**6,539**
Profit	**446**

OUR FINANCIALS

25 Acquisitions and disposals continued

25.2 Disposal of Industrial Products & Supplies Limited

The sale of the subsidiary Industrial Products and Supplies Limited (IPS) was completed on 4 April 2014 for £1. This segment was not a discontinued operation or classified as held for sale at 31 December 2013.

At the date of disposal, the carrying amounts of IPS's net assets were as follows:

	£000
Net assets disposed of	
Property, plant and equipment	**48**
Deferred tax assets	**8**
Inventories	**58**
Trade and other receivables	**243**
Prepayments	**15**
Overdraft and invoice discounting facility	**(103)**
Trade and other payables	**(121)**
Net assets	**148**
Consideration received	**—**
Loss on disposal	**(148)**

The loss on disposal is included in the loss for the year from discontinued operations in the consolidated income statement (see note 28).

26 Equity

26.1 Share capital

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 2014	42,828,283	21,414
Shares authorised for share-based payments	6,666,667	3,333
Total shares authorised at 31 December 2014	**49,494,950**	**24,747**

	Number	£000
Allotted and fully paid ordinary shares of 50p each		
At January 2014	—	—
Subscriber share issue	4	—
Shares issued pursuant to share for share exchange to acquire Flowtech group of companies	99,996	50
Share issued in respect of debt for equity swap (note 19)	1	—
Shares issued on admission	39,899,999	19,950
Share issued in respect of acquisition (note 25.1)	2,828,283	1,414
At 31 December 2014	**42,828,283**	**21,414**

On incorporation, two ordinary shares of £1 each were issued at par.

On 6 May 2014, a further 49,998 ordinary shares of £1 each were issued at par. They were issued, along with the shares issued upon incorporation, in exchange for 100% of the ordinary share capital of Flowtech Holdings Limited (note 2.2).

On 6 May 2014, the existing 50,000 ordinary shares of £1 each were subdivided into 100,000 ordinary shares of 50p.

On 8 May 2014, one ordinary share of 50p was issued in exchange for novation of Shareholder debt of £29,042,000. The gain on settlement of this debt has been recognised by management as an increase in share premium.

Our Financials
Notes to the Consolidated Financial Information continued

26 Equity continued
On 21 May 2014, a further 39,899,999 ordinary shares of 50p each were issued and the entire share capital of 40,000,000 ordinary shares of the Company was admitted to trading on AIM at a price of £1 per share.

On 8 August 2014, 2,828,283 ordinary shares were issued for 123.7 pence each, in partial consideration for a direct subsidiary's acquisition of 100% of the share capital of Primary Fluid Holdings Limited.

The number of shares in issue for each of the comparable periods represents the share capital issued by Flowtech Fluidpower plc in the share for exchange that made the Company the legal parent of the Group adjusted for the subsequent 2 for 1 subdivsion.

26.2 Share premium
Proceeds received in addition to the nominal value shares issued during the year have been included in the share premium account with the exception of shares issued in partial consideration for a direct subsidiary's acquisition of 100% of the share capital of Primary Fluid Holdings Limited. In accordance with the Companies Act 2006, the Company has elected to record the investment at the nominal value of the shares issued, and therefore no premium has arisen on this transaction. Within the consolidated financial statements this amount has been recognised in the merger relief reserve. Transaction costs of equity transactions relating to the issue of the Company's shares are shown as a deduction from share premium.

27 Net cash from operating activities

	2014 £000	2013 £000
Reconciliation of profit/(loss) before taxation to net cash flows from operations		
Profit/(loss) from continuing operations before tax	**30,411**	(234)
Loss from discontinued operations before tax	**(348)**	(689)
Depreciation	**503**	448
Financial income	**(33)**	—
Financial expense	**1,990**	5,197
Gain on settlement of debt	**(29,043)**	—
Loss on sale of plant & equipment	**—**	10
Amortisation and impairment	**130**	—
Impairment	**—**	160
Equity-settled share-based payment charge	**148**	—
Operating cash inflow before changes in working capital and provisions	**3,758**	4,892
Change in trade and other receivables	**408**	35
Change in stocks	**12**	(607)
Change in trade and other payables	**(752)**	(156)
Change in provisions	**62**	67
Cash generated from operations	**3,448**	4,231
Tax paid	**(1,213)**	(883)
Net cash generated from operating activities	**2,275**	3,348

28 Discontinued operations

The sale of the subsidiary Industrial Products and Supplies Limited was completed on 4 April 2014 for £1 consideration.

