

NEWS RELEASE

Immediate Release
Wednesday, 12 April 2023



The information contained within this announcement is deemed by the Company to constitute inside information stipulated under the Market Abuse Regulation (EU) No. 596/2014 as amended by the Market Abuse (Amendment) (EU Exit) Regulations 2019. Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.

FLOWTECH FLUIDPOWER PLC
("Flowtech", the "Group" or "the Company")
Specialist full-service supplier of technical fluid power products and services

Unaudited Preliminary Results

For the year ended 31 December 2022

FY2022 Financial & Operational Highlights

- Revenue of £114.8m (2021: £109.1m), £5.7m (5.2%) up on 2021
- £8.6m underlying operating profit * (2021: £5.7m), an improvement of £2.9m as the business continued its recovery from the COVID-19 pandemic
- £11.6m underlying EBITDA (+) (2021: £8.4m), an improvement of £3.2m
- Measures taken to manage the cost base, in particular a significant reduction in headcount by the end of the year, has reduced underlying operating overheads** by £0.4m (1.3%) in an environment of significant inflationary pressures
- Significantly improved performance by the Services segment with underlying operating profit of £1.8m (2021: -£0.1m)
- Managed inventory levels (£1.0m increase in 2022) to mitigate the impact of supply chain uncertainties and satisfy customer demand for core products. Now reducing (£3.2m decrease in H2 2022) with more predictable supply chains
- Separately disclosed items of £13.0m includes £10.1m impairment of goodwill (see note 8), £1.4m restructuring costs largely relating to the exit from the Leicester Logistics Centre and £0.9m amortisation of intangibles
- After taking account of the separately disclosed items the loss before tax was £5.6m
- Looking forward to 2023 being a year of further improvements, with particular focus on inventory management, debt reduction and cash generation.

(*) Underlying operating profit is used as an alternative performance measure to assess the trading performance of the business and is operating profit before separately disclosed items which are amortisation and impairment of acquired intangibles, impairment of goodwill, share based payments, and restructuring costs.

(+) Underlying EBITDA is underlying operating profit prior to depreciation charges and website amortisation.

(**) Underlying operating overheads is the total of distribution costs and administrative expenses before separately disclosed items.

"We have entered 2023 with much of the strategic building blocks in place after an array of challenges over the past three years, and we will remain focused on completing the remaining actions of our strategic plan. With global supply chains now more consistent, we can reduce inventories to match our needs and return to generating strong cashflows to support our investment activities, whilst exploiting our new digital capabilities".

Roger McDowell, Non-Executive Chair

"2022 saw the completion of many of the key changes that we defined in our 2020 strategy review and in 2023 we will continue to pursue all remaining elements with vigour. With supply chains now more predictable, and at both sector and geographical level demand remaining broadly stable, we are confident that all the major strategy decisions we have made will create additional shareholder value, and will quickly feed through into strong cash generation available for further investment to drive shareholder value".

The Company will be holding a 'live' presentation which will be hosted by CEO Bryce Brooks, and CFO Russell Cash via the Investor Meet Company platform at **10.00am on Monday, 17 April 2023**:
<https://www.investormeetcompany.com/flowtech-fluidpower-plc/register-investor>

ENQUIRIES:

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Statement from the Chair

Introduction

2022 presented certain challenges, with the uppermost being the significant inflationary pressures impacting all aspects of our economy and exacerbated by impacts of the conflict in Ukraine. We have therefore maintained our focus on improving gross margins with the 42bps increase achieved in the year pleasing to note, and driving productivity wherever we can. At the same time, we are continuing to reinforce overall business resilience to ensure we can adapt more quickly to the changing demands of our marketplace and manage the Group's response to our risk environment with growing maturity.

Review of 2022

In each of our operating segments, we have responded to the inflationary pressures on our cost base whilst benefiting through the effect on inventory values. Group gross margin has been slightly enhanced and underlying costs reduced through structural change in facilities and productivity. That said, at segment level we have seen differing outcomes compared to our initial expectations.

Implemented at the very start of 2022, the main objectives of the consolidation work in the Flowtech division were achieved, both commercially and operationally. Nevertheless, whilst accepting that there may be short term risk to the customer experience whilst managing an extensive change process, it was disappointing that financial performance took a step back. External assessment has indicated that the general markets in which the division operates have not been helpful, but our analysis accepts that improvements can be made. With the ability to now ensure all aspects of the change become the "new normal", our focus is on ensuring this clearly significant group asset returns to growth, particularly with the enhancements from our digital investment.

In a different vein, for the Fluidpower Group - covering our Solutions and Services segments - we have been able to take advantage of some of the tailwinds in the hydraulics sector and give early proof of the benefits from our structural work undertaken in 2020 and 2021. For example, in Ireland the Nelson Hi-Power operation formed in 2021 from the combination of two acquired businesses, Nelson and Hi-Power, have used their complementary strengths to create a single market approach with financial performance ahead of our initial expectations. Also, after its creation in 2019, our Services operation has turned its opening losses into the profitable position more in line with the Board's expectations. Whilst it remains a "work in progress", it gives confidence that our belief in its value to the Group as a coordinated entity can translate into financial gain.

We have continued to make good progress with the main framework of both our ESG and risk management agenda, with particular focus on employee related issues. I am particularly proud our new Learning & Development plan has been established, with technical training via enhanced apprenticeship initiatives and our next generation of leaders accessing "The Accelerate Programme" for the first time. Investing in our people will bring benefits in the medium and long-term, and ensure we retain

and reward our most progressive employees. Across the Group we are engendering an approach to Health & Safety management, including mental wellbeing, that encompasses all the positive aspects of modern ideals to this important task, with building culture at its heart. This is both the right thing to do but is increasingly an essential part of our relationship with major customers and suppliers and is also therefore creating an edge over our traditional competitors.

It is disappointing to report a non-cash £10.1m impairment against the carrying value of goodwill which has been significantly influenced by the sizeable increase in discount rates. Within the Flowtech UK business this was also due to the reduced performance, albeit correlated to trends as reported by the British Fluid Power Distributors Association. If last year's discount rates had been applied this year the impairment would have reduced to £2.0m and relate solely to one business unit, Orange County.

Strategic progress

Since my last report, it has been another year of solid progress with many of the key elements of our strategic plan, with detail provided in the reports of the Executive team. Whilst it has been disappointing that the introduction of our new web capabilities was delayed, the lessons we have learned through the process will be invaluable and will help guide our next steps as we seek to enhance functionality to drive up conversion rates, and take advantage as SEO rankings gradually improve. We are confident we will have a class leading offering, with a growing influence on our profitability, also backed up by a more progressive "data-driven" approach than we have historically been able to use in business development.

With regard to the simplification of our commercial structure, Flowtech is now complete and Solutions and Services are implementing the next steps to create a single "Fluidpower Group" trading style that will further unlock synergies to add to the strong financial performance already seen in both segments. After the lengthy change process undertaken, we see it as essential that the customer centric agenda is now reinforced.

We have been able to gradually reduce headcount by approaching 10% over recent months, with the continued consolidation of warehouse activities into our Skelmersdale campus a highlight, now added to by our new Engineering Modification Centre, with both providing a sound base for managing future growth.

Dividend

It has been pleasing to note that cash generation has improved, particularly in the second half of the year in a more stable supply chain environment, and my expectation is that this will continue in the first half of 2023, the Board will be recommending a dividend of 2.1p per ordinary share in respect of 2022 at the AGM in June 2023. Subject to shareholder approval the dividend will be paid on 21 July 2023 to Members on the register as at 23 June 2023 with an ex-dividend date of 22 June 2023.

