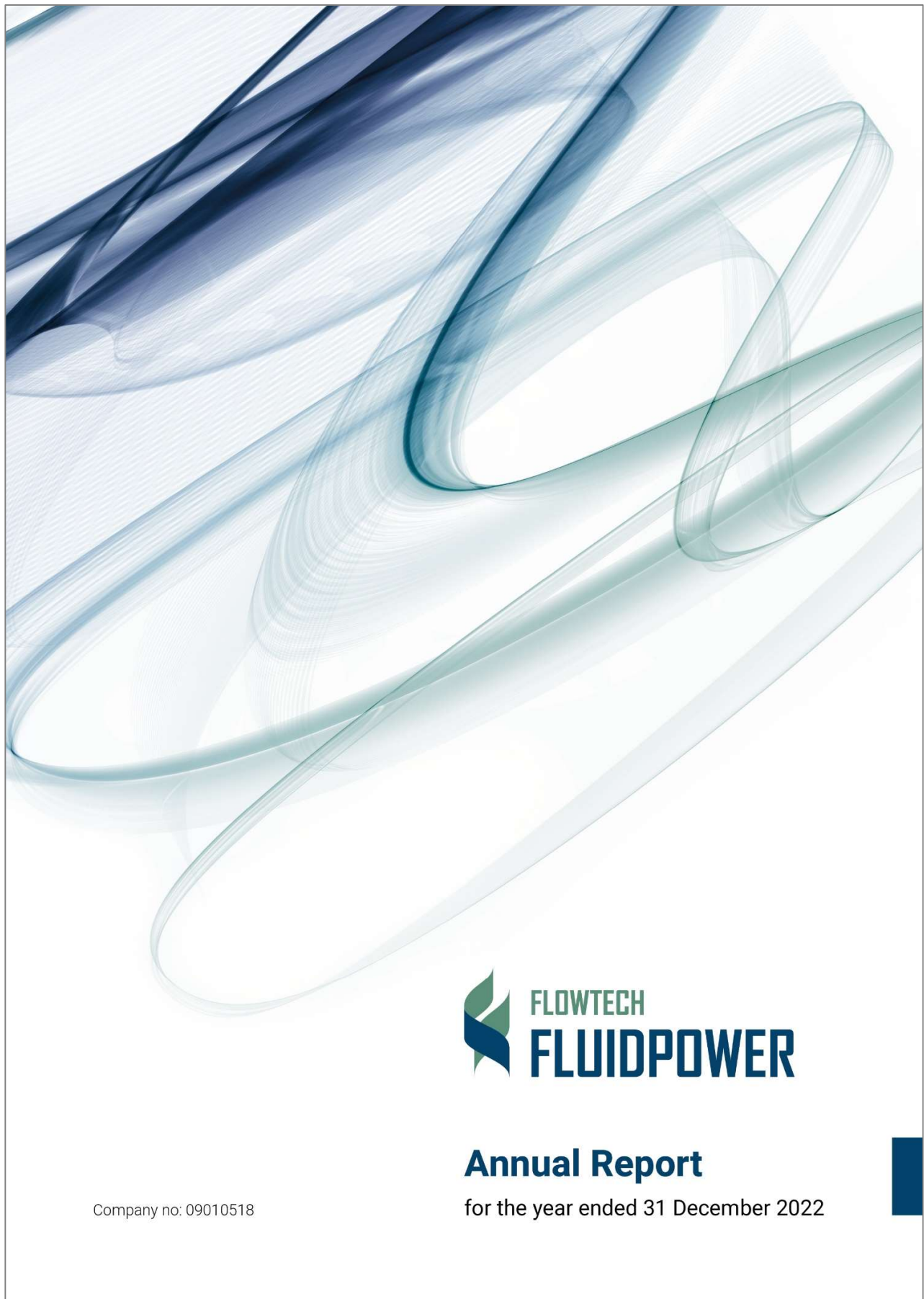




Company no: 09010518

Annual Report

for the year ended 31 December 2022

A Vital Partner in the Fluid Power Supply Chain

Flowtech Fluidpower is a Group of specialist fluid power businesses. Working in partnership with customers and suppliers, we deliver essential components, custom solutions, and high-quality servicing support to keep global industry moving.

Our business is separated into three distinct segments: Flowtech, Fluidpower Group Solutions and Fluidpower Group Services.

www.flowtechfluidpower.com



Below are some of the leading brands we sell and partner with:



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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
- 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, and cash generation

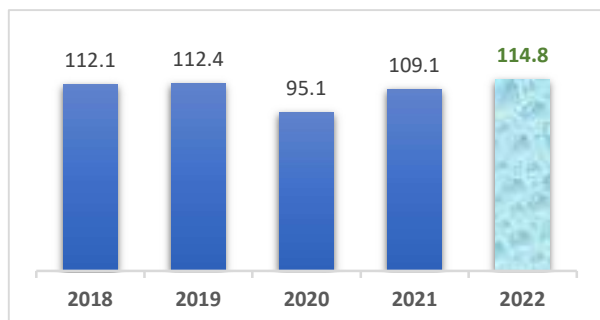
(*) Underlying operating profit is used as an alternative performance measure to assess the trading performance of the business and is operating profit before separately disclosed items which are amortisation and impairment of acquired intangibles, impairment of goodwill, share based payments, and restructuring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

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

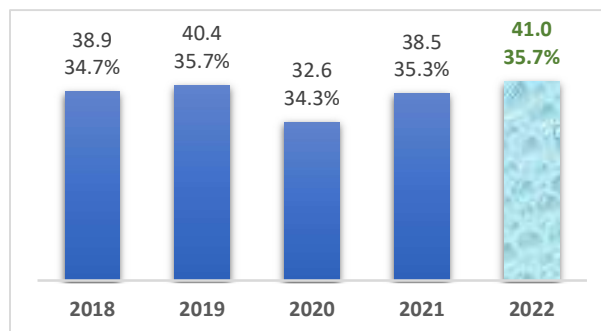
(**) Underlying operating overheads is the total of distribution costs and administrative expenses before separately disclosed items.

FY2022 Financial Highlights

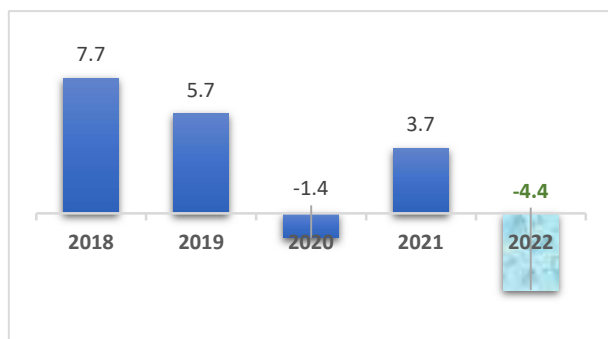
Revenue £m



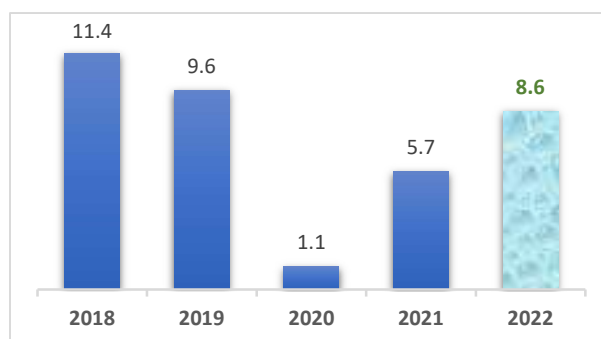
Gross profit £000 / %



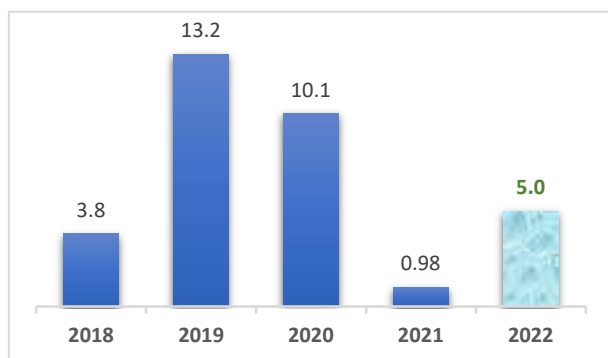
Operating profit/(loss) £m



Underlying operating profit £m(*)

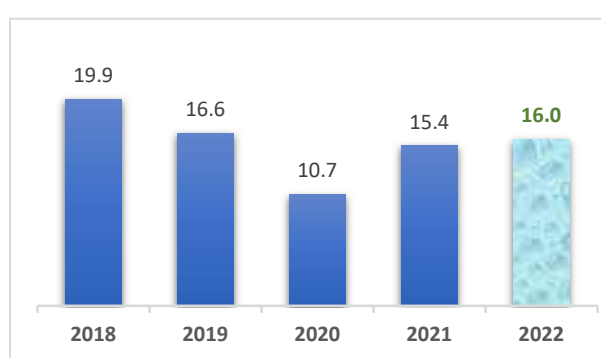


Net cash from operating activities(*)£m



(*) FY 2020 cash flow restated for £1,418k VAT for Q1 2020 deferred and paid in FY 2021 to reflect normalised net cash from operating activity.

Net debt(*)£m



*Net Debt is Bank Debt less cash and cash equivalents. It excludes lease liabilities under IFRS 16
2020 includes HMRC support

Chairman's Statement



"We have entered 2023 with much of these 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

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 on release of this Report and Accounts. 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, 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.

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 macro-economic 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.

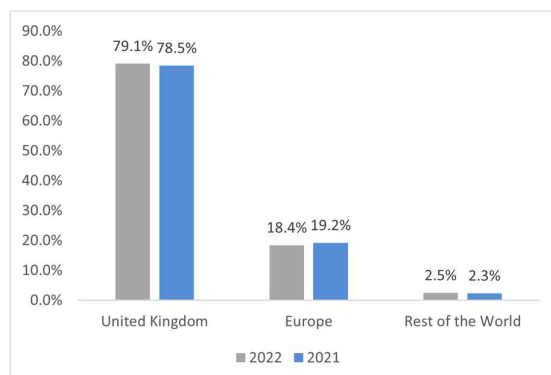
Roger McDowell
Non-Executive Chair
25 April 2023

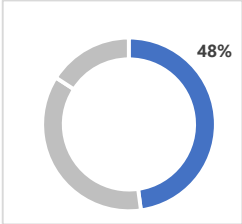
Group Overview

A Vital Partner in the Fluid Power Supply Chain

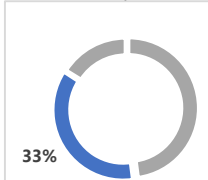
"Flowtech Fluidpower is a Group of specialist fluid power businesses. Working in partnership with customers and suppliers, we deliver essential components, custom solutions and high-quality servicing support to keep global industry moving"

Group Revenue % Geographies



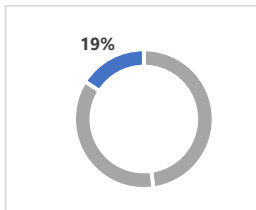
Flowtech	Our focus	Channels to Market	Our Strengths												
<u>Share of Group revenue</u>  <table><tr><th colspan="2">Revenue</th></tr><tr><td>FY2022</td><td>£55.6m</td></tr><tr><td>FY2021 (+)</td><td>£57.6m</td></tr><tr><th colspan="2">Employees*</th></tr><tr><td>FY2022</td><td>263</td></tr><tr><td>FY2021 (+)</td><td>282</td></tr></table>	Revenue		FY2022	£55.6m	FY2021 (+)	£57.6m	Employees*		FY2022	263	FY2021 (+)	282	Supply of both hydraulic and pneumatic consumables, predominantly through distribution for maintenance and repair operations across all industry markets, supported by a broad range of manufacturer brands from Europe and the USA, as well as quality own label products manufactured in the Far East.	E-commerce websites enhanced in 2022, customer white label e-commerce websites, 70,000+ catalogues, experienced off-line business development teams and external sales force, own and customer trade counters.	1. Consistent cash generator, high profits 2. Widest set of leading brands from extensive stock inventory 3. Purchasing synergies through common product set 4. Essential urgent delivery, critical for MRO market 5. Supply chain consolidation for suppliers and customers 6. Added value customer services
Revenue															
FY2022	£55.6m														
FY2021 (+)	£57.6m														
Employees*															
FY2022	263														
FY2021 (+)	282														



Fluidpower Group Solutions	Our focus	Channels to Market	Our Strengths												
Share of Group Revenue  33% <table><tr><th colspan="2">Revenue</th></tr><tr><td>FY2022</td><td>£38.1m</td></tr><tr><td>FY2021 (+)</td><td>£34.2m</td></tr><tr><th colspan="2">Employees*</th></tr><tr><td>FY2022</td><td>157</td></tr><tr><td>FY2021 (+)</td><td>159</td></tr></table>	Revenue		FY2022	£38.1m	FY2021 (+)	£34.2m	Employees*		FY2022	157	FY2021 (+)	159	Supply specialist technical hydraulic components & systems, predominantly into Original Equipment Manufacturer and End User channels to all industry markets, supported by supply agreements and authorised distributor status from a broad range of leading European manufacturer brands.	Engineering collaboration, through sales offices providing national and local coverage. Technically strong sales teams.	1. Large volume /regular orders into OEMs 2. High degree of technical knowledge with the ability to source products for urgent customer needs 3. High levels of customer retention 4. Strong long-term strategic relationships with leading manufacturers 5. Bespoke product configured to customers' requirements
Revenue															
FY2022	£38.1m														
FY2021 (+)	£34.2m														
Employees*															
FY2022	157														
FY2021 (+)	159														

*Average for the year. Excludes central employees (FY22: 50, FY21: 41)

+Values for FY 21 are re-stated to show Primary Components in Flowtech Segment (previously Fluidpower Group Solutions). Refer Note 3 for reconciliation of segment results.

Fluidpower Group Services	Our focus	Channels to Market	Our Strengths
Share of Group revenue  19%	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. Capital project-based revenue.	In-house design and build, combined with on-site installation, servicing and support.	1. Highly valued engineering support to customers 2. Working in partnership with suppliers and customers on large industry projects with cross-sell opportunities for the Group and additionally ongoing repeat business for Flowtech and Solutions. 3. Bespoke assembled customer solutions and deep technical support 4. Installation, commissioning and local servicing 5. Leading manufacturer brands in system builds

Revenue	
FY2022	£21.1m
FY2021	£17.4m
Employees*	
FY2022	125
FY2021	131

* Average for the year. Excludes central employees (FY22: 50, FY21: 41)



CEO's Year in Review



"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 good, we are confident that all the major strategy decisions we have made will create additional shareholder value in the medium to long-term, and will quickly feed through into strong cash generation available for further investment"

Bryce Brooks

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 and Note 10.

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)	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)				
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 ("BFPPDA") 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.

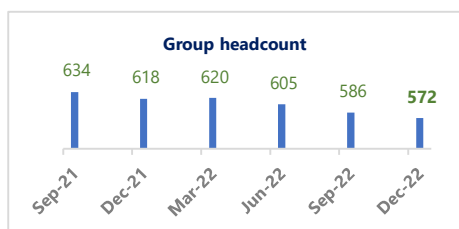
Developments in Group strategy and progress in 2022

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

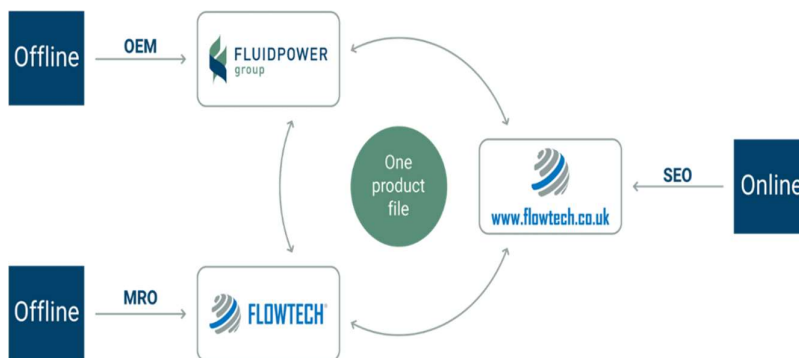
On 4 January 2022 we completed a plan to integrate those businesses that were operating as part of our Flowtech segment - namely Flowtechnology UK, Indequip, Beaumanor Fluidpower, and Hydravalve to come together into a single commercial entity, badged as Flowtech with new livery and organisational structure. 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
25 April 2023

*Bryce Brooks stepped down as CEO on 12 April 2023

Our Business Model

High Quality Fluid Power Products & Solutions

As the largest and leading player in the UK and Irish market, we aim to provide high-quality fluid power products and solutions, based around the distribution of leading global brands. Our sustainable business model, enhanced by sector-leading online capabilities, makes fluid power supply convenient and efficient for customers and suppliers, driving growth and returns for Shareholders.

Resources	
1. Widest product choice	• Leading industry brands (500+) through key supplier partnerships • Central purchasing, allowing cost saving synergies • Extensive stocks £31m net
2. Expertise in our market	• Established businesses between 10 and 50 years in operation • Highly skilled, highly knowledgeable employees with extensive supplier and business training • Robust IT, systems and processes by working with expert third parties, e.g. e-commerce and logistic partners

Key Group Activities	
Unrivalled, low-cost full-service provision in fluid power	
3. Vital products & solutions	• We have a healthy balance of operational and capex driven revenue. We have the largest market share in our sector for the indirect supply of urgently required fluid power components, vital for maintenance and repair operations across all industry segments • Additionally, we design, manufacture and install bespoke solutions across all industry sectors, predominantly sold to OEMs and driven by capital investment
4. Vital high-quality service	• High-quality service, which is both responsive and delivers significant value to customers, whether that be next day delivery from stock, technical support, customer training, on-site servicing or added value services such as bespoke sales and marketing support or e-commerce solutions

Driving Force	
5. Strong leadership culture	• Through our decentralised structure, we promote a culture where location leaders have a sensible degree of delegated authority to run their business effectively but at the same time providing support from certain centralised functions. Each business and its employees are further empowered through access to training and reward schemes



Our Strategy for growth

"Our sustainable business model makes fluid powersupply convenient and efficient for customers and suppliers and drives growth and returns for Shareholders"

Sales growth	Procurement & productivity improvement	Cash generation & management of net debt	IT strategy	People
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Value created	
6. Short to medium-term	• Widest brand choice from a single source, with tailored options, supported by technical expertise, efficient solutions, and reliable added-value services for customers (98% on-time delivery for MRO) • Respected collaborative supplier partnerships with the world's leading brands • Rewarding and progressive careers for employees, through training and incentive schemes. Support for our local communities through local apprenticeships and charitable work • As we emerge from the worst effects of COVID-19, sustained annual growth with strong financial performance and attractive returns for investors
7. Long-term	• Most cost-efficient provider of a high-quality service in fluid power • Sector-leading e-business platform and digital insight capabilities • Sustainable long-term growth, through reliable repeat business • Experience, stability and strength to support large long-term projects • Critical mass, with resources to adapt and explore new market opportunities • Thought leadership in fluid power with innovative solutions for industry

The Group has a clear view of growth objectives – to create a specialist fluid power organisation that remains focused on its core competencies through its delivery of class-leading service and support.

Our long-term growth model is based on organic growth through offline and online activities, coupled with complementary acquisitions in the UK and Ireland, in a fragmented marketplace.

The Board regularly monitors a range of financial and non-financial performance indicators to allow it to measure performance against expected targets. In late 2020, we completed a full strategy review to create focus and provide a framework for future developments, including our ambition to achieve significant growth. Whilst progress in many areas was slowed by COVID-19, we believe that significant development has been undertaken in 2021 and 2022, and the CEO's Year in Review details progress made in our structural goals.

The KPIs we established at that time remain relevant, our comments in each area being provided below:

Strategic focus

KPIs		FY 2023 Plan																
Sales growth <table><tr><th colspan="2">Daily Gross Profit £000</th></tr><tr><td>2020:</td><td>£130</td></tr><tr><td>2021:</td><td>£155</td></tr><tr><td>2022:</td><td>£166</td></tr></table> <table><tr><th colspan="2">Total value of sales from online & EDI £000</th></tr><tr><td>2020:</td><td>£25,501</td></tr><tr><td>2021:</td><td>£27,637</td></tr><tr><td>2022:</td><td>£25,607</td></tr></table>	Daily Gross Profit £000		2020:	£130	2021:	£155	2022:	£166	Total value of sales from online & EDI £000		2020:	£25,501	2021:	£27,637	2022:	£25,607	Target to ensure continuous above 'market' sales growth with strong gross and net margin contribution. At the Profit Centre level, we review sales and gross profit on a daily basis, comparing performance against the prior year and plan. Each business has additional reporting available from local systems detailing overall sales and gross margin performance on a summarised customer and product group basis, with further detail available at individual product level. The Group also measures organic sales growth on a quarterly basis and compares this to market information produced by our industry trade associations. Whilst there are some differences in the composition of the index to our own business, this does give us a guide as to how we are performing against the sector. All online sales are undertaken in our Flowtech segment, and a key component in our strategy is to develop our e-business capabilities, which are referred to in both the Chair's Statement and the CEO's Year in Review sections of this Report.	Having transitioned the Flowtech segment away from its legacy web offerings to a newly designed single solution during 2022, this year will focus on ensuring that key functionality areas are refined and improved wherever necessary. Immediate focus will be on using new capabilities to improve cross and up selling opportunities within the current customer base, as well as improving SEO rankings with a view to attracting new customers. Having been established in 2022, we will use the data analysis tools in our Customer Data Platform across all business units, which will be enhanced by e-marketing campaigns built around the insight provided.
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Warehousing productivity improvement (^) <table><tr><th colspan="2">Warehousing costs* (%)</th></tr><tr><td>2020:</td><td>8.9%</td></tr><tr><td>2021:</td><td>7.6%</td></tr><tr><td>2022:</td><td>7.2%</td></tr></table>	Warehousing costs* (%)		2020:	8.9%	2021:	7.6%	2022:	7.2%	In the past three years the Group has implemented an extensive programme to centralise the majority of its mainland UK warehouse and logistic operations into a single location in Skelmersdale, Lancashire. In 2022 this process was largely completed with the closure of a major site in Leicester over the summer. In addition, with the planned expansion of buffer stocks to reduce risk associated with extended lead times following the COVID-19 pandemic, the Group has been incurring additional storage costs that we also expect to reduce in the latter part of 2023, and therefore continue to reduce total warehousing costs as a proportion of turnover.	In 2023 this key productivity measure will naturally reduce with the full year impact of the closure of Leicester, and our focus will be on ensuring that new working practices are firmly established with no further significant cost reductions expected in the near term. With the majority of the "pick and ship" activity for the UK now in one facility, we will therefore operate a continuous improvement approach, which will include the use of automation where returns can be clearly identified.								
Warehousing costs* (%)																		
2020:	8.9%																	
2021:	7.6%																	
2022:	7.2%																	

*Being the Group's cost of warehousing, including property and people, divided by associated turnover