Industrial Products and Supplies Limited constituted a reporting segment in accordance with IFRS 8 "Operating segments".

The results of the discontinued operations included in the loss for the period are set out below. This segment was not a discontinued operation or classified as held for sale at 31 December 2013 and the comparative consolidated income statement has been restated to show the discontinued operation separately from continuing operations. See note 9 for the earnings per share split between continuing and discontinued operations.

- The write-off of goodwill in 2013 relates to liquidation of a subsidiary Merchantz Limited, 100% owned by Industrial Products and Supplies Limited
- Closure costs relate to the closure of business units. They include employee redundancies within these units, continuing property costs post closure and other onerous lease obligations
- The loss on disposal relates to the deficit of sale proceeds less net assets disposed of on the sale of the subsidiary
- Included in closure costs is £43,000 relating to professional fees incurred during the disposal

	2014 £000	2013 £000
Discontinued operations		
Revenue	**415**	2,168
Cost of sales	**(372)**	(2,083)
Gross profit	**43**	85
Distribution expenses	**(21)**	(119)
Administrative expenses before separately disclosed items:	**(37)**	(264)
— Write-off of goodwill	**—**	(160)
— Closure costs	**(332)**	(231)
Total administrative expenses	**(369)**	(655)
Operating loss	**(347)**	(689)
Net financing costs	**(1)**	—
Loss from discontinued operations before tax	**(348)**	(689)
Taxation (note 7)	**(8)**	(10)
Loss on disposal of net assets excluding deferred taxation	**(140)**	—
Loss on disposal of subsidiary (note 25.2)	**(148)**	—
Loss from discontinued operations	**(496)**	(699)
Specific disclosure items		
Depreciation	**—**	20

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

OUR FINANCIALS

Our Financials
Notes to the Consolidated Financial Information continued

29 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2014 £000	2013 £000
Less than one year	581	561
Between one and five years	1,135	1,688
More than five years	—	211
	1,716	2,460

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 2014, the property lease periods range from less than one year to five 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.

	2014		2013	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Less than one year	441	140	433	128
Between one and five years	966	169	1,540	148
More than five years	—	—	211	—
	1,407	309	2,184	276

During the year £663,000 was recognised as an expense in the income statement in respect of operating leases relating to continuing operations (2013: £494,000). During the year £41,000 was recognised as an expense in the income statement in respect of operating leases relating to discontinued operations (2013: £185,000).

30 Contingent liabilities and commitments

The Group has no capital expenditure contracted for but not provided at 31 December 2014 (2013: nil).

31 Related party transactions

Transactions between the Company 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 34 to 35.

Sean Fennon, a director, held 560 B ordinary shares of £0.01 each in the capital of Flowtech Limited, a subsidiary of the Group. Bryce Brooks, a director held 560 C ordinary shares of £0.01 each in the capital of Flowtech Limited. These shares were acquired by Flowtech IPL, a subsidiary of the Group, immediately prior to Admission to AIM in accordance with the terms of a shareholder agreement in respect of Flowtech Limited. Gross consideration of £840,000 and £360,000 was payable on the purchase of the Flowtech Limited shares to Sean Fennon and Bryce Brooks respectively. Sean Fennon and Bryce Brooks reinvested a proportion of the proceeds in the share capital of Flowtech Fluidpower plc as disclosed in in the Directors' share interests on page 35 of the Directors' Remuneration Report. The consideration paid is included in the separately disclosed items as an IPO cost.

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

32 Financial instruments

32.1 Fair values of financial instruments

Fair values

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable input).

