FLOWTECH FLUIDPOWER

Fluid Thinking

Making a powerful difference

Half-year Report

for the six months ended
30 June 2019

The information contained within this report is deemed by the Company to constitute inside information stipulated under the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.

Tuesday, 24 September 2019

FLOWTECH FLUIDPOWER PLC

Specialist full-service supplier of technical fluid power products and services

(Flowtech, the Group or Company)

HALF-YEAR REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS	**HY2019 30.6.19 unaudited**	HY2018 30.6.18 unaudited	FY2018 31.12.18 Audited	**GROWTH % HY2019 v HY2018**
• REVENUE	**£59.6m**	£56.4m	**£111.1m**	**5.7%**
• GROSS PROFIT %*	**35.6%**	34.3%	**34.7%**	
• OPERATING PROFIT	**£4.3m**	£4.5m	**£7.7m**	**-2.9%**
• UNDERLYING OPERATING PROFIT**	**£6.1m**	£5.7m	**£11.4m**	**7.0%**
• PROFIT BEFORE TAX	**£3.8m**	£4.1m	**£6.9m**	**-8,5%**
• UNDERLYING PROFIT BEFORE TAX	**£5.6m**	£5.4m	**£10.7m**	**3.3%**
• EARNINGS PER SHARE (basic)	**5.00p**	5.78p	**8.34p**	**-10.7%**
• HALF-YEAR DIVIDEND	**2.13p**	2.03p		**5.0%**
• NET BANK DEBT (EXCLUDING IFRS16 RELATED DEBT)	**£18.8m**	£18.0m	**£19.9m**	

- ORGANIC SALES GROWTH OF 2.9%
- GROSS MARGIN REMAINS STRONG AT 35.6% (H1 2018: 34.3%)
- UNDERLYING OPERATING PROFIT OF £6.1M (H1 2018: £5.7m)
- STRONG CASH GENERATION; NET DEBT REDUCED BY £1.1M in HY2019 AFTER £1.6M OF PAYMENTS IN RESPECT OF PRIOR YEAR ACQUISITION ACTIVITY (H1 2018 SAW NET DEBT INCREASE BY £3,0M)
- DIVIDEND INCREASED BY 5.0% TO 2.13 PENCE PER SHARE

OUTLOOK

- RECENT TRADING IMPACTED BY BREXIT RELATED NERVOUSNESS
- EXPECT 2019 ADJUSTED PBT TO BE IN THE RANGE OF £10.8M TO £11.2M

"We are pleased with the progress being made across our strategic initiatives and we remain confident in the long term outlook for the Group. In the short term we expect more subdued trading conditions and it is important we remain focused on controlling what we can control, in particular our cost improvement and working capital initiatives."

Malcolm Diamond MBE, Non-Executive Chairman

* We have restated the H1 2018 to align with the classification of costs adopted in both the H1 2019 and 2018 full year analysis

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

OUR GROWTH STRATEGY

During 2019, the Group has made major progress on all our strategic imperatives

- **Sales Growth**
- **Cost Improvement**
- **Cash Generation,**
- **IT Development** and,
- **People**.

Sales Growth

Reconfigured our business into two focused segments that give greater potential to exploit the concentrated product knowledge and technical skills – **Components** and **Services**.

In July 2019, **Ian Simpson** was appointed **Divisional Director** within the **Components** segment. Since joining the Group in February 2016, Ian has proven his capability to grow sales by exploiting the Group's wider resources and he will now look to apply his knowledge across a much larger part of the Group's activities. In March 2019, **Jon Burke** took overall responsibility for **Services** and is now working to co-ordinate all sales and operational matters across the various businesses within the division.

Cost Improvement

The Executive Team have completed a Group-wide review of operational resources and productivity. Our concentration now is to develop a plan to harness the benefits of the many areas of potential improvements identified. We expect that most of the work and the associated savings will be completed by the end of 2020. Action has already commenced with the integration of TSL Fluidpower and the UK operations of Hi-Power into our Knowsley site.

We also believe that there are major opportunities in our supply chain to reduce cost, rationalise range and reduce inventory. We have therefore appointed **John Farmer** into a new role of **Group Commercial Director**. John has most recently acted as Managing Director for our largest subsidiary Flowtechnology UK. and is now actively co-ordinating our supply strategy and building on the huge steps forward we have taken in extracting procurement data, a significant by-product of our IT and central services investment in creating a network of common accounting and management information systems.

Cash Generation

The Group has clearly designated leadership roles in efficient debt collection and agreed supplier term expansion. This is coupled with an invigorated culture at Profit Centre level towards effective inventory management practices backed up by our return-on-capital based **Profit Share** scheme. An initial positive step is highlighted by the significant improvement in cash generation compared to H1 2018 as detailed in the following financial section.