Board changes

In January 2023, we announced that Nigel Richens would be retiring as a Non-Executive Director of the Company having served on the Board since May 2014; this will be effective following the release of the Group's fully audited Annual report. I would like to thank him for his sterling service over the nine-year period and wish him a long and happy retirement. Having joined us at the start of the year, Stuart Watson will then become chair of the Audit Committee, and I am delighted we have been able to attract a candidate of Stuart's calibre.

Furthermore, today, with the announcement of these results, I am delighted to welcome Mike England, previously Group COO of RS Group plc, as the new Group CEO. On behalf of all his colleagues the Board would like to acknowledge and thank Bryce Brooks for his significant commitment, skill and dedication to the business during his 13-year tenure with the Group.

http://www.rns-pdf.londonstockexchange.com/rns/8904V_1-2023-4-11.pdf

Outlook

A year ago we believed that by the end of 2022 most of the key components of our strategic plan would be in place and providing solid foundations to move forward and unlock our undoubted growth potential. Whilst we again face macroeconomic challenges that may suppress growth in the short term, we continue to focus on reducing costs where sensible to do so, and now seek to consolidate the commercial and operational changes we have made to improve customer service, and grow market share. We have entered 2023 with much of the strategic building blocks in place after an array of challenges over the past three years, and we will remain focused on completing the remaining actions of our strategic plan. With global supply chains now more consistent, we can reduce inventories to match our needs and return to generating strong cashflows to support our investment activities, whilst exploiting our new digital capabilities.

I would like to thank all my colleagues for all their efforts during 2022, which was another year of significant change within the Group. It is again of great credit to them that profitability has been maintained and, in several areas, significantly improved whilst

at the same time managing an extensive change programme.

The Board is of the view that the broad medium term outlook for the business is positive and is well underpinned our recent change programme.

Roger McDowell
Non-Executive Chair
12 April 2023



CEO's Year in Review

Business Review

A multitude of macro-economic factors have impacted our core markets in recent years, and 2022 again did not see a return to the stable outlook that we have all enjoyed for the majority of recent times. Whilst dealing with such change is part of the skills we have, the pace with which events have unfolded in the past few years has certainly been more pronounced. Whilst necessary to do so, we have added to these external factors by transforming the commercial and operational structure of our Group at the same time.

We therefore entered the year with certain external challenges:-product and cost inflation, lengthy and inconsistent supply chains, delivery issues both domestically and across the Irish Sea. Stock levels had been built to defend against some of these risks, with the commensurate impact on net debt that was still recovering from the impacts of lockdown. All these issues had differing effects on the sectors that we serve, most notably affecting pneumatics into MRO markets and hydraulics into Mobile OEM markets.

I believe it is of great credit therefore that my colleagues right across the Group have been up to meeting all the challenges faced, with significant progress being made, both in financial returns, profitability and margins, and in our wider focus on strengthening our resilience against the risks we face as a business.

In 2022 revenue grew by 5.2% to £114.8m and gross margin improved from 35.3% to 35.7%. Underlying operating profit* increased to £8.6m (2021: £5.7m), an improvement of £2.9m as the business continued its recovery from the COVID-19 pandemic. However, after a goodwill impairment charge of £10.1m, operating loss was at £4.4m (2021: £3.7m profit). Further details relating to this goodwill impairment are provided in the Financial Review section of this announcement and Note 8.

My review below will focus on the underlying operating results of our three segments, which excludes central costs, financing charges, separately disclosed items and tax.

2022 (£'000) (Unaudited)	Flowtech	Solutions	Services	Total
Total revenue	55,565	38,076	21,125	114,766
Underlying Segment Operating Profit (*)	6,887	4,405	1,804	13,096
Contribution %	12.4%	11.6%	8.5%	11.4%
2021 (£'000) (Audited)				
Total revenue	57,552	34,158	17,397	109,107
Underlying Segment Operating Profit (*)	7,543	2,689	(122)	10,110
Contribution %	13.1%	7.9%	-0.7%	9.3%

(*) Underlying Segment Operating Profit is continuing operations' operating profit before central costs and separately disclosed items detailed in note 3.

(\\$) FY 2021 Segment results are re-stated to show results for Primary Components (PFC) within the Flowtech Segment. Some overheads costs relating to divisional management have been re-categorised as segment operating overheads to present a more comparable segment result. Refer to note 3 for reconciliation to prior year reporting.

In two out of our three segments we have been able to enhance contribution rates significantly and have achieved our short term objective of exceeding 10% as a Group. This is before our central costs, which are primarily required to implement change management and governance, as well as operate the plc.

In Flowtech a contribution rate of 12.4% was achieved (2021: 13.1%), which was lower than our targets at the start of the year. As detailed in our commentary on strategy development below, the segment undertook the most wide ranging change programme in its history, and shortly afterwards replaced its multiple web offerings with a single website. Whilst we are now happy with the

changes implemented, the difficulties of the change had a negative commercial effect which impacted results.

As we ended 2021, being the immediate post COVID-19 year, a sense that sales volumes had returned to pre-pandemic levels was misplaced. The markets that Flowtech predominantly deal in declined, with the British Fluidpower Distributors Association ("BFPDA") estimating that year on year pneumatic distributor sales reduced by 5.1% (hydraulics increased by 5.3%).

We now believe that 2022 is more representative of the base market and we expect to see gradual but steady growth from this base. Furthermore, having continued to review analysis of negative growth areas, we have used the information gathered to ensure our focus over recent months has been on ensuring that the detailed execution areas for all our change programme - commercial, operational and digital - are bedded down and give us the right platform for growth. With the majority of this change period behind us, we remain of the view that this segment should target a contribution rate of at least 15% in the medium-term.

In Solutions, with the majority of product supply being furnished from European sources, whilst there have been inflationary pressures, supply chains have been consistent for most of the year, and on top of the uplift in buffer stock that we instigated to support our customers, this has allowed us to take advantage of the positive market conditions seen, particularly in mobile hydraulics where many of our largest customers are heavily involved in export markets. This segment is currently implementing an amalgamation of its sales resources in England, under the banner of Fluidpower Group Mobile, with the cost reduction work done in 2021 and 2022 bearing fruit, producing contribution margins now well over our initial 10% target at 11.6% (2021: 7.9%). Whilst we are aware that we have benefited from strong market growth that may not continue, we have started 2023 well.

Of particular note is the 8.5% contribution from our Services segment, where the result achieved is a significant step forward and gives an indication of the potential that this part of our business has to drive profitability. As we have previously stated, over the past 12 months we had built a profitable order book of deliverables scheduled for 2022, for both assembled products and installations, and were therefore able to produce a much stronger contribution in the second half of the year. I am pleased to say that this position has carried over into 2023, and we are expecting to report further progress in the first half of 2023. By its nature the financial return from this segment may have more volatility than the more predictable Solutions and Flowtech income streams, but we continue to view the segment's value positively, as does the wider market. A highlight has been our involvement in the Thames Tideway project in central London where hydraulic power units and cylinders, manufactured and fitted by our cross functional team, are powering many of the sluice gates controlling this major upgrade to the sewer system.

In all our operating segments, we have responded to the inflationary pressures that all businesses have faced, with gross margins maintained, and in some cases improved, and the upward pressures on our transactional cost base capped with careful management. Product pricing in our sector is well informed with major manufacturer price changes widely flagged; we work in partnership with our customers to pass these through as quickly as practicable after their implementation, and this has helped to support some of our enhancement in gross margins. Whilst we believe we have managed this process well, if inflation recedes, gross margins may trend towards prior norms.