	Carrying amount 2014 £000	Fair value 2014 £000	Level 2 2014 £000	Carrying amount 2013 £000	Fair value 2013 £000	Level 2 2013 £000
Financial assets held for trading (including all derivatives) (note 17)						
Forward exchange contracts	24	24	24	—	—	—
Total financial assets at fair value through profit or loss	24	24	24	—	—	—
Financial liabilities held for trading (including all derivatives) (note 23)						
Forward exchange contracts	(27)	(27)	(27)	(32)	(32)	(32)
Total financial liabilities at fair value through profit or loss	(27)	(27)	(27)	(32)	(32)	(32)

There have been no transfers in either direction during the years ended 31 December 2014 and 31 December 2013. At 31 December 2014 and 31 December 2013, the Group did not have any liabilities classified at Level 3 of the fair value hierarchy.

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

	Carrying amount 2014 £000	Fair value 2014 £000	Level 2 2014 £000	Carrying amount 2013 £000	Fair value 2013 £000	Level 2 2013 £000
Loans and receivables						
Cash and cash equivalents (note 18)[1]	1,979			2,265		
Trade and other receivables (note 16)[1]	9,529			7,626		
Total financial assets not measured at fair value	11,508			9,891		
Total financial assets at fair value	24	24	24	-	—	—
Financial assets	11,532			9,891		
Financial liabilities measured at amortised cost						
Deferred consideration (note 21)	(1,603)			—		
Other interest-bearing loans and borrowings (note 19)	(8,689)			(72,027)		
Trade payables and accruals (note 20)[1]	(4,733)			(3,906)		
Total financial liabilities measured at amortised cost	(15,025)			(75,933)		
Total financial liabilities at fair value	(27)	(27)	(27)	(32)	(32)	(32)
Total financial liabilities	(15,052)			(75,965)		
Total financial instruments	(3,520)			(66,074)		

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

Our Financials
Notes to the Consolidated Financial Information continued

32 Financial instruments continued

Financial instruments measured at fair value	Valuation technique
Forward exchange contracts	Fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).
Financial instruments not measured at fair value	**Valuation technique**
Bank loans and other interest-bearing borrowings	Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

32.2 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:

	2014 £000	2013 £000
UK	**8,205**	6,391
Europe	**1,076**	1,033
Rest of the World	**30**	26
	9,311	7,450

Credit quality of financial assets and impairment losses

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

	Gross 2014 £000	**Impairment 2014 £000**	Gross 2013 £000	Impairment 2013 £000
Not past due	**8,902**	**82**	7,157	31
Past due 0-30 days	**521**	**16**	244	1
More than 30 days	**46**	**60**	237	156
	9,469	**158**	7,638	188

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 credit worthiness of such customers.

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

	2014 £000	2013 £000
Balance at 1 January	**188**	167
Net change due to acquisitions and disposals of subsidiaries	**44**	13
Provision utilised	**(158)**	(79)
Increase in provision	**84**	87
Balance at 31 December	**158**	188

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

32 Financial instruments continued

32.3 Liquidity risk

Financial risk management

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

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

Year ended 31 December 2014	**Carrying amount £000**	**Contractual cash flows £000**	**1 year or less £000**	**1 to 2 years £000**	**2 to 5 years £000**
Non-derivative financial liabilities					
Secured bank loan	**6,571**	**6,921**	**980**	**962**	**4,979**
Finance lease liabilities	**22**	**26**	**24**	**2**	**—**
Invoice discounting facility	**2,096**	**2,096**	**2,096**	**—**	**—**
Trade and other payables	**3,657**	**3,657**	**3,657**	**—**	**—**
Derivative financial liabilities					
Other forward exchange contracts:					
Net payment	**27**	**27**	**27**	**—**	**—**
	12,373	**12,727**	**6,786**	**962**	**4,979**

Year ended 31 December 2013	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	9,375	10,053	4,034	197	5,822
Bank overdraft	—	—	—	—	—
Finance lease liabilities	24	29	14	15	—
Invoice discounting facility	4,730	4,730	4,730	—	—
Stock loan	2,775	2,775	2,775	—	—
Trade and other payables	3,013	3,013	3,013	—	—
Shareholder loan	55,123	64,295	—	64,295	—
Derivative financial liabilities					
Other forward exchange contracts:					
Net payment	32	32	32	—	—
	75,072	84,927	14,598	64,507	5,822

There are no contractual maturities over five years.