IT Development

In conjunction with our operational review, we have reviewed our long-term IT strategy and we now believe that we can move towards an optimised position in the medium term without the need for enterprise-wide IT change. This will be achieved by focusing on only three providers, backed up by a cloud-based hardware solution that was successfully established in May 2019.

The Group has long been a leading player in the use of digital capabilities to improve efficiency for itself and its customers, and in our core 'master' distribution operations as high as 70% of sales are transacted via e-commerce platforms. However, embracing digital marketplaces is essential for any progressive industrial distributor and we are committed to pursuing best practice. As a forerunner to a plan to develop our entire operation in this area, the Group established an online presence in Flowtechnology World in March 2019 (www.flowtechnologyworld.com) and this is already giving us cross-border selling opportunities from our existing product range. Beyond this, our market penetration and premium position with the leading global suppliers means we are well placed to develop from this e-commerce platform into a fully fledged **E-Business** operation and place us at the forefront of the sector.

People

In addition to the senior appointments described above, we are committed to training and development with several initiatives implemented in the period in leadership, sales training, technical and employee engagement. We have also established a Group central services team and facility in South Manchester and invested in the necessary skills in Accounting, Credit Management, IT Operations and Project Management to ensure we have the best platform to support the business both now and for future growth. This investment has increased costs in the short term but has been part funded by reduced costs at local level, and we are convinced has given us the correct stable position from which to move forward.

FINANCIAL STATEMENT

HALF-YEAR FINANCIAL PERFORMANCE AND DIVISIONAL ANALYSIS

Revenue	**Six months ended 30 June 2019 £000**	Six months ended 30 June 2018* £000	**% Change**	Year ended 31 December 2018 £000
Components	**50,001**	46,961	**6.3%**	93,524
Services	**9,639**	9,460	**1.9%**	17,527
Total Group revenue	**59,640**	56,422	**5.7%**	£111,051
Gross profit %	**35.6%**	34.3%		34.8%

Underlying operating result**	**Six months ended 30 June 2019 £000**	Six months ended 30 June 2018* £000	**% Change**	Year ended 31 December 2018 £000
Components	**7,945**	6,731	18.0%	14,254
Services	**241**	239	0.8%	314
Central Costs	**(2,091)**	(1,268)	64.9%	(3,187)
Underlying operating result**	**6,095**	5,701	**6.9%**	11,380

* We have restated the H1 2018 to align with the classification of costs adopted in both the H1 2019 and 2018 full year analysis
**Underlying operating result is continuing operations' operating profit before the fair value uplift of inventory acquired through business combinations (IFRS 3), acquisition costs, amortisation of acquired intangibles, share-based payment costs and restructuring costs. Underlying operating result is reconciled to statutory profit before tax in note 3 to the HY Report.

OUR STRUCTURE

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

- **COMPONENTS** – the supply of both hydraulic and pneumatic consumables, predominantly through distribution for maintenance and repair operations across all industry markets but supported by supply agreements direct to a broad range of original equipment manufacturers (OEMs). Consistent operational high margin revenue.

- **SERVICES** - the bespoke design, manufacturing, commissioning, installation and servicing of systems to manufacturers of specialised industrial and mobile hydraulic OEMs and, additionally a wide range of industrial end users.

REVENUE

Revenue increased by 5.7%. Organic growth was 2.9% with the balance resulting from a full contribution from the Balu businesses which were acquired in March 2018. Our Components division which accounts for c84% of Group revenue grew by 6.3% (organic growth of 3.2%) whilst the Services division grew by 1.9% (all organic).

GROSS PROFIT MARGINS

Our gross margin can vary from period to period dependent on market conditions and mix of sales. In the period under review our gross margin percentage increased from 34.3% to 35.6%. Margins within our Components division have benefitted from the impact the Balu acquisition in March 2018 has had throughout H1 2019. Margins in our Services division tend to be more variable dependent on the extent of labour involved in value-add activities.

OPERATING COSTS

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

	Unaudited Six months ended 30 June 2019 £000	Unaudited Six months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Distribution expenses	**2,139**	2,090	4,216
As % of turnover	**3.6%**	3.7%	3.8%
Administrative expenses*:			
-Divisional	**11,009**	10,491	20,202
% of turnover	**18.5%**	18.6%	18.2%
-Central	**2,091**	1,269	3,187
% of *turnover*	**3.5%**	2.2%	2.9%
Total administrative expenses	**13,100**	11,760	23,389
% of turnover	**22.0%**	20.8%	21.1%

*before separately disclosed items

Distribution expenses are primarily costs paid to the various parcel and pallet carriers. While turnover has increased by 5.7% the increase in distribution costs has been restricted to 2.3%.

Administrative costs at divisional level represent the operational infrastructure to run the Group's trading activities across 29 sites in the UK, Ireland and the Netherlands. The impact of the Balu acquisition has added c£0.5m of costs, meaning there has been minimal movement in other divisional costs; this reflects a movement of certain costs (c£0.2m) from Divisional to Central offsetting a small element of inflationary increase.