The improvements in operational cost we identified in our strategic plan, detailed below, have also allowed us to reduce our footprint in terms of property, energy and, personnel costs and this has added to the tools we have used to manage this inflation risk. We do not operate a fixed approach to salary and benefits across the Group, and this flexibility has allowed us to manage employee requirements in the different sectors and geographies that we operate. For example, in Northern Ireland where customer demand has been particularly strong in a tight employment market, we have redesigned our bonus structures to improve staff retention.

With regard to other infrastructure costs we have moved through rent review points over the past 24 months for the majority of our mixed-use facilities, warehousing and office space. These have seen steeper increases than previous periods, for example rent per annum for our main Pimbo Road site in Skelmersdale increased by 17.5% with effect from November 2021. With distribution forming the majority of our operational activities, we have not experienced some of the more acute impacts from the current energy market issues, and have also been able to cover our increased spend within our overall product pricing strategies.

With regard to the supply chain issues that the Group faced in 2021, these dissipated during the course of the year, and although not as yet returning to long term norms, volatility has reduced and we are now able to plan more efficiently. We have continued to work closely with our key suppliers, and in the majority of cases the lengthy lead times seen in 2021 and 2022 are now reducing. In line with this the buffer stock holdings that we created to manage this risk is being reduced; our view remains that by the end of 2023 this will have completely rebalanced, and will allow us to again target a full year Turn & Earn KPI of 130% by 2025 and much reduced working capital and net debt.

Developments in Group strategy and progress in 2022

From the beginning of 2020, we have undertaken a wide ranging redesign of many aspects of our Group's business approach, and in the past 12 months we have made considerable progress with many of the key projects:

Operational cost savings

In 2022 we focused on completing the key elements of our targeted reductions with further productivity improvements in both warehousing and back-office functions. The creation of the Flowtech entity (detailed below) brought benefits in cost control. Of particular note is the closure of our Leicester warehouse facility with effect from 31 December 2022. Our legal and property advisors are working with a prospective new tenant who will allow us to exit from our remaining lease liability in full in the first half of 2023. The Leicester site employed 21 staff in warehousing roles, and covers c.40,000 square feet. All stock was moved to our largest unit in Skelmersdale, with picking activities fully integrated. Whilst this change has introduced an element of increased operational risk, we have sought to mitigate this by modest changes in internal design, with further developments expected over time, and have also taken on additional space at our second location nearby.

A key development target for the Group has been to consolidate engineering skills into a hub and spoke structure with a main facility also in Skelmersdale. This "Engineering Modification Centre" ("EMC") will be able to perform all aspects of the product refinement required by many of our customers and represents an important aspect of authorised distributor status from our key suppliers. This approach is allowing us to build improvements in technical training, quality control and cost management, which we see as an important element of our future growth platform. Fully completed in March 2023, the EMC is now embedded into our Pimbo Road operation running alongside our pick and ship operation.



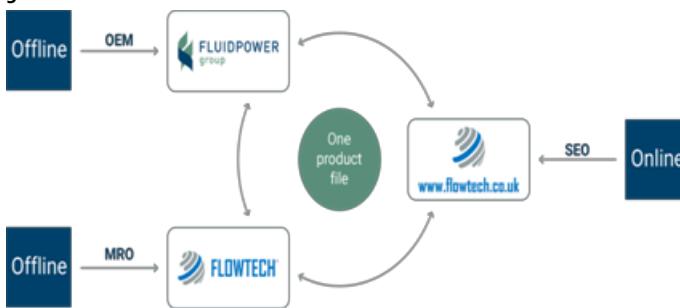
After the work undertaken since the start of 2020, we have reduced costs across all segments, most sharply illustrated with the reduction in headcount since late 2021 and shown in the graph. These reductions have been made by a mixture of natural wastage and voluntary redundancies to match the productivity improvements we have now built and have contributed significantly to our defence against inflationary pressures. We believe the newly formed operational structures will allow further improvements to be made over time.

Branding and organisation



On 4 January 2022 we completed a plan to integrate those businesses that were operating as part of our Flowtech segment - namely Flowtechnology UK, Indequip, Beaumanor Fluidpower, and Hydravale to come together into a single commercial entity, badged as Flowtech with new livery and organisational structure. This wide-ranging project achieved all our objectives with regard to coordinating a single market position to support our e-business aspirations, as well as allowing us to achieve our cost management goals. Solutions and Services are also now consolidating under the single Fluidpower Group banner, with regional variations such as the NHP brand in Ireland, and we will therefore have also achieved our objective in creating an integrated business that can service all addressable markets in the UK and Ireland. After this period of significant change, prolonged by the COVID-19 pandemic, in 2023 our management teams are now returning to the customer centric agenda that we are confident will use our redesigned capabilities to exploit the growth potential available to us.

Digital



After an investment of £212,000 in the year, £973,000 in total to date, our rebuilt web platform went 'live' in May 2022, with full functionality completed in October 2022. During this period we transitioned our long-term customers from a variety of legacy web platforms to this single site and, although the project took significantly longer than originally planned, we have learnt lessons and are now pleased with the capabilities that have been created.

In parallel, we have also built an infrastructure for modern digital marketing techniques, which will enhance the value of our web investment, and we expect the impact of this to also build over time.

In early 2023, as our SEO rankings rise, we will continue to develop functionality to improve conversion rates, as well as react to customer feedback from the first few months' trading on the new architecture. Overall, we remain of the view that marginal sales from search driven enquiries will be a good source of new revenue, enhancing our "offline" growth potential, which is now

embellished with more insightful "data-driven" knowledge.

People

Our focus is now on building a long term framework that will allow all our employees a clear line of sight for career progression and look to meet their own aspirations. Again, this is an area in which we believe our sector has been behind more progressive attitudes in competing industries, and our maturing position will create an economic edge to attract and retain the best people. The investment we instigated in our HR resources, starting in 2021, has been enhanced with specialist recruitment to lead a newly formed Learning & Development function, with traineeships enhanced to make full use of the Apprenticeship Levy, and a new cornerstone initiative, "The Accelerate Programme", providing broad based management training for potential managers and directors of the future. Our first courses have now been held with 23 delegates selected for a full year series of events, representing our commitment to ensuring staff development is to the fore in our ESG plan.

Whilst a strong culture in our approach to Health & Safety management is clearly an essential, we also believe that we need to take a leading role in a modernisation process across our industry. In this regard in the past two years we have invested in recruitment and training for all employees involved in our Health & Safety framework. Whilst the inherent risks in our large distribution centres are clear, and therefore assessments can be focused and continuously refined, in the activities of our Services segment the risk profile is more varied, and therefore we have also chosen to invest further in specialist skills to reinforce employee safety. Alongside our strategy to align ourselves with world class suppliers we believe this approach creates a comprehensive package of risk management practices.

The skill sets put together in 2021 in our Management Board are now firmly established and able to lead further change, and, in time, fast paced M&A integration. Members of our team have also been playing a leading role when it comes to shaping the priorities for the next decade for our sector, with Group employees continuing to hold directorships of our industry body, the British Fluid Power Association (BFPA).

Market

Much of the expansion of the Group through acquisition activity in the period 2014 to 2018, created a strong market position in our key markets of the UK & Ireland. Around us we have seen further consolidation to continue the move towards a smaller number of key players, and evermore away from the "owner-managed" structures that were prevalent in much of our sector's history. The acquisition activity undertaken over recent decades by the global manufacturers such as Parker Hannifin and Eaton Corporation, and most recently evidenced by the absorption of Eaton Hydraulics into Danfoss Power Solutions, has forced the distributor sector to consolidate and simplify to match with these changes. We therefore believe that the strategy changes we have implemented are effectively managing the inherent competition risk that we face every day.