Our Financials
Notes to the Consolidated Financial Information continued

32 Financial instruments continued
32.4 Market risk
Financial risk management

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

31 December 2013	Sterling £000	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	1,521	744	—	2,265
Trade and other receivables	7,151	475	—	7,626
Secured bank loans	(9,375)	—	—	(9,375)
Stock loan facility	(2,775)	—	—	(2,775)
Invoice discounting facility	(4,730)	—	—	(4,730)
Finance lease liabilities	(24)	—	—	(24)
Shareholder loans	(55,123)	—	—	(55,123)
Trade payables	(2,549)	(439)	(25)	(3,013)
Forward exchange contracts	—	76	219	295
Net exposure	(65,904)	856	194	(64,854)

32 Financial instruments continued

Sensitivity analysis

A 10% weakening of the following currencies against the pound sterling at 31 December 2014 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 2013.

	Profit or loss and Equity	
	2014 £000	2013 £000
€	**(91)**	(76)
$	**43**	(19)

A 10% strengthening of the following currencies against the pound sterling at 31 December 2014 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 2013.

	Profit or loss and Equity	
	2014 £000	2013 £000
€	**100**	76
$	**(48)**	19

Market risk – Interest rate risk

Profile

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

	2014 £000	2013 £000
Fixed rate instruments		
Financial liabilities	**22**	55,147
Variable rate instruments		
Financial liabilities (carrying value)	**8,667**	16,880

The Shareholder loans have been presented in the analysis above as fixed rate instruments. The loans had a nominal interest rate of Libor plus 4.5% subject to a de minimus rate of 8%.

Our Financials
Notes to the Consolidated Financial Information continued

32 Financial instruments continued

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 2013.

	2014 £000	2013 £000
Equity		
Increase of 100 basis points	**(61)**	(17)
Decrease of 100 basis points	**61**	17
Profit or loss		
Increase of 100 basis points	**(61)**	(17)
Decrease of 100 basis points	**61**	17

32.5 Capital management

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

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

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

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

33 Subsequent events

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

Company Financial Statements

Balance Sheet

	Note	2014 £000
Fixed assets		
Investments	F	**57,015**
Current assets		
Debtors	G	**20,767**
Cash at bank and in hand		**1**
Creditors: amounts falling in due within one year	H	**(1,282)**
Net current assets		**19,486**
Total assets less current liabilities		**76,501**
Creditors: amounts falling in due after more than one year	I	**(5,714)**
Net assets		**70,787**
Capital and reserves		
Share capital	J	**21,414**
Share premium	K	**46,664**
Share-based payment reserve	K	**96**
Profit and loss account	K	**2,613**
Shareholders' funds		**70,787**

The financial statements on pages 79 to 83 were approved by the Board of Directors on 14 April 2015 and were signed on its behalf by:

Bryce Brooks
Director

Company Registration Number: 09010518

OUR FINANCIALS

Our Financials
Reconciliation of Movement in Shareholders' Funds

	2014 £000
Opening Shareholders' funds at incorporation	–
Profit for the financial period	3,275
Issue of shares in the period	21,414
Premium on issue of shares	48,993
Costs of raising equity finance	(2,329)
Share options – cost	53
Share options – granted to subsidiary employees	96
Equity dividends paid	(715)
Net increase in Shareholders' funds	70,787
Closing Shareholders' funds	70,787

Notes to the Company Financial Information

A Accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared on a going concern basis under the historical cost convention and in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

The financial statements cover the period from incorporation on 24 April 2014 to 31 December 2014.