Central costs comprise those relating to executive management, finance, business process/audit functions as well as the costs associated with running the plc. The investments made have been in a wide range of areas including:

- Tailored programmes designed with third party providers to develop the skills of our current and future business leaders at profit centre and divisional and central management levels;
- Investment in technology to provide ever-improving platforms of information, to gain commercial leverage and a transition to common IT systems on a sensibly phased basis across all parts of our business;
- To provide defence mechanisms to the ever-increasing threat of Cyber-attacks;
- Enhancing our Business Process and Audit functions to ensure we have the ability to effectively deliver change programmes and to ensure compliance with important internal processes and controls.

We strongly believe this sees us well-placed to control the business we have today, as well as being able to fully capitalise on opportunities to grow the business in the future. In particular we feel we have a much more resilient framework and ability to effectively implement change within our business.

UNDERLYING OPERATING PROFIT

The Components Division continues to deliver a strong underlying operating margin prior to central costs of 15.9% (H1 2018: 14.0%). Of the £1.2m increase, £0.4m relates to Beaumanor and Derek Lane (acquired in March 2018) which have contributed throughout H1 2019 as opposed to only part of the comparative period. Prior to allocation of central costs, the combined underlying operating profit of these businesses in H1 2019 was £0.9m, and in the 12 months to 30 June £1.6m.

The less working capital-intensive Services division has delivered a modest underlying operating margin of 2.5% (H1 2018: 2.5%).

FINANCIAL POSITION INCLUDING CASH FLOW AND BANK DEBT

On a like for like basis (i.e. discounting for the impact of IFRS16) we generated £4.9m, from operating activities in H1 2019; this compares favourably to an absorption of £1.8m in H1 2018 and reflects the focus all areas of the business have, and will continue to apply, to working capital management.

Bank debt reduced by £1.1m in H1 2019. This was achieved after paying c£1.6m relating to contingent consideration in respect of historic acquisition activity. The overall £2.7m reduction in aggregate debt compares favourably to a £3.0m increase in the comparative H1 2018 period.

2019 has seen the introduction of a new International Financial Reporting Standard, IFRS16, which provides guidance for accounting for leases. This has led to us recognising £8.8m of additional assets in our balance sheet and an equivalent liability in respect of the aggregate obligations under these leases. The adoption of the standard reduces our profit by £67k.

EARNINGS PER SHARE AND DIVIDEND

In the first half, earnings per share was 5.00p, compared to 5.78p in 2018. Given the positive progress being made with cash generation across the Group the Board is again pleased to confirm a 5% increase in our half-year dividend to 2.13p (2018: 2.03p), This interim dividend will be paid on 29 October 2019, to members on the Register at close of business on 4 October 2019. The shares will become ex-dividend on 3 October 2019.

OUTLOOK

With great progress being made in our strategic objectives, the Board remains confident in the outlook for the Group as we seek to improve our complementary revenue streams in Components and Services. This confidence is reflected in our continuing attitude towards dividend growth.

However, after a prolonged period of solid organic growth across the Group, Brexit induced nervousness in the UK and Ireland is impacting our markets and over the summer months we have experienced a period of reduced sales activity. Whilst our heavy bias towards servicing Maintenance, Repair and Overhaul markets gives us natural defences against significant setbacks, our view is that a return to organic growth will be suppressed until the political situation is resolved. We expect little or no sales growth for the remainder of 2019 and on this basis, we advise that the likely 2019 out-turn for profit before tax will be in the range of £10.8m to £11.2m.

The Board also believes that current conditions are likely to persist well into 2020 before returning to long-term growth trends. As a result, we expect revenue growth to be suppressed relative to previous expectations. We are focused on controlling what we can control and are actioning the cost improvement initiatives described above. Accordingly, we hope to significantly mitigate the effect of reduced revenue growth on adjusted profit before tax in 2020.

We anticipate cash conversion to continue to improve as working capital is reduced. This will offset any cash costs associated with our cost reduction initiatives. Further detail will be available as we make progress, and by the time of our trading updates in October 2019 and January 2020.

By order of the Board
24 September 2019

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	**Unaudited Six months ended 30 June 2019 £000**	Unaudited Six months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Continuing operations				
Revenue		**59,640**	56,422	111,051
Cost of sales before separately disclosed items		**(38,395)**	(37,082)	(72,447)
Gross profit		**21,245**	19,340	38,604
Distribution expenses		**(2,139)**	(2,090)	(4,216)
Administrative expenses before separately disclosed items*:		**(13,099)**	(11,760)	(23,389)
- separately disclosed items	3	**(1,678)**	(1,034)	(3,321)
Total administrative expenses		**(14,777)**	(12,794)	(26,710)
Operating profit		**4,329**	4,456	7,678
Financial income		**-**	-	11
Financial expenses*		**(528)**	(303)	(766)
Net financing costs		**(528)**	(303)	(755)
Profit from continuing operations before tax*		**3,801**	4,153	6,923
Taxation	4	**(726)**	(867)	(1,992)
Profit from continuing operations		**3,075**	3,286	4,931
Profit for the period attributable to:				
Non-controlling interest		**22**	-	20
Owners of the parent		**3,053**	3,286	4,911
Earnings per share				
Basic earnings per share - continuing operations	6	**5.00p**	5.78p	8.34p
Diluted earnings per share - continuing operations	6	**4.99p**	5.73p	8.28p