Current trading and outlook

2022 saw the completion of many of the key changes that we defined in our 2020 strategy review and in 2023 we will continue to pursue all remaining elements with vigour. Much of what has been completed is now part of "business as usual" for our divisional management teams; in 2022, and now carried forward into the early part of 2023, we have seen the potential for returns coming through in both our Fluidpower Group segments - Solutions & Services - where many key changes were made in 2020 and 2021. Flowtech has some way to go after its own fundamental changes in 2022, whilst introducing new technologies, and it will look to regain momentum in 2023.

We have been successful to date at passing through upward pricing pressures, albeit some of this has been covered by our cost reduction activities, most notably the closure of our Leicester distribution centre. With supply chains now more predictable, and at both sector and geographical level demand remaining broadly good, we are confident that all the major strategy decisions we have made will create additional shareholder value and will quickly feed through into strong cash generation available for further investment.

Bryce Brooks
Chief Executive Officer
12 April 2023



"In a period in which the business has experienced extreme inflationary pressures it is pleasing to report a significant increase in underlying profitability. This has been achieved by focusing on maintaining the quality of our gross margin and our continued efforts to extract cost from the business, most notably by a reduction in our headcount".

Russell Cash, CFO

Overview

The CEO Year in Review section provides commentary on the results from each of our three reporting segments. Without wishing to repeat what has been said elsewhere I believe the following points are worthy of emphasis:

- The improvement in the gross profit percentage is, at least in part, due to our ability to pass on price increases to our customers. The quality of our gross margin remains integral to the way we operate the business
- The costs we have taken out of the business, notably as a result of the reduction in headcount, has enabled us to report a reduction in underlying operating overheads notwithstanding the significant inflationary pressures which we have faced, and
- The improved performance within the Services segment is particularly pleasing.

	2022 £m	2021	
	Unaudited	Audited	Change £m / %
Group revenue	114.8	109.1	5.2%
Gross profit	41.0	38.5	6.4%
Gross profit %	35.7%	35.3%	42bps
 Distribution expenses	 (4.4)	 (4.7)	 0.3
Administrative expenses before central costs and separately disclosed items	(23.5)	(23.7)	0.2
Underlying segment operating profit	13.1	10.1	3.0
Central costs	(4.5)	(4.4)	(0.1)
Underlying operating profit *	8.6	5.7	2.9
Less Separately disclosed items	(13.0)	(2.0)	(11.0)
Operating (loss)/profit	(4.4)	3.7	(8.1)
Financing costs	(1.2)	(0.8)	(0.4)
(Loss)/profit before tax	(5.6)	2.9	(8.5)
Tax	(0.7)	(0.7)	0.1
(Loss)/Profit after tax	(6.3)	2.1	(8.4)
 <i>Underlying EBITDA*</i>	 11.6	 8.4	 3.2

(*) Underlying operating profit is used as an alternative performance measure to assess the trading performance of the business and is operating profit before separately disclosed items which are amortisation and impairment of acquired intangibles, impairment of goodwill, share based payments, and restructuring costs. Underlying EBITDA is underlying operating profit prior to depreciation charges and website amortisation.

Central costs

A summary of central costs is provided below:

	2022 £000	2021
	Unaudited	£000 Audited
Management	2,084	2,118
PLC costs	523	536
Finance & Internal Audit	864	732
Project Management/Health & Safety/other	1,039	1,034
Total	4,510	4,420

Management costs include the employment costs of the Executive Officers, Management Board members excluding those that have specific segment responsibilities, and the cost of the Head Office function. It absorbs Group wide costs in a number of areas, notably professional fees and insurance costs. Overall savings made in certain areas, notably a reduction in professional costs have been offset by the full year impact of senior recruits who now form part of a mature central management team.

PLC costs capture the salaries of Non-Executive Directors and professional fees associated with our PLC status. The impact of an increased number of Non-Executive Directors has offset reductions achieved in other areas of cost.

Finance & Internal Audit covers the salary costs of the central finance and internal audit function. The increase in the year reflects a slightly increased headcount and the impact of pay increases.

Other areas of cost primarily relate to our project management and central health and safety teams.

Separately disclosed items

2022	2021
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	£000	£000
Share option costs	372	166
Amortisation of acquired intangibles	943	1,054
Impairment of acquired intangibles	168	673
Impairment of goodwill	10,072	-
Restructuring costs	1,411	74
Acquisition costs	-	11
Total	12,966	1,978

Impairment of goodwill

The impairment of goodwill charge relates to three cash generating units: Flowtechnology UK ("FTUK") (£7.1m), Orange County (£2.8m) and Hi-Power Transport (£0.2m).

The cash generating units subject to impairment have been, and are expected to remain, profitable parts of our business. However, the net present value of future cash flows have been particularly impacted by changes to discount rates related to external factors. The table below sets out the pre-tax discount rates used this year and last year, the degree of impairment necessarily taken this year and the impact that using last year's, less onerous, rates would have had on the calculations.

	Pre-tax discount rate		Impairment position		
	2022	2021	2022 deficit £m	Impact of change in discount rate £m	2022 deficit based on 2021 discount rates £m
FTUK	13.1%	10.4%	-7.1	23.0	Nil
Orange County	15.4%	10.7%	-2.8	0.8	2.0
Hi-Power Transport	13.6%	6.9%	-0.2	2.4	Nil

In summary had the discount rates been the same as last year there would have been no requirement to impair FTUK or Hi-Power Transport and the impairment against Orange County would have reduced by £0.8m.

Restructuring costs

Restructuring includes £1.1m costs relating to our exit from the distribution centre at Leicester, write off of the net book value of old websites £0.1m, and other costs £0.2m relating to the amalgamation of business units implemented under the Group's development strategy as detailed in the CEO's Year in Review section.

Taxation

The tax charge for the year was £680K (2021: £741k). If the impact of impairment entries and prior period adjustments is removed the effective rate is 21.5% (2021: 20.6%).

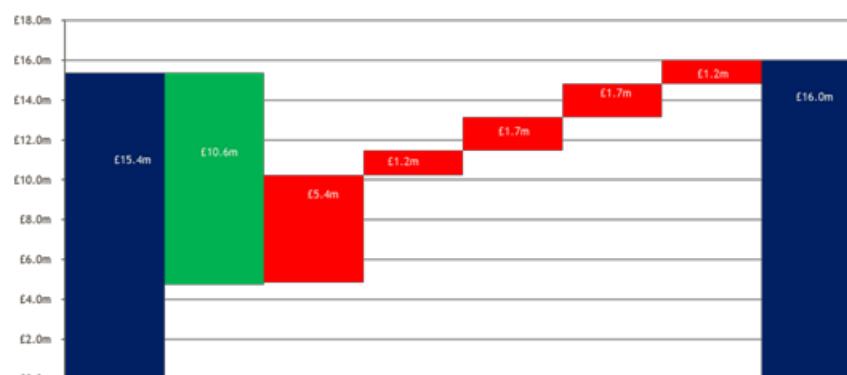
Net Debt

Our Net Debt position (excluding lease liabilities) increased by £0.6m from £15.4m to £16.0m, with a summary of the key drivers summarised in the chart below:

Cash generated from operations of £10.6m compares favourably to a prior year figure of £8.0m; this was to be expected given 2021 was a year in which certain of our business were still recovering from the impact of the COVID-19 pandemic. The investment we chose to make in increasing stock levels, combined with the impact of improved revenue on our debtor position, contributed to an overall £5.4m increase in working capital (2021: £8.7m), and it is the carrying cost of this additional working capital that, as expected, has increased net financing costs to £1.2m (2021: £0.8m). Our investment in capital expenditure totalled £1.7m.

Lease liabilities, which are not included in the graph below, decreased by £0.4m to £6.7m (2021: £7.1m).

In H2 2022 bank debt reduced by £3.7m (from £19.7m to £16.0m) and lease liabilities by £0.3m (from £7.0m to £6.7m).