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

Investments

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

Share-based payments

The fair value of employee share plans is calculated using a variation of the Black-Scholes model. In accordance with FRS 20 "Share-based payments" the resulting cost is charged to the profit and loss account over the vesting period of the plans.

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

Dividends

Under FRS 21 "Events after the balance sheet date" dividends are not to be recognised as a creditor until the dividend is approved by the Company's Shareholders.

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.

B Profit for the year

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

C Services provided by the Company's Auditors

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

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

D Equity dividends

	2014 £000
Interim dividend of 1.67p per share	**715**

In addition the Directors are proposing a final dividend in respect of the financial year ended 31 December 2014 of 3.33p per share which will absorb an estimated £1.426 million of Shareholders' funds. It will be paid on 24 June 2015 to Shareholders who are on the register of members on 5 June 2015.

Our Financials
Notes to the Company Financial Information continued

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

F Investments

Cost and net book value	Investments in subsidiaries' unlisted shares £000	Subsidiaries' share-based payment reserves £000	Total £000
At incorporation	—	—	—
Additions	56,919	96	57,015
At 31 December 2014	**56,919**	**96**	**57,015**

On 6 May 2014, the Company acquired 100% of the ordinary share capital of Flowtech Holdings Limited, in a share for share exchange, for a total consideration of £50,000 (note 26 of the consolidated financial statements). Subsequently this shareholding in Flowtech Holdings Limited was exchanged for 100% of the ordinary share capital of Flowtech MIP Limited for no additional consideration.

On 8 May 2014, the Company acquired an additional share in Flowtech MIP Limited in exchange for the assumption of £56,869,000 of Shareholder loans. Of this, £27,826,000 was repaid to Shareholders by the Company. The remaining debt of £29,043,00 was exchanged for one 50p ordinary share of Flowtech Fluidpower plc (note K).

G Debtors

	2014 £000
Amounts owed by Group undertakings	**20,758**
Prepayments and accrued income	**9**
	20,767

H Creditors: amounts falling due within one year

	2014 £000
Bank loans (note I)	**857**
Amounts owed to Group undertakings	**258**
Other taxation and social security	**23**
Accruals and deferred income	**144**
	1,282

I Creditors: Amounts falling due after more than one year

	2014 £000
Bank loans	**5,714**

The bank loan of £6,571,000 is repayable in instalments over the period to 8 May 2018 and is secured by legal charges over certain assets of the Flowtech Group.

J Share capital

Allotted, called up and fully paid:

	2014 No.	2014 £000
42,828,283 ordinary shares of 50p each	**42,828,283**	**21,414**

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

Potential issue of shares

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

K Reserves

	Share premium account £000	Share-based payment reserve £000	Profit and loss account £000
At incorporation	—	—	—
Premium created on admission to AIM	19,950	—	—
Costs of raising equity finance	(2,329)	—	—
Premium arising on settlement of debt	29,043	—	—
Value of employee services	—	96	53
Profit for the period	—	—	3,275
Equity dividends paid	—	—	(715)
At 31 December 2014	**46,664**	**96**	**2,613**

On 8 May 2014, the Company acquired an additional share in Flowtech MIP Limited in exchange for the assumption of £56,869,000 of shareholder loans. Of this, £27,826,000 was repaid to shareholders by the Company and the remaining £29,043,000 of debt was exchanged for one, 50p ordinary share of Flowtech Fluidpower plc. Management have recognised a premium arising on settlement of debt of £29,043,000 as the 50p ordinary share had minimal value.

L Contingent liabilities and commitments

The Company has no capital expenditure contracted for but not provided at 31 December 2014.

M Related party transactions

The Company is exempt from disclosing related party transactions with entities that are wholly owned subsidiaries of the Flowtech Fluidpower plc Group under FRS8 “Related party transactions”. There are no other related party transactions other than those relating to Directors that have been disclosed in note 31 to the consolidated financial statements.

N Company principal subsidiaries

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

O Ultimate controlling party

The Directors consider that there is no ultimate controlling party.

Shareholder Notes

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