* Following the adoption of IFRS 16, financial expenses increased by £141k and administrative expenses decreased by £73k, resulting in a net decrease in profit from continuing operations before tax of £67k

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Unaudited Six months ended 30 June 2019 £000	Unaudited Six months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Profit for the period	**3,076**	3,286	4,931
Other comprehensive income			
-Exchange differences on translating foreign operations	**71**	16	128
Total comprehensive income in the period attributable to:			
Non-controlling interest	**22**	-	20
Owners of the parent	**3,125**	3,302	5,039

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Unaudited 30 June 2019 £000	Unaudited 30 June 2018 £000	Audited 31 December 2018 £000
Assets			
Non-current assets			
Goodwill	**62,959**	62,781	63,022
Other intangible assets	**7,089**	7,369	7,624
Property, plant and equipment	**6,717**	6,959	6,735
Deferred tax assets	**-**	-	-
Right of use assets	**8,752**	-	-
Total non-current assets	**85,517**	77,109	77,381
Current assets			
Inventories	**28,130**	28,974	28,667
Trade and other receivables	**27,034**	27,217	25,475
Prepayments	**1,057**	1,554	668
Cash and cash equivalents	**3,881**	2,414	2,248
Total current assets	**60,102**	60,159	57,058
Liabilities			
Current liabilities			
Interest-bearing borrowings	**18,605**	16,218	18,078
Lease liabilities - current	**1,426**	-	-
Trade and other payables	**18,403**	18,896	18,372
Deferred and contingent consideration	**1,005**	3,977	2,240
Tax payable	**1,659**	1,657	2,115
Total current liabilities	**41,098**	40,748	40,805
Net current assets	**19,004**	19,411	16,253
Non-current liabilities			
Interest-bearing borrowings	**4,000**	4,150	4,051
Lease liabilities – non-current	**7,394**	-	-
Deferred and contingent consideration	**-**	1,704	-
Provisions	**411**	350	399
Deferred tax liabilities	**1,709**	1,162	1,751
Total non-current liabilities	**13,514**	7,366	6,201
Net assets	**91,007**	89,154	87,433
Equity directly attributable to owners of the parent			
Share capital	**30,564**	30,438	30,460
Share premium	**60,959**	60,853	60,793
Other reserves	**187**	187	187
Shares owned by the Employee Benefit Trust (EBT)	**(400)**	(413)	(413)
Merger reserve	**293**	293	293
Merger relief reserve	**3,576**	3,548	3,575
Currency translation reserve	**727**	552	664
Retained losses	**(4,941)**	(6,304)	(8,146)
Total equity attributable to the owners of the parent	**90,965**	89,154	87,413
Non-controlling interest	**42**	-	20
Total equity	**91,007**	89,154	87,433