FY21 (*)	Cash generated from operations	Working capital movement	Dividend paid	Assets purchased, other mvs	Repayment of lease liabilities	Interest	FY22 (*)
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(*) Opening and closing figures exclude IFRS 16 related liabilities. IFRS16 debt reduced by £0.4m in 2022.

Banking facilities

Our year end balance sheet shows net £16.0m current liability in respect of our net bank debt position. This was classified in this way as the revolving credit facility was due to expire in November 2023, within a year from the year end balance sheet date.

Under terms agreed in February 2023 our £20m revolving credit facility provided by Barclays Bank was extended for a 3 year term to February 2026. Covenant terms under the new agreement are consistent with those previously enjoyed, and the base charge for credit facilities for the period of the arrangement are SONIA+2.40% and are subject to a non-utilisation fee of 0.84%. Under the terms of the Agreement it is possible for a further extension of one year to be granted subject to certain conditions being satisfied. The Group also has a £5m overdraft facility which was reviewed in February 2023 and on-going support was approved.

Summary

In a period in which the business has experienced inflationary pressures it is pleasing to report a significant increase in underlying profitability. This has been achieved by focusing on maintaining the quality of our gross margin and our continued efforts to extract cost from the business, most notably by a reduction in our headcount. The pressures on our cost base continue into 2023; we remain alert to this and will continue to take all possible and appropriate steps to mitigate the impact.

Whilst our supply chain has become less volatile, we are still experiencing lead times for certain products which are materially in excess of what we would view as normal and what we became familiar with prior to the impact of COVID-19. This has manifested itself in an increase in inventory levels in each of the last two financial years (total £10m). We have plans in place to manage this down through 2023 and beyond, at the same time remaining mindful of balancing this with the need to ensure we have ongoing availability of products to satisfy customer demand.

Russell Cash
Chief Financial Officer
12 April 2023

Consolidated Income Statement

For the year ended 31 December

	Note	2022 £000 Unaudited	2021 £000
Continuing operations			
Revenue		114,766	109,107
Cost of sales		(73,792)	(70,609)
Gross profit		40,974	38,498
Distribution expenses		(4,428)	(4,683)
Administrative expenses before separately disclosed items:		(27,960)	(28,125)
- Separately disclosed items	3	(12,966)	(1,978)
Total administrative expenses		(40,926)	(30,103)
Operating (loss)/profit	4	(4,380)	3,712
Financial expenses		(1,192)	(833)
(Loss)/profit from continuing operations before tax		(5,572)	2,879
Taxation	5	(680)	(741)
(Loss)/profit from continuing operations		(6,252)	2,138
(Loss)/Profit for the year attributable to:			
Owners of the parent		(6,252)	2,138
Earnings per share			
Basic earnings per share - continuing operations	7	(10.17p)	3.48p
Diluted earnings per share - continuing operations	7	(10.17p)	3.48p

Consolidated Statement of Comprehensive Income

	2022 £000 Unaudited	2021 £000
(Loss)/Profit for the year	(6,252)	2,138
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss		
- Exchange differences on translating foreign operations	318	(342)
Total comprehensive income for the year	(5,934)	1,796
Total comprehensive income for the year attributable to:		
Owners of the parent	(5,934)	1,796

Consolidated Statement of Financial Position

	Note	2022 £000 Unaudited	2021 £000
Assets			
Non-current assets			
Goodwill	8	53,092	63,164
Other intangible assets	9	3,523	4,517
Right-of-use assets		6,091	6,925
Property, plant and equipment		7,234	6,891
Total non-current assets		69,940	81,497
Current assets			
Inventories		31,580	30,531
Trade and other receivables		24,526	21,566
Prepayments		387	472
Cash and cash equivalents		3,972	4,562
Total current assets		60,465	57,131
Liabilities			
Current liabilities			
Interest-bearing borrowings		19,967	-
Lease liability		1,705	1,561
Trade and other payables		19,569	21,111
Tax payable		1,219	604
Total current liabilities		42,460	23,276
Net current assets		18,005	33,855
Non-current liabilities			
Interest-bearing borrowings		-	19,927
Lease liability		5,008	5,586
Provisions		317	309
Deferred tax liabilities		1,281	1,528
Total non-current liabilities		6,606	27,350
Net assets		81,339	88,002
Equity directly attributable to owners of the Parent			
Share capital		30,746	30,746
Share premium		60,959	60,959
Other reserves		187	187
Shares owned by the Employee Benefit Trust		(124)	(276)
Merger reserve		293	293
Merger relief reserve		3,646	3,646
Currency translation reserve		159	(286)
Retained losses		(14,527)	(7,267)
Total equity attributable to the owners of the Parent		81,339	88,002

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Other reserve £000	Shares owned by the EBT £000	Merger reserve £000	Merger relief reserve £000	Currency translation reserve £000	Retained losses £000	Total equity £000
Balance at 1 January 2021	30,746	60,959	187	(372)	293	3,646	343	(9,795)	86,007
Profit for the year	-	-	-	-	-	-	-	2,138	2,138
Other comprehensive income	-	-	-	-	-	-	(535)	193	(342)

Total comprehensive income for the year	-	-	-	-	-	-	(535)	2,331	1,796
Transactions with owners									
Share options settled	-	-	-	96	-	-	-	(14)	82
Share-based payment charge	-	-	-	-	-	-	-	166	166
Other movements	-	-	-	-	-	-	(94)	45	(49)
Total transactions with owners	-	-	-	96	-	-	(94)	197	199
Balance at 31 December 2021	30,746	60,959	187	(276)	293	3,646	(286)	(7,267)	88,002

Balance at 1 January 2022	30,746	60,959	187	(276)	293	3,646	(286)	(7,267)	88,002
Loss for the year	-	-	-	-	-	-	-	(6,252)	(6,252)
Other comprehensive income	-	-	-	-	-	-	318	-	318
Total comprehensive income for the year	-	-	-	-	-	-	318	(6,252)	(5,934)
Transactions with owners									
Share options settled	-	-	-	152	-	-	-	(25)	127
Share-based payment charge	-	-	-	-	-	-	-	372	372
Dividends paid	-	-	-	-	-	-	-	(1,228)	(1,228)
Transfers between reserves	-	-	-	-	-	-	127	(127)	-
Total transactions with owners	-	-	-	152	-	-	127	(1,008)	(729)
Balance at 31 December 2022	30,746	60,959	187	(124)	293	3,646	159	(14,527)	81,339

Consolidated Statement of Cash Flows

		Note	2022 £000 Unaudited	2021 £000
Cash flow from operating activities				
Net cash from operating activities	10		5,014	(441)
Cash flow from investing activities				
Acquisition of property, plant and equipment			(1,645)	(1,342)
Acquisition of intangible assets			(212)	(761)
Proceeds from sale of property, plant and equipment			65	525
Net cash used in investing activities			(1,792)	(1,578)
Cash flows from financing activities				
Repayment of lease liabilities			(1,673)	(1,882)
Interest on lease liabilities			(227)	(246)
Other interest			(925)	(547)
Proceeds from sale of shares held by the EBT			172	108
Dividends paid	6		(1,228)	-
Net cash used in financing activities			(3,881)	(2,567)
Net change in cash and cash equivalents			(659)	(4,586)
Cash and cash equivalents at start of year			4,562	9,235
Exchange differences on cash and cash equivalents			69	(87)
Cash and cash equivalents at end of year			3,972	4,562

Consolidated Statement of Cash Flows

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 Unaudited
At 1 January 2021	19,887	-	7,737	27,624
Cash flows:				
Repayment	-	-	(1,882)	(1,882)
Other movements	40	-	(59)	(19)
Non cash:				
Additions	-	-	1,424	1,424
Foreign exchange difference	-	-	(73)	(73)
At 31 December 2021	19,927	-	7,147	27,074
At 1 January 2022	19,927	-	7,147	27,074
Cash flows:				
Repayment	-	-	(1,673)	(1,673)
Other movements	40	-	-	40
Non cash:				
Additions	-	-	1,369	1,369
Reclassification of liabilities	(19,967)	19,967	-	-
Other lease movements			(190)	(190)
Foreign exchange difference	-	-	60	60
At 31 December 2022	-	19,967	6,713	26,680

Other lease movements are adjustments for the reduction in value of the lease liabilities following either the exercise of an early termination clause or an agreement with the landlord.