(^) replaces Cost per pick as a measure of operational efficiency

KPIs		FY2023 Plan																																
Cash generation & management of Net Debt <table><tr><th colspan="2">Working capital as a % of total revenue</th></tr><tr><td>2020</td><td>23.9%</td></tr><tr><td>2021</td><td>28.8%</td></tr><tr><td>2022</td><td>32.3%</td></tr></table><table><tr><th colspan="2">Net debt* excludes lease liabilities under IFRS 16</th></tr><tr><td>2020: £11.6m**</td><td></td></tr><tr><td>2021: £15.4m</td><td></td></tr><tr><td>2022: £16.0m</td><td></td></tr></table> *Bank Debt less cash and cash equivalents **Includes £0.9m HMRC COVID-19 related support <table><tr><th colspan="2">Turn & Earn % *</th></tr><tr><td>2020: 93%</td><td></td></tr><tr><td>2021: 95%</td><td></td></tr><tr><td>2022: 85%</td><td></td></tr></table> *Turn & Earn calculations have been revised to include total cost of sales in the calculation of stock turn. Turn & Earn Index is calculated by multiplying gross margin by stock turn. In 2022, the gross margin achieved was 35.8% and the average stock turn achieved was 2.38, therefore the Turn & Earn index was 85%. <table><tr><th colspan="2">DSO (days)</th></tr><tr><td>2020: 58.1</td><td></td></tr><tr><td>2021: 60.5</td><td></td></tr><tr><td>2022: 62.4</td><td></td></tr></table>	Working capital as a % of total revenue		2020	23.9%	2021	28.8%	2022	32.3%	Net debt* excludes lease liabilities under IFRS 16		2020: £11.6m**		2021: £15.4m		2022: £16.0m		Turn & Earn % *		2020: 93%		2021: 95%		2022: 85%		DSO (days)		2020: 58.1		2021: 60.5		2022: 62.4		A continuous focus on reducing gearing in the balance sheet, and the creation of excess cash positions, will protect the business from any macroeconomic uncertainties, and provide opportunity for investment. As we have outlined in our wider commentary, impacts on the length and volatility in global supply chains, have forced us to ensure customer service is maintained with additional inventory investment. We believe that whilst elements of these impacts remain, in the second half of 2022 a more consistent environment emerged that is now allowing us to gradually reduce stocks and achieve more optimised inventory levels. Continued management of trade debtors is fundamental. Internal reports are included in Board papers to ensure tight control is maintained and managed by monthly reviews with each business unit leader reporting to the CFO.	Our target remains to achieve a Turn & Earn KPI of 130% by 2025, and segment managing directors have been set clear targets for the middle and end of 2023 to achieve net inventory levels in line with this timetable. As a result of the above actions, we believe that we will be able to reduce working capital as % to total revenue to below 30% by end of 2023, with a view to falling below 25% by end of 2025, and a commensurate reduction in net debt. *
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IT strategy <table><tr><th colspan="2">Process systems</th></tr><tr><td>2020: 5</td><td></td></tr><tr><td>2021: 4</td><td></td></tr><tr><td>2022: 4</td><td></td></tr></table><table><tr><th colspan="2">Accounting systems</th></tr><tr><td>2019: 2</td><td></td></tr><tr><td>2020: 2</td><td></td></tr><tr><td>2022: 2</td><td></td></tr></table>	Process systems		2020: 5		2021: 4		2022: 4		Accounting systems		2019: 2		2020: 2		2022: 2		Cost-effective, secure IT environments that provide long-term stability for the Group's activities remains a key part of the Group's strategy. The Board believes that a reduction in the number of IT systems that operate within the Group is a key element in improving overall efficiency and control and reducing risk. Our strategy is to eventually standardise on two Process Systems – one covering Flowtech and Solutions segments where the majority of operational activity is involved in product movement using logistics-based software, and a second platform covering Services which involves more bespoke activities, manufacturing, and site-based activities.	Replace the current 3 IT environments used within our Services segment with a single solution. Our Flowtech segment now operates on a single IT environment characterised by the amalgamation of several software modules and which operate in a co-ordinated manner. We have identified that those elements that operate on older software platforms should be replaced on a module by module basis in order to reduce change risk, and we expect to start this in late 2023 with a new Warehouse Management System currently at shortlist stage. In addition, in 2023 we will be transitioning the accounting module in Flowtech thereby completing a single platform approach.																
Process systems																																		
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People <table><tr><th>Group employment engagement</th></tr><tr><td>2020: 69%</td></tr><tr><td>2021: 66%</td></tr><tr><td>2022: 64%</td></tr></table>	Group employment engagement	2020: 69%	2021: 66%	2022: 64%	Investing in our management teams and staff brings the benefits of improved retention and talent identification for succession planning. We see training and development of employees as key to our long-term success. The Group conducts an annual Employee Engagement Survey to measure employee satisfaction, and subsequent activities are tailored to improve overall engagement. In 2022, given the general economic climate and the headcount reductions we have implemented, we have seen a small drop in certain areas of the business that particularly encompass lower paid roles, such as in our warehousing activities. However, overall “Challenge,” “Freedom” and “Clarity” score highly across the Group, and we believe that we are improving at providing enjoyable, relevant work, that allows for flexibility and gives clear goals and purpose.	Our ambition is to achieve a score of 75% over the medium term. Recent survey analysis identifies Recognition and Reward as an area for greater focus and improvement. Our new initiatives, such as The Accelerate Programme, will seek to ensure that our high potential staff do development and receive the recognition they deserve. Our local leadership style is empowering for employees, with high levels of trust and responsibility. However, it can also lead to a lack of clarity of objectives in more junior roles. We will therefore continue to educate and train our managers, to ensure they succeed, and their teams thrive. We will also bring new focus on our younger staff, ensuring they feel part of the Group immediately, with improved induction processes, and a career line of sight for development opportunities. To support this, we have increased our apprenticeship schemes, particularly at our main warehousing location in Skelmersdale.
Group employment engagement						
2020: 69%						
2021: 66%						
2022: 64%						

Marketplace

A growing fluid power market

We operate in a growing fluid power market, worth £1.1 billion in the UK, €14.4 billion across Europe and \$56 billion globally*. It is broadly estimated that 'distribution' accounts for between 30% and 40% of this market, with the balance covered by direct supply from product manufacturers to eventual end user.

Our market

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

▪ Hydraulics

Whilst there has been some evidence of recent consolidation, the hydraulic market generally remains fragmented, comprising a large number of manufacturers, supplying direct to manufacturers of specialised Original Equipment Manufacturers ("OEMs") or resellers who sell onto OEMs. This market is further split between mobile hydraulics (56%) and industrial hydraulics (44%).

Core products include:

- Pumps
- Motors
- Valves
- Cylinders
- Filters
- Hose and tubing
- Fittings equipment

Key industry drivers include:

- Construction
- Agriculture
- Defence
- Aerospace
- Oil and gas
- Heavy machinery for lifting and moving equipment

▪ Pneumatics

The pneumatic market comprises a smaller number of key players, who supply direct to end users or to resellers who then sell onto the end user.

Core products include:

- Compressors
- Filtration
- Valves
- Cylinders
- Vacuum products

Key industry drivers include:

- Food processing
- Electronics
- Medical
- Automotive
- Packaging

*British Fluid Power Association (2021) CETOP (2021)

In the UK and Ireland, we estimate Flowtech Fluidpower currently holds around 11% market share in fluid power. Across the Benelux, we hold around 2% market share. We partner with over 500 supplier brands, giving us potential access to a large share of the €14.4 billion European fluid power market. As global manufacturers lean towards supply chain consolidation through closer partnerships with major distributors, the Group aims to further support this consolidation and grow its market share. Some of the key manufacturers include Parker Hannifin, with turnover of £13.1bn, Danfoss £6.9bn, Rexroth £5.4bn & Festo £2.7bn. Overall, manufacturers' direct supply accounts for approximately 65% of demand, with an increasing emphasis on the remaining 35% via the distribution channel.

Market trends in the UK & Ireland

The British Fluid Power Association (BFPA) captures market insight based on two key channels: direct sales from manufacturers to OEMs/end users and indirect sales via distribution. The former, having a higher involvement in more volatile capex spending, and the latter supporting maintenance, repair, and operations (MRO), present different trends in the fluid power market.

Prepared in October 2022, the BFPA 2023 outlook was positive with growth expected in both Hydraulics and Pneumatics (a full table of their predictions is shown below). Whilst there is an element of caution within the BFPA forecast as this was prepared during the mini-budget, it was forecast that many supply chain issues would be resolved, and the sector would benefit from decreasing lead-times and fulfilment of orderbooks.

In terms of the normal composition of Flowtech Group sales in the UK & Ireland, we believe that we are broadly around 40% Pneumatic and Industrial and 60% Hydraulic, with a similar makeup to our sales in the Benelux.

UK fluid power forecast 2022: % change (year-on-year)*

		2020	2021	2022	2023
UK indirect sales	Hydraulic equipment	-23.3	28.0	10.3	3.3
	Pneumatic equipment	-3.7	12.8	5.5	4.9
UK indirect sales	Hydraulic	29.8	28.5	31.4	30.4
	Pneumatic	38.5	37.9	36.7	36.9

*BFPA/Oxford Economics

One example of our sector dealing with climate related issues, is where electrification is gaining traction in “mobile” markets, and one of the most obvious changes facing the hydraulics market is the potential replacement in favour of electromechanical solutions. Traditional hydraulics continues to offer unmatched power density, however, there are applications with low power demands which could foster this kind of hydraulic substitution. We have a natural defence against much of these long term market changes by aligning ourselves as appointed distributor to the major manufacturers, but we are also now developing electromechanical skills within our Services Division in order to ensure we create internal capabilities to keep pace with these developments, and this will be in addition to the core strengths we are creating in our EMC.

Sustainability Report

This is our third year reporting on our Environmental, Social and Governance (ESG) agenda.

Our Sustainability Report examines our Environmental and Social aspects, with Governance being covered later in this report. This section focuses on three core areas: *Our Environment*, *Our People*, and *Our Communities*.

Our environment

As a Group we strive to be vigilant and mindful of our operations and their potential impact on the environment. We encourage all our sites to implement systems that have positive impacts on our carbon footprint.

As a norm we:

- Use low energy, motion-sensored and LED lighting within warehouses and most of our offices
- Recycle as much as possible (100% paper, oil rags and cardboard bails across all sites)
- Use recycling bins at most sites and recycle non-re-usable pallets
- At our Gloucester site, over 80% of their power is generated by solar panels. The Group is currently examining the feasibility of using this technology at other sites
- Encourage cycle use through local government initiatives in both the UK, ROI, and the Netherlands
- Use FedEx as our main carrier; FedEx are undertaking a “reduce, replace, revolutionise” campaign which plans to significantly improve energy efficiency and reduce emissions in Europe across aircraft, vehicles, and facilities by 2025
- Utilise our Engineering Modification Centre – instead of scrapping products, product life-cycle inspections are performed to assess options to change products, prices, places items are sold, how products are used and promoted. We believe this serves to prolong product lives and reduce waste
- Continue to support and accept hybrid working by our employees who wish to do so. This helps to reduce unnecessary travel by our employees
- Avoid unnecessary paper usage and waste through various eco-friendly schemes such as, Electronic Data Exchange (EDI) for sales ordering and invoicing, SICON Invoicing Sage Software for non-stock invoice approvals, and utilising online signature software for authorisations
- Source packaging from Forest Stewardship Council (FRC) certified sources, utilising reusable, or recyclable packaging materials for the majority of our products
- Use suitable packaging that reduces damages and returns to lower the overall carbon footprint
- Continue to install more EV charging points at our sites to encourage the use of electric and hybrid vehicles

Company vehicles

In 2022, we leased an additional 8 (2021: 52) new company cars across the Group with five of these being fully electric (2021: 6) and the other 3 being plug-in hybrids (2021: 40). The addition of these vehicles has increased our hybrid and electric total to 79% (2021: 72%) for the Group. Alphabet, our lease provider, indicate we are performing extremely well in our transition from petrol to electric vehicles.

Delivery efficiency

In collaboration with FedEx, we have remodeled our delivery process. This involves splitting all consignment addresses between the North and South of the UK, with an aim of reducing the miles incurred and thereby emissions for each delivery.

Prior to the implementation of this change, the average miles per delivery was 209. Since the start of this initiative this has now reduced to an average of 138. As FedEx are responsible for approximately 70% of the Group’s shipments, this change has had a significant positive environmental impact. This has not affected FedEx service levels; in fact customer satisfaction as measured by FedEx has improved as a result of this (from 93.3% to 95.8%).

Thames Tideway Project

Fluidpower Group Services are proud to have been contributing to the construction of 25km 'Super Sewer' under the river Thames in London. The aim of this project is to limit the spill of untreated, raw sewage into the river. Our team have designed, manufactured, and have now commenced installation of hydraulic power units, cylinders, and electronic equipment, to control a series of sluice gates across the city. This project forms an integral part of the plan to limit pollution in our capital city and is set to benefit millions of people.

Carbon reporting

We continue to engage with Carbon Responsible to assist in our reporting requirements. Carbon Responsible have produced a report using the GHG (greenhouse gas) Corporate Reporting & Accounting Standard and UK Government Reporting & Conversion methodology and conversion factors. Their report dated 1 March 2023 covers data for 2021 and 2022.

Our full emissions report covers all the main emissions that are required to be reported under the Streamlined Energy & Carbon Reporting requirements and for which data has been collected. Optional disclosure of Scope 3 impacts has been undertaken as far as practicable to reflect the impact from our core operations.

An in house Flowtech team has worked with Carbon Responsible to provide data to measure the full impact of Scope 1 & 2 emissions and as much Scope 3 impact for which data points were available. For 2022 this includes a degree of granularity of actual data on a site-by-site basis where estimates were used last year; for example, this year's data captures freight impacts from certain third-party providers and water consumption. A consequence of this is that it is difficult to draw meaningful comparisons between the two years for Scope 3 data. We will be using the more complete data capture in 2022 for our new baseline.

The majority of the emissions impact comes from our own offices, premises, and staff. It includes all businesses within the Group. It also includes significant impacts from activities that are not owned by us, but over which we exert financial control. As suggested by Carbon Responsible, going forward we will use FY22 as the baseline year and revise in line with further improvement in reporting.

The findings are summarised in the table below:

	2022		2021	
	tCO2e	kwh	tCO2e*	kwh
Scope 1 (Gas Consumption)	494	2,291,089	507	2,334,538
Scope 2 (Electricity Consumption)	328	1,565,729	403	1,824,653
Scope 3 (Other Direct Emissions)	1,802	545,337	692	80,882
Totals	2,624	4,402,155	1,602	4,240,073

*Whilst reviewing 2021 data for comparison with 2022, an error was identified whereby some freight impact was missing from the 2021 total; this has been amended.

Of the 2,624 tCO2e emissions for 2022, 2,318 tCO2e is related to UK sites and 306 tCO2e is related to non-UK sites. Site level emissions were not calculated for 2021, therefore the split of emissions by UK and non-UK is not possible. Going forward we intend to present emissions using this geographical split for both current and comparative periods.

Scope 1 – a modest 2.5% reduction – an increase in vehicle use, likely linked to the recovery from the operating environment linked to COVID-19, offset reductions linked to a materially lower level of diesel usage.

Scope 2 – an 18% reduction driven by a transition of company vehicles to hybrid and electric as well as benefitting from progress made by the National Grid in its own "green" agenda through increased production of grid electricity from renewables.

Scope 3 – for the first time the 2022 data includes data from Well-To-Tank impacts for fuel, third party vehicle use and certain freight providers. This means that the two years cannot be directly compared. Carbon Responsible have estimated that had we had the opportunity to apply the same methodology and degree of granularity to the 2021 data, the like for like comparison would have been an approximate 6% reduction.

We continue to use revenue and FTE intensity from Scope 1, 2 and 3 emissions, as we think they from the best available intensity measure for our business. Our intensity metrics for FY22 are as follows:

	2022	2021
Tonnes CO2e per £100,000 of revenue	2.28	1.37
Tonnes CO2e per FTE	4.90	2.37

Our main priorities for 2023 are:

- Continuing to work with Carbon Responsible to further improve the granularity of data capture, in particular around scope 3 areas
- Capture data from an increasing population of freight providers
- Seek to capture data for business travel
- Develop a carbon strategy linked to the Net Zero agenda, designed to deliver a combination of operational cost and emissions reduction benefits.

Our people

We continually strive to ensure we invest in our people through a broad range of areas including Learning & Development and career progression planning. Other areas of particular focus include important areas such as the mental and physical wellbeing of our employees and ensuring we have an appropriate and developing reward package.

Fundamental to this vision is a strong culture focused on recruiting the right people to the right roles within our business and thereafter investing in their development. We seek to encourage employees to work collaboratively with customers, suppliers as well as each other and empower them to provide a contribution to shaping the future of our business and the fluid power sector. We believe such an approach breeds passion and a genuine desire to achieve the best solutions for all of our stakeholders.

Through a friendly and supportive culture, allied with efficient processes and technical competence, we believe we offer an unrivalled service enabling us to drive added value actions throughout the business.

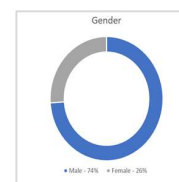
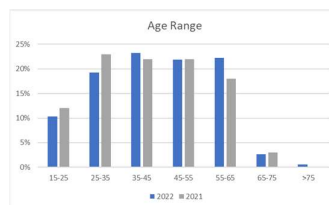
Employee statistics

Demographics	2022	2021
Number of employees *	595	612
Retention **	72%	78%
Length of service ***	7.9 years	8.6 years

* Annual Average

** (1-leavers during 2022/average number of employees) *100%

*** Average number of years served by current employees



(2021: - Male 74%, Female 26%)

Mental health

After appointing 15 mental health champions across the group in 2021, this team has now extended to 19. Each member has completed training with Mental Health First Aid England (MHFA) which teaches practical skills to spot potential signs and triggers of mental health concerns in their colleagues. This programme aims to create a culture of employee awareness and support around mental health, using both reactive and pro-active methodologies. The champions complete additional training every 2 years and meet together on a quarterly basis to discuss any common issues across the Group that could affect employees' health, such as the current cost of living crisis. Employees are encouraged to utilise the Employee Assistance Programme that is provided by AXA Health, which is a confidential employee benefit programme that provides 24/7 mental health support. The aim is that the EAP will help employees deal with personal problems that might adversely impact their health, well-being, and work performance. AXA provide access to nurses, pharmacists as well as their LifeManagement™ team. This team is there to support and offer guidance to employees through any concerns and difficulties. Since the cost-of-living crisis started, our employee uptake in the AXA services has increased significantly. Our EAP provides people with up to five counselling sessions per employee. In instances where further support is required, additional counselling sessions may be provided.

Learning & development(L&D)

Our commitment to the learning and development of our employees has continued this year with the recruitment of a Learning and Development Manager, as part of our HR Team. The Power Academy will be launched in early 2023, and aims to provide a range of resources, advice, support, and guidance to assist in promoting and managing capability through compliance and career development.

As a Group we aim to support our employees' career development by utilising our Apprenticeship Levy scheme and focusing on our competency framework. We believe that L&D is a three-way relationship, which is led by the employee, supported by the manager, and facilitated by the Power Academy. Employees and managers have regular conversations to discuss current job roles, set objectives, talk about wellbeing, discuss performance and development potential.

Apprenticeships

We are currently recruiting for 3 more apprentices in Procurement and Engineering. As a Group we are utilising 130% of the apprenticeship levy on a monthly basis and have not had any of our contributions expire since April 2022.

	2022	2021
Apprenticeships started	18	5
Apprenticeships completed	1	1
Apprenticeships funded	23	12

University and College Links

We are in talks with Edge Hill University, with the aims of offering industrial placements and supporting students with their projects. We have also been discussing work placements with The Engineering College for their students on trainee programmes.

HR system

We are rolling out a HR system across our operations based in UK and Ireland, covering about 92% of our staff. The system is designed to consolidate and digitize employee records and payroll administration, thus significantly enhancing management and oversight of this area. The System will provide the employees with single point access to their contractual terms and conditions and employee benefits. The system has the potential to improve employee engagement through its use as a repository of company policies and procedures.

We have engaged a professional firm to review the benefits being offered by the business. To aid decision making, we conducted a survey amongst staff to obtain their feedback on how benefits could be best aligned to their needs. The recommendations from the professional firm and feedback from staff are currently being considered. The HR System also enhances our ability to implement changes to benefits more efficiently.

Share-options to staff

We expanded the issue of share options to key members of the operational and managerial teams during last year, with a view to rewarding these key staff on achievement of long-term growth objectives of the Group. The new issues are detailed in Note 22 Employee benefits.

Health & Safety

As a Group we are committed to ensuring the safety and health of our employees, visitors, and the public, as far as reasonably practical. We fully recognise our statutory duties and take the necessary actions to ensure our compliance with health and safety legislation. Our Chief Executive Officer continues to hold overall responsibility for Health and Safety and chairs the quarterly Health Safety Steering Group which is attended by key business heads, ensuring that all risks and concerns raised by the location directors and staff, are dealt with through validated risk assessment, and follow up audits.

As a result of our numerous business acquisitions, we have historically had differing health and safety practices at each of our sites. As part of our continued commitment to promote and develop effective health and safety management, we have recently implemented a refreshed Group Health, Safety and Well-being policy. This will include the introduction of a committed Health and Safety Team and ensure each of our sites has dedicated personnel to manage daily health and safety matters.

Human rights & modern slavery

The Group does not tolerate bullying or harassment. We are committed to fair employment practices and comply with national legal requirements regarding wages and working hours.

The Company recognises that the respect for human rights is an integral part of its Health & Safety and social responsibility and that it has a responsibility to take a robust approach to slavery and human trafficking. We understand the requirements of the Modern Slavery Act 2015 are committed to ensuring that no modern slavery takes place within our organisation.

We are committed to preventing workers from being subjected to modern slavery in our supply chains and within the businesses of our partners and affiliates.

We are committed to continuous improvement in relation to our practices to combat slavery and human trafficking. Respect for human rights is implicit in our employment practices; the rights of every employee is treated with dignity and consideration.

We do not use child labour, nor do we use forced labour.

We make regular supplier visits to ensure our supply chain maintains the same standards of integrity and is free from modern slavery. We will continue to audit supply chains, mitigate risk, monitor, and track progress, and immediately inform our customers if and when a supplier risk is no longer acceptable, and the source of supply has been disengaged.

Maintaining & promoting diversity

It is our Group policy to recruit and promote based on ability and attitude, regardless of gender, sexuality, ethnicity, disability, age, religion or belief, parenting, caring or marital status.

Promoting a culture of respect and equal opportunity is as important as ensuring the right skills fit our business. In instances where an employee becomes disabled, where practicable the Group has policies to providing continuing employment and career development where appropriate.

The Group recognises the importance of work-life balance, especially for employees with family commitments. Where the demands of the business allow, flexible working is encouraged.

Gender pay gap

We are striving to ensure we have an inclusive workforce with no unconscious bias and that employees in similar roles are paid equitably; we are determined that where pay differences exist, they are not based on gender. This is different from Equal Pay. Equal Pay deals with pay differences between men and women who carry out the same jobs, similar jobs, or work of equal value.

This is the second gender pay gap report published by the Group. It has been prepared in accordance with legislation that came into force in April 2017, whereby UK employers, with more than 250 employees, are required to publish the gender pay gap using 5 April 2022 as the snapshot date. Hourly rates include basic pay, allowances and shift premium pay, but not overtime. For the purposes of these calculations, only the UK-based workforce have been included. Under the requirements of the Gender Pay gap regulation, only relevant employees have been included. This excludes any employees who for whatever reason did not receive a full months' pay, including sick leave and parental leave.

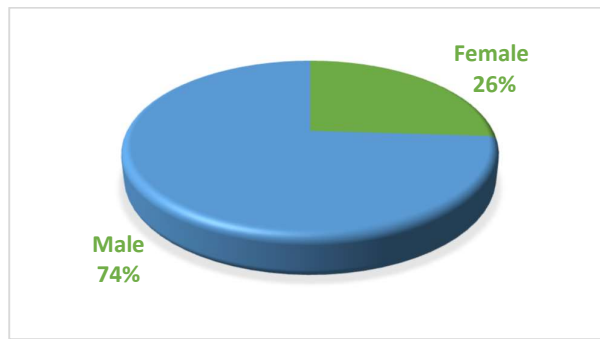
Difference between men & women	Mean (average) %		Median (middle) %	
	2022	2021	2022	2021
Gender pay gap	18.4	22.6	8.45	16.38
Gender bonus gap	3.7	23.0	5.62	28.12

Key findings:

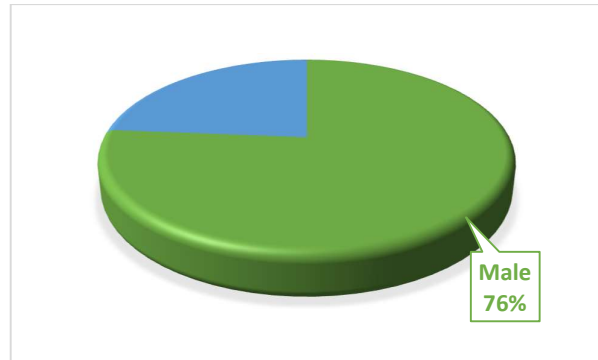
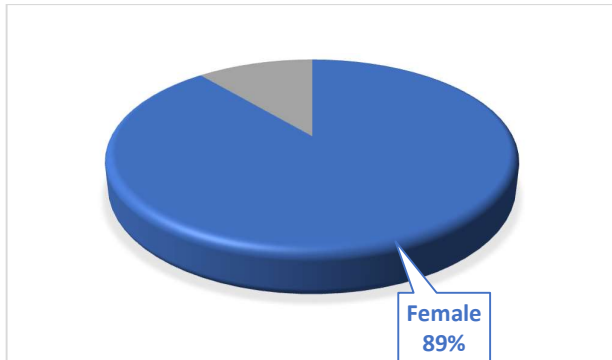
- The percentage of males in the business is 74%
- 2022 results show a significant reduction in the gender pay gap in both hourly rate and bonuses paid
- General benchmarking of has allowed us to align salaries for specific job roles regardless of gender, helping to reduce the gap
- We consider the median gender pay gap to be a better reference point rather than the mean result as the mean data is distorted by the relative % in quartile 1
- For those who received a bonus, the average bonus pay as a percentage of annual salary was 3.42% (2021: 6.38%) for men, compared with 3.93% (2021: 5.45%) for women. This change goes some way to explaining why the gap for bonus pay has reduced significantly compared to the pay gap between 2021 and 2022.