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Share capital £000	Share premium £000	Other reserves £000	Shares owned by EBT £000	Merger reserve £000	Merger relief reserve £000	Currency translation reserve £000	Retained losses £000	Non-controlling interest £000	**Total equity £000**
Six months ended 30 June 2019 unaudited										
Balance at 1 January 2019	30,460	60,793	187	(413)	293	3,575	664	(8,146)	20	87,433
Profit for the period	-	-	-	-	-	-	-	3,053	22	3,075
Other comprehensive income	-	-	-	-	-	-	63	8		71
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**63**	**3,061**	**22**	**3,146**
Transaction with owners										
Issue of share capital	104	166	-	-	-	-	-	-	-	270
Share-based payment charge	-	-	-	-	-	-	-	96	-	96
Share options settled	-	-	-	13	-	-	-	49	-	62
Total transactions with owners	**104**	**166**	**-**	**13**	**-**	**-**	**-**	**145**	**-**	**428**
Balance at 30 June 2019	**30,564**	**60,959**	**187**	**(400)**	**293**	**3,576**	**727**	**(4,940)**	**42**	**91,007**
Six months ended 30 June 2018 unaudited										
Balance at 1 January 2018	26,409	52,370	187	(40)	293	3,194	536	(8,085)	-	74,864
Profit for the period	-	-	-	-	-	-	-	3,286	-	3,286
Other comprehensive income	-	-	-	-	-	-	16	-	-	16
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**16**	**3,286**	**-**	**3,302**
Transaction with owners										
Issue of share capital	4,029	8,483	-	-		354	-	-	-	12,866
Purchase of minority shares held in subsidiary undertakings	-	-	-	-		-	-	(1,304)	-	(1,304)
Shares owned by the EBT	-	-	-	(650)		-	-	-	-	(650)
Share-based payment charge	-	-		-		-	-	102	-	102
Share options settled	-	-		277		-	-	(303)	-	(26)
Total transactions with owners	**4,029**	**8,483**	**-**	**(373)**	**-**	**354**	**-**	**(1,505)**	**-**	**10,988**
Balance at 30 June 2018	**30,438**	**60,853**	**187**	**(413)**	**293**	**3,548**	**552**	**(6,304)**	**-**	**89,154**
Twelve months ended 31 December 2018 – audited										
Balance at 1 January 2018	26,409	52,370	187	(40)	293	3,194	536	(8,085)	-	74,864
Profit for the year	-	-	-	-	-	-	-	4,911	20	4,931
Other comprehensive income	-	-	-	-	-	-	128	-	-	128
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**128**	**4,911**	**20**	**5,059**
Transaction with owners										
Issue of share capital	3,450	8,423	-	-	-	381	-	-	-	12,254
Purchase of minority shares held in subsidiary undertakings	601	-	-	-	-	-	-	(1,303)	-	(702)
Shares owned by the EBT	-	-	-	(650)	-	-	-	-	-	(650)
Share-based payment charge	-	-	-	-	-	-	-	191	-	191
Share options settled	-	-	-	277	-	-	-	(302)	-	(25)
Equity dividends paid	-	-	-	-	-	-	-	(3,558)	-	(3,558)
Total transactions with owners	**4,051**	**8,423**	**-**	**(373)**	**-**	**381**	**-**	**(4,972)**	**-**	**7,510**
Balance at 31 December 2018	**30,460**	**60,793**	**187**	**(413)**	**293**	**3,575**	**664**	**(8,146)**	**20**	**87,433**

	Unaudited Six months ended 30 June 2019 £000	Unaudited Six months ended 30 June 2018 £000	Audited Year ended 31 December 2018 £000
Net cash from operating activities*	**4,443**	(2,341)	3,790
Cash flow from investing activities			
Acquisition of businesses, net of cash acquired		(7,371)	(9,703)
Acquisition of property, plant and equipment	**(519)**	(944)	(1,343)
Proceeds from sale of property, plant and equipment	**24**	18	64
Payment of deferred and contingent consideration	**(1,630)**	(2,220)	(3,546)
Net cash used in investing activities	**(2,125)**	(10,517)	(14,528)
Cash flows from financing activities			
Net proceeds from the issue of share capital	**70**	10,220	10,161
Repayment of long-term borrowings	**-**	-	-
Net change in short term borrowings	**-**	1,000	1,000
Repayment of lease liabilities*	**(778)**	(110)	(343)
Net cash settled share options	**(47)**	(23)	-
Interest received	**-**	-	-
Interest paid	**(528)**	(288)	(722)
Repayment of loan by EBT	**15**	276	276
Dividends paid	**-**	-	(3,558)
Net cash generated from / (used in) financing activities	**(1,268)**	11,075	6,813
Net change in cash and cash equivalents	**1,050**	(1,783)	(3,925)
Cash and cash equivalents at start of period	**253**	4,199	4,199
Exchange differences on cash and cash equivalents	**78**	(2)	(21)
Cash and cash equivalents at end of period	**1,381**	2,414	253
Cash and cash equivalents	**3,881**	2,414	2,248
Bank overdraft	**(2,500)**	-	(1,995)
Cash and cash equivalents at end of period	**1,381**	2,414	253

Reconciliation of liabilities arising from financing activities

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

	Long-term borrowings £000	Short term borrowings £000	Lease liabilities £000	Total £000
At 1 January 2019	4,000	16,000	9,171	29,171
Cash flows			**(778)**	**(919)**
Repayment*	-	-	-	-
Proceeds	-	-	-	-
Other lease movements	-	-	531	672
Non-cash				
Acquisition	-	-	-	-
At 30 June 2019	**4,000**	**16,000**	**8,924**	**28,924**

*Following adoption of IFRS 16, payment of £889k of lease rentals have been reclassified from operating cash flow to repayment of lease liability under financing activity.

GENERAL INFORMATION

The principal activity of Flowtech Fluidpower plc (the "Company") and its subsidiaries (together, the "Group") is the distribution of engineering components, concentrating on the fluid power industry. The Company is incorporated and domiciled in the UK. The address of its registered office is Bollin House, Wilmslow, SK9 1DP.

The registered number is 09010518.

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

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

This consolidated Interim Report and the financial information for the six months ended 30 June 2019 does not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 and are unaudited. This unaudited Interim Report was approved by the Board of Directors on 24 September 2019.