Extract of Notes to the Consolidated Financial Information

1. General information

The principal activity of Flowtech Fluidpower plc (the 'Company') and its subsidiaries (together, the 'Group') is the distribution of engineering components and assemblies, concentrating on the fluid power industry. The Company is a public limited company, incorporated and domiciled in the United Kingdom. The address of its registered office is Bollin House, Bollin Walk, Wilmslow, SK9 1DP. The registered number is 09010518.

News updates, regulatory news, and financial statements can be viewed and downloaded from the Group's website, www.flowtechfluidpower.com. Copies can also be requested from: The Company Secretary, Flowtech Fluidpower plc, Bollin House, Bollin Walk, Wilmslow, SK9 1DP. Email: info@flowtechfluidpower.com.

2. Accounting Policies

2.1 Basis of preparation

These condensed unaudited consolidated financial statements have been prepared in accordance with the accounting policies set out in the annual report for the year ended 31 December 2021 except for new standards adopted for the year.

While the financial information included in this preliminary announcement has been prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006, this announcement does not in itself contain sufficient information to comply with UK-adopted international accounting standards.

The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements for the years ended 31 December 2022 or 2021 as defined in section 435 of the Companies Act 2006 (CA 2006). The financial information for the year ended 31 December 2022 has been extracted from the Group's unaudited financial statements. Statutory financial statements for 2021 have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under either Section 498(2) or Section 498(3) of the Companies Act 2006.

2.2 Going concern

The financial statements are prepared on a going concern basis which the Directors believe to be appropriate for the following reasons:

- The Group generated an underlying operating profit of £8.6m, a £2.9m increase over £5.7m achieved in 2021.
- The Group is expecting to trade profitably in 2023 and beyond

- The Group is financed by revolving credit facilities totalling £20m and a £5m overdraft facility, repayable on demand. These facilities were renewed in February 2023 with the terms of the revolving credit facility extended until February 2026, with an option to extend by a further year to February 2027
- The Group remains compliant with all covenants contained in the Banking Agreement
- At the end of 2022 the Group's Net Debt was £16.0 million (£9.0 million within the aggregate banking facilities which include a £5.0 million overdraft facility).

The Directors have prepared forecasts covering the period to December 2024. Naturally, these forecasts include a number of key assumptions notably relating, *inter alia*, to revenue, margins, costs and working capital balances.

In any set of forecasts there are inherent risks relating to each of these assumptions. If future trading performance significantly underperformed expectations, management believe there would be the ability to mitigate the impact of this by careful management of the Group's cost base and working capital and that this would assist in seeking to ensure all bank covenants were complied with and the business continued to operate well within its banking facilities.

The Directors have considered reverse stress testing, based on revenue reductions, to determine scenarios in which the Group banking covenants could be breached. The Directors view the set of circumstances required for such a situation to crystallise as highly unlikely and as such not reasonably plausible scenarios.

The Directors believe the business will continue to operate within its agreed banking facilities and comply with all banking covenants. As such the Group therefore continues to adopt the going concern basis is preparing its financial statements.

3. Segment reporting

From the beginning of 2021, Management reviews the operations of the business based on three segments - Flowtech, Fluidpower Group Solutions and Fluidpower Group Services. These operating segments are monitored by the Group's Chief Operating Decision Maker and strategic decisions are made on the basis of adjusted segment operating results. Inter-segment revenue arises on the sale of goods between Group undertakings.

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

Segment information for the reporting periods are as follows:

For the year ended 31 December 2022 Unaudited	Flowtech £000	Fluidpower Group Solutions £000	Fluidpower Group Services £000	Inter- segmental transactions £000	Central costs £000	Total continuing operations £000
Income statement - continuing operations:						
Revenue from external customers	55,565	38,076	21,125	-	-	114,766
Inter-segment revenue	1,706	1,008	868	(3,582)	-	-
Total revenue	57,271	39,084	21,993	(3,582)	-	114,766
Underlying operating result (*)	6,887	4,405	1,804	-	(4,510)	8,586
Net financing costs	(141)	(68)	(5)	-	(978)	(1,192)
Underlying segment result	6,746	4,337	1,799	-	(5,488)	7,394
Separately disclosed items	(8,240)	(785)	(3,329)	-	(612)	(12,966)
(Loss)/profit before tax	(1,494)	3,552	(1,530)	-	(6,100)	(5,572)
Specific disclosure items						
Depreciation and impairment on owned plant, property and equipment	867	157	179	-	2	1,205
Depreciation on right of use assets	707	695	73	-	195	1,670
Impairment of goodwill	7,105	-	2,967	-	-	10,072
Impairment of acquired intangibles	-	-	168	-	-	168
Amortisation	230	683	124	-	-	1,037
Reconciliation of underlying operating result						
Underlying operating result (*)	6,887	4,405	1,804	-	(4,510)	8,586
Separately disclosed items	(8,240)	(785)	(3,329)	-	(612)	(12,966)
Operating (loss)/profit	(1,353)	3,620	(1,525)	-	(5,122)	(4,380)

(*) Underlying operating result is continuing operations' operating profit before separately disclosed items detailed

later in this note.

Segment information for 2021 has been re-stated following the movement of Primary Components from Fluidpower Group Solutions to Flowtech segment, as this reflects the information reported to the chief operating decision maker. Some overheads costs relating to Divisional management have been re-categorised as segment operating overheads to present a more comparable segment result.

A reconciliation of the re-stated values to prior year is provided below this table.

For the year ended 31 December 2021 (re-stated)	Flowtech £000	Fluidpower Group Solutions £000	Fluidpower Group Services £000	Inter- segmental transactions £000	Central costs £000	Total continuing operations £000
Income statement - continuing operations:						
Revenue from external customers	57,552	34,158	17,397	-	109,107	
Inter-segment revenue	5,164	970	833	(6,967)	-	-
Total revenue	62,716	35,128	18,230	(6,967)	109,107	
Underlying operating result (*)	7,543	2,689	(122)	-	(4,420)	5,690
Net financing costs	(141)	(72)	(20)	-	(600)	(833)
Underlying segment result	7,402	2,617	(142)	-	(5,020)	4,857
Separately disclosed items	(925)	(723)	(124)	-	(206)	(1,978)
Profit/(loss) before tax	6,477	1,894	(266)	-	(5,226)	2,879
Specific disclosure items						
Depreciation and impairment on owned plant, property and equipment	773	137	175	-	1,085	
Depreciation on right of use assets	656	615	192	-	180	1,643
Impairment of acquired intangibles	673	-	-	-	-	673
Amortisation	247	683	124	-	1,054	
Reconciliation of underlying operating result						
Underlying operating result (*)	7,543	2,689	(122)	-	(4,420)	5,690
Separately disclosed items	(925)	(723)	(124)	-	(206)	(1,978)
Operating profit/(loss)	6,618	1,966	(246)	-	(4,626)	3,712

(*) Underlying operating result is continuing operations' operating profit before separately disclosed items detailed below.