Gender mix across the Group	2022	2022	2021	2021
	Male	Female	Male	Female
Board	83%	17%	100%	0%
Management Board	67%	33%	67%	33%
Senior management	93%	7%	94%	6%
All other employees	73%	27%	73%	27%

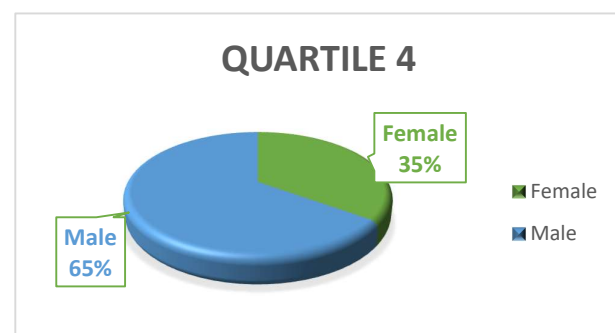
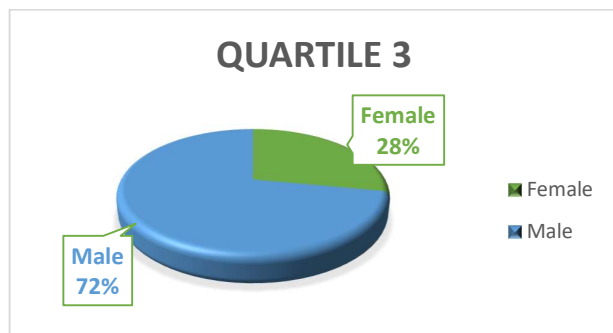
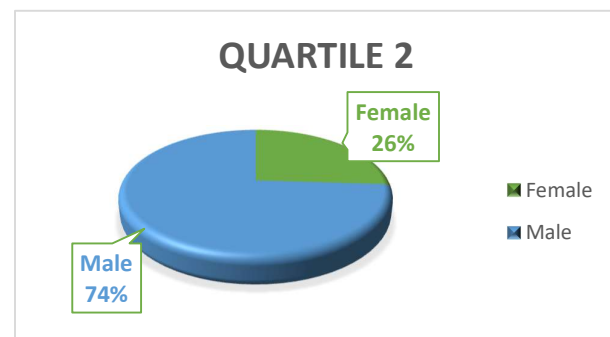
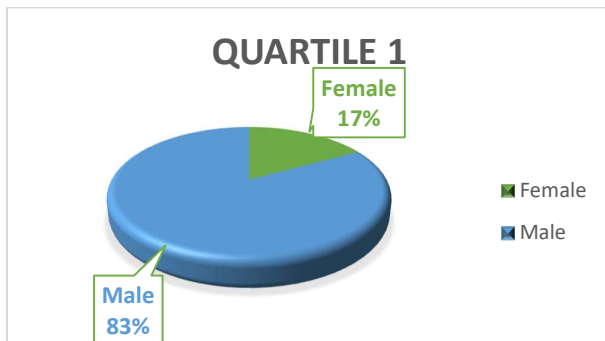
Group breakdown:



Percentage of men and women receiving a bonus (Group):



Percentage of men and women in each pay quartile:



Corporate Social Responsibility (CSR)

Stakeholder engagement and Section 172 Statement

In accordance with Section 172 of the Companies Act 2006 (S172) the Directors, collectively and individually, confirm that during the year ended 31 December 2022, they have acted in good faith and have upheld their “duty to promote the success of the Company” to the benefit of its members, with consideration to its wider stakeholders.

We are aware of the potential impact that our decisions have on all our stakeholders and seek to take a balanced approach to safeguard their respective interests. We seek to recognise and respect issues which are important to our stakeholders, including our colleagues, customers and suppliers, as well as our Shareholders. Our reputation is of paramount importance to us and we always seek to ensure that whatever decisions we take, we do so by maintaining suitable high ethical mindsets, always seeking to treat each category of stakeholder with respect and in the same manner we would like to be treated ourselves.

The Board seeks to ensure there is always an appropriate balance between the impact any key decision may have on the short as well as the medium to long-term. It also recognises that certain decisions may be more aligned to the interests of one category of stakeholder over another and this is always taken account of when debating options and ultimately making decisions.

The Board is committed to effective engagement with all stakeholders and takes steps to ensure this mindset is filtered down throughout the business. Whilst our business model delegates certain day to day operational decisions to local management, we encourage all involved to adopt the same behaviours by which the PLC Board is measured in their day to day activities. We have a “balanced scorecard” approach to our reward scheme which is designed to flex reward based on a number of behaviours, including those captured within the spirit of the s172 legislation.

Section 172 describes a diverse range of stakeholders whose interests are said to feature in the ‘success of the Company’; comments on each of these areas are provided below:

Colleagues

The investment we have made in the Engagement Surveys across each of our businesses, combined with the training and career development plans we have put in place for a number of employees, demonstrates our commitment to ensuring our workplaces provide a positive environment for our staff. We have made further recent investments in this area, including the recruitment of an experienced manager focused entirely on the learning and development of our people. The steps taken this year to develop the aforesaid agenda are more fully discussed in the Learning & Development section of the Sustainability report.

The Sustainability report also details the progress made in the last year towards improving support for mental health to our employees, by way of access to mental health first aiders and Employee Assistance Program provided by AXA.

This year, we have expanded the offer of share options to a number of key staff in operational and managerial roles as a way to reward them for achieving the long term goals of the business.

Of course, on occasion, decisions necessarily have to be taken which adversely impact on employees; in such scenarios we are careful to provide the necessary degree of compassion with the processes we adopt without removing the focus to deliver the commercial benefit for the greater good of the business. Through our flexible approach, our Group employees are driven towards finding solutions which create efficiencies for ourselves but, more importantly, our customers. This requires extensive knowledge, creativity and collaboration with customers and suppliers. The Board always aims to act fairly towards employees, further information outlining our approach to recruitment, development and diversity can be found elsewhere in this report.

Our HR Director is a member of our Management Board which sits immediately below the PLC Board. As such all issues are regularly tabled at these meetings and, if necessary, escalated to the PLC Board agenda.

Suppliers

We work closely with our key suppliers, developing strong mutually beneficial partnerships. Suppliers are keen for their products to be distributed via a professional distribution channel and for their brand/reputation to be protected when doing so. During the year we began a program of expansion and upgrade of our EMC facilities, these are designed to enhance our authorised distributor status with key suppliers. This year, we have increased investment in specialist health and safety skills amongst staff to create a suite of management practices that align ourselves with our key suppliers. We regularly meet with key suppliers to develop these relationships, largely with a view to providing the best possible experience for our broad network of customers.

Issues associated with supplier relations are discussed, when necessary, at Board meetings and our Management Board includes representation from the Supply Chain and Logistics side of our business. On occasions presentations are delivered to the Board to provide up to date commentary and to enable any issues to be discussed, debated and, if necessary, addressed.

Customers

The interests of our customers are at the heart of our business all of the time. We aim to be the most cost-effective provider of a quality service to all customers, ensuring we deliver end-to-end fluid power solutions from a single source,

We are a member of a number of trade bodies in the fluid power industry, including the British Fluid Power Association (BFPA) and the British Fluid Power Distributors Association (BFPDA). We work closely with these organisations and invest in them with representation from the Group at their various gatherings throughout the year. The Group's Commercial Director, John Farmer, Vice President of the BFPA since 2019, has been formally elected as their new President. On a similar note, Rob Woodley, the Managing Director at Derek Lane was elected as BFPDA Council Chairman. It is hoped that these positive steps will continue to align our Group activities within the industry bodies and help to shape our industry for the future, especially in the areas of compliance and talent management.

Environment and communities

We believe acting responsibly and respecting both the environment and our communities goes hand in hand with commercial success. The Group remains committed to providing a safe and healthy working environment and supports individual business unit efforts which reduce the Group's overall impact on the environment. Through sharing ideas and resources, every year we find new ways to reduce our impact on the environment. Many of our businesses also proudly support industrial users who are increasingly implementing more stringent environmental practices and seeking hydraulic and pneumatic solutions to facilitate this. Further information can be found within the Sustainability section of this report. The Group is mindful of the responsibilities it has to respect the local, National and global climate related agenda; from a business perspective it also recognises the associated risks and seeks to put in place processes and actions to mitigate any such factors.

Our businesses have been supporting their local communities for many years and the Board encourages them to continue this good work. This takes many forms, including supporting charitable events, recruitment of local apprentices, open day support for local schools, and educational events with local communities where Group members carry out projects to make the environment or services better. Of particular note in 2022 was the Group wide fundraising initiatives for the Pancreatic Cancer UK charity – this involved many of our people at various sites and resulted in effective team building exercises as well as raising a significant amount of money for an extremely worthwhile charitable cause.

Investors

To ensure the Board is aware of Shareholder opinion and concerns, the Non-Executive Directors receive regular Shareholder feedback which is communicated at Board meetings. Additionally from time to time, independent information is received through the Company's Advisers, from both investors and analysts. On an ongoing basis, the Board is also furnished with brokers' and analysts' reports when published.

The Group aims to maintain a regular dialogue with both existing and potential Shareholders through an established investor relations programme, managed by the CEO, CFO and Company appointed NOMAD. We are committed to maintaining an open and constructive dialogue with our Shareholders, providing objective information regarding performance and strategy.

Communication with shareholders

We have, and will continue to, work hard to improve the quality of our communication to provide existing, and potential new investors, with the information they require in a format which they wish to see. We believe progress has already been made and the Board is committed that this will remain a key priority throughout 2023 and beyond.

All Shareholders who have elected for paper copies receive a printed copy of the Annual Report and Accounts and all Shareholders receive the Notice of the Annual General Meeting (AGM) along with a proxy form, should Shareholders wish to vote in advance of the AGM. Following each AGM, a notice is posted on the corporate website confirming that all resolutions have been passed, including the specific results of voting on all resolutions, including any actions to be taken as a result of resolutions for which votes against have been received from at least 20% of independent Shareholders.

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

The Company engages in a minimum of two investor roadshows per annum, with meetings undertaken either in person through the use of video technology. Since 2021 we have used the services offered by the Investor Meets Company platform to present our results to a wide reach of existing and potential new Investors.

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

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

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

The Company maintains a dedicated email address and telephone number which investors may use to contact the Company which, together with the Company's address, are prominently displayed on the Contacts page of the Company's website.

Investors may also make contact requests through the Company's Nominated Adviser and Sole Broker, Liberum Capital (see page 122 for details).

Financial Review

"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 ensuring our gross margin is protected by passing on price increases to our customer base 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 £m	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)
Underlying EBITDA*	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 £000
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 £000	2021 £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 rates £m	2022 deficit based on 2021 discount rates
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).



(*) 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
25 April 2023

Risk Management

The Board is ultimately responsible for risk and internal control systems across the Group.

In last year's Report & Accounts we set out the established practices which we have in place as well as incremental actions which have taken place. 2022 saw us build on this with our processes and control being centered around the following:

1. The continued role of the Risk Committee, comprising members of our Management Board and chaired by Russell Cash, which meets on a regular basis to discuss all aspects of the Risk Agenda. This Committee includes Management Board representatives with certain individuals within this Group taking ownership for key areas
2. Further engagement with Marsh, specialist consultants – during 2022, an exercise was performed to assess the current key areas of risk as perceived by senior people within our business. This led to plans being developed to address a total of 11 areas which were identified within this review – whilst each of these were already part of our thinking the exercise was useful in terms of applying priorities
3. Each of our business units is asked to provide input into this thinking on at least an annual basis. This oversight ensures regular and consistent challenge is applied to all parts of the organisation and each part of our business has an opportunity to provide feedback on those areas which they see as impacting on them and which merit further and broader consideration at Group level – by doing so we believe this helps us to evolve our thinking and tailor our approach to identification and management of risk factors
4. Specific operational risks are regularly discussed at PLC Board meetings
5. Regular updates from the Internal Audit function to the Chair of Audit Committee. When issues are identified this forum includes identification of action designed to assist in such matters not repeating

We continually look to integrate new risk mitigations into the way we work to ensure risk management is effective and practically embedded throughout the organisation. This ensures the safety of our staff, the public and the protection of the business. In any set of circumstances, emphasised over the course of the last 3 years following the onset of COVID-19, our attitude and approach to risk is an area that needs to be considered and addressed on a regular basis. We view certain risks as material in the context of the impact they are having, or could have, on day-to-day commercial activities.

As such the following areas are commented on in one or both of the CEO's Year in Review and Financial Review sections of this report:

- Inflationary price pressures and our ability to maintain our strong gross profit performance (* and **)
- Inflationary cost pressures the business has experienced and the steps we have taken to manage/mitigate this (* and **)
- Instability in the economic environment (* and **)
- Competition and potential loss of customers (*)
- Our relationships with key suppliers (*)
- The effectiveness of our website offering (*)
- Health & Safety (*)
- Climate related issues (*)
- Development of new technology and threats it may subject the business to (*)
- Ongoing challenges within the supply chain and the means by which these have been managed – this includes steps we deliberately took to increase the breadth and depth of our stock holding (* and **)
- Liquidity and debt covenants (**)
- Going concern considerations (**)

(* comment in CEO's Year in Review section pages 10-13; ** comment in Financial Review section pages 30-32)

Other areas of risk not specifically addressed in the CEO's Year in Review or Financial Review sections of this Report are set out below:

1. Site disruption	3. Health & safety
2. Systems disruption	4. People issues

Site Disruption	Owner: Operations Development Director
Description	Mitigation
There is heavy operational dependence on the resilience of warehousing and IT infrastructure to support business operations and maintain high service levels. The risk is that unplanned events (including weather/climate related events) could disrupt the functioning of key elements of the operational infrastructure, damaging customer service and business reputation. Widespread operational equipment failure. Examples considered include: • Power failure • Kardex system failure • IT failures • Problems with Forklifts, Trucks etc • Carrier delivery failure • Racking failure	The Group has a formal Business Continuity Process underpinned by monthly meetings of a Steering Group to assess and refresh risk mitigation plans at key locations. Actions currently in place include: ➤ Off-site disaster recovery provision for IT systems, including cloud-based technologies, are embedded across our businesses. ➤ Fire control systems in place and regularly tested ➤ Regular electrical and gas testing Continual improvement is being made on testing the robustness of our systems. Steps are taken to enhance processes; we see this as an important, ongoing work stream to ensure our business is continually alert to future challenges. We have what we believe to be appropriate insurance cover in place to compensate for any loss which proved difficult to recover. Mitigating steps include: ➤ On call engineers and contracts with specialist equipment providers ➤ Back up generators to manage power failures ➤ Programme of preventative maintenance in place

Systems disruption	Owner: Systems Director
Description	Mitigation
Loss of critical IT systems The Group recognises there is an increasing exposure to cyber risk, including advanced techniques to disrupt our websites and direct attacks on Group systems with the potential loss of confidential information. Part of our strategic focus has been, and continues to be, a desire to reduce the number of process systems operated by the Group.	Loss of systems Current mitigation measures include: ➤ Regular on-site IT reviews continue to be carried out and include reviews of networks and controls. Each of our UK sites has been visited/reviewed at least once in the last 12 months. Visits to our sites in the Netherlands and Republic of Ireland are planned in the first half of 2023. ➤ Secondary power generators available in certain locations ➤ Secondary internet connections available ➤ All systems bar one are hosted in the cloud with dual servers ensuring automatic switchover should one fail, with daily backup procedures. Cyber related Current mitigation measures include: ➤ Anti-virus software on all endpoints, including an EDR package. ➤ All incoming and internal email virus checked, and quarantined as required (Mimecast) ➤ Cisco firewalls running at all locations. We continue to take measures to highlight this risk in communications with all of our employees and work with external providers to ensure that these messages are embedded in all that we do within the business; this includes regular training and tests provided by a third party specialist organisation.

Health & Safety	Owner: HR Director
Description	Mitigation
As regards our people The physical and mental wellbeing of our employees is extremely important to us. As regards suppliers Many of the key components and products supplied by the Group are for industrial use, often in hazardous environments. They must be fit for purpose to ensure that their reliability, performance and safety is of the necessary standard. Failure in this quality will cause damage to the Group's reputation and customer relationships, and potential legal consequences. Inadvertent breaches of regulations could lead to prosecution and significant fines. Regulations impacting the Group include Health and Safety at Work, Control of Substances Hazardous to Health and packaging waste regulations.	As regards our people The majority of Group sites comply with ISO 9001, ensuring quality standards are maintained through all its operations. Continual testing procedures are in place for both components and manufactured products. Employees involved in assembly processes are qualified with the relevant industry body and continue with regular internal and external training. There is an ongoing review of relevant national and international compliance requirements. We have invested heavily in campaigns to look after as best we can the mental wellbeing of our people across the Group. Each of our sites has at least one trained mental health ambassador and all employees have access to support both from internal sources and, if necessary, third party providers. More detail is provided in the Sustainability sections of this report when we consider the Group's responsibilities relating to Environmental, Social and Governance issues. As regards suppliers Whilst the business sources certain high grade products from the Far-East, the majority of products are sourced from respected 'brands' in the UK and Europe. Group representatives often visit suppliers' manufacturing sites and when doing so seek to ensure that high quality standard operating procedures are being adhered to. More generally We have built on the establishment of the Health & Safety Steering Committee in 2020 and the appointment of Senior Managers dedicated to ensuring compliance in all areas further evidencing the importance we attach to this area. Regular health and safety audits and risk assessments are undertaken across the Group and regular training is provided to our people to ensure they understand their roles and areas they are accountable for. Prompt incident reporting procedures are in place across the business and all Board meetings include Health & Safety as an integral part of the Agenda. The new Health and Safety team consists of a H&S Director, a Head of H&S, a H&S Onsite Services Manager, a H&S co-ordinator and appointed site H&S representatives across the organisation. A new H&S policy, H&S Hub and Repository of all forms and guidance are now launched and set up to further enhance the support and commitment the group has to H&S across the organisation. In addition, the newly appointed Learning and Development Manager, has been tasked with developing and delivering a key H&S training matrix to provide appropriate H&S training to all staff across the group.

People issues	Owner: HR Director
Description	Mitigation
There is a risk that the business is not able to attract and retain high performing employees. The Group also needs to maintain engagement with the employees to ensure they remain supportive of the business strategy. There is a risk that without appropriate investment in our people we lose key members of, and core skills within, the team.	Attraction and retention of employees is supported by bonus plans, recognition and reward programmes, innovative benefit packages and key learning and development initiatives. Our succession planning process was introduced to identify and develop key employees. Training forms a key part of all employees' development within their roles. Training is arranged to support the Group's business plans and the personal goals of all employees. In recent years there has been a programme put in place to support the development of each member of our Profit Centre, Divisional and executive management teams. The feedback we have received from participants has been exceptionally good with each person acknowledging the relevance of the content to their role within the business. In addition, our new Accelerate programme has been created to support the succession and development of the rising stars in our organisation We also deliver Group-wide technical and sales conferences to aid skills sharing. Further details are provided in the sustainability section of this Report. Our Director of Human Resources has now introduced a Learning and Development Manager , who has been tasked with expanding our apprenticeship programme and launching our Power Academy. We are currently reviewing the reward packages made available to all of our staff and the options available to ensure continuous learning and development opportunities where this makes sense for both the business and the individuals concerned.

The Strategic report, as set out on pages 4 to 37, has been approved by the Board.

Bryce Brooks, Chief Executive Officer
(resigned 12 April 2023)
25 April 2023

Roger McDowell Non-Executive Chair	Appointed June 2020 as Independent Director, and Non-Executive Chair from August 2020	
	Skills & experience Roger is a highly successful businessman and entrepreneur, with a strong record of delivering shareholder value. He was Managing Director of Oliver Ashworth for 18 years before IPO and subsequent sale to Saint-Gobain, and won the Sunday Times AIM Non-Executive Director of the Year award in 2017 for his Chairmanship of Avingtrans plc, a precision engineering business.	
Board Committees - Chair of Nomination Committee - Member of the Audit, Remuneration and AIM Compliance and Corporate Governance Committees	External appointments Non-Executive Chair of Hargreaves Services plc, Avingtrans plc and Brand Architekts Group plc Senior Non-Executive Director of Tribal Group plc Non-Executive Director of Proteome Sciences plc and British Smaller Companies VCT II plc	
Bryce Brooks Chief Executive Officer	Appointed March 2010 as CFO, promoted to CEO in September 2018 <i>(stepped down 12 April 2023)</i>	
	Skills & experience Holds a degree in civil engineering and qualified as a chartered accountant with Deloitte Haskins & Sells (now PwC) in 1989. Ten years as a Finance Director at Marlowe Holdings, an American-owned industrial products distribution group, as well as a Group corporate development role.	
Board Committees - Member of the AIM Compliance and Corporate Governance Committee - Other committees by invitation	External appointments None	
Russell Cash Chief Financial Officer & Company Secretary	Appointed November 2018	
	Skills & experience Qualified as a chartered accountant with Deloitte Haskins & Sells (now PwC) in 1991. Spent 27 years working as a turnaround and restructuring professional, 20 years with PwC prior to taking Partner roles at Baker Tilly (now RSM International) from 2008 to 2013 and FRP Advisory from 2013 to 2018. At both Baker Tilly and FRP he played a key role in the success and expansion at both firms. Russell's experience in effecting change both in terms of operational improvement and cash management have served the Group well given the focus in each of these areas in recent years.	
Board Committees - Member of the AIM Compliance and Corporate Governance Committee - Other committees by invitation	External appointments None	

Nigel Richens Non-Executive Director & Senior Independent Director		Appointed May 2014
 Skills & experience 23 years within the accountancy sector at partner level with PwC. Experienced adviser to listed and private equity-owned businesses across manufacturing, distribution, construction and engineering sectors, bringing wide commercial experience and extensive knowledge of corporate governance, compliance, risk management and financial matters.		
Board Committees • Chair of the Audit and AIM Compliance and Corporate Governance Committees • Member of the Nomination and Remuneration Committees		External appointments Charity Trustee
		Other In his role as Senior Independent Director, Nigel acts as a sounding board and intermediary for the Chair and other Board members. He also leads the performance evaluation of the Chair.

