

**FLOWTECH FLUIDPOWER PLC**

**Half-year report**

Six months ended 30 June 2022

**FLOWTECH FLUIDPOWER PLC**

("Flowtech", the "Group" or "Company")

**"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.

**2022 HALF-YEAR REPORT**

For the six months ended 30 June 2022

"We achieved a solid trading performance in H1 2022. In the current period of widespread uncertainty our focus is on the key pillars of our long-term strategy balanced with maximising all opportunities to protect profitability"

**Bryce Brooks, Chief Executive Officer****TRADING AND OPERATIONAL HIGHLIGHTS**

- Revenue 4.8% up on like for like trading day basis
- 89bps improvement on already strong gross margin to 36.3% (H1 21 35.4%)
- Inflationary pressures offset by cost savings and productivity improvements
- Underlying EBIT at £4.3m, an increase of £0.9m on the comparative period
- £4.3m increase in net debt resulting from investment in inventory to support delivery of trading performance
- Successful implementation of 5 to 1 reorganisation project
- Launch of new e-commerce website in May 2022 with enhanced functionality

FINANCIAL HIGHLIGHTS	Half year ended	Half year ended	Year ended
	30 June 2022	30 June 2021	31 December 2021
	Unaudited	Unaudited	Audited
• Revenue	<b>£57.5m</b>	£55.3m	£109.1m
• Gross profit %	<b>36.3%</b>	35.4%	35.3%
• Operating profit	<b>£3.6m</b>	£2.7m	£3.7m
• Underlying operating profit*	<b>£4.3m</b>	£3.4m	£5.7m
• Profit before tax	<b>£3.1m</b>	£2.3m	£2.9m
• Earnings per share (basic)	<b>4.24p</b>	3.02p	3.48p
• Net debt**	<b>£19.7m</b>	£13.2m	£15.4m

\* Underlying operating profit is continuing operations' operating profit before separately disclosed items (note 3).

\*\* Net debt is Bank Debt less cash and cash equivalents. It excludes lease liabilities under IFRS 16.

**RESULTS PRESENTATION:**

CEO Bryce Brooks and CFO Russell Cash will provide a 'live' presentation via **the Investor Meet Company** platform (IMC) at **9.00am** (BST) today (31 August 2022):

<https://www.investormeetcompany.com/flowtech-fluidpower-plc/register-investor>

Website: [www.investormeetcompany.com](http://www.investormeetcompany.com)

## ENQUIRIES:

### Flowtech Fluidpower plc

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## ABOUT FLOWTECH FLUIDPOWER PLC

Founded as Flowtech in 1983, the Flowtech Fluidpower Group is a group of specialist fluid power businesses. Working in partnership with customers and suppliers, we deliver essential components, customer solutions and high-quality servicing support to keep global industry moving. The business joined the AIM market in 2014.

To read more about the Group please visit [www.flowtechfluidpower.com](http://www.flowtechfluidpower.com).

Segment:	What we do:	Locations:
<b>Flowtech</b>	<p><b>Our focus</b> Supply of both hydraulic and pneumatic consumables, predominantly through distribution for maintenance and repair operations across all industry markets but supported by supply agreements direct to a broad range of original equipment manufacturers (OEMs)</p> <p><b>Channels to market:</b> E-commerce websites, customer white label e-commerce websites, 70,000+ catalogues, own and customer trade counters</p>	<p>Flowtech (<i>Skelmersdale, Leicester, Birmingham</i>) Flowtechnology Benelux (<i>Deventer</i>)</p>
<b>Fluidpower Group Solutions</b>	<p><b>Our focus</b> Supply specialist technical hydraulic components &amp; systems, predominantly into OEMs and end-user channels to all industry markets, supported by supply agreements with a broad range of manufacturer brands</p> <p><b>Channels to market:</b> Engineering collaboration through sales offices providing national and local coverage. In 2022 enhanced by new e-commerce capabilities</p>	<p>Primary Fluid Power Components (<i>Skelmersdale</i>) Nelson Hi-Power (<i>Dublin, Cork, Dungannon</i>) HTL (<i>Ludlow</i>) Hydroflex (<i>Brussels, Rotterdam and OudBeijerland</i>) Derek Lane &amp; Co (<i>Newton Abbot</i>) HES Tractec (<i>Gloucester</i>)</p>
<b>Fluidpower Group Services</b>	<p><b>Our focus</b> 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.</p> <p><b>Channels to market:</b> In-house design and build, combined with on-site installation, servicing and support</p>	<p>Primary Fluid Power Systems (<i>Knowsley</i>) Branch Hydraulic Systems (<i>Gloucester</i>) HES Onsite (<i>Leeds, Gloucester</i>) Orange County (<i>Spennymoor</i>) Hi Power Transport (<i>Dublin, Cork, Belfast</i>)</p>

All the Group's divisions have overlapping product sets, allowing procurement synergies to be maximised. The above segments are supported by a centralised back-office teams based at Skelmersdale and Wilmslow sites in the UK. In total, the business employs 605 people.