Reconciliation of re-stated segment information for FY 2021 to prior year report	Flowtech £000	Fluidpower Group Solutions £000	Fluidpower Group Services £000	Inter- segmental transactions £000	Central costs £000	Total continuing operations £000
Revenue as per prior year report	57,299	40,545	18,230	(6,967)	-	109,107
Revenue for Primary Components categorised to Flowtech segment	5,417	(5,417)	-	-	-	-
Total re-stated revenue	62,716	35,128	18,230	(6,967)	-	109,107
Underlying operating result in prior year report						
Underlying operating result for Primary Components categorised to Flowtech segment	492	(492)	-	-	-	-
Allocation of costs to Segments	(50)	(324)	(262)	-	636	-
Underlying operating result, re-stated	7,543	2,689	(122)	-	(4,420)	5,690

A breakdown of central costs can be found in the Financial Review

	2022 £000 Unaudited	2021 £000 Audited
Separately disclosed items		
Separately disclosed items within administration expenses:		
- Acquisition costs	-	11
- Amortisation of acquired intangibles (note 9)	943	1,054
- Impairment of acquired intangibles (note 9)	168	673
- Impairment of goodwill (note 8)	10,072	-
- Share-based payment costs	372	166
- Restructuring	1,411	74
Total separately disclosed items	12,966	1,978

Acquisition costs relate to stamp duty, due diligence, legal fees, finance fees and other professional costs incurred in the acquisition of businesses.

Share-based payment costs relate to charges made in accordance with IFRS 2 'Share-based payment' following the issue of share options to employees.

Restructuring costs relate to restructuring activities of an operational nature following acquisition of business units and other restructuring activities in established businesses. In 2022 restructuring costs included £627K (including £337K of redundancy costs) relating to the de-commissioning of the distribution centre at, £106K for the write off of the old website and other costs relating to amalgamation of business units currently underway.

4. Operating profit

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

	2022 £000 Unaudited	2021 £000 Audited
Depreciation of property, plant and equipment under right-of-use assets	1,670	1,643
Depreciation of tangible assets	1,205	1,084
Amortisation of intangible assets - website	94	-
Amortisation of intangible assets - customer relationships and brands	943	1,054
Impairment of intangible assets	168	673
Impairment of goodwill	10,072	-
Impairment loss/(gain) on trade receivables and prepayments	29	(1)
Loss on foreign currency transactions	23	24
Repairs and maintenance expenditure on plant and equipment	113	95

Services provided by the Group's Auditor

	2022 £000 Unaudited	2021 £000 Audited
Audit of the statutory consolidated and Company financial statements of Flowtech Fluidpower plc	78	88
Amounts receivable by the Company's Auditor and its associates in respect of: Audit of financial statements of subsidiaries of the Company	182	172

No other services were provided to the Company and its subsidiaries by the Group's auditor. Services are provided by other professional advisers as deemed appropriate by the Board.

5. Taxation

Recognised in the income statement

Continuing operations:	2022 £000 Unaudited	2021 £000 Audited
Current tax expense		
UK Corporation tax	734	493
Overseas tax	185	241
Adjustment in respect of prior periods	9	(60)
Current tax expense	928	674
Deferred tax		
Origination and reversal of temporary differences	21	106
Adjustment in respect of prior periods	(183)	(112)
Change in tax rate	(86)	73
Deferred tax (credit)/charge	(248)	67
Total tax charge - continuing operations	680	741

	2022 £000 Unaudited	2021 £000 Audited
Reconciliation of effective tax rate		
(Loss)/Profit for the year	(6,252)	2,138
Total tax (expense)	(680)	(741)
Loss/(Profit) excluding taxation	(5,572)	2,879
Tax using the UK corporation tax rate of 19.00% (2021: 19.00%)	(1,058)	547
Amounts not deductible	2,045	61
Adjustment in respect of prior periods	(174)	(172)
Other adjustments	(133)	305

Total tax expense in the income statement - continuing operations	680	741
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Change in corporation tax rate.

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021, and the UK deferred tax position for the group as at 31 December 2022 has been calculated based on this rate.

6. Dividends

	2022 £'000 Unaudited	2021 £'000 Audited
Final dividend of 2.0p (2021: £nil) per share	1,228	-
Total dividends	1,228	-

7. Earnings per share

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

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The dilutive shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. For diluted loss per share the weighted average number of ordinary shares in issue is not adjusted since its impact would be anti-dilutive.

	Year ended 31 December 2022 Unaudited			Year ended 31 December 2021 Audited		
	Loss after tax £'000	Weighted average number of shares	Loss per share Pence	Profit after tax £'000	Weighted average number of shares	Earnings per share Pence
Basic earnings per share						
Continuing operations	(6,252)	61,493	(10.17p)	2,138	61,493	3.48p

		2022 £'000 Unaudited	2021 £'000 Audited
Weighted average number of ordinary shares for basic and diluted earnings per share		61,493	61,493
Impact of share options		277	401
Weighted average number of ordinary shares for diluted earnings per share		61,770	61,894

8. Goodwill

	2022 £'000 Unaudited	2021 £'000
Cost		
Balance at 1 January	63,164	63,164
Balance at 31 December	63,164	63,164
Impairment		
At 1 January	-	-
Impairment charge	10,072	-
At 31 December	10,072	-
Carrying amount at 31 December	53,092	63,164

Background

The Group uses trading activity as the basis for determining reporting segments. The Group's reporting segments are Flowtech, Fluidpower Group Solutions and Fluidpower Group Services. Goodwill has been allocated for impairment testing purposes to 10 cash-generating units ("CGU") across these 3 segments (2021 - 14 CGUs). These CGUs represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

Various changes have been made in the current period in the identification of CGUs and the allocation of goodwill to those units since the prior period. The main changes are:

1. FTUK, Beaumanor, Hydravalue, and Indequip businesses were integrated into a single brand called Flowtech (represented by the CGU referred to as "FTUK"). The combined business operates as a single commercial entity with a single online presence; thus the businesses have been combined into one CGU
2. OEM customers in Primary Components business were transitioned into the HTL brand
3. The remaining Primary Components business was merged into the FTUK platform.

(Note Primary Components was formerly a CGU in its own right but has now been transitioned partly into FTUK and partly onto HTL)

With the above changes, and after taking into account the impairment of FTUK, Orange County and Hi-Power Transport, the carrying amounts of goodwill allocated now stands as at 31 December 2022 are:

Cash generating unit	£000
FTUK	42,041
Primary Systems	751
HTL	3,938
HES	1,204
Hydroflex-Hydraulics Oud	2,050
Flowtechnology Benelux BV	1,015
Nelson Hi-Power	1,869
Derek Lane	224
Orange County	-
Hi-Power Transport	-
Total	53,092

Impairment tests

The carrying amount of each CGU was determined by calculating the sum of the carrying amounts of all intangible assets (including goodwill) and tangible assets attributable to that unit. These were then compared with the value in use calculations for each CGU based on discounted cash flows of future period forecasts. Management prepared forecasts for each CGU for a two year period, (extending to five years where appropriate). All forecasts have been approved by the Board.

Cash flows beyond the period forecast by management for each CGU were extrapolated at an expected long-term growth rate of 2%. This growth rate does not exceed the long-term average growth rate for the market in which the Group operates.

Goodwill impairment charges in 2022

In total an impairment charge of £10,072k has been taken in 2022 across the following CGUs:

- FTUK - £7,105k
- Orange County - £2,793k
- Hi-Power Transport - £174k

FTUK

An impairment charge of £7,105k has been taken leaving a balance of goodwill of £42,041k. As with other CGUs the value in use calculation is sensitive to a number of assumptions. In arriving at the impairment charge the forecasts assumed a pre tax discount rate of 13.1% and a revenue growth rate of 4% in each of 2024, 2025, 2026 & 2027. It should be noted that each 1% movement in the discount rate has an impact of approximately £7m on the calculation and each 1% movement in revenue an impact of approximately £6m. Movements in revenue and discount rates are considered the factors to which the value in use calculation is most sensitive.