Stuart Watson Non-executive Director		Appointed January 2023	
 Skills & experience Stuart is a Chartered Accountant. He was Senior Partner for EY in Yorkshire and the North East and specialised in audit. He was also responsible for the EY Entrepreneur of the Year Programme. He retired from EY in 2017. He served as a NED and Audit Committee Chair at Clipper Logistics plc until it was acquired in May 2022. Stuart is currently a NED and Audit Committee Chair at both Humber & North Yorkshire Integrated Care Board and Vp plc, and is an Advisor to Panmure Gordon.			
Board Committees Member of the Audit, Nomination, Remuneration and AIM Compliance and Corporate Governance Committees. Following Nigel Richens' retirement Stuart will become Chair of the Audit Committee with effect from 26 April 2023.		External appointments Non-Executive Director of Vp plc Non-Executive Director of Humber & North Yorkshire Integrated Care Board	

Ailsa G Webb Non-Executive Director	Appointed March 2022
 Skills & experience Ailsa has held a number of lead-operational management roles including at TNT and Brammer Buck and Hickman. Until 2019, Ailsa was Chief Operating Officer for the UK, Ireland and Iceland territories at Brammer Buck and Hickman, the UK subsidiary of Rubix Group, Europe's largest supplier of industrial maintenance, repair and overhaul products and services. In 2019, Ailsa joined HSS Hire Services, Scotland, one of the UK's largest equipment rental companies, where she is Managing Director and, in early 2021 she took over as Managing Director for ABird and Apex Power Solutions, two service business parts of HSS Group. Ailsa has a deep understanding of the industrials distribution sector, including within e-commerce where she has a wealth of digital transformation expertise driving revenue growth through e-commerce strategies.	
Board Committees Member of the Audit, Nomination, Remuneration and AIM Compliance and Corporate Governance Committees	External appointments No other Board appointments. Executive role as described above.

Jamie Brooke Non-Executive Director	Appointed March 2022	
 Skills & experience Jamie has had successful roles in listed and private equity fund management, originally starting out with 3i plc. Over his 30-year career, having sat on 20 different boards, he has focused on driving shareholder value and has gained experience covering fund management and investing, strategy and governance, M&A, audit and consultancy. Most recently he worked with Hanover Investors and, prior to this, Jamie spent twelve years with the Volantis team under the umbrellas of Lombard Odier, Henderson and Gartmore. He trained and qualified as a Chartered Accountant with Deloitte.		
Board Committees Chair of the Remuneration Committee. Member of the Audit, Nomination, AIM Compliance and Corporate Governance Committees	External appointments CIO/ Director of Kelso Group Holdings and associated companies Director of Maitland Capital Limited Chairman of Padelstars Limited Non-Executive Director of Oryx International Growth Fund Plc Non – Executive Director of Chapel Down Group Plc	

Bryce Brooks has taken the decision to step down as Chief Executive Officer and leave the Company. With effect from 12 April 2023, Mike England was appointed Group CEO. The full announcement can be found at: http://www.rns-pdf.londonstockexchange.com/rns/8904V_1-2023-4-11.pdf

As previously announced, on 11 January 2023, Nigel Richens will be retiring as a Non-executive Director of the Company following the publication of these published accounts.

Corporate Governance Report

Chair's statement on corporate governance

A key component of my role is to oversee the development of the Group's corporate governance model and ensure there is continued clear focus on this important area of our business.

Framework for corporate governance

The QCA Code identifies ten principles to be followed as a guide to help companies deliver value for shareholders. This relies on effective management by the Board, accompanied by good communication which serves to develop confidence and trust.

The Company remains committed to maintaining high standards of corporate governance and has adopted the Quoted Companies Alliance Corporate Governance Code 2018 ("the QCA code"). Our approach in relation to complying with each of the ten principles of the QCA code is set out below.

I am pleased to report that we continue to consider we are compliant with all aspects of the requirements of the QCA Code.

Compliance with the QCA corporate governance code

Within our Annual Report, we are required to demonstrate compliance with each of the Principles:

Principle 1

"Establish a strategy and business model which promote long-term value for shareholders"

Our strategy, ever evolving business model and related key performance measures are clearly articulated in pages 14-18; the associated risks and the Board's view thereon are set out in the Risk Management section of this Report. We believe this provides existing, and potential new, Investors with evidence of our determination to achieve long-term shareholder value.

Principle 2

"Seek to understand and meet shareholder needs and expectations"

We work hard to ensure we achieve a quality delivery of meaningful information on a consistent basis. We continue to work closely with external advisors, notably our NOMAD, Liberum, who provide guidance in this regard. It is also helpful that certain of our Non-Executive Directors have a wealth of experience in managing the expectations and understanding the agendas of our key Investors.

The entire Board is updated on shareholder feedback, in particular following presentations delivered by our Executive Directors after the announcement of half year and full year results. All Directors are encouraged to attend the Annual General Meeting.

Should Investors wish to make contact, details of all Directors are provided via our website.

Principle 3

"Take into account wider stakeholder and social responsibilities and their implication for long-term success"

The Board recognises that the Company's relationship with customers, suppliers and employees are individually, and collectively, critical to its success. Efforts have always, and will continue to be, made to develop strong relationships with customers and suppliers and increasing emphasis has been placed on engagement with employees; the COVID-19 pandemic resulted in certain incremental activities around employee wellbeing initiatives and we have since built on these initiatives. The Executive Directors regularly engage with Divisional Directors and Senior Management within each of our segments to keep them suitably apprised of key developments; this information is then cascaded through the organisation through specific reporting channels. Included within this is an increased emphasis on all aspects of health and safety as well as our responsibilities under the ESG agenda.

The Company has undertaken engagement surveys across all staff for a number of years. These surveys are used to understand what is working well and to the extent there are areas where improvements have been identified, plans are put in place to address any concerns.

Linked to all of this our comments in respect of Section 172 of the Companies Act 2006 requirements and in a variety of other areas are provided in our Sustainability report on pages 21-26.

Principle 4

"Embed effective risk management, considering both opportunities and threats, throughout the organisation"

Our approach to risk is set out within the Risk Management section of this report. Whilst the Board has overall responsibility, the importance of developing our processes and controls is an area of focus for many others within the Group. The Audit Committee has responsibility for reviewing internal controls and in this regard, there is regular communication between the Committee and the Internal Audit team and Executive Management.

In addition we retain the services of Marsh, specialist Risk Management advisers, who provide regular external reviews of the progress we make and highlight areas for future improvement. On pages 33-37 we have sought to identify our key areas of risk and provide comments to demonstrate the investment we have made to put measures in place to address each of these. In particular, the systems of internal controls and the investment we have made in our Business Systems, Internal Audit and Project Management functions demonstrates how important these areas are, and will always remain, to us. We have also made a significant investment in our Health & Safety agenda over the course of the last three years.

Principle 5

"Maintain the Board as a well-functioning team led by the Chair"

Details of the Board, and their roles within the Board environment and within Committees, is set out on pages 38-47.

The Board is chaired by Roger McDowell and meets regularly with formal Board meetings taking place in most months of the year. Audit Committee meetings are held regularly around announcement activity and Remuneration Committee and Nomination Committee meetings on an as and when needed basis.

The Non-Executive Directors are considered to be independent of management and from any business relationship which could materially interfere with their independent judgement. The Senior Non-Executive Director is Nigel Richens and is available to Shareholders if they have any concerns. Nigel has recently announced his intention to retire from the Board after publication of the 2022 Report & Accounts; following his departure one of the other existing Non-Executive Directors will be appointed to this role.

Principle 6

"Ensure that between them, the Directors have the necessary up-to-date experience, skills and capabilities"

A key role of the Nomination Committee is to ensure that the requisite skills and relevant experience are evident in candidates for Board roles. At the time of appointment, each Director is provided with training provided by our NOMAD and legal advisers, covering the responsibilities of a Director generally and in particular the requirements when involved in the Board of a listed company.

The appointment of Stuart Watson will bring further valuable experience as well as incremental areas of expertise to the Boardroom.

Brief biographies of each of our Directors are outlined on pages 38-40.

Principle 7

"Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement"

The Board undertakes an annual evaluation of its effectiveness. This exercise involves each Board member completing an assessment which provides numeric scoring against specific categories as well as an opportunity for recommendations for improvement to be provided.

The areas reviewed include:

- Board/Committee composition (including succession planning)
- Board/external reporting and information flows
- Board processes, internal control and risk management
- Board accountability
- Executive management effectiveness, and
- Standards of conduct.

Any areas where improvement is deemed necessary are discussed and appropriate action plans put in place.

Principle 8

"Promote a corporate culture that is based on ethical values and behaviours"

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

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

The Group has systems in place designed to ensure compliance with all applicable laws and regulations and conformity with all relevant codes of business practice.

Compliance with the Bribery Act 2010 involves the adoption of Standard Practice initiatives with appropriate training being provided.

The Group takes appropriate steps to comply with the provisions of the Market Abuse Regulations and the Modern Slavery Act.

The Group has invested heavily in Health & Safety agenda with appointments being made across each of our businesses and initiatives put in place to ensure this is consistently uppermost in our thoughts. This has included the appointment of Health & Safety qualified professionals to provide across all of our locations.

Ever increasing emphasis is being placed on the Environmental, Social & Governance agenda, evidence of which can be seen via the comments provided on pages 28-30 in this Report. We believe that once again good progress has been made during the course of 2022.

Principle 9

"Maintain governance structures and processes that are fit for purpose and support good decision making by the Board"

Having invested in certain of our central functions, we are now focussing efforts and resource on the implementation of improved processes in areas which we believe will lead to further efficiencies to better manage and control the business we currently have and provide a robust platform to support future growth.

The narrative which follows later in this section of the report explains the roles and responsibilities across Board members and its various Committees.

The internal audit function has further developed during 2022 with an expanded team focusing on ensuring standard processes are complied with throughout the Group as well as reviewing certain targeted areas. We are pleased with the progress which is being made and the Board welcomes the added accountability which our local businesses continue to feel. The Board is in receipt of regular updates summarising the key findings of Internal Audit reviews, in particular assessments as to the degree of compliance with key operating procedures. This enables decisive action to be taken in the event any issues are identified.

Principle 10

"Communicate how the Company is governed and is performing by maintaining a dialogue with Shareholders and other relevant stakeholders"

Details relating to this are contained in the Group's website – www.flowtechfluidpower.com. This provides details of matters reserved for the Board, the role of Board Committees and other aspects relating to corporate and social responsibility.

The website provides further detail relating to some of these requirements.

The Board

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

In addition to routine consideration of both financial and operational matters, the Board determines the strategic direction of the Group.

The Board has a formal schedule of matters specifically reserved for it which includes:

1. Development and approval of the Group's strategic aims and objectives
2. Approval of annual operating and capital expenditure budgets
3. Oversight of the Group's operations
4. Approval of the Group's announcements and financial statements
5. Approval of new Bank facilities or significant changes to existing facilities
6. Declaration and recommendation of dividends
7. Approval of major acquisitions, disposals, and capital expenditure
8. Succession planning and appointments to the Board and its Committees
9. Review of the Group's overall corporate governance arrangements and reviewing the performance of the Board and its Committees
10. Maintenance of sound internal control and risk management systems, and
11. Approval of the division of responsibilities between the Chair, Chief Executive and other Executive Directors and the terms of reference of the Board Committees.

The Chair

The main responsibilities of the Chair are to lead the Board, ensuring its effective management of the Group's operations and governance. The Chair sets the Board's agenda and promotes a strong culture of challenge and debate. He also plays a key role in investor relations and corresponds with major Shareholders as he sees fit.

This is achieved by:

1. Chairing Board meetings, setting agendas in consultation with the Chief Executive Officer and encouraging the Directors to participate actively in Board discussions
2. Leading the performance evaluation of the Board, its Committees, and individual Directors
3. Promoting high standards of corporate governance
4. Ensuring timely and accurate distribution of information to the Directors
5. Ensuring effective communication with Shareholders
6. Periodically holding meetings with fellow Non-Executive Directors without the Executive Directors being present, and
7. Establishing an effective working relationship with the Chief Executive Officer by providing support and advice whilst respecting executive responsibility.

The Chief Executive Officer

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

Company Secretary

Russell Cash, our Chief Financial Officer, is the Company Secretary and as such is responsible for legal and regulatory compliance as well as assisting the Chair in preparation for, and the effective running of, Board meetings.

Senior Independent Director

Nigel Richens, as the Senior Independent Director and Chairman of the Audit Committee, acts as a conduit for all Directors, giving advice and guidance where appropriate. Nigel has recently announced his intention to retire from the Board after publication of the 2022 Report & Accounts; following his departure one of the other existing Non-Executive Directors will be appointed to this role.

Board composition

The Board comprises an independent Non-Executive Chair, two Executive Directors and four other Non-Executive Directors; following Nigel Richens' retirement the number of Non-Executive Directors will consequently reduce. Details of the Directors' remuneration and terms of appointment are set out in the Directors' Remuneration report on pages 48-50. Biographical details of the Directors are included on pages 38-40.

Roger McDowell is Chair of the Board and the Nomination Committee. Nigel Richens is the Senior Independent Director and Chair of the Audit and AIM Compliance and Corporate Governance Committees. Jamie Brooke is Chair of the Remuneration Committee.

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

Re-election

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

Meetings of the Board

There were 10 formal Board meetings during the year. All meetings were attended by all eligible Directors, except for Ailsa Webb and Roger McDowell, each of whom attended all but one of their eligible meetings during their tenure.

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

Board Committees

Executive Management

To support the two Executive Directors, we have a Management Board which sits beneath PLC level. This Group includes individuals who lead each of our divisions as well as those focused on Operational, Information Technology and Human Capital matters, and manages all aspects of day-to-day activities, including:

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

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

The Nomination Committee - *Chaired by Roger McDowell*

This Committee is responsible for ensuring that the Board is sufficiently well equipped to ensure that the Group continues to be governed by suitably qualified people with the breadth and depth of experience required to effectively lead the business.

The Committee recommends and reviews nominees for the appointment of new Directors to the Board and ensures that there is due process used in selecting candidates.

The Remuneration Committee - Chaired by Jamie Brooke

The Remuneration Committee meets at least once a year to determine and agree remuneration packages of the Chair and Executive Directors and other employee benefits. In the year being reported the Committee met once to discuss bonus payments for the Executive Directors and to discuss and approve additional share option packages for the Executive Directors. The measures put in place to reward the Executive Directors is detailed in the Directors' Remuneration section of this Report.

Where appropriate, the Committee seeks advice from remuneration consultants to gain an understanding of current trends and latest developments. In addition, taxation and legal advisors will usually be involved in drafting and finalising reward agreements.

The remuneration of the Non-Executive Directors is agreed by the Chair and Executive Directors. Details of the Directors' remuneration are set out in the Directors' Remuneration Report on pages 48-50.

The AIM Compliance & Corporate Governance Committee - Chaired by Nigel Richens

The AIM Compliance & Corporate Governance Committee usually meets twice a year. It is responsible for establishing, reviewing, and monitoring the Group's procedures and controls for ensuring compliance with the AIM Rules and the timely disclosure of information to satisfy the Group's legal and regulatory obligations. The meetings in January and November were attended by all Directors.

Our NOMAD, Liberum, provided all Directors with an update with regards to Director responsibilities on 19 September 2022.

The Audit Committee - Chaired by Nigel Richens

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

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

During the year, the Audit Committee discharged its responsibilities by:

1. Reviewing the Group's draft financial statements, preliminary announcements and interim results statement prior to Board approval and reviewing the external Auditor's reports thereon
2. Reviewing the external Auditor's plan for the audit of the Group financial statements, confirmations of auditor independence and proposed audit fee and approving terms of engagement for the audit
3. Considering the effectiveness and independence of the external Auditor and recommending to the Board the reappointment of Grant Thornton UK LLP as external Auditor
4. Considering the review of material business risks
5. Monitoring of reporting and follow-up of items reported by employees
6. Considering the significant risks and issues in relation to the financial statements and how these were addressed including: revenue recognition; impairment of inventory; impairment of goodwill and intangibles; impairment of investments and intercompany receivables; going concern
7. Considering the adequacy of accounting resource and the development of appropriate systems and control
8. Engaging with external providers to assist with certain aspects of accounting disclosure
9. Considering policies on non-audit engagements for the Company's Auditor, and
10. Reviewing reports from the Internal Audit Function and providing input to the implementation of performance improvement measures.

The Audit Committee met twice during 2022 (21 March and 16 November) with all Directors in attendance. In accordance with best practice, the Chairman of the Audit Committee met, and spoke, separately with the Audit Engagement Leader to provide an opportunity for any relevant issues to be raised directly with him.

Board effectiveness

Knowledge & training

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

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

The Chair leads an exercise performed on an annual basis to evaluate the effectiveness of the Board.

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

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

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

Our Nominated Adviser is invited to the AIM Compliance and Corporate Governance Committee to inform the Board of developments in these areas.

Diversity

The Board is committed to a policy of equal opportunity and diversity to attract and retain the talent needed to fulfil our strategic aspirations. Our culture recognises the need for diversity across a wide spectrum of factors including experience, skills and potential, as well as ethnicity, sexual orientation and gender.

Appointment and advancement are based on merit with no positive or negative discrimination. We recognise that further strengthening our diversity as and when opportunities arise is important to our future well-being.

The Nomination Committee reviews various matters when considering the constitution of the Board, including diversity alongside other important factors such as experience and capabilities.

This year sees us including comments on gender pay gap for the second time. As we state in the Sustainability section of the Report, we are determined that gender plays no part in any decisions we make relating to recruitment, remuneration or career progression.

Internal controls & risk management

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

The key elements within the Group's system of internal control are as follows:

1.	Regular Board meetings to consider matters reserved for Directors' consideration
2.	Regular management reporting
3.	Regular Board reviews of corporate strategy, including a review of material risks and uncertainties facing the business
4.	Established organisational structure with clearly defined lines of responsibility and levels of authority
5.	Documented policies and procedures
6.	Regular review by the Board of financial budgets, forecasts and covenants with performance reported to the Board monthly, and
7.	Detailed investment process for major projects, including capital investment analysis.

Directors' Remuneration Report

The Directors' Remuneration report sets out the key pillars of the remuneration policy for the Group, as well as the rationale for any major decisions made by the remuneration committee during the year. This is intended to help investors assess and understand the remuneration policy in the light of the strategy for the Group. This report is voluntarily disclosed.

The Remuneration Committee

The role of the Remuneration Committee is to assist the Board in fulfilling its responsibilities in establishing appropriate remuneration levels and incentive policies for employees, Executives and Directors, including all share-based compensation. The remuneration of the Non-Executive Directors is approved by the Board of Directors.

The Remuneration Committee seeks to act fairly and reasonably and in the interests of the Company and Shareholders.

Remuneration policy

The remuneration policy of the Group is:

1. To provide a suitable remuneration package to attract, motivate and retain Executive Directors, and
2. To ensure that all long-term incentive schemes for the Directors are in line with the Shareholders' interests

The Committee makes recommendations to the Board. No Director plays a part in any discussion about their own remuneration. The Remuneration Committee members are expected to draw on their experience to judge where to position the Group, relative to other companies' and other groups' rates of pay when considering remuneration packages for Executives.

The Executive Directors' remuneration comprises:

- Annual salary
- Performance related cash bonus
- Participation in the EMI option scheme; these options are exercisable and will lapse if the Directors leave employment for any other reason than being a 'good leaver' as defined within the scheme rules, or at the end of the tenth anniversary of the date of grant, and
- Long-term incentive plans controlled by the Remuneration Committee who have the authority to vary payments from amounts arising from agreed formulae/structures and vary the structure and policy each year.

Benefits in kind are the provision of medical insurance premiums and, in the case of Bryce Brooks*, a motor vehicle.

The Executive Directors have service contracts which provide for notice periods of twelve months. Each of the Non-Executive Directors has a service contract which provides for a notice period of three months.

During the year the Board, following the recommendations of the Remuneration Committee, agreed the grant of additional nil cost options over ordinary shares of 50 pence each under the Company's Long-Term Incentive Plan ("LTIP") to Bryce Brooks* and Russell Cash. The vesting of the awards is subject to both share price and EPS performance criteria measured on the results for the three-year financial period to 31 December 2024.

*Bryce Brooks stepped down as CEO on 12 April 2023

Directors' detailed remuneration

	Salary and fees £000	Benefits £000	Bonus £000	Total 2022 £000	Total 2021 £000
Executives					
Bryce Brooks*	225	5	70	300	288 ⁺
Russell Cash	200	2	9	211	252 ⁺
Non-Executives					
Roger McDowell	80	-	-	80	80
Nigel Richens	55	-	-	55	55
Jamie Brooke (appointed 8 March 2022)	37	-	-	37	-
Ailsa Webb (appointed 8 March 2022)	37	-	-	37	-
Paul Gedman (resigned November 2021)	-	-	-	-	42
	634	7	79	720	717

* includes provisional bonus of £56,250 (Bryce Brooks) and £50,000 (Russell Cash) based on 25% of annual salary; the actual sums ultimately paid were £66,415 and £59,035 respectively. The additional amount has been accounted for in 2022.

Directors' share interests

The table below shows the interests of the Directors in office at the end of the year in the share capital of the Company:

	As at 31 December 2022 number of ordinary shares	As at 31 December 2021 number of ordinary shares
Executives		
Bryce Brooks*	299,160	299,160
Russell Cash	48,175	48,175
Non-Executives		
Roger McDowell	750,000	750,000
Nigel Richens	73,500	73,500
Jamie Brooke	95,000	-
Ailsa Webb	40,121	-

The table below shows the interests of the Directors in office at the end of the year in the share capital of the Company's subsidiary, Flowtech MIP Limited:

	B shares £1 ordinary	D shares £1 ordinary
Executives		
Bryce Brooks*		
As at 31 December 2022	3,100	5
As at 31 December 2021	3,100	5

B shares were issued on admission to AIM at a cost of £10 per share on 21 May 2014. The D shares were issued at a cost of £400 per share on 1 June 2016. All shares were issued as part of an employee share-based remuneration scheme called the 'Management Incentive Plan.' For further details refer to note 22.

*Bryce Brooks stepped down as CEO on 12 April 2023

Directors' share options

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

	Scheme	As at 31 December 2021	Granted	As at 31 December 2022
Bryce Brooks*	EMI (Approved)	159,999	-	159,999
Bryce Brooks*	LTIP – 2021 issue	187,500		187,500
Bryce Brooks*	LTIP – 2022 issue		173,077	173,077
Russell Cash	EMI (Unapproved)	300,000		300,000
Russell Cash	LTIP – 2021 issue	166,667		166,667
Russell Cash	LTIP – 2022 issue		153,847	153,847

The EMI and LTIP share options were issued as part of an employee share-based remuneration scheme called the 'Enterprise Management Incentive Plan' and 'Long-Term Incentive Plan.' Further details are provided in note 22 to the consolidated financial statements.

*Bryce Brooks stepped down as CEO on 12 April 2023

Directors' Report

The Directors present their Annual Report, together with the audited Group and Company financial statements for the year ended 31 December 2022.

The Group financial statements have been prepared in accordance with UK-adopted international accounting standards. The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

A review of the Group's trading and an indication of future developments are contained in the Strategic report on pages 04-18. Details of revenue and operating profits for each operating segment are contained in note 3 to the consolidated financial statements. The principal subsidiaries contributing to the profits and net assets of the Group are listed in note 12 to the consolidated financial statements.

Flowtech Fluidpower plc is incorporated in England (Company registration number 09010518) and has its Registered Office at Bollin House, Bollin Walk, Wilmslow, SK9 1DP, Cheshire, UK.

Results and dividends

The results for the year ended 31 December 2022 are set out in the consolidated income statement on page 66.

The Group has reported an operating loss from its continuing activities of £4.4 million (2021: profit £3.7 million). After accounting for net finance costs, the consolidated income statement shows a loss from continuing operations before taxation of £5.6 million (2021: profit £2.9 million).

The Board will be recommending a dividend of 2.1p 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.

Directors

The Directors who held office during the year and up to the date of approval of the financial statements are as follows:

- Bryce Brooks
- Russell Cash
- Roger McDowell
- Nigel Richens (*retires on publication of the audited accounts 26 April 2023*)
- Ailsa Webb (*appointed 8 March 2022*)
- Jamie Brooke (*appointed 8 March 2022*)
- Stuart Watson (*appointed 10 January 2023*)

Short biographies of each Director currently in office, including Stuart Watson who was appointed on 10 January 2023, are provided on page 38-40.

As reported in the announcement on 12 April, Mike England was appointed Chief Executive Officer and will shortly be appointed statutory director.