The Group's financial statements for the year ended 31 December 2018 have been filed with the Registrar of Companies. The Group's auditor's report on these financial statements was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Electronic communications

The Company is not proposing to bulk print and distribute hard copies of this Half-year Report unless specifically requested by individual shareholders. The Board believes that by utilising electronic communication it delivers savings to the Company in terms of administration, printing and postage, and environmental benefits through reduced consumption of paper and inks, as well as speeding up the provision of information to shareholders. News updates, regulatory news, and financial statements can be viewed and downloaded from the Group's website, www.flowtechfluidpower.com . Copies can also be requested from; The Company Secretary, Flowtech Fluidpower plc, Bollin House, Bollin Walk, Wilmslow, SK9 1DP. email: info@flowtechfluidpower.com.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial information set out in this consolidated Half-year Report has been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the accounting policies which will be adopted in presenting the Group's Annual Report and Financial Statements for the year ended 31 December 2019. These are consistent with the accounting policies used in the Financial Statements for the year ended 31 December 2018, except that IFRS 16 *Leases* became effective on 1 January 2019.

2.2 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies as a result of adopting IFRS 16.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

2.3 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019

The Group has adopted IFRS 16 retrospectively from 1 January ,2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

2.4 Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.2%.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

2.5 Reconciliation of lease commitments in the prior year to lease liability recognised under IFRS 16

	2019
	£'000
Operating lease commitments disclosed as at 31 December 2018	8,657
Operating lease commitments discounted using the lessee's incremental borrowing rate of at the date of initial application	(1,370)
	7,287
(Less): short-term leases recognised on a straight-line basis as expense	(54)
(Less): low-value leases recognised on a straight-line basis as expense	(79)
Add/(less): adjustments as a result of a different treatment of extension and termination options	1,253
Other movements	630
Lease liability recognised as at 1 January 2019	**9,037**
Of which are:	
- Current lease liabilities	1,376
- Non-current lease liabilities	7,661
	9,037

The associated right-of-use assets for property leases and other assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.
The recognised right-of-use assets relate to the following types of assets:

	30 June 2019	**1 January 2019**
	£'000	**£'000**
Land and building	8,211	8,332
Others	541	705
Total right-of-use assets	8,752	9,037

The net impact on retained earnings on 1 January 2019 was nil.

Earnings per share reduced by 11 pence per share for the six months to 30 June 2019 as a result of the adoption of IFRS 16.

2.6 Going concern

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

3. OPERATING SEGMENTS

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

- **Components** - *Supply of hydraulic and pneumatic consumables, predominantly through distribution for urgent maintenance and repair operations across all industry sectors. Additionally, support a broad range of original equipment manufacturers (OEMs) supplying off-the-shelf and tailored components and assemblies.*

- **Services -** *Bespoke design, manufacturing, commissioning, installation and servicing of systems to manufacturers of specialised industrial and mobile hydraulic OEMs and additionally a wide range of industrial end users.*

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

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

	Components £000	**Services £000**	**Inter-segmental transactions £000**	**Central costs £000**	**Total continuing operations £000**
Six months ended 30 June 2019					
Income statement – continuing operations:					
Revenue from external customers	**50,001**	**9,639**	**-**	**-**	**59,640**
Inter segment revenue	**1,224**	**10**	**(1,234)**	**-**	**-**
Total revenue	**51,225**	**9,649**	**(1,234)**	**-**	**59,640**
Underlying operating result	**7,945**	**241**	**-**	**(2,091)**	**6,095**
Net financing costs	**(33)**	**-**	**-**	**(494)**	**(528)**
Underlying segment result	**7,912**	**241**	**-**	**(2,585)**	**5,567**
Impact of Fair value adjustment to inventory	**(88)**	**-**	**-**	**-**	**(88)**
Separately disclosed items	**(767)**	**(20)**	**-**	**(892)**	**(1,678)**
Profit/(loss) before tax	**7,058**	**221**	**-**	**(3,477)**	**3,802**
Specific disclosure items					
Depreciation	**1,212**	**90**	**-**	**21**	**1,323**
Amortisation	**473**	**62**	**-**	**-**	**535**
Reconciliation of underlying operating result to operating profit:					
Underlying operating result	**7,945**	**241**	**-**	**(2,091)**	**6,095**
Impact of Fair value adjustment to inventory	**(88)**	**-**	**-**	**-**	**(88)**
Separately disclosed items	**(767)**	**(20)**	**-**	**(892)**	**(1,678)**
Operating profit/(loss)	**7,090**	**221**	**-**	**(2,982)**	**4,329**