For more information please visit, [Our business | Flowtech Fluidpower plc](#)

## FLOWTECH FLUIDPOWER PLC 2021 HALF-YEAR REPORT

For the six months ended 30 June 2022

### 2022 HALF-YEAR FINANCIAL PERFORMANCE AND DIVISIONAL ANALYSIS

Revenue by division	Six months ended 30 June 2022 £000	Six months ended 30 June 2021 £000	% Change	Year ended 31 December 2021 £000
Flowtech	26,751	26,688	0.2%	52,135
Fluidpower Group Solutions	21,190	20,084	5.5%	39,575
Fluidpower Group Services	9,516	8,522	11.7%	17,397
<b>Total Group revenue</b>	<b>57,457</b>	<b>55,294</b>	<b>3.9%</b>	<b>109,107</b>
<b>Gross profit %</b>	<b>36.3%</b>	<b>35.4%</b>		<b>35.3%</b>

Underlying segment operating profit/(loss)*	Six months ended 30 June 2022 £000	Return on revenue %	Six months ended 30 June 2021 £000	Return on revenue %	Year ended 31 December 2021 £000	Return on revenue %
Flowtech	3,725	13.9%	3,962	14.8%	7,101	13.6%
Fluidpower Group Solutions	2,952	13.9%	2,053	10.2%	3,505	8.9%
Fluidpower Group Services	328	3.4%	194	2.3%	140	0.8%
Central costs	(2,692)		(2,827)		(5,056)	
<b>Underlying operating profit*</b>	<b>4,313</b>		<b>3,382</b>		<b>5,690</b>	

\* Underlying operating profit is continuing operations' operating profit before separately disclosed items (note 3).

#### REVENUE

Revenue was 3.9% up on H1 2021, 4.8% on a like for like trading day basis. Revenue across our three segments increased at differing rates, with the growth in the Flowtech division coming via price rather than volume; this is to be expected given the different focus each of our segments has. Data collated by our industry body suggests the pneumatics sector declined in H1 2022 whilst there was growth in the hydraulics sector; this correlates with the figures seen in our segments with Flowtech being pneumatics biased whilst Solutions and Services are more closely aligned with the hydraulics market. Further information is shown in our Trading Review section below.

#### GROSS PROFIT MARGIN

Our gross profit margin remains strong at 36.3% (H1 21 35.4%). It can vary from one period to another based on market conditions and mix of sales; in H1 2022 our ability to reflect inflationary pressures in our selling prices has assisted in further improving this key performance measure.

#### OPERATING COSTS

Underlying operating costs are £0.3m (2%) up on the comparative 2021 period. Our ability to restrict the increase to a modest level reflects the impact of operational savings we have achieved to offset inflationary pressures and areas we have chosen to invest in. Our average number of employees in H1 2022 was 2.1% down on the comparative period with headcount at the end of June 2022 of 605 compared with 636 at June 2021; we are anticipating that this number will reduce further in the second half of the year based on restructuring activities which have already been announced.

#### UNDERLYING OPERATING PROFIT

Underlying operating profit of £4.3m is an increase of £0.9m from the comparative period (H1 21: £3.4m). The improvement is principally driven by our Solutions segment which has shown a strong recovery from the impact of COVID-19, and which is now yielding the benefit of the implementation of recent operational improvements.

In our 2021 Annual Report we outlined our targets for our respective segments; referencing return on revenue targets of 15% and 10% for Flowtech and Solutions respectively. We are pleased that this target has been exceeded for Solutions (H1 22: 13.9%) and we remain confident that we can achieve the 15% target for Flowtech (H1 22: 13.9%), where the closure of our Leicester warehouse function (referred to below) will most benefit.

The first half contribution provided by Services is in line with our expectations; we expect the result in the second half of the year will be improved as it finished H1 2022 with a strong order book for delivery in the second half of the year.

## NET DEBT

Net debt was £19.7m at 30 June 2022 (H1 21: £13.3m), with headroom of £5.3m compared to the Group's banking facilities. Given the supply chain related pressures encountered in late 2021, and early 2022, we invested in inventory, which has increased by £11m in the 12-month period to 30 June 2022. This has supported the delivery of a solid trading performance in the first half of 2022. Inventory levels are a key focus of management; we expect a degree of unwind of this position in the remainder of the year as we benefit from a more predictable supply chain environment, and which will reduce the Group's net debt position.