The interest which the Directors serving at the end of the year, or at the date of this Report, had in the ordinary share capital of the Company, and its subsidiaries, at 31 December 2022 is disclosed in the Directors' Remuneration report on page 49.

Details of the Directors' share options are provided in the Directors' Remuneration report on page 50.

Material interest in contracts

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

Share capital

Details of the Company's share capital are in note 23 to the consolidated financial statements.

The Company's share capital comprises one class of ordinary shares and as at 10 March 2023 there were in issue 61,492,673 fully paid ordinary shares of 50p each. All shares are fully transferable and rank *pari passu* for voting and dividend rights.

The Company has been notified of the following interest in more than 3% of the Company's issued share capital.

The table below shows the position as at 10 March 2023 (being the last practicable date before the publication of this Report):

Shareholders – 10 March 2023	Number of shares held	% of share capital
Odyssean Investment Trust	10,500,000	17.08
Harwood Capital	5,870,826	9.55
Downing LLP	5,653,934	9.19
Close Brothers Asset Management	4,519,551	7.35
Gresham House Asset Management	2,773,089	4.51
Charles Stanley	2,657,571	4.32
Janus Henderson Investors	2,537,190	4.13
Lazard Freres Banque (PB)	2,445,080	3.98
British Growth Fund (BFG)	1,896,724	3.08
Hargreaves Lansdown, stockbrokers	1,628,976	2.65

Financial instruments & risk management

Information about the use of financial instruments by the Company and its subsidiaries, and the Group's financial risk management policies, are given in note 27. It is not the Group's policy to trade in financial instruments.

Directors' responsibility under Section 172

Comments on how the Directors have had regard for the interests of various stakeholders whilst making key decisions are contained on page 28, under the Corporate Social Responsibility section.

Conflicts of interest

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

Board composition

The Board aims to ensure it has the required balance of skills and experience. An assessment of the skillset and effectiveness of the Board is performed on an annual basis.

Re-election

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

Liability insurance

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

Annual general meeting

Whilst Shareholders have the right to attend, speak and vote at the meeting if they so wish, we are encouraging Shareholders to submit a proxy vote in advance of the Annual General Meeting and to appoint the Chairman of the meeting as their proxy rather than attend the meeting in person. We are also providing a facility which will enable Shareholders to view the meeting electronically (although they will not be able to vote through this facility) and to submit questions prior to the AGM, which will be addressed at the meeting or otherwise responded to.

The AGM will be held in June 2023. The Company is facilitating an online AGM experience via the Investor Meet Company platform, details of which are contained in the Notice of Meeting.

Those joining the meeting remotely will have the opportunity to join the meeting from any remote location and to listen to the proceedings of the meeting. The webcast will also be available on the website after the event.

Subsequent events

On 22 February 2023 the Group's £20m revolving credit facility provided by Barclays Bank was renewed for a further 3 year period with an option to extend for a further year. Aside from this in the opinion of the Board, there have been no significant events occurring since the balance sheet date.

Corporate governance

The Group's statement on corporate governance can be found in the Corporate Governance report on pages 41 to 47. This forms part of this Directors' report and is incorporated into it by way of this cross reference.

Our environment

The Group's comments as regards the impact our operations have on the environment, and recent initiatives that have been introduced with regards to streamlined energy and carbon reporting requirements, are referred to in the sustainability section of this Report on pages 21 to 26. These comments form part of this Directors' report by way of this cross reference.

Engagement with employees, suppliers, customers and others

The Group's comments in these areas are included in the sustainability section of this Report on pages 21-26. These comments form part of this Directors' report by way of this cross reference.

Going concern

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

- Although the Group saw a £4.4m operating loss in 2022 (2021: profit £3.7m), after adding back separately disclosed items, this represents an underlying operating profit of £8.6m, a £2.9m increase over £5.7m achieved in 2021.
- The Group is expecting to return 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 (£9.1 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.

We have performed reverse stress testing, based on revenue reductions, and are satisfied that the Group is able to remain Covenant compliant in these situations. 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.

Auditor

Grant Thornton UK LLP was reappointed as Auditor of the Company during the year and a resolution to appoint them will be proposed at the Annual General Meeting.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report & Accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

The Company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 'Reduced Disclosure Framework'. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

1. so far as each Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
2. the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Russell Cash, Chief Financial Officer & Company Secretary

25 April 2023

Independent auditor's report to the members of Flowtech Fluidpower plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Flowtech Fluidpower plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2022, which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the Company income statement, the Company statement of financial position, the Company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2022 and of the Group's loss and the parent company's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group or the parent company to cease to continue as a going concern.

Our evaluation of the directors' assessment of the Group's and the parent company's ability to continue to adopt the going concern basis of accounting included:

- Analysing the reasonableness of management's forecasts and downside sensitivity;
- Assessing scenario sensitivities and reverse stress tests performed by management, and determining if they are plausible;
- Considering management's historic forecasting accuracy and the extent to which this impacts the forecasts produced;
- Corroborating the existence of the Group's loan facilities and related covenant requirements for the period covered by management's forecasts; and
- Reviewing post year end results achieved to those forecasted to determine if the business is trading in line with forecasts.

In our evaluation of management's conclusions, we considered the inherent risks associated with the Group's and the parent company's business model including effects arising from the macro-economic uncertainties such as the crisis in Ukraine and

high inflationary pressures, we assessed and challenged the reasonableness of estimates made by management and the related disclosures and analysed how those risks might affect the Group's and the parent company's financial resources or ability to continue operations over the going concern period.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

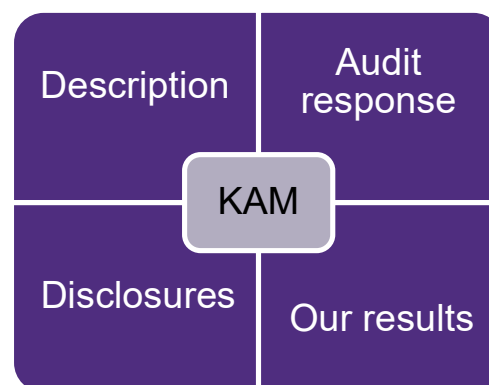
Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our approach to the audit

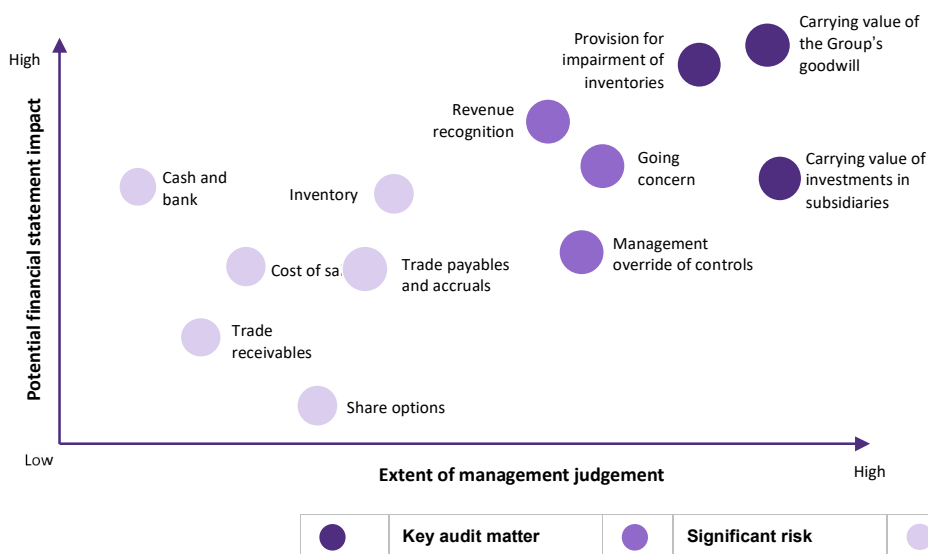
 	Overview of our audit approach Overall materiality: Group: £545,000, which represents 0.5% of the Group's revenue, capped at the same amount as determined for the prior year. Parent company: £490,500, which represents 0.4% of the Parent company's total assets, capped at 90% of Group materiality for Group audit purposes. Key audit matters were identified as: • Carrying value of the Group's goodwill (same as previous year); • Provision for impairment of inventories (same as previous year); and • Carrying value of investments in subsidiaries (same as previous year). Our auditor's report for the year ended 31 December 2021 included two key audit matters that have not been reported as key audit matters in our current year's report, being going concern and improper revenue recognition – sale of goods. Going concern is not a key audit matter this year as a result of increased headroom on forecast covenant compliance and growth in the year following the recovery from the impact of Covid-19 in 2020 and 2021. We have not reported improper revenue recognition – sale of goods as a key audit matter given the relative lack of judgement in revenue recognition. We have performed audits of the financial information using component materiality (full-scope audits) for Flowtech Fluidpower plc and the following components Fluidpower Group UK Limited, Fluidpower Group Services Limited, Fluidpower Shared Services Limited and Fluidpower MIP Limited. We performed specific audit procedures on the financial information of Flowtech Fluidpower Ireland Limited. In total our audit procedures covered 88% of the Group's total assets, 82% of the Group's revenue and 94% of the Group's loss before tax. We performed analytical procedures at Group level on the financial information of all the remaining Group components.
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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



Key Audit Matter – Group

Carrying value of the Group's goodwill

We identified valuation of goodwill as one of the most significant assessed risks of material misstatement due to error. We have pinpointed the significant risk in relation to the carrying value of goodwill to the Primary Fluidpower Systems, Orange County, Flowtech UK, Hydroflex Hydraulics OUD and Hi-Power Transport Cash Generating Units ('CGUs') in respect of the valuation and allocation assertion. There is an increased risk that goodwill held by the Group relating to the CGU's is impaired due to the sensitivity to changes in the assumptions underpinning the forecasts and discount rate. Under International Accounting Standard IAS 36 'Impairment of Assets', management is required to assess at the end of each reporting period whether there is any indication that an asset may be impaired and to perform an annual assessment whether the Group's goodwill within a CGU is impaired. The process for assessing whether impairment of assets exists under IAS 36 is complex. Management use an expert to prepare impairment models to assess the recoverable amount. Calculating value in use, through forecasting cash flows related to CGUs and the

How our scope addressed the matter – Group

In responding to the key audit matter, we performed the following audit procedures:

- Obtaining an understanding of the design of the controls in place over the impairment of goodwill and testing whether they were implemented as designed;
- Assessing the competence, capabilities and objectivity of the management's expert used by the Group;
- Assessing the mechanical accuracy of the impairment model and the methodology applied by management for consistency with the requirements of IAS 36, including their associated sensitivity analysis;
- Obtaining management's assessment over carrying value and value in use, understanding and challenging sensitivities performed;
- Testing the accuracy of management's forecasting through a comparison of prior forecasts to actual data;
- Considering the appropriateness of management's assumptions and sensitivities relating to the calculations of the value in use of CGUs and estimated future cash flows,

Key Audit Matter – Group

determination of the CGUs, appropriate discount rate and other assumptions to be applied can be highly judgemental and subject to management bias or error. The selection of certain inputs into the cash flow forecasts can also significantly impact the results of the impairment assessment.

Relevant disclosures in the Annual Report 2022

- Financial statements: Note 2.9, Accounting policies, Intangible assets, Goodwill; and Note 10, Goodwill.

Provision for impairment of inventories

We identified provision for impairment of inventories as one of the most significant assessed risks of material misstatement due to error.

The Group's total inventory as at 31 December 2022 is £31,486,000 (2021: £30,531,000), which is recorded net of a provision of £1,693,000 (2021: £1,421,000).

Inventory management is one of the key challenges facing management and one of the main determinants of the Group's underlying performance.

The provision for impairment of inventories is calculated based on historical sales trends, and management's estimation of recoverability of inventory on hand and is therefore subject to estimation uncertainty. Key assumptions made by management include those in relation to expected future sales and levels of excess inventory.

How our scope addressed the matter – Group

including the growth rate and discount rate used to assess the level of headroom;

- The client performed sensitivity analysis to understand the impact of any reasonably possible changes in assumptions, determining their impact on the carrying value of the intangible assets;
- Evaluating whether the goodwill and intangible assets are allocated to the CGUs appropriately and challenging whether the CGUs identified and changes made are appropriate;
- We ascertained the extent to which a change in these assumptions, both individually or in aggregate, would result in a goodwill impairment, and considered the likelihood of such events occurring. We also considered the sufficiency and appropriateness of disclosures included in the Group's consolidated financial statements regarding such events;
- We used our internal valuation specialists to inform our challenge of management, that the assumptions used within the calculation of WACC are reasonable and consistent with other similar Groups; and
- We assessed whether the Group's disclosures with respect to the carrying value of Group goodwill are adequate and the key assumptions are disclosed.

Our results

Based on our audit work we have identified that the valuation of goodwill was accounted for in accordance with the Group's accounting policies. We consider the disclosures with respect to the carrying value of the Group's goodwill to be in accordance with IAS 36.

In responding to the key audit matter, we performed the following audit procedures:

- Assessing whether the Group's accounting policy for impairment of inventories is in accordance with the financial reporting framework, including IAS 2 'Inventories';
- Considering whether the Group's inventory provisions have been recognised in accordance with the Group's accounting policies;
- Obtaining an understanding the design and evaluating the implementation of processes and controls through which the Group initiates, records, processes and reports inventory provisions;
- Challenging the appropriateness of the provision percentage applied to excess stock over five years and performing sensitivity on the assumptions used in managements adjustments;
- Agreeing the integrity of the underlying data used in the calculation of the inventory provisions to sales data;
- Assessment of sales made at a loss, both during the financial period and subsequent to the year end, and an assessment of the historical accuracy of prior period's provisioning;
- On a sample basis we vouched post year end sales to determine if inventory is held at lower of cost and net realisable value; and

Key Audit Matter – Group	How our scope addressed the matter – Group
Relevant disclosures in the Annual Report 2022 Financial statements: Note 2.10, Accounting policies, Inventories; and Note 15, Inventories.	Considering the suitability of the inventory provision, including comparisons to competitors, re-performance of the calculation and considering historical performance relating to inventories. Our results Based on our audit work we have not identified any material misstatements relating to the provision for inventories.
Key Audit Matter – Parent company	How our scope addressed the matter– Parent company
Carrying value of investments in subsidiaries We identified the carrying value of investments in subsidiaries as one of the most significant assessed risks of material misstatement due to error. The Company statement of financial position includes investments in subsidiaries of £59,024,000 (2021: £59,024,000). We have focused on this area due to the size of the investment balance and the higher estimation uncertainty in determining the future cashflows to support the balance. There is a risk that the carrying value of investments may be overstated. The process for assessing whether impairment exist under IAS 36 'Impairment of Assets' is complex and there is significant judgement in forecasting future cashflows and therefore assessing the value. Management has performed an assessment of the recoverable amount of the investment and compared this to the carrying value using the same cash flow methodology applied in the impairment test for goodwill described above. The judgements made by management in respect of the impairment review are subject to significant measurement uncertainty. Relevant disclosures in the Annual Report 2022 Financial statements: Note B, Accounting policies, Impairment of investments and Impairment of Group balances; and Note I, Investments and Note J, Trade and other debtors.	- In responding to the key audit matter, we performed the following audit procedures: - Assessing management's impairment review including comparing management's forecasts with the latest Board-approved budget; - Assessing the accuracy of management's forecasting through a comparison of historical data to actual results and projections for following periods; - Understanding the design and testing the implementation of the processes and controls through which the Company initiates, records, processes and reports impairments of investments in subsidiaries; - Assessing the competence, capabilities and objectivity of the management expert used by the Company; - Assessing the appropriateness of the methodology and discount rate provided by management's expert and used in management's impairment review; - Challenging the assumptions included within management's calculation, which included gaining an understanding of the key factors and judgements applied in determining future forecast results including the growth rate and discount rates; - Assessing the accuracy of management's forecasts by comparing forecasts to historical results; - Considering any indicators of impairment such as market capitalisation and current financial performance; - Performing sensitivity analysis on key assumptions to understand the potential impact on headroom. This included sensitising the discount rate applied to the future cash flows, and the short term growth rates and operating income forecast; and - Assessing the adequacy of the disclosures in the financial statements in accordance with the requirements of IAS 36 'Impairment of Assets'. Our results Based on our audit testing, we did not identify any material misstatements in respect of the recoverability of the carrying value of investments in subsidiaries.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

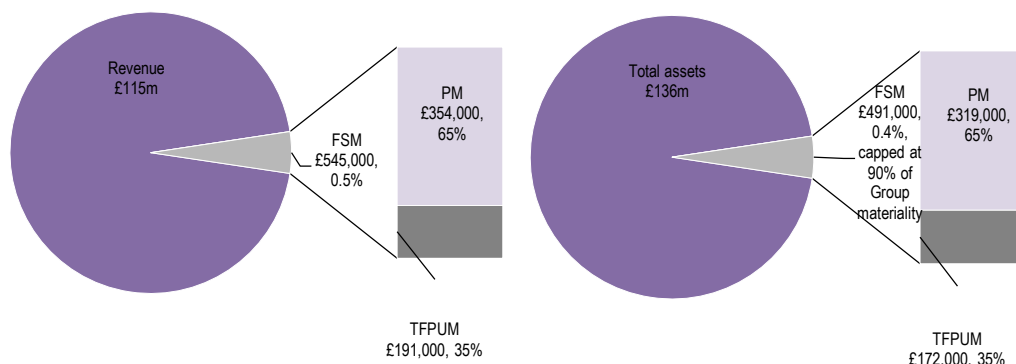
Materiality measure	Group	Parent company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	£545,000, which is 0.5% of the Group's revenue, capped at the same amount as determined for the prior year.	£491,000, which is 0.4% of the parent company's total assets, capped at 90% of Group materiality for Group audit purposes.
Significant judgements made by auditor in determining materiality	In determining materiality, we made the following significant judgements: We determined that revenue was the most appropriate benchmark for the Group due to it being a key performance indicator of the Group (as part of the Sales growth KPI) and providing a consistent year on year basis for determining materiality as it is less volatile than the earnings for the Group. Materiality for the current year is the same as the level that we determined for the year ended 31 December 2021 to reflect our capping of the current year's materiality at the same amount as the prior year.	In determining materiality, we made the following significant judgements: The primary objective of the parent company is to hold the investments in the Group undertakings, as well as to provide financing. Materiality for the current year is the same as the level that we determined for the year ended 31 December 2021 to reflect our capping at the same percentage of the same number as the prior year.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	£354,000, which is 65% of financial statement materiality.	£319,000, which is 65% of financial statement materiality.
Significant judgements made by auditor in determining performance materiality	In determining performance materiality, we made the following significant judgements: we assessed the strength of the control environment, including the effect of misstatements identified in previous audits, to make our determination.	In determining performance materiality, we made the following significant judgements: we assessed the strength of the control environment, including the effect of misstatements identified in previous audits, to make our determination.
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	

Materiality measure	Group	Parent company
Specific materiality	We determined a lower level of specific materiality for the following areas: - related party transactions excluding intercompany transactions; and - directors' remuneration.	We determined a lower level of specific materiality for the following areas: - related party transactions excluding intercompany transactions; and - directors' remuneration.
Communication of misstatements to the Audit Committee	We determine a threshold for reporting unadjusted differences to the Audit Committee.	
Threshold for communication	£27,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£25,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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

Overall materiality – Group

Overall materiality – Parent company



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Group's and the parent company's business and in particular matters related to:

Understanding the Group, its components, and their environments, including group-wide controls

- The engagement team obtained an understanding of the Group and its environment, including Group wide controls, and assessed the risks of material misstatement at the Group level; and
- The engagement team further considered the structure of the Group, including Group-wide processes and controls, and used this to inform our assessment of risk.

Identifying significant components

- In order to address the risks identified, the engagement team performed an evaluation on components to identify significant components and to determine the planned audit response based on a measure of materiality, calculated by considering the component's significance as a percentage of the Group's total assets, revenue, inventories and profit before taxation.

Type of work to be performed on financial information of parent and other components (including how it addressed the key audit matters)

- We performed full scope audits using component materiality on the financial statements of Flowtech Fluidpower plc and on the financial information of the components Fluidpower Group UK Limited, Fluidpower Group Services, Fluidpower Shared Services Limited and Fluidpower MIP.
- We performed specific audit procedures on certain balances and transactions of Flowtech Fluidpower Ireland Limited.
- We performed analytical procedures on the financial information of Flowtech Europe Limited, Flowtechnology Asia Limited, Flowtechnology CZ Limited, Process Fluidpower Limited, Balu Limited, Weltac Limited Flowtechnology Benelux Limited and Hydroflex Hydraulics Group BV.

Performance of our audit

- Together, the components subject to full scope audits and specified audit procedures performed by the Group auditor were responsible for 93% of the Group's total assets, 91% of the Group's revenue and 94% of the Group's loss before tax. The components on which full scope audit procedures were performed provide an appropriate basis for undertaking audit work to address the Key Audit Matters at Group level identified above;
- For the remaining eight components we performed analytical procedures on their financial information; and
- Testing of the consolidation process, including re-performance of management's calculations.

Changes in approach from previous period

- Flowtechnology Fluidpower Ireland Limited, has been removed from the full-scope audit owing to its financial insignificance in context of the Group as a whole. Additionally analytical procedures have been performed on The Hydraulics Group BV and Flowtechnology Benelux B.V.

Audit approach	No. of components	% coverage total assets	% coverage revenue	% coverage LBT
Full-scope audit	4	88%	82%	94%
Specific-scope audit	-	0%	0%	0%
Specified audit procedures	1	6%	9%	2%
Review procedures	-	0%	0%	0%
Analytical procedures	8	6%	9%	4%

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

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

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 54, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Group and the parent company and the industry in which they operate. We determined that the following laws and regulations were most significant; the Companies Act 2006 and UK-adopted international accounting standards (for the Group), the Companies Act 2006 and Financial Reporting Standard 101 'Reduced Disclosure Framework' (for the parent company), and the Quoted Companies Alliance (QCA) Corporate Governance Code.
- We obtained an understanding of how the parent company and the Group are complying with those legal and regulatory frameworks by making inquiries of management, those responsible for legal and compliance procedures and the company secretary. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the parent company's and the Group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the Group engagement team included:
 - Assessing the design and implementation of controls management has in place to prevent and detect fraud;
 - Obtaining an understanding of how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;

- Challenging assumptions and judgments made by management in its significant accounting estimates;
 - Identifying and testing journal entries, in particular journal entries determined to be large or relating to unusual transactions; and
 - Making inquiries, in respect of fraud, of those outside the finance team, including key management and the internal process audit team.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
 - The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's knowledge of the industry in which the client operates, and the understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation; and
 - The engagement team's discussions in respect of potential non-compliance with laws and regulations and fraud included the risk of fraud in revenue recognition.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Michael Lowe

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
25 April 2023

Consolidated Income Statement

For the year ended 31 December

	Note	2022 £000	2021 £000
Continuing operations			
Revenue	3	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	6	(1,192)	(833)
(Loss)/profit from continuing operations before tax	3	(5,572)	2,879
Taxation	7	(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
		(6,252)	2,138
Earnings per share			
Basic earnings per share - continuing operations	9	(10.17p)	3.48p
Diluted earnings per share - continuing operations	9	(10.17p)	3.45p

Consolidated Statement of Comprehensive Income

	2022 £000	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 (loss)/income for the year	(5,934)	1,796
Total comprehensive (loss)/income for the year attributable to:		
Owners of the parent	(5,934)	1,796
	(5,934)	1,796

Consolidated Statement of Financial Position

	Note	2022 £000	2021 £000
Assets			
Non-current assets			
Goodwill	10	53,092	63,164
Other intangible assets	11	3,523	4,517
Right-of-use assets	21	6,091	6,925
Property, plant and equipment	13	7,234	6,891
Total non-current assets		69,940	81,497
Current assets			
Inventories	15	31,486	30,531
Trade and other receivables	16	24,620	21,566
Prepayments		387	472
Cash and cash equivalents	17	3,972	4,562
Total current assets		60,465	57,131
Liabilities			
Current liabilities			
Interest-bearing borrowings	18	19,967	-
Lease liability	18,21	1,705	1,561
Trade and other payables	19	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	18	-	19,927
Lease liability	18, 21	5,008	5,586
Provisions	20	317	309
Deferred tax liabilities	14	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	23	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

The financial statements on pages 65-116 were approved by the Board of Directors on 25 April 2023 and were signed on its behalf by:

Russell Cash, Chief Financial Officer

Company number: 09010518

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Other reserve £000	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	2021 £000
Cash flow from operating activities			
Net cash from operating activities	24	5,014	(441)
Cash flow from investing activities			
Acquisition of property, plant and equipment	13	(1,645)	(1,342)
Acquisition of intangible assets	11	(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	8	(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	17	3,972	4,562

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 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.