	Components £000	Services £000	Inter-segmental transactions £000	Central costs £000	Total continuing operations £000
Six months ended 30 June 2018					
Income statement – continuing operations:					
Revenue from external customers	46,961	9,460	-	-	56,422
Inter segment revenue	1,218	68	(1,286)	-	-
Total revenue	48,179	9,528	(1,286)	-	56,422
Underlying operating result	6,589	381	-	(1,268)	5,701
Net financing costs	(57)	-	-	(246)	(303)
Underlying segment result	6,531	381	-	(1,515)	5,398
Impact of Fair value adjustments to inventory	(211)	-	-	-	(211)
Separately disclosed items	(545)	(2)	-	(487)	(1,034)
Profit/(loss) before tax	5,776	379	-	(2,002)	4,153
Specific disclosure items					
Depreciation	398	66	-	-	464
Amortisation	470	-	-	-	470
Reconciliation of underlying operating result to operating profit:					
Underlying operating result	6,589	381	-	(1,268)	5,701
Impact of Fair value adjustments to inventory	(211)	-	-	-	(211)
Separately disclosed items	(545)	(2)	-	(487)	(1,033)
Operating profit/(loss)	5,833	379	-	(1,756)	4,456

	Components £000	Services £000	Inter-segmental transactions £000	Central Costs £000	Total continuing operations £000
For the year ended 31 December 2018					
Income statement – continuing operations:					
Revenue from external customers	93,524	17,527	-	-	111,051
Inter-segment revenue	2,894	60	(2,954)	-	-
Total revenue	**96,418**	**17,587**	**(2,954)**	**-**	**111,051**
Underlying operating result	14,254	314	-	(3,187)	11,380
Net financing (costs)/income	523	(649)	-	(629)	(755)
Underlying segment result	14,776	(335)	-	(3,816)	10,625
Impact of Fair value adjustments to inventory	(382)				(382)
Separately disclosed items (see note 3)	(2,015)	162	-	(1,468)	(3,321)
Profit before tax	12,379	(173)	-	(5,284)	6,923
Specific disclosure items					
Depreciation	842	99		-	941
Amortisation	1,040	-	-	-	1,040
Reconciliation of underlying operating result to operating profit:					
Underlying operating result	14,254	314	-	(3,187)	11,380
Impact of Fair value adjustments to inventory	(382)		-	-	(382)
Separately disclosed items (see note 3)	(1,691)	(162)	-	(1,468)	(3,321)
Operating profit/(loss)	12,181	152	-	(4,655)	7,678

SEPARATELY DISCLOSED ITEMS

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

	Six months ended 30 June 2019 £000	Six months ended 30 June 2018 £000	Year ended 31 December 2018 £000
Separately disclosed items within administration expenses:			
-Acquisition costs	**57**	444	824
-Amortisation of acquired intangibles	**535**	470	1,040
-Share-based payment costs	**96**	102	191
-Restructuring	**394**	18	1,002
-Change in amounts accrued contingent consideration	**596**	-	264
Total separately disclosed items	**1,678**	1,034	3,321

4. TAXATION

	Six months ended 30 June 2019 £000	Six months ended 30 June 2018 £000	Year ended 31 December 2018 £000
Current tax on income for the period - continuing operations:			
UK tax	**907**	1,062	1,623
Overseas tax	**-**	-	164
Deferred tax credit	**(40)**	(195)	3
Adjustments in respect of prior years	**(141)**	-	202
Total taxation	**726**	867	1,992

The taxation for the period has been calculated by applying the estimated tax rate for the financial year ending 31 December 2019.

5. DIVIDENDS

	Six months ended 30 June 2019 £000	Six months ended 30 June 2018 £000	Year ended 31 December 2018 £000
Final dividend (2018: 3.85p) per share	**-**	-	2,330
Interim dividend (2018: 2.03p) per share	**-**	-	1,228
Total dividends	**-**	-	3,558

A final dividend of 4.04p per share was paid on 12 July 2019. In addition, the Directors are proposing a half-year dividend in respect of the financial year ending 31 December 2019 of 2.13p per share which will absorb an estimated £1.3million of shareholders' funds. It will be paid on 29 October 2019 to Shareholders who are on the Register of Members at close of business on 4 October 2019.

6. EARNINGS PER SHARE

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

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

	Six months ended 30 June 2019			Six months ended 30 June 2018			Year ended 31 December 2018		
	Earnings £000	Weighted average number of shares 000's	Earnings per share Pence	Earnings £000	Weighted average number of shares 000's	Earnings per share Pence	Earnings £000	Weighted average number of shares 000's	Earnings per share Pence
Basic earnings per share									
Continuing operations	**3,054**	**61,091**	**5.00p**	3,286	56,888	5.78	4,911	58,889	8.34
Diluted earnings per share									
Continuing operations	**3,054**	**61,218**	**4.99p**	3,286	57,355	5.73	4,911	59,278	8.28

	Six months ended 30 June 2019 £000	Six months ended 30 June 2018 £000	Year ended 31 December 2018 £000
Weighted average number of ordinary shares for basic and diluted earnings per share	**61,091**	56,888	58,889
Impact of share options	**127**	467	389
Weighted average number of ordinary shares for diluted earnings per share	**61,218**	57,355	59,278