FTUK is the principal component of the Flowtech segment. As alluded to in the Chair's report and CEO year in review sections of the report 2022 was a period in which the business underwent a significant degree of change and suffered from challenging market conditions; nevertheless, the business generated a 11.9% return on revenue. Our ambition remains to see the segment as a whole (FTUK plus Flowtechnology Benelux) deliver a return on revenue of at least 15%. The investment we have made in operational changes and in particular the impact we expect our investment in our E-Business/Digital agenda provides us with confidence that the assumptions used in deriving the value in use figures are appropriate. We would hope that discount rates return to more traditional, i.e. lower, levels and that this combined with an improved performance in 2023, will provide

headroom within the calculation when next performed.

Orange County

The Orange County CGU was written down to its recoverable amount (£1,631k) by recognising an impairment charge of £2,793k to the goodwill. This leaves £472k in intangible assets (customer relationships) and a £85k deferred tax liability at the end of the year. Management believes the forecast assumptions underpinning the value in use of Orange County are sufficiently cautious. It should be noted that each 1% movement in the discount rate has an impact of approximately £120k on the calculation and each 1% movement in revenue an impact of approximately £120k. Movements in revenue and discount rates are considered the factors to which the value in use calculation is most sensitive.

Notwithstanding this necessary accounting treatment, Management remains confident that the business will continue to generate a positive contribution.

Hi-Power Transport

An impairment charge of £342k has been taken to eliminate the carrying value of goodwill (£174k) and other intangible assets (£168k - see note 9). Management believes the forecast assumptions underpinning the value in use of Hi-Power Transport are sufficiently cautious. It should be noted that each 1% movement in the discount rate has an impact of approximately £150k on the calculation and each 1% movement in revenue an impact of approximately £180k. Movements in revenue and discount rates are considered the factors to which the value in use calculation is most sensitive.

Notwithstanding this necessary accounting treatment, Management remains confident that the business will continue to generate a positive contribution.

Key assumptions used in value in use calculations

The Group has determined that the recoverable amount calculations are most sensitive to changes in revenue growth rates, gross margins and discount rates.

Discount rates have increased substantially over prior year due to increase in cost of borrowing and risk-free rates. This has had a significant impact on the VIU calculations for all CGUs and was a key factor in the need to impair the goodwill of FTUK, Orange County and Hi-Power Transport. Comments in this regard are provided in the Financial Review section.

Sensitivity to changes in key assumptions

The calculations to assess the value in use of each CGU are naturally based on a series of assumptions; of particular note are those relating to revenue, EBITDA margins and discount rates. The calculations are obviously sensitive to deviations, in either direction, to these assumptions; the comments below seek to provide some analysis and commentary around the most sensitive areas.

With regards to discount rates this is clearly driven by factors outside of the control of the business; it is worthy of note that the discount rates used to underpin the 2022 calculations are significantly higher than those used in 2021. It is of course hoped that economic/political factors return to a less volatile position which would lead to discount rates returning to more typical/traditional levels.

Two of our CGUs are showing marginal positions based on the calculations performed, they are:

1. Primary Systems

Primary Systems - a £59k surplus with value in use of £6,121k compared with a carrying value of £6,062k. The carrying value of goodwill is £751k and other intangibles (net of associated deferred tax) £76k. It should be noted that each 1% movement in the discount rate has an impact of approximately £400k on the calculation and each 1% movement in revenue an impact of approximately £280k. Movements in revenue and discount rates are considered the factors to which the value in use calculation is most sensitive.

Primary Systems has undergone significant change in 2022 with a much-improved trading performance as a result, particularly evident in the second half of the year. 2023 should benefit from the impact of the majority of income/profit from the Thames Tideway project; with the actions taken we are confident the business can consistently deliver acceptable levels of profit beyond this period. These factors underpin the assumptions used in the value in use calculations.

2. Hydroflex

Hydroflex - a £279k surplus with value in use of £5,004k compared with a carrying value of £4,725k. The carrying value of goodwill is £2,050k and other intangibles (net of associated deferred tax) £388k. It should be noted that each 1% movement in the discount rate has an impact of approximately £500k on the calculation and each 1% movement in revenue an impact of approximately £300k. Movements in revenue and discount rates are considered the factors to which the value in use calculation

approximately £500K. Movements in revenue and discount rates are considered the factors to which the value in use calculation is most sensitive.

Hydroflex Hydraulics has produced an improved trading performance in 2022 and we expect this to be at least maintained in 2023 and beyond.

9. Other intangible assets

2022 Unaudited 2021 Audited	Acquired Customer relationships		Acquired Brands		Asset under construction		Website		Total	
	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000
Balance at 1 January	9,371	9,371	1,173	1,173	761	-	-	-	11,305	10,544
Transfer between asset categories	-	-	-	-	(761)	-	761	-	-	-
Additions	-	-	-	-	-	761	212	-	212	761
Balance at 31 December	9,371	9,371	1,173	1,173	-	761	973	-	11,517	11,305
Amortisation and impairment										
Balance at 1 January	5,657	4,711	1,131	350	-	-	-	-	6,788	5,061
Amortisation	901	946	42	108	-	-	94	-	1,037	1,054
Impairment	168	-	-	673	-	-	-	-	168	673
Balance at 31 December	6,726	5,657	1,173	1,131	-	-	94	-	7,993	6,788
Carrying amount at 31 December	2,645	3,714	-	42	-	761	879	-	3,523	4,517

The impairment charge in 2022 relates to the intangible assets associated with the Hi-Power Transport business. Amortisation is charged to administration costs in the Consolidated Income Statement. The amortisation of customer relationships and brands of £943K (2021; £1,054K) is a separately disclosed item and is referred to as the amortisation of acquired intangibles.

10. Net cash from operating activities

	2022 £000 Unaudited	2021 £000 Audited
Reconciliation of profit before taxation to net cash flows from operations		
Loss/(profit) from continuing operations before tax	(5,572)	2,879
Depreciation and impairment of property, plant and equipment	1,205	1,084
Depreciation on right-of-use assets (IFRS 16)	1,670	1,643
Impairment of right-of-use assets (IFRS 16)	388	-
Finance costs	1,192	833
Loss/(gain) on sale of plant and equipment	57	(209)
Other movements	-	(95)
Amortisation of intangible assets	1,037	1,054
Impairment of intangible assets	168	673
Impairment of goodwill (note 8)	10,072	-
Cash settled share options	(42)	(26)
Equity-settled share-based payment charge	372	166
Exchange	65	-

Exchange differences on non-cash balances	..	
Operating cash inflow before changes in working capital and provisions	10,612	8,002
Change in trade and other receivables	(2,851)	(3,325)
Change in stocks	(832)	(8,764)
Change in trade and other payables	(1,702)	3,496
Change in provisions	7	(59)
Cash generated from operations	5,234	(650)
Tax (paid)/reclaimed	(220)	209
Net cash generated/(used) from operating activities	5,014	(441)

Annual General Meeting (AGM)

The AGM is to be held at 10am on 15 June 2023 at the Group's Headquarters, Flowtech Fluidpower plc, Bollin House, Bollin Walk, Wilmslow SK9 1DP. The Notice convening the Company's 2023 Annual General Meeting shall be published on the Company's website and posted to shareholders who have elected postal copies in due course.

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. Therefore, nothing in this document should be construed as a profit forecast by the Company.

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