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

The consolidated financial statements of the Group have been prepared in accordance with UK adopted international accounting standards and the Companies Act 2006. The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced disclosure framework' (FRS 101).

The consolidated financial statements have been prepared on a going concern basis and prepared on the historical cost basis.

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

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

Accounting standards issued but not yet effective.

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early.

The most significant of these is as follows, which are all effective for the period beginning 1 January 2023 or later:

1. Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
2. Definition of Accounting Estimates (Amendments to IAS 8)
3. Disclosure of Accounting policies (Amendments to IAS 1 and FRS Practice Statement 2)
4. Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
5. Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

The following standards, interpretations and amendments to existing standards are now effective and have been adopted by the Group. The impacts of applying these policies are not considered material:

1. Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16;
2. Onerous contracts – Cost of Fulfilling a Contract – Amendments to IAS 37;
3. Annual Improvements to IFRS Standards 2018-2020; and
4. Reference to the Conceptual Framework – Amendments to IFRS 3.

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

2.2 Going concern

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

- Although the Group saw a £4.4m operating loss in 2022 (2021:£3.7m), after adding back separately disclosed items, this represents an underlying operating profit of £8.6m, a £2.9m increase over £5.7m achieved in 2021.
- The Group is expecting to return 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 in preparing its financial statements.

2.3 Basis of consolidation

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

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

Accordingly, the following accounting treatment was applied in respect of the share for share exchange:

1. The assets and liabilities of Fluidpower Shared Services Limited and its subsidiaries were recognised in the consolidated financial statements at the pre-combination carrying amounts, without restatement to fair value, and
2. The retained losses and other equity balances recognised in the consolidated financial statements for the year ended 31 December 2013 reflect the retained losses and other equity balances of Fluidpower Shared Services Limited and its subsidiaries recorded before the share for share exchange. However, the equity structure (share capital and share premium balances) shown in the consolidated financial statements reflects the equity structure of the legal parent (Flowtech Fluidpower plc), including the equity instruments issued under the share for share exchange. The resulting difference between the parent's capital and the acquired Group's capital has been recognised as a component of equity being the 'merger reserve'.
3. The Company had no significant assets, liabilities or contingent liabilities of its own at the time of the share for share exchange and no such consideration was paid.

Subsidiaries

The Group's financial statements consolidate those of the Parent Company and all of its subsidiaries as of 31 December 2022. The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries, except for those specifically mentioned, have a reporting year ending in December. Beaumanor Engineering Limited has a reporting year ending in June however this entity is dormant and under strike off process.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-Group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.4 The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, and motor vehicles. Rental contracts are typically made for fixed periods of up to 12 years but may have extension options as described in (i) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Leases liabilities are secured on the assets leased. Lease liabilities include the net present value of the following lease payments:

1. fixed payments (including in-substance fixed payments), less any lease incentives receivable;
2. variable lease payments that are based on an index or a rate
3. amounts expected to be payable by the lessee under residual value guarantees
4. the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
5. payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

1. the amount of the initial measurement of lease liability
2. any lease payments made at or before the commencement date less any lease incentives received
3. any initial direct costs, and
4. restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture with a value of less than £3,500.

There are no leases with variable lease payments.

(i) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). No potential future cash outflows have been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

(ii) Residual value guarantees

To optimise lease costs during the contract period, the Group sometimes provides residual value guarantees in relation to equipment leases.

Estimating the amount payable under residual value guarantees

The Group initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. The amounts are reviewed, and adjusted if appropriate, at the end of each reporting period. At the end of the reporting period, there is no liability on account of residual value guarantees.

2.5 Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

1. they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group), and
2. where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

2.6 Financial instruments

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

Trade and other receivables

Trade and other receivables are recognised initially at the transaction price in accordance with IFRS 15.

The Group makes use of a simplified approach in accounting for trade losses in other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cashflows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward looking information to calculate the expected credit losses using a provision matrix. The group assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to note 16 for the movement in expected credit losses, as well as the allocation based on the ageing profile.

Trade and other payables

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

Derivative financial instruments and hedging activities

The Group primarily uses forward foreign currency contracts to manage its exposure to fluctuating foreign exchange rates. These instruments are initially recognised at fair value and are subsequently remeasured at their fair value at each balance sheet date. Any gains or losses are recognised through the Consolidated Income Statement.

Cash and cash equivalents

Cash is defined as cash in hand and on demand deposits. Cash equivalents are defined as short-term highly liquid investments with original maturities of three months or less.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses. Any change in their value through impairment or reversal of impairment is recognised in profit or loss. Discounting is omitted where the effect is immaterial.

Derecognition of financial liabilities

The Group derecognises a financial liability (or its part) from the statement of financial position when, and only when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of a financial liability (or a part of a financial liability) extinguished and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

2.7 Property, plant and equipment

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

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

Depreciation is charged to the income statement over the estimated useful lives of each part of an item of property, plant and equipment. In the case of Right-of-use assets, depreciation is charged over the life of the asset or its lease term, whichever is lower. Land is not depreciated. The estimated useful lives and depreciation methods are as follows:

Property	Up to 50 years - straight line
Plant, machinery and equipment	3 to 20 years - straight line
Motor vehicles	4 to 5 years - straight line
Right-of-use property	2 to 12 years - straight line
Right-of-use motor vehicles	2 to 5 years - straight line

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

2.8 Business combinations

Subject to the transitional relief in IFRS 1 'First time adoption of IFRSs', all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Acquisitions after 1 January 2011

For acquisitions on or after 1 January 2011, the Group measures goodwill at the acquisition date as:

1. the fair value of the consideration transferred; plus
2. the recognised amount of any non-controlling interests in the acquiree; plus
3. the fair value of the existing equity interest in the acquiree; less
4. the fair value of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred and included in the separately disclosed 'acquisition costs' as part of administration expenses. Any contingent consideration payable is recognised at fair value at the acquisition date. Implied interest cost of deferred consideration is accounted as finance cost. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

2.9 Intangible assets

Goodwill

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

Acquired intangibles

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

The Group has recognised customer relationships and brand identity as separately identifiable acquired intangible assets. The useful economic life attributed to each intangible asset is determined at the time of the acquisition and ranges from five to ten years. Impairment reviews are undertaken whenever the Directors consider that there has been a potential indication of impairment.

Website development costs

Website development costs that generate economic benefits beyond one year are capitalised as intangible assets and amortised on a straight-line basis over a period of up to six years, or by exception over a longer period where it is expected that economic benefits are attributable over a longer period. The remaining useful life of assets is reviewed on an annual basis, or where a change in the business or other circumstances would trigger a revision. Assets under development are not amortised but instead tested for impairment annually. The amortisation expense on intangible assets is recognised in the income statement within administration costs. Software as a service ("SAAS") contract costs are expensed to the Income Statement over the life of the contract. For SAAS and cloud based technology, integration costs are capitalised only when they represent enhancements to Group's existing assets. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses. Capitalised costs include employee costs incurred on project management, system architecture development and testing.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value, after making allowance for obsolete and slow-moving items. Cost includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition, including, where appropriate, labour expended in processing of assembled goods.

2.11 Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine expected future losses. A financial asset is impaired if the assessment reveals expected future losses based on detailed review of future expected cash flows from the financial asset.

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

Non-financial assets

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

The recoverable amount of an asset or operating segment is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together by cash generating units. The goodwill acquired in a business combination, for the purpose of impairment testing, is also allocated to the relevant cash generating unit.

Goodwill acquired in a business combination is allocated to cash generating units that are expected to benefit from the synergies of the combination and represent the lowest level within the Group at which management monitor the related goodwill.

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

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

2.12 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

2.13 Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black-Scholes model or appropriate variations thereof. An expert is used to assist management with the valuation.

2.14 Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

2.15 Revenue

Revenue from sale of goods

Revenue from sale of goods is the total amount receivable by the Group for goods supplied, excluding VAT and discounts. Revenue from the sale of goods is recognised in the income statement at a point in time at the point of despatch.

Revenue for sale of goods includes income from delivery charged to customers, excluding VAT. Delivery income is recognised at the same time as the corresponding revenue for sale of goods and is a single combined performance obligation.

Rebates payable to customers are recognised in line with the relevant contractual terms. Rebates payable to customers are contingent on the occurrence or non-occurrence of a future event e.g. the customer meeting an agreed certain sales value. Rebates are recorded using the most likely method (the single most likely amount in a range of possible consideration amounts). Accruals are made for each individual rebate based on the specific terms and conditions of the customer agreement. Management makes estimates on an ongoing basis, primarily based on current customer spending, historic data and its accumulated experience, in order to assess customer revenues and to calculate total rebates earned. Rebates are charged directly to the Consolidated Income Statement over the period to which they relate and are recognised as a deduction from revenue.

Revenue from on-site services

Service revenues comprise installation and maintenance work at client sites. Revenue from on-site work that is standard and on-going (as opposed to bespoke) is recognised when the performance obligations under the work order are completed and acknowledged by the customer, in accordance with the terms and conditions of the work order. Very occasionally, where routine maintenance work is agreed as part of a contract covering a year or number of years, the performance obligation is considered to be discharged evenly through the term of the contract and revenue is recognised over the life of the contract. Warranties offered to customers are usually on the back of warranties offered by suppliers of spare parts and involve negligible costs to the business.

Revenue from bespoke longer-term services is accounted for in accordance with the policy on Revenue from contracts described below.

Revenue from contracts

Revenue from contracts involve providing an end to end solution, involving some or all of project management, design, manufacture, customisation, installation and commissioning that can last several months or years. To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations, and then
5. Recognising revenue when/as performance obligation(s) are satisfied

The contract is then assessed to determine whether it contains a single combined performance obligation or multiple performance obligations. If applicable the total transaction price is allocated amongst the various performance obligations based on their relative stand-alone selling prices. Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Where the Group also provides a significant service of integrating components and services under the contract, the sum total of the deliverables (solution) under the contract is treated as a single performance obligation. In this case, the Group has assessed that control of the solution transfers to the customer over time. This is because each solution is unique to the customer (has no alternative use) and the Group is entitled to a right to payment for the work certified as completed in the event the customer sought to terminate the contract. Revenue for these performance obligations is recognised as the customisation or integration work is performed, using the input method to estimate progress towards completion.

Billings on bespoke solutions contracts are based on attaining specified contract milestones. Contract assets will arise in situations where revenue is recognised in advance of the next progress billing. When payments are received that exceed the revenue recognised to date on a particular contract, any excess reported in the financial position as deferred income under contract liabilities.

2.16 Cost of sales

Cost of sales includes all costs incurred up to the point of despatch including operating expenses of the warehouse.

2.17 Distribution expenses

Distributions costs are costs directly relating to despatch of goods and indirect costs including advertising and other sales related expenses.

2.18 Operating Divisions

Since the start of 2021, the Group has been operating under three distinct branded segments: Flowtech, Fluidpower Group Solutions and Fluidpower Group Services. During the year, the Primary Components business was moved from the Fluidpower Group Solutions Segment into the Flowtech Segment to reflect changes in internal reporting.

The Group monitors and reports business performance based on these three segments:

Flowtech:

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

Fluidpower Group Solutions:

Supply specialist technical hydraulic components and systems predominantly into OEMs and end-user channels to all industry markets and supported by supply agreements direct to a broad range of manufacturer brands.

Fluidpower Group 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.

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

2.19 Financing income and expenses

Financing expenses comprise interest payable, implied interest on deferred consideration and finance costs implied in leases recognised in profit or loss using the effective interest method. Financing income comprises interest receivable on funds invested. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

2.20 Taxation

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

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

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

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

2.21 Equity, reserves and dividend payments

Equity comprises the following:

- 'Share capital' represents the nominal value of equity shares
- 'Share premium' represents the excess over nominal value of consideration received for equity share net of expenses of the share issue, less any costs associated with the issuing of shares
- 'Other reserves' relate to the issue of share options for consideration in respect of acquisition of subsidiaries
- 'Shares owned by the EBT' represents shares in the Group purchased for the Employee Benefit Trust
- 'Merger reserve' represents the difference between the Parent's capital and the acquired Group's capital retained losses and other equity balances before and after the share for share exchange which created the Group
- 'Merger relief reserve' represents merger relief arising on the acquisition of subsidiaries for which some or all of the consideration was settled in shares
- 'Currency translation reserve' comprises all foreign exchange differences arising since 1 January 2011, arising from the translation of foreign operations
- 'Retained losses' represent retained losses of the Group, and
- 'Non-controlling interest' relates to profits attributable to non-material non-controlling interests held in subsidiaries.

All transactions with owners of the Parent are recorded separately within equity.

Dividend distributions payable to equity Shareholders are included in other liabilities when the dividends have been approved in general meeting prior to the reporting date.

2.22 Foreign currency translation

Functional and presentation currency

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

Foreign currency transactions and balances

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

Foreign operations

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

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

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the currency translation reserve. The Group has taken advantage of the relief available in IFRS 1 to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to Adopted IFRSs (1 January 2011).

On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

2.23 Significant judgements, key assumptions and estimates

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

Significant management judgements

There are no significant judgements affecting the financial position this year (2021: nil).

Estimation uncertainty

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

Impairment of goodwill

The carrying value of goodwill must be assessed for impairment annually. This requires an estimation of the value in use of the cash generating units (CGUs) to which goodwill is allocated. Value in use is dependent on estimations of future cash flows from the CGU and the use of an appropriate weighted average cost of capital to discount those cash flows to their present value. The carrying value of goodwill as at 31 December 2022 is £53,092,000 (2021: £63,164,000). Refer to note 10 for further detail. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see note 10).

Acquired intangibles

In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses an appropriate weighted average cost of capital to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see note 10). In 2021, the Group recognised an impairment loss on other intangibles (see note 11).

Provision for impairment of inventories

The carrying value of inventories as at 31 December 2022 was £31,486,000 (2021: £30,531,000) and included a provision against the inventories of £1,693,000 (2021: £1,421,000). The provision for impairment of inventories is based on sales trends for all inventory and management's estimation of recoverability. Where appropriate, the provision contains an uplift to reflect the slower rate of sale due to the impact of COVID-19. As always, there is a risk that the provision will not match the inventories that ultimately prove to be impaired.

2.24 Separately disclosed items

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

2.25 Investment in own shares

Own shares held by the Group's Employee Benefit Trust (EBT) have been classified as deductions from Shareholders' funds. The costs of purchasing own shares held by the EBT are shown as a deduction within Shareholders' equity. The gain from the sale of own shares is recognised in Shareholders' equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the income statement.

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 as explained in note 2.18. These operating segments are monitored by the Group's Chief Operating Decision Maker and strategic decisions are made on the basis of adjusted segment operating results. Inter-segment revenue arises on the sale of goods between Group undertakings.

The Directors believe that the Underlying Operating Profit provides additional useful information on underlying trends to Shareholders. The term 'underlying' is not a defined term under IFRS and may not be comparable with similarly titled profit measurements reported by other companies. A reconciliation of the underlying operating result to operating result from continuing operations is shown below. The principal adjustments made are in respect of the separately disclosed items as detailed 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	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	7,101	3,505	140	-	(5,056)	5,690
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 further breakdown of central costs can be found in the Financial Review on page 30.

	2022 £000	2021 £000
Separately disclosed items		
Separately disclosed items within administration expenses:		
- Acquisition costs	-	11
- Amortisation of acquired intangibles (note 11)	943	1,054
- Impairment of acquired intangibles (note 11)	168	673
- Impairment of goodwill (note 10)	10,072	-
- Share-based payment costs (note 22)	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.

Geographical and category analysis of revenue

The Group operates primarily in the UK, The Netherlands, Belgium and Republic of Ireland. Revenue generated from distribution of hydraulic and pneumatic consumables, bespoke manufacture, commissioning and installation of equipment are categorised as sale of goods. Income from on-site services and revenue arising from contracts is disclosed separately.

31 December 2022	Sale of goods £000	Contracts £000	On-site services £000	Total revenue £000	Non-current assets £000
United Kingdom	87,326	2,176	1,289	90,791	72,914
Europe	21,136	-	-	21,136	4,492
Rest of the World	2,839	-	-	2,839	-
Total	111,301	2,176	1,289	114,766	77,406

31 December 2021	Sale of goods £000	Contracts £000	On-site services £000	Total revenue £000	Non-current assets £000
United Kingdom	82,809	900	1,889	85,598	76,914
Europe	20,952	-	-	20,952	4,582
Rest of the World	2,557	-	-	2,557	-
Total	106,318	900	1,889	109,107	81,496

No customers of the Group account for 10% or more of the Group's revenue for either of the years ended 31 December 2022 or 2021. Non-current assets are allocated based on their physical location. Revenue recognised at a point in time was £113,207K (2021: £108,209K) and revenue recognised over time was £1,559K (2021: £900K).

Some contract works begun during the year were still in progress at the end of the year. For 2022, revenue includes £580K (2021: £nil) included in the contract liability balance at the beginning of the reporting period.

Contract balances	31 December 2022 £000	31 December 2021 £000	1 January 2021 £000
Trade receivables	1,216	253	237
Advances received for contract works	174	193	-
Deferred service revenue	-	495	-
Total contract liabilities	174	688	-

4. Operating loss/profit

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

	2022 £000	2021 £000
Depreciation of property, plant and equipment under right-of-use assets (note 21)	1,670	1,643
Depreciation and impairment of tangible assets (note 13)	1,205	1,084
Amortisation of intangible assets – website (note 11)	94	-
Amortisation of intangible assets – customer relationships and brands (note 11)	943	1,054
Impairment of intangible assets (note 11)	168	673
Impairment of goodwill (note 10)	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	2021 £000
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. Directors & employees

The average number of persons employed by the Group (including Directors) during each year, analysed by category, was as follows:

	Number 2022	Number 2021
Assembly and distribution	278	269
Administration	317	343
Total	595	612

Payroll costs of these people were as follows:	2022 £000	2021 £000
Wages and salaries (*)	20,050	20,336
Social security costs	2,213	2,126
Contributions to defined contribution pension plans	659	658
Share based payments (note 22)	372	166
Total	23,294	23,286

(*) Wages and salaries in FY21 is net of £202K of COVID-19 subsidy from the UK government for contributions to payroll costs.

Key management compensation

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

	2022 £000	2021 £000
Remuneration	634	602
Bonus	79	106
Social security costs	113	73
Benefits in kind	7	9
Total	833	790

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

	2022 £000	2021 £000
Highest paid Director's remuneration		
Remuneration	225	225
Bonus	70	56
Social security costs	50	27
Benefits in kind	5	7
Total highest paid Director's remuneration	350	315

6. Financial expenses

Finance expenses for the year consist of the following:	2022 £000	2021 £000
Finance expense arising from:		
Interest on revolving credit facility	818	546
Overdraft interest	91	-
Amortisation of loan arrangement fee	40	40
Other financing costs	16	-
Total bank interest	965	586
Interest on lease liabilities	227	247
Total lease interest	227	247
Total finance expense	1,192	833

7. Taxation

Recognised in the income statement

	2022 £000	2021 £000
Continuing operations:		
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	2021 £000
Reconciliation of effective tax rate		
(Loss)/profit for the year	(6252)	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
Deferred tax movements not recognised	(1)	64
Impact of change in tax rate on deferred tax balances	(86)	181
Amounts not deductible	2,045	61
Adjustment in respect of prior periods	(174)	(172)
Other adjustments	(60)	60
Other tax reliefs and transfers	14	-
Total tax expense in the income statement - continuing operations	680	741

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.

8. Dividends

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

9. Earnings per share

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

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The dilutive shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. 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			Year ended 31 December 2021		
	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
Diluted earnings per share						
Continuing operations				2,138	61,894	3.45p

	2022 £000	2021 £000
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

10. Goodwill

	2022 £000	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, Hydravalve, and Indequip businesses were integrated into a single brand called Flowtech. 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 for FTUK). 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 £10,249k has been taken in 2022, of which £10,072k was taken against Goodwill and ££177k was taken against Intangible assets. The split of impairment charge by CGU and asset is shown below:

- FTUK – £7,105k
- Orange County – £2,793k
- Hi-Power Transport (Goodwill)– £174k
- Hi-Power Transport (Intangible) - £177k

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. The calculation is extremely sensitive to any movement in these assumptions. With regards to discount rates a 1% reduction would lead to a £7m increase in the carrying value, whilst a 1% increase leads to a £6m reduction in the carrying value. With regards to movements in revenue growth assumptions, the impact of a 1% movement is 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. The growth rates and gross margins assumed in the calculations are consistent with recent historic trends and approved budget level, and where appropriate, these are adjusted for expected changes to customer base and phasing of contract works.

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 transition 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 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.

11. Other intangible assets

	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.

12. Subsidiary undertakings

	Country of incorporation	Principal activity	Ownership
Fluidpower MIP Limited	UK	Holding company	100%
Fluidpower Group UK Limited	UK	Distributors of engineering components	100%
Fluidpower Group Services UK Limited	UK	Assembly and distribution of engineering components	100%
Flowtech Fluidpower Ireland Limited	ROI	Assembly and distribution of engineering components	100%
Flowtechnology Benelux BV	Netherlands	Distributors of engineering components	100%
The Hydraulic Group BV	Netherlands	Holding company	100%
Hydroflex-Hydraulics BV	Netherlands	Assembly and distribution of engineering components	100%
Hydroflex-Hydraulics Rotterdam BV	Netherlands	Assembly and distribution of engineering components	100%
Hydroflex-Hydraulics Belgium NV	Belgium	Assembly and distribution of engineering components	100%
Fluidpower Shared Services Limited	UK	Group Shared Service Centre	100%
Beaumanor Engineering Limited	UK	Dormant	100%
Balu Limited	UK	Dormant	100%
Indequip Limited	UK	Dormant	100%
KR Couplings Limited	UK	Dormant	100%
Betabite Hydraulics Limited	UK	Dormant	100%
Hydraulics (Ireland) Limited	UK	Dormant	100%
Haitima Flow Control UK Limited	UK	Dormant	100%
Hydravalve UK Limited	UK	Dormant	100%
Hydraulic Equipment Supermarkets Limited	UK	Dormant	100%
Branch Hydraulic Systems Limited	UK	Dormant	100%
HES Tractec Limited	UK	Dormant	100%

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

13. Property, plant & equipment

	Land and property £000	Plant, machinery and equipment £000	Motor vehicles £000	Total £000
Cost				
Balance at 1 January 2021	1,207	13,490	898	15,595
Additions	82	1,234	26	1,342
Disposals	-	(92)	(179)	(271)
Effect of movements in foreign exchange	-	(67)	(10)	(77)
Balance at 31 December 2021 and 1 January 2022	1,289	14,565	735	16,589
Additions	56	1,414	175	1,645
Disposals	-	(217)	(160)	(377)
Effect of movements in foreign exchange	-	66	10	76
Balance at 31 December 2022	1,345	15,828	760	17,933
Depreciation and impairment				
Balance at 1 January 2021	207	8,134	507	8,848
Depreciation charge for the year	36	908	140	1,084
Disposals	-	(40)	(137)	(177)
Effect of movements in foreign exchange	-	(49)	(8)	(57)
Balance at 31 December 2021 and 1 January 2022	243	8,953	502	9,698
Depreciation charge for the year	46	1,039	120	1,205
Disposals	-	(112)	(144)	(256)
Effect of movements in foreign exchange	-	44	8	52
Balance at 31 December 2022	289	9,924	486	10,699
Net book value				
At 31 December 2022	1,056	5,904	274	7,234
At 1 January 2022	1,046	5,612	233	6,891
At 1 January 2021	1,000	5,356	391	6,747

Included in land and property is land at a cost of £145,000 which is not depreciated (2021: £145,000).