7. SUBSEQUENT EVENTS

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

8. NET CASH FROM OPERATING ACTIVITIES

	Six months ended 30 June 2019 £000	Six months ended 30 June 2018 £000	Year ended 31 December 2018 £000
Reconciliation of profit before taxation to net cash flows from operations:			
Profit from continuing operations before tax	**3,802**	4,153	6,923
Depreciation*	**1,323**	464	941
Financial income	**-**	-	(11)
Financial expense*	**528**	303	766
(Profit)/Loss on sale of plant and equipment	**7**	(5)	(9)
Amortisation of intangible assets	**535**	470	1,040
Brought forward gain on sale of shares by EBT, released to reserves	**140**	-	-
Cash settled share options	**-**	-	(23)
Equity settled share-based payment charge	**96**	102	191
Change in amounts accrued contingent consideration	**596**	-	264
Operating cashflow before changes in working capital and provisions	**7,027**	5,487	10,082
Change in trade and other receivables	**(1,949)**	(4,798)	(1,509)
Change in stocks	**537**	(1,003)	(844)
Change in trade and other payables	**30**	(1,506)	(2,843)
Change in provisions	**12**	9	(23)
Cash generated from operations	**5,657**	(1,811)	4,863
Tax paid	**(1,215)**	(530)	(1,073)
Net cash generated from operating activities	**4,443**	(2,341)	3,790

*The impact of adoption of IFRS16 has added £816k to the depreciation charge and £141k to financial expenses

PRINCIPAL RISKS AND UNCERTAINTIES

In common with all organisations, Flowtech faces risks which may affect its performance. The Group operates a system of internal control and risk management 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. The Directors set out in the 2018 Annual Report and Financial Statements the principal risks identified during this exercise, including quality control, systems and site disruption and employee retention. The Board does not consider that these risks have changed materially in the last six months.

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements which reflect the knowledge and information available to the Company during the preparation and up to the publication of this document. By their very nature, these statements depend upon circumstances and relate to events that may occur in the future thereby involving a degree of uncertainty. Although the Group believes that the expectations reflected in these statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Given that these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

The Group undertakes no obligation to update any forward-looking statements whether because of new information, future events or otherwise.

About Flowtech Fluidpower plc

Founded as Flowtech in 1983, the Flowtech Fluidpower Group is the UK's leading specialist supplier of technical fluid power products. The business joined AiM in 2014. Today, the Group has two distinct divisions:

Division:	What we do:	Locations:
Components	Supply of hydraulic and pneumatic consumables, predominantly through distribution for urgent maintenance and repair operations across all industry sectors. Additionally, support a broad range of original equipment manufacturers (OEMs) supplying off-the-shelf and tailored components and assemblies.	Flowtechnology Benelux (Deventer) Flowtechnology China (Guangzhou) Flowtechnology UK (Skelmersdale) Indequip (Skelmersdale) Beaumanor (Leicester) Hydravalve (Willenhall) Primary Fluid Power Components (Knowsley) Albroco (Knowsley) Nelson Hydraulics (Dublin, Lisburn, Dungannon, UK) HTL (Ludlow) Hi-Power Hydraulics (Cork, Dublin, Belfast, Knowsley) Hydroflex (Brussels, Rotterdam and OudBeijerland) Hydraulic Equipment Supermarkets (Gloucester, Leeds, Birmingham, Durham) Derek Lane & Co (Newton Abbot, Devon) Tractec (Gloucester)
Services	Bespoke design, manufacturing, commissioning, installation and servicing of systems to manufacturers of specialised industrial and mobile hydraulic original equipment manufacturers (OEMs) and additionally a wide range of industrial end users.	Primary Fluid Power Systems (Knowsley) TSL (Knowsley) Branch Hydraulic Systems (Gloucester) Automatec (Gloucester) Lubemec (Gloucester) Onsite (Durham, Leeds, Birmingham, Gloucester) Flow Connect (Gloucester) Orange County (Spennymoor)

Both Group's divisions have overlapping product sets, allowing procurement synergies to be maximised.

The above divisions are supported by a centralised back office team based at the Skelmersdale, Lancashire, and Wilmslow, Cheshire sites in the UK and a procurement and quality control team in Shanghai, China. In total, the business employs over 550 people. For more information please visit, www.flowtechfluidpower.com

To listen to the management team discussing the Half--year results with BRR media, please follow this link:

https://www.brrmedia.co.uk/broadcasts-embed/5d84e9e71e79456d8fcc616d/flowtech-fluidpower-half-year-results?popup=true

To listen to an overview of the business with the CEO and the management team and comments on this Half-year report, please follow this link:

https://www.brrmedia.co.uk/broadcasts-embed/5d84b79c1e79456d8fcc6136/flowtech-fluidpower-interviews-with-management-team&popup=true&player_only=true

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