14. Deferred tax assets & liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2022 £000	2021 £000	2022 £000	2021 £000
Intangible assets	-	-	(450)	(806)
Property, plant and equipment	-	-	(864)	(756)
Provisions	17	20	-	-
Employee share-based payments	16	14	-	-
Tax assets/(liabilities)	33	34	(1,314)	(1,562)
Net deferred tax liability			(1,281)	(1,528)

Movement in deferred tax during the year ended 31 December 2022

	1 January 2022 £000	Recognised in profit or loss £000	31 December 2022 £000
Intangible assets	(806)	356	(450)
Property, plant and equipment	(756)	(108)	(864)
Provisions	20	(3)	17
Employee share-based payments	14	2	16
Losses and other deductibles	-	-	-
	(1,528)	247	(1,281)

Movement in deferred tax during the year ended 31 December 2021

	1 January 2021 £000	Recognised in profit or loss £000	31 December 2021 £000
Intangible assets	(1,117)	311	(806)
Property, plant and equipment	(463)	(293)	(756)
Provisions	83	(63)	20
Employee share-based payments	-	14	14
Losses and other deductibles	37	(37)	-
	(1,460)	(68)	(1,528)

15. Inventories

	2022 £000	2021 £000
Finished goods and goods for resale	31,486	30,531

Charges for finished goods recognised as cost of sales in the year amounted to £65,055,000 (2021: £62,237,000). The write-down of inventories to net realisable value amounted to £469,000 (2021: £21,000). The write-downs and reversals are included in cost of sales. The provision made against inventories at the year-end was £1,693,000 (2021: £1,421,000).

Estimates are made of the net realisable value of inventory at the year end. In some circumstances, inventory is subsequently sold in excess of the net realisable value determined, which results in a reversal of the write-down.

16. Trade & other receivables

	2022 £000	2021 £000
Trade receivables	22,803	20,416
Other receivables	1,817	1,150
Trade and other receivables	24,620	21,566

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

	Gross 2022 £000	Impairment 2022 £000	Gross 2021 £000	Impairment 2021 £000
Not past due	19,422	70	17,711	27
Past due 0-30 days	2,648	10	2,283	9
Past due 31-60 days	203	26	210	62
Past due 61-90 days	573	71	195	83
More than 90 days past due	152	18	315	117
	22,998	195	20,714	298

The overall expected credit loss rate is 0.8% (2021: 1.4%).

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

	2022 £000	2021 £000
Balance at 1 January 2022	298	333
Provision utilised	(132)	(34)
Increase/(decrease) in provision	29	(1)
Balance at 31 December 2022	195	298

17. Cash & cash equivalents

	2022 £000	2021 £000
Cash and cash equivalents:		
Sterling	1,960	3,285
Euro	1,973	1,251
Dollar	39	26
Total cash and cash equivalents	3,972	4,562

18. Interest-bearing loans & borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 27.

	2022 £000	2021 £000
Non-current liabilities		
Revolving credit facility (*)	-	19,927
Lease liabilities	5,008	5,586
Total non-current liabilities	5,008	25,513
Current liabilities		
Revolving credit facility	19,967	-
Lease liabilities	1,705	1,561
Total current liabilities	21,672	1,561
Total	26,680	27,074

(*) RCF loan arrangement fee of £120k was paid in Nov 2020. The loan arrangement fee is amortised over the life of the loan (36 months). Accordingly, £40k amortisation charge is charged to the income statement during 2022 (2021: £40k). The unamortised value of the loan fee as at 31 December 2022 of £33k is netted off against the RCF Facility of £20,000k.

Terms and debt repayment schedule	Currency	Nominal interest rate	Year of maturity	Carrying value 2022 £000	Carrying value 2021 £000
Secured revolving credit facility	GBP	SONIA+ 2.65%	2023	20,000	20,000
Lease liabilities	GBP	Various	2021 to 2031	5,625	6,043
Lease liabilities	EUR	Various	2021 to 2027	1,088	1,104
				26,713	27,147

Under terms agreed in February 2023, the Group renewed the Revolving credit facility for a period of 3 years, up to February 2026, with an option to extend by a further year to February 2027. The renewed facility carries a nominal interest rate of SONIA + 2.40% and is subject to a non-utilisation fee of 0.84%. The facility is secured by legal charges over certain of the Group's assets which include trade receivables and stock. The Group also has a £5,000,000 overdraft facility which was reviewed in February 2023 and on-going support was approved. The overdraft facility does not carry an expiry date and continues until cancelled by either party.

19. Trade & other payables

	2022 £000	2021 £000
Current liabilities		
Trade payables	12,560	15,719
Accrued expenses and deferred income	4,200	3,555
Social security and other taxes	2,809	1,837
	19,569	21,111

Accrued expenses and deferred income is broken down as follows:

	2022 £000	2021 £000
Accrued expenses	3,114	2,424
Deferred income	912	443
Contract liabilities – advances received for contract work	174	193
Contract liabilities – deferred service revenue	-	495
	4,200	3,555

20. Provisions

	2022 £000	2021 £000
Opening balance	309	367
Amount utilised during year	(44)	-
Amount provided/(released) in the year	52	(58)
Closing balance	317	309

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

	2022 £000	2021 £000
Current	-	-
Non-current	317	309
Total	317	309

Provisions comprise dilapidation provisions in respect of leasehold properties held by the Group and represents management's best estimate of the amount which is expected to be settled in respect of dilapidation costs for the relevant sites.

21. Right-of-use assets & lease liabilities

Right-of-use assets

	Land and property £000	Plant, machinery and equipment £000	Motor vehicles £000	Total £000
Cost				
Balance at 1 January 2022	8,219	399	2,078	10,696
Additions	964	-	405	1,369
Disposals	(462)	-	(281)	(743)
Effect of movement in foreign exchange	48	-	11	59
Balance at 31 December 2022	8,769	399	2,213	11,381
Depreciation and amortisation				
Balance at 1 January 2022	2,899	76	796	3,771
Depreciation charge for the year	1,055	57	558	1,670
Impairment	388	-	-	388
Disposals	(288)	-	(264)	(552)
Effect of movements in foreign exchange	11	-	2	13
Balance at 31 December 2022	4,065	133	1,092	5,290
Net book value				
At 31 December 2022	4,704	266	1,121	6,091
At 31 December 2021	5,320	323	1,282	6,925

21. Right-of-use assets & lease liabilities *continued*

The statement of profit or loss shows the following amounts relating to right-of-use assets and liabilities:

	2022 £000	2021 £000
Depreciation charge of right-of-use assets		
Land and property	1,055	1,067
Plant, machinery and equipment	57	57
Motor vehicles	558	519
Interest expenses (included in finance cost)	228	247
Exchange movements in income statement	-	9
Total expense in the income statement relating to right-of-use assets	1,898	1,899

Depreciation costs of £34K (2021: £nil) is accounted for in restructuring which is included in separately disclosed items.

Analysis by length of liability

	As at 31 December 2022				As at 31 December 2021			
	Land and property £000	Plant, machinery and equipment £000	Motor vehicles £000	Total £000	Land and property £000	Plant, machinery and equipment £000	Motor vehicles £000	Total £000
Current	1,094	60	551	1,705	970	58	533	1,561
Non-current	4,230	216	562	5,008	4,576	274	736	5,586
Total	5,324	276	1,113	6,713	5,546	332	1,269	7,147

The table below describes the nature of the Group's leasing activities by type of right-of-use assets recognised on the balance sheet.

	Land and property	Plant, machinery and equipment	Motor vehicles
Number of right-of-use assets leased	17	5	97
Range of remaining term	1-9 years	5 years	1-4 years
Number of leases with extension options	7	-	-
Number of leases with termination options	1	-	-

22. Employee benefits

22.1 Pension plans

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans was £659,000 (2021: £658,000).

22.2 Share-based employee remuneration

As at 31 December 2022, the Group maintained five share-based payment schemes for employee remuneration: the Management Incentive Plan; the Long-Term Incentive Plan, the Enterprise Management Incentive Plan, which has two sub plans, Approved and Unapproved; and the Company Share Option Plan.

Management Incentive Plan

The Management Incentive Plan ('MIP') is part of the remuneration package of the Group's senior management. Shares held in Fluidpower MIP Limited under this plan may be sold if certain conditions, as defined in the Articles of Association of Fluidpower MIP Limited, are met. It is based on the growth of Flowtech Fluidpower plc's share value within a specified holding period. In addition, participants in this scheme must be employed by the Group until the end of the agreed holding period. At the end of the holding period the holder may sell their shares to the Company for either cash or shares at a value determined by the growth of Flowtech Fluidpower plc's share value within the specified holding period.

The Plan is classified as an equity-settled scheme as there is no present obligation to settle in cash. The number of shares in Fluidpower MIP Limited subject to options and the exercise price are:

Date of grant	Exercise period	2022 number	2021 number
1 June 2016	1 June 2019 to 1 June 2023	3,005	3,005

(*) 77 options granted on 21 May 2014 were allowed to lapse.

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

Grant date	1 June 2016
Vesting period ends	31 May 2019
Share price at date of grant	£1.45
Volatility	31.6%
Option life	5 years
Dividend yield	5.3%
Risk-free investment rate	1.29%
Fair value at grant date	£1.99
Exercise price at date of grant	£1.51
Exercisable from/to	1 June 2019 to 31 May 2023
Weighted average remaining contractual life	< 1 year

Long-term incentive plan (LTIP)

The LTIP has been established to incentivise management to deliver long-term value creation for Shareholders and ensure alignment with Shareholder interests.

The Directors were granted nil-cost options in accordance with the rules of the LTIP. The share options are subject to both share price and EPS performance criteria measured on the results for the three year financial period to 31 December 2024. The LTIPs are accounted for as an equity-settled share based payment transaction. The fair values of the options granted were determined using the Monte Carlo model. The following principal assumptions were used in the valuation:

Awards	LTIPs (EPS)	LTIPs (Share price)
Number of awards (*)	163,462	163,462
Grant date	29 April 2022	29 April 2022
Vesting period ends	28 May 2025	28 May 2025
Share price at date of grant	£1.28	£1.28
Volatility	54.61%	54.61%
Option life	3 years	3 years
Dividend yield	0.00%	0.00%
Risk-free investment rate	1.71%	1.71%
Fair value at grant date	£1.275	£0.120
Exercise price at date of grant	-	-
Exercisable from/to	28 May 2024 to 28 May 2031	28 May 2024 to 28 May 2031
Weighted average remaining contractual life	2 years	2 years

Awards Summary	Russell Cash	Bryce Brooks*	Total
EPS Tranche	76,924	86,539	163,463
Share price Tranche	76,924	86,539	163,463
Total	153,848	173,078	326,926

Scheme	Director	2022 number	2021 number
LTIP – 2021 issue	Bryce Brooks	187,500	187,500
LTIP – 2022 issue	Bryce Brooks	173,077	-
LTIP – 2021 issue	Russell Cash	166,667	166,667
LTIP – 2022 issue	Russell Cash	153,847	-
Total		681,091	354,167

*Bryce Brooks stepped down as CEO on 12 April 2023

Enterprise Management Incentive Plan

The Enterprise Management Incentive Plan (EMI) is part of the remuneration package of certain employees, the majority of options being issued on the date the Company was admitted to the London Stock Exchange. The sub plans are named Approved and Unapproved by virtue of whether the plans qualify for HMRC approval. Options under this scheme will vest if the participant remains employed for the agreed vesting period. Upon vesting each option allows the holder to purchase one ordinary share. The number of shares subject to options and the exercise price are:

Date of grant	Exercise price	Exercise period	2022 number 000	2021 number 000
Approved plan				
21 May 2014	£1.00	4 April 2017 to 20 May 2024	390	480
8 August 2014	£1.26	4 April 2017 to 7 August 2024	12	12
			402	492
Unapproved plan				
21 May 2014	£1.00	4 April 2017 to 20 May 2024	22	37
11 August 2015	£1.32	4 April 2018 to 10 August 2025	60	60
1 July 2016	£1.00	4 April 2019 to 30 June 2026	45	45
1 January 2019	£1.13	5 May 2022 to 1 September 2025	9	9
25 October 2019	£0.50	5 May 2022 to 28 January 2026	150	150
8 January 2020	£0.50	31 March 2022 to 8 February 2030	50	50
28 May 2021	£1.00	15 March 2023 to 28 May 2031	150	150
14 Feb 2022	£1.00	01 Apr 2025 to 13 Feb 2032	90	-

04 April 2022	£1.33	04 Apr 2025 to 03 Apr 2032	75	-
04 April 2022	£1.24	04 Apr 2025 to 03 Apr 2032	60	-
04 April 2022	£1.00	04 Apr 2025 to 03 Apr 2032	85	-
			796	501
			1,198	993

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

	Enterprise Management Incentive Plan				
	Approved scheme		Unapproved scheme		
	Number of shares 000	Weighted average exercise price per share	Number of shares 000	Weighted average exercise price per share	Total number of shares 000
Outstanding at 1 January 2022	492	1.01	501	0.83	993
Granted	-	-	310	1.13	310
Lapsed	-	-	-	-	-
Forfeited	-	-	-	-	-
Exercised	(90)	1.00	(15)	1.00	(105)
Outstanding at 31 December 2022	402	1.01	796	0.83	1,198
Exercisable at 31 December 2022	402	1.01	336	1.31	738

The Unapproved share options granted during the year are accounted for as an equity-settled share based payment transaction. The fair values of the options granted were determined using the Binomial model.

The following principal assumptions were used in the valuation:

	Unapproved EMI scheme Feb	Unapproved EMI scheme Apr/1	Unapproved EMI scheme Apr/2	Unapproved EMI scheme Apr/3
Grant date	14 Feb 2022	04 April 2022	04 April 2022	04 April 2022
Vesting period ends	01 Apr 2025	04 April 2025	04 April 2025	04 April 2025
Share price at date of grant	£1.33	£1.37	£1.37	£1.37
Volatility	54.86%	54.85%	54.82%	54.82%
Option life	10 years	10 years	10 years	10 years
Dividend yield	0.00%	0.00%	0.00%	0.00%
Risk-free investment rate	1.48%	1.50%	1.50%	1.50%
Fair value at grant date	£0.921	£0.921	£0.872	£0.855
Exercise price at date of grant	£1.00	£1.00	£1.24	£1.33
Exercisable from/to	01 Apr 2025 to 13 Feb 2032	04 Apr 2025 to 03 Apr 2032	04 Apr 2025 to 03 Apr 2032	04 Apr 2025 to 03 Apr 2032
Weighted average remaining contractual life	9 years	9 years	9 years	9 years

The underlying expected volatility was determined by reference to historical share data of the Company over a historic period matching the vesting period of the awards.

Company Share Option Plan

The Company Share Option Plan ('CSOP') is part of the remuneration package of certain employees. Options under this scheme will vest if the participant remains employed for the agreed vesting period. Upon vesting each option allows the holder to purchase one ordinary share.

The number of shares subject to options and the exercise price are:

Date of grant	Exercise price	Exercise period	2022 number 000	2021 number 000
11 August 2015	£1.43	11 August 2018 to 10 August 2025	110	110
1 July 2016	£1.00	4 April 2019 to 30 June 2026	235	260
1 January 2019	£1.13	5 May 2022 to 02 Sep 2025	27	27
14 February 2022	£1.29	01 Apr 2025 to 31 Mar 2032	209	-
04 April 2022	£1.33	04 Apr 2025 to 03 Apr 2032	232	-
			813	397

The fair values of the options granted were determined using the Binomial model. The following principal assumptions were used in the valuation:

	CSOP Feb	CSOP Apr
Grant date	14 Feb 2022	04 April 2022
Vesting period ends	01 Apr 2025	04 April 2025
Share price at date of grant	£1.33	£1.37
Volatility	54.82%	54.82%
Option life	10 years	10 years
Dividend yield	0.00%	0.00%
Risk-free investment rate	1.48%	1.50%
Fair value at grant date	£0.846	£0.855
Exercise price at date of grant	£1.29	£1.33
Exercisable from/to	01 Apr 2025 to 31 Mar 2032	04 Apr 2025 to 03 Apr 2032
Weighted average remaining contractual life	9 years	9 years

The underlying expected volatility was determined by reference to historical share data of the Company over a historic period matching the vesting period of the awards.

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

	Number of shares	Weighted average exercise price per share
Outstanding at 1 January 2022	397	1.13
Granted	441	1.31
Exercised	(25)	1.00
Forfeited	-	-
Outstanding at 31 December 2022	813	1.23
Exercisable at 31 December 2022	372	1.14
Exercisable at 31 December 2021	370	1.13

The consolidated income statement includes a charge of £372,000 (2021: £166,000) in respect of all of the share options issued to staff.

23. Equity

The share capital of the Company consists only of fully paid ordinary shares with a nominal value of 50p per share. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at Shareholders' meetings of the Company.

	Number	£000
Allotted and fully paid ordinary shares of 50p each		
At 1 January 2022	61,492,673	30,746
At 31 December 2022	61,492,673	30,746

24. Net cash from operating activities

	2022 £000	2021 £000
Reconciliation of (loss)/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 (note 13)	1,205	1,084
Depreciation on right-of-use assets (IFRS 16) (note 21)	1,670	1,643
Impairment of right-of-use assets (IFRS 16) (note 21)	388	-
Finance costs (note 6)	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 10)	10,072	-
Cash settled share options	(42)	(26)
Equity-settled share-based payment charge	372	166
Exchange differences on non-cash balances	65	-
Operating cash inflow before changes in working capital and provisions	10,612	8,002
Change in trade and other receivables	(2,945)	(3,325)
Change in stocks	(738)	(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)

25. Contingent liabilities & commitments

The Group had capital expenditure of £19,000 contracted for but not provided at 31 December 2022 (2021: £34,000).

26. Related party transactions

Transactions between the Company, its Employee Benefit Trust and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Key management includes Executive and Non-Executive Directors. The compensation paid or payable to key management is disclosed in the Directors' Remuneration report. Dividends paid to Directors of the plc were as follows:

	2022 £000	2021 £000
Bryce Brooks* <i>(stepped down as CEO on 12 April 2023)</i>	6	-
Russell Cash	1	-
Roger McDowell	15	-
Nigel Richens	1	-
Jamie Brooke	2	-
Ailsa Webb	1	-
	26	-

27. Financial instruments

27.1 Fair values of financial instruments

Fair values

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable input).

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

	Carrying amount 2022 £000	Fair value 2022 £000	Carrying amount 2021 £000	Fair value 2021 £000
Loans and receivables				
Cash and cash equivalents (note 17) (*)	3,972	3,972	4,562	4,562
Trade and other receivables (note 16) (*)	24,620	24,620	21,566	21,566
Total financial assets measured at amortised costs	28,592	28,592	26,128	26,128
Financial assets	28,592	28,592	26,128	26,128
Financial liabilities measured at amortised cost				
Other interest-bearing loans and borrowings (note 18)	(26,713)	(26,713)	(27,147)	(27,147)
Trade payables and accruals (note 19) (*) ^(§)	(15,674)	(15,674)	(19,274)	(19,274)
Total financial liabilities measured at amortised cost	(42,387)	(42,387)	(46,421)	(46,421)
Total financial liabilities	(42,387)	(42,387)	(46,421)	(46,421)
Total financial instruments	(13,889)	(13,889)	(20,293)	(20,293)

(*) In respect of the financial instruments such as short-term trade receivables and payables, interest bearing loans and borrowings, and cash and cash equivalents, we believe the carrying value is a reasonable approximation of the fair value.

(§) Trade payables and accruals includes £12,560K of trade payables and £3,114K of accrued expenses. Deferred income is excluded.

Financial instruments measured at fair value	Valuation technique
Forward exchange contracts	The Group hedges a part of the net expected exposure to euros and dollars in a phased manner over 3 – 6 month period using fixed price forward contracts. The hedging process aims to achieve an averaging of market rates over a period of time, and significant gain/loss on open contracts is recognised in the income statement at year end.
Bank loans and other interest-bearing borrowings	Interest-bearing borrowings are recognised at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

27.2 Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management also considers the factors that may influence the credit risk of the Group's customer base, including the default risk of the industry and country in which the customers operate. The credit status of each new customer is reviewed before credit is advanced. This includes external evaluations where possible. Outstanding balances are reviewed regularly by management.

The concentration of credit risk for trade receivables at the balance sheet date by geographic region was:

	2022 £000	2021 £000
UK	19,477	17,112
Europe	3,054	2,789
Rest of the World	272	515
	22,803	20,416

The Group establishes an allowance for impairment that represents its estimate of expected losses in respect of trade receivables, see note 16. Failure to make payments and failure to engage with the Group on alternative payment arrangements are considered indicators of no reasonable expectation of recovery. The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point, the amounts considered irrecoverable are written off against the trade receivables directly.

27.3 Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial commitments as they fall due or that it fails to satisfy the requirements of its banking covenants. Management prepares robust annual and monthly cash flow forecasts which are fully integrated with the core assumptions underpinning forecast profitability and balance sheet movements; in addition, a rolling 13-week cash flow forecast is continually updated to provide visibility as regards likely quarter end Net Debt positions.

As a result, the business has all the requisite monitoring capability to assess the impact which any adverse trading conditions may present. The business is as focused on managing its working capital base as it is its profitability, a combination which the Board views as key in continually managing this risk.

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

	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000
Year ended 31 December 2022					
Non-derivative financial liabilities					
Liabilities relating to right-of-use assets	6,713	6,879	1,825	1,392	1,433
Revolving credit facility *	19,967	20,513	20,513	-	-
Trade payables and accrued expenses	15,674	15,674	15,674	-	-
	42,354	43,066	38,012	1,392	1,433

* The revolving credit facility will expire in November 2023. This has been replaced by a renewed facility, the details of which are disclosed in note 18.

Year ended 31 December 2021	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000
Non-derivative financial liabilities					
Liabilities relating to right-of-use assets	7,147	7,906	1,758	1,597	2,889
Revolving credit facility	19,927	21,562	545	545	20,472
Trade payables	15,719	15,719	15,719	–	–
	42,793	45,187	18,022	2,142	23,361

There are no contractual maturities over five years, save for liabilities relating to right-of-use assets.

27.4 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments.

Market risk – foreign currency risk

The main currency related risk to the Group comes from forward purchasing of inventories and from its foreign operations. Fixed price forward contracts are entered into to hedge the net exposure to euros and dollars in a phased manner over a 3 – 6 month period.

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

31 December 2022	Sterling £000	Euro £000	US Dollar £000	Other £000	Total £000
Cash and cash equivalents	1,960	1,973	39	-	3,972
Trade and other receivables	21,128	3,492	-	-	24,620
Revolving credit facility	(19,967)	-	-	-	(19,967)
Liabilities relating to right-of-use assets	(5,625)	(1,088)	-	-	(6,713)
Trade payables and accrued expenses (\$)	(9,834)	(5,717)	(105)	(18)	(15,674)
Net exposure	(12,338)	(1,340)	(66)	(18)	(13,762)

(\$) Trade payables and accruals includes £12,560K of trade payables and £3,114K of accrued expenses. Deferred income is excluded.

31 December 2021	Sterling £000	Euro £000	US Dollar £000	Other £000	Total £000
Cash and cash equivalents	3,285	1,251	26	-	4,562
Trade and other receivables	18,583	2,982	1	-	21,566
Revolving credit facility	(19,927)	-	-	-	(19,927)
Liabilities relating to right-of-use assets	(6,043)	(1,104)	-	-	(7,147)
Trade payables	(10,145)	(5,517)	(40)	(17)	(15,719)
Net exposure	(14,247)	(2,388)	(13)	(17)	(16,665)

Sensitivity analysis

A 10% weakening of the following currencies against the pound sterling at 31 December 2022 would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the reporting date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

The analysis is performed on the same basis for the year ended 31 December 2021.

Profit or loss and equity		
	2022 £000	2021 £000
€	79	195
\$	6	1

A 10% strengthening of the following currencies against the pound sterling at 31 December 2022 would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

The analysis is performed on the same basis for the year ended 31 December 2021.

Profit or loss and equity		
	2022 £000	2021 £000
€	(97)	(238)
\$	(7)	(1)

Market risk – interest rate risk

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

Variable rate instruments	2022 £000	2021 £000
Financial liabilities (carrying value)	19,967	19,927

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the reporting date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through profit or loss and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for the year ended 31 December 2021.

	2022 £000	2021 £000
Equity		
Increase of 100 basis points	(200)	(199)
Decrease of 100 basis points	200	199
Profit or loss		
Increase of 100 basis points	(200)	(199)
Decrease of 100 basis points	200	199

27.5 Capital management

The capital structure of the Group is presented in the statement of financial position and includes equity, cash and borrowings. The statement of changes in equity provides details of equity and note 18 provides details of loans and overdrafts. Funding requirements are provided by a combination of revolving credit (£20m) and overdraft (£5m) facilities. The Group's objectives when managing capital is to safeguard its ability to continue as a going concern and to have access to adequate funding for business opportunities, so that it can provide returns for Shareholders and benefits for other stakeholders. The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Group may issue new shares or draw down debt. The Group is not subject to externally imposed regulatory capital requirements and there are no specific ratios used by the Group in assessing its management of capital levels.

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

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

28. Subsequent events

On 22 February 2023 the Group's £20m revolving credit facility provided by Barclays Bank was renewed for a 3 year period with an option to extend for a further year. Aside from this in the opinion of the Board, there have been no significant events occurring since the balance sheet date.

Company income statement	Note	2022 £000	2021 £000
Continuing operations			
Administrative expenses		(1,163)	(861)
Operating loss		(1,163)	(861)
Financial income	E	2,100	3,000
Financial expenses	E	(948)	(585)
Net financing income		1,152	2,415
(Loss)/Profit from continuing operations before tax		(11)	1,554
Taxation	F	-	(38)
(Loss)/Profit for the year attributable to the owners of the parent		(11)	1,516

Company statement of financial position	Note	2022 £000	2021 £000
Fixed assets			
Investments	I	59,532	59,421
Total fixed assets		59,532	59,421
Current assets			
Cash and cash equivalents		5	15
Trade and other debtors	J	76,207	75,964
Total current assets		76,212	75,979
Creditors: amounts falling due within one year			
Interest-bearing loans and borrowings	K	19,967	-
Trade and other creditors	L	8,444	7,250
Total creditors: amounts falling due within one year		28,411	7,250
Net current assets		47,801	68,729
Total assets less current liabilities		107,333	128,150
Creditors: amounts falling due after more than one year			
Interest-bearing loans and borrowings	K	-	19,927
Total creditors: amounts falling due after more than one year		-	19,927
Net assets		107,333	108,223
Capital and reserves			
Called up share capital	N	30,746	30,746
Share premium account		60,959	60,959
Other reserves		187	187
Merger relief reserve		453	453
Retained earnings		14,988	15,878
Total equity		107,333	108,223

Company statement of changes in equity

	Share capital £000	Share premium £000	Other reserve £000	Merger relief reserve £000	Retained earnings (*) £000	Total equity £000
Balance at 1 January 2021	30,746	60,959	187	453	14,210	106,555
Profit for the year	-	-	-	-	1,516	1,516
Total comprehensive income for the year	-	-	-	-	1,516	1,516
Transactions with owners						
Share options - granted to subsidiary employees	-	-	-	-	166	166
Share options settled	-	-	-	-	(14)	(14)
Total transactions with owners	-	-	-	-	152	152
Balance at 1 January 2022	30,746	60,959	187	453	15,878	108,223
(Loss) for the year	-	-	-	-	(11)	(11)
Total comprehensive income for the year	-	-	-	-	(11)	(11)
Transactions with owners						
Equity dividends paid (note G)	-	-	-	-	(1,228)	(1,228)
Share options – granted to subsidiary employees	-	-	-	-	372	372
Share options settled	-	-	-	-	23	23
Total transactions with owners	-	-	-	-	(879)	(879)
Balance at 31 December 2022	30,746	60,959	187	453	14,988	107,333

(*) Retained earnings and share based payment reserve.

The financial statements on pages 65 to 116 were approved by the Board of Directors on 25 April 2023 and were signed on its behalf by:

Russell Cash, Chief Financial Officer

Company Registration Number:
09010518
25 April 2023

Notes to the Company's Financial Information

A. Authorisation of financial statements & statement of compliance with FRS 101

The financial statements of Flowtech Fluidpower plc for the year ended 31 December 2022 were authorised for issue by the Board of Directors on 25 April 2023 and the Statement of Financial Position was signed on the Board's behalf by Russell Cash. Flowtech Fluidpower plc is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards. The Company's financial statements are presented in sterling.

These financial statements have been prepared on a going concern basis and on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The principal accounting policies adopted by the Company are set out in note B.

B. Accounting policies

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2022.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a. the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - i. paragraph 79(a)(iv) of IAS 1;
 - ii. paragraph 73(e) of IAS 16 'Property, Plant and Equipment';
- b. the requirements of paragraphs 10(d), and 134-136 of IAS 1 'Presentation of Financial Statements' and the requirements of IAS 7 'Statement of Cash Flows';
- c. the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- d. the requirements of paragraph 17 of IAS 24 'Related Party Disclosures';
- e. the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- f. disclosure requirements of IFRS 7 'Financial Instruments'.

Investments

Investments in Group Undertakings are recorded at cost, which is the fair value of the consideration paid. Investments are tested for impairment and carried at cost less accumulated impairment losses. The Company considers impairment of its investment in subsidiaries by estimating the recoverable amounts of the investments, which are based on either the net assets of the subsidiary, or value-in-use calculations.

Employee Benefit Trust (EBT)

The EBT is not treated as an extension of the parent and therefore not included in the parents individual accounts and only consolidated in the group accounts. The costs of purchasing own shares held by the EBT are shown as a deduction within shareholders equity in the consolidated statement of changes in equity.

Financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised at the transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

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

Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances net of bank overdrafts and short-term deposits held with banks by the Company, and are subject to insignificant risk of changes in value.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses. Any change in their value through impairment or reversal of impairment is recognised in profit or loss. Discounting is omitted where the effect is immaterial.

Derivative financial instruments

Derivative financial instruments held by the Company include forward foreign currency contracts and are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Derecognition of financial liabilities

The Company derecognises a financial liability (or its part) from the statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of a financial liability (or a part of a financial liability) extinguished and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Share-based payments

The fair value of employee share plans is calculated using a variation of the Black-Scholes model. In accordance with IFRS 2 'Share-based payment', the resulting cost is charged to the profit and loss account over the vesting period of the plans.

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

Financing income and expenses

Financing expenses comprise interest payable. Financing income comprises interest receivable on funds invested. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Taxation

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

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

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

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

Dividends

Dividend distributions payable to equity Shareholders are included in other liabilities when the dividends have been approved in general meeting prior to the reporting date.

Pensions

Company employees are members of defined contribution pension schemes where the obligations of the Company are charged to the profit and loss account as they are incurred.

Significant judgements, key assumptions and estimates

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

Significant management estimates

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

Impairment of investments

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

The value in use of the investment is calculated from cash flow projections for the relevant entity based on financial projections covering a period of 2 years plus a terminal value, assumed growth rates and discount rates relevant to the individual entity.

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

The pre-tax discount rate applied in the impairment review ranged from 12% to 15% (2021: 7% to 11%). This discount rate is derived from the Group's weighted average post-tax cost of capital.

The carrying value of the investments at 31 December 2022 is £59,532,000 (2021: £59,421,000). The value in use of investment in subsidiaries is in excess of the carrying value. Consequently, there was no impairment charge during the year.

Impairment of Group balances

The carrying value of Group balances are assessed for impairment based expected credit loss model. At each reporting date, the management assesses whether any events have occurred which have had a detrimental effect on the ability of each of the Group companies to repay the amounts due.

The amounts owed by subsidiary undertakings were £76,083,000 (2021: £75,688,000). There was no impairment charge during the year.

C. Services provided by the Company's auditor

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

	2022 £000	2021 £000
Audit of the statutory financial statements of Flowtech Fluidpower plc	78	88

D. Directors & employees

Details of Directors and employees are shown in note 5 to the consolidated financial statements. The average number of persons employed by the Company (including Directors) during each year was as follows:

	2022 £000	2021 £000
Administration	6	4

The aggregate payroll costs of these persons were as follows:

	2022 £000	2021 £000
Remuneration	634	602
Bonus	79	106
Social security costs	113	73
Benefits in kind	7	9
	833	790

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

	2022 £000	2021 £000
Highest paid Director's remuneration		
Remuneration	225	225
Bonus	70	56
Social security costs	50	27
Benefits in kind	5	7
Total highest paid Director's remuneration	350	315

E. Financial income & expense

Finance income for the year consists of the following:

	2022 £000	2021 £000
Finance income arising from:		
Dividends received from Group undertakings	2,100	3,000
Total finance income	2,100	3,000

Finance expenses for the year consist of the following:

	2022 £000	2021 £000
Finance expense arising from:		
Bank loans and revolving credit facility, and amortisation of loan arrangement fee	948	585
Total finance income	948	585

F. Taxation

	2022 £000	2021 £000
Reconciliation of effective tax rate		
(Loss)/Profit for the year	(11)	1,516
Total (credit)/tax expense	-	38
(Loss)/Profit excluding taxation	(11)	1,554
Tax using the UK corporation tax rate of 19.00% (2021: 19.00%)	(2)	295
Impact of change in tax rate on deferred tax balances	1	-
Deferred tax movements not recognised	-	(1)
Group relief	361	421
Income not taxable	(399)	(570)
Adjustments in respect of prior periods	(2)	
Amounts not deductible	41	15
Total (credit)/tax expense in the income statement	-	38

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 2021 has been calculated based on this rate.

G. Dividends

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

H. Share-based payments

Details of share-based payments are shown in note 22 to the consolidated financial statements.

I. Investments

Cost and net book value	Investments in subsidiaries' unlisted shares £000	Subsidiaries' share-based payment reserves £000	Total £000
At 1 January 2021	59,024	334	59,358
Additions net of exercise of options in the year	-	63	63
At 31 December 2021	59,024	397	59,421
At 1 January 2022	59,024	397	59,421
Additions net of exercise of options in the year	-	111	111
At 31 December 2022	59,024	508	59,532

The subsidiaries of the Company are listed in note 12 of the consolidated company accounts on page 91. For all the subsidiaries listed, the class of shares held are ordinary shares and all subsidiaries, except Fluidpower MIP Limited, are indirect subsidiaries of Flowtech Fluidpower plc.

J. Trade and other debtors

	2022 £000	2021 £000
Current:		
Deferred tax asset	1	1
Prepayments and accrued income	123	275
Amounts owed by Group undertakings *	76,083	75,688
Total trade and other debtors	76,207	75,964

* Amounts owed by group undertakings are payable on demand. An exercise has been undertaken to assess the recoverability of group debtors under IFRS 9 and established the expected credit loss provision required is immaterial and has not been recognised.

K. Interest-bearing loans and borrowings

	2022 £000	2021 £000
Non-current liabilities:		
Revolving credit facility	-	19,927
Total non-current liabilities	-	19,927
Total current liabilities	19,967	-
Total interest-bearing loans and borrowings	19,967	19,927

Under terms agreed in February 2023, the company renewed the Revolving credit facility for a period of 3 years, up to February 2026, with an option to extend by a further year to February 2027. The renewed facility carries a nominal interest rate of SONIA + 2.40% and is subject to a non-utilisation fee of 0.84%. The facility is secured by legal charges over certain of the Group's assets which include trade receivables and stock. The Group also has a £5,000,000 overdraft facility which was reviewed in February 2023 and on-going support was approved. The overdraft facility does not carry an expiry date and continues until cancelled by either party.

L. Trade and other creditors

	2022 £000	2021 £000
Social security and other taxes	118	107
Accruals and deferred income	163	144
Amounts owed to other Group undertakings	8,163	6,999
Total trade and other creditors	8,444	7,250

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

M. Deferred taxation

Deferred tax assets comprise:

	2022 £000	2021 £000
At start of year	1	39
Total deferred tax credit in profit and loss account for the year	-	(38)
At end of year	1	1

A deferred tax asset of £nil (2021: nil) in respect of cumulative share-based payments of £218,000 (2021: £77,000) has not been recognised due to uncertainty surrounding the availability of future profits, against which these payments can be utilised.

N. Share capital

Allotted, called up and fully paid:

	Number	£000
At 1 January 2022	61,492,673	30,746
At 31 December 2022	61,492,673	30,746

O. Contingent liabilities & commitments

The Company has no capital expenditure contracted for but not provided as at 31 December 2022 (2021: nil).

P. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with entities that are wholly owned subsidiaries of the Flowtech Fluidpower plc Group. Amount owing by Flowtech Fluidpower Employee Benefit Trust is £124,000 (2021: £276,000) remains outstanding. There are no other related party transactions other than those relating to Directors that have been disclosed in note 26 to the consolidated financial statements.

Q. Ultimate controlling party

The Directors consider that there is no ultimate controlling party.

Glossary of terms

The Group uses a number of alternative performance measures (“APMs”) in addition to those measures reported in accordance with IFRS. The APMs are useful to assess the underlying performance of the Group by excluding any one-off, non-operating and non-cash items. Items excluded in this way are grouped under separately disclosed items on the face of the income statement. In doing so, the APMs provide comparability and consistency of trading performance between periods.

The APMs are used to manage and budget for the Group’s performance, and for determining the performance rewards for Executive Directors and that of other management throughout the business. The APMs are also used in presentations to investors to communicate the underlying performance of the Group.

The APMs are described in detail, and reconciled to IFRS measures in the table below:

Underlying Operating Profit

Underlying Operating Profit is the measure used by the Directors to assess trading performance of the Group. In the context of presenting the performance of the Group’s segments, this measure is referred to as Underlying segment result or underlying operating result, as appropriate. The reconciliation of this APM to the Operating profit in the Consolidated income statement is shown below:

	2022	2021
	£000	£000
Underlying operating profit (result)	8,586	5,690
Less Separately disclosed items:		
- Acquisition costs		(11)
- Amortisation of acquired intangibles (note 11)	(943)	(1,054)
- Impairment of acquired intangibles (note 11)	(168)	(673)
- Impairment of goodwill (note 10)	(10,072)	-
- Share-based payment costs (note 22)	(372)	(166)
- Restructuring	(1,411)	(74)
	<u>(12,966)</u>	<u>(1,978)</u>
Operating profit	<u>(4,380)</u>	<u>3,712</u>

Underlying Segment result

Underlying Segment Operating Profit is Underlying Operating profit that relates to the performance of the segments (Flowtech, Fluidpower Group Solutions and Fluidpower Group Services) and therefore excludes any central costs. The APM is used to measure the contribution from each Segment. The Directors use contribution % from a segment to set targets for, and to manage the profitability of the segments. The reconciliation of this APM for 2022 to the Operating profit in the Consolidated income statement, along with the derivation for Contribution % is shown below:

For 2022. All values in £000	Flowtech	Solutions	Services	Total Segments	Central Costs	Group Income statement
Total Revenue	55,565	38,076	21,125	114,766	-	114,766
Operating (loss)/profit	(1,353)	3,620	(1,525)	742	(5,122)	(4,380)
Less: Separately disclosed items						
- Amortisation of acquired intangibles (note 11)	(136)	(683)	(124)	(943)		(943)
- Impairment of acquired intangibles (note 11)			(168)	(168)		(168)
- Impairment of goodwill (note 10)	(7,105)		(2,967)	(10,072)		(10,072)
- Share-based payment costs (note 22)			(10)	(10)	(362)	(372)
- Restructuring	(999)	(102)	(60)	(1,161)	(250)	(1,411)
Total separately disclosed items	(8,240)	(785)	(3,329)	(12,354)	(612)	(12,966)
Underlying Segment Operating Profit	6,887	4,405	1,804	13,096	(4,510)	8,586
Contribution % (Underlying Segment Operating Profit / Revenue)	12.4%	11.6%	8.5%	11.4%		7.5%

Underlying operating overheads

Underlying operating overheads is total of distribution costs and administrative costs before separately disclosed items. The APM has been introduced this year to spotlight the management of overheads attributable to “business as usual” trading activity in the current inflationary environment. The calculation for Working Capital is shown below.

Lines in Income statement	2022 £000	2021 £000
Administrative expenses before separately disclosed items	27,960	28,125
Distribution expenses	4,428	4,683
Total	32,388	32,808

Net Debt

Net Debt is Bank Debt less the value of cash and cash equivalents. It excludes lease liabilities under IFRS 16. Bank Debt is the value of Barclays RCF facility of £20m and any utilised value of £5m overdraft facility, less any unamortised value of loan arrangement fee referred to in Note 18. For FY 2020 Net Debt also includes value of unpaid COVID-19 related HMRC support.

Net Debt is a key APM used by the Directors to monitor the indebtedness of the Group.

	2022	2021
	£000	£000
Cash and Cash equivalents (Note 17)	3,972	4,562
Interest bearing borrowings (Note 17)	(19,967)	(19,927)
Net Debt	15,995	15,365

Working Capital

Working Capital is inventories (Note 15), trade and other receivables (Note 16) and prepayments less trade and other payables (Note 19). The APM is used to monitor the working capital levels across the Group, with a view to manage the indebtedness of the Group within the desired levels. The calculation for Working Capital is shown below.

	2022	2021
	£000	£000
Inventories (Note 15)	31,486	30,531
Trade and other receivables (Note 16)	24,620	21,566
Prepayments	387	472
Trade and other payables (Note 19)	(19,569)	(21,111)
Working capital	36,924	31,458

Warehousing Costs

Warehousing costs is the cost of warehousing, including property and people divided by Revenue, expressed as a %. The APM is relevant for the Flowtech Segment (comprising Flowtech, Flowtechnology Benelux) and the Fluidpower Group Solutions business (comprising HTL, HES Tractec, Nelson Hi-Power, Hydroflex Hydraulics profit centres, but excluding Derek Lane) that operate largely on a pick and ship basis. The APM is used by the Directors to monitor the operational efficiency of these profit centres. This replaces the Cost per Pick APM in use until last year.

2022	Flowtech	Solutions	Derek Lane	Total
Segment Revenue	55,565	38,076	-4,605	89,036
Warehousing costs				6,411
Warehousing costs %				7.2%

2021	Flowtech	Solutions	Derek Lane	Total
Segment Revenue	57,552	34,158	-4,214	87,496
Warehousing costs				6,623
Warehousing costs %				7.6%

Turn & Earn

The Directors use Turn & Earn to track the velocity and profitability of product ranges. The calculation of this APM is shown below.

	2022	2021	2020
Inventories (Note 15) £000	31,486	30,531	21,994
Average of opening and closing inventory (a)	31,009	26,263	
Cost of sales (income statement) (b) £000	73,792	70,609	
Average stock turn during the year (c=a/b)	2.4	2.7	
Revenue (Income statement) £000	114,766	109,107	
Gross profit (Income statement) £000	40,974	38,498	
Gross profit % (d)	35.7%	35.3%	
Turn & Earn (c*d)	85%	95%	

Daily Gross Profit

The Directors use Daily Gross Profit to track the daily performance of the Group as a whole. The APM is reported each trading day and used by key management teams within the Group to track performance against the Budget and Prior year. Trading days refers to the days in the year, excluding weekends and bank holidays. The APM allows the Group to measure gross profit performance on a like for like basis across two years that might have different working days due to one – off holidays such as the additional bank holidays declared in 2022 for the Queen's Funeral and Her Majesty's Platinum Jubilee. The calculation of this APM is shown below.

	2022	2021
Gross profit (Income statement, £000)	40,974	38,498
Trading days	247	249
Gross Profit £1000/ days	£166	£155

DSO (days)

The Directors use Daily Sales Outstanding (DSO) days to track the efficiency of collecting from customers. The metric is reviewed across all of the profit centres to monitor the performance of the credit control teams in collecting as per terms agreed with customers. The calculation for this APM is shown below. Since the credit terms range from 30-90 days, the DSO is calculated based on the revenue for the last quarter of the financial year.

	2022	2021
Trade receivables (gross) (Note 16) £000	22,998	20,714
Revenue for Oct – Dec £000 (a)	28,258	26,247
VAT on revenue @ 20% (b)	5,651	5,249
Trading days during Oct – Dec ©	92	92
Daily revenue including VAT (d) = (a+b)/c	£369	£342
DSO (days) (Trade receivables / Daily revenue including VAT)	62.4	60.5

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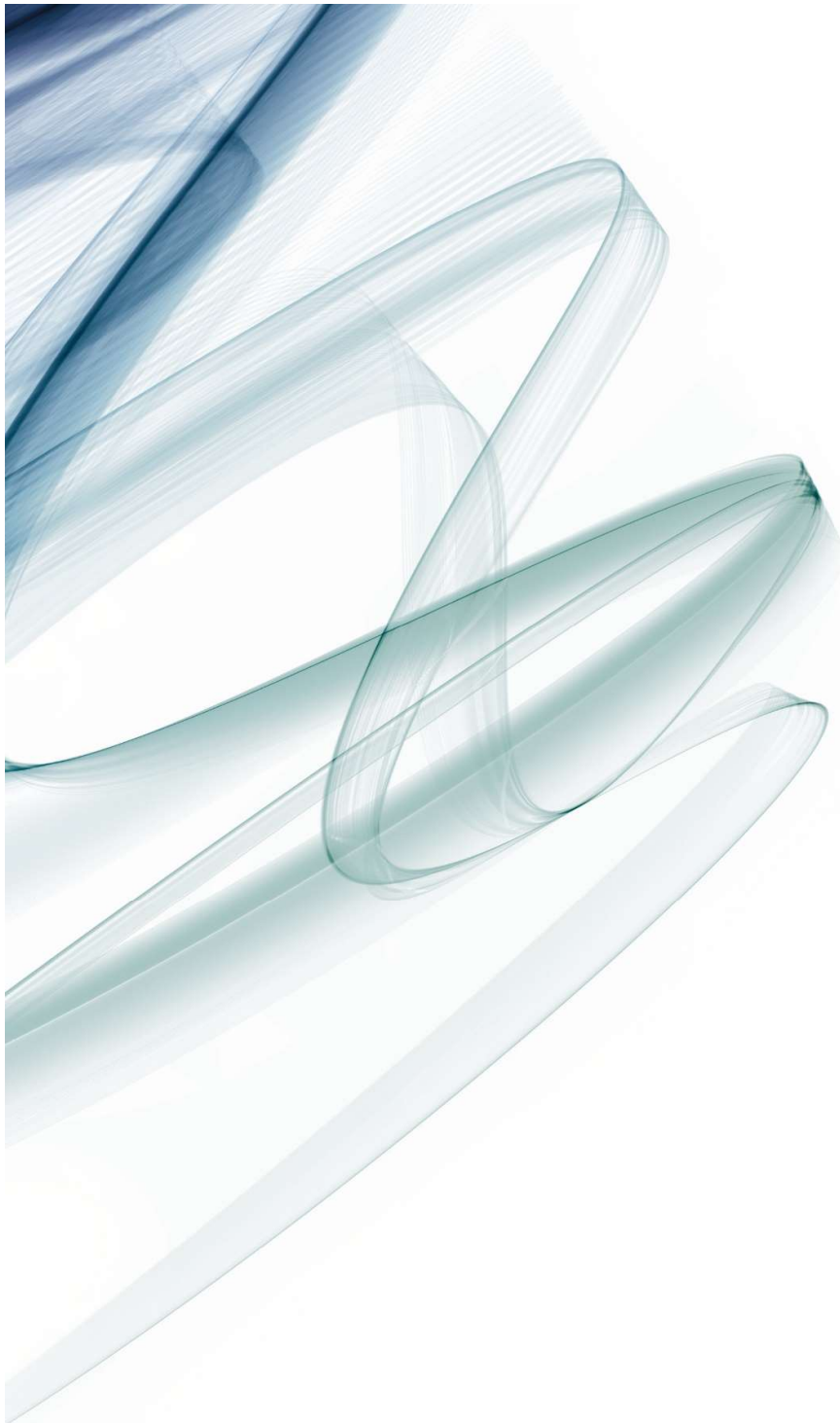
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