## TRADING REVIEW

At the time of our annual reporting in March 2022 we reported that trading in the year to date had been encouraging across all aspects of our business. In hydraulic sectors, predominantly Solutions and Services and around 30% of Flowtech, this positive market position has continued throughout Q2 and Q3, albeit there are some signs of the rate of demand beginning to flatten. However, in the pneumatic and broader industrial sectors of the Flowtech division, there has been a noticeable decline in demand in Q2 when measured against the 2021 comparative, and this is best reflected in the data provided by our industry body, the BFPDA, which has indicated an overall decline in pneumatic distribution sales of -6.3% for the year to June 2022 when compared to the same period in 2021 (hydraulics +9.7%). This, combined with our offering from the UK to our Irish customers being adversely impacted by the post Brexit environment, has led to a more challenging market for our Flowtech division as the year has progressed.

In our Services division, we have a profitable order book of scheduled deliverables for this year for both assembled products and installations, and therefore we are expecting a stronger contribution in the second half of the year.

We indicated previously that our sector has been subject at product level to the strong inflation experienced across many industries. Beyond this we have also seen enhanced upward pressures on key cost areas, such as property facilities and carriers, with salary uplift to some degree offset by productivity improvements (outlined below). We have been successful in passing these costs through in sales pricing and it is pleasing that our gross margin is slightly enhanced in the first half of the year, and at the date of this report we remain at, or above, the comparable measure from 12 months ago. We are alert to the likelihood of inflationary pressures continuing, potentially strengthening, and are confident all measures will be taken to protect our profitability.

We previously flagged that due to the extended lead times and volatility of supply from all our major supply partners, we felt it necessary to invest significantly in additional buffer stocks. This has had the commensurate positive impact on stock availability and customer service. However, a clear impact is that we now have the burden of additional storage capacity that has been built using a mixture of semi-permanent and temporary offsite resources, with an associated annualised cost of approximately £400,000; when we are able to rebalance to more normalised lead times and supplier performance, which we are now starting to see, this additional cost will be reduced.

The last two and a half years has seen significant challenges, in the form of the COVID-19 pandemic and related supply chain disruption, more recently exacerbated by the difficulties in Ukraine. We believe we have responded and demonstrated a robust and determined approach and the resilience of our business.

## DEVELOPMENTS IN GROUP STRATEGY

We continue to have a clear focus on creating the platform to provide the best base for future profitable growth. In the first part of the year, key achievements in this regard are as follows:

- **Digital** - Our completely rebuilt web platform went 'live' on 17 May 2022, and in the months since that time we have continued to enhance functionality with further upgrades that the new architecture allows us to smoothly introduce. During this initial period we have had to transition our long-term customers from a variety of legacy web platforms to this single site; to date we are pleased with the progress that has been made. Having delivered this and ensured stability, we look forward to yielding the benefit of rolling out the digital marketing techniques which this investment should enable us to deploy; we expect the impact of this to build over time.
- **Branding** - we updated shareholders previously on the creation of the coordinated Flowtech division on 4 January 2022, and this has now been augmented by the previous Primary Components operation merging into Flowtech to form a significantly enhanced Flowtech Hydraulics team on 1 July 2022. We are also pleased to update on progress elsewhere with the coordination of our remaining businesses in England under the Fluidpower Group banner. This has recently been announced internally with legacy operations integrating commercially to service Mobile and Industrial sectors, with full rebranding by the end of the year.

- **Productivity** - Following the deferment of more complex integration work during the period of the COVID-19 pandemic, we have picked up the pace with the change process originally envisaged. The largest such project implemented during the course of this year is the relocation of our Leicester warehousing operation to Skelmersdale; this is expected to be complete by the end of 2022. As part of this process the commercial function and all staff positions will relocate to an office environment in the Leicester area. In addition, we have completed the restructuring of our Gloucester Services facility, which has both improved throughput capacity and allowed us to exit peripheral property leases. Since we started this wide-ranging integration project in 2020, we have reduced our overall facilities footprint by eight properties, focused all UK warehousing activity for the Flowtech division in Skelmersdale, reduced our headcount from 636 in June 2021, to just above 600, with the changes outlined above delivering further reductions during the remainder of this year.

## OUTLOOK

Global economies, including the UK, are now undoubtedly in a period of uncertainty. Current run rates overall give us a degree of confidence, however, in our Flowtech business in particular, our visibility beyond the short term is limited. As a result, we are more than ever focused on monitoring short term demand variations.

Management efforts are focused on alleviating these short-term risks, whilst at the same time completing the key pillars of our long-term strategy, supporting the legacy skill sets enshrined in our Flowtech and Fluidpower Group divisions. The Group has also invested in sector leading digital capability and has restructured the internal organisation of the business to maximise efficiencies. As a result of these investments, the Group is well placed to continue to grow and increase market share. We remain confident that this strategy will bring future financial rewards in the medium term and we look forward to updating shareholders on our progress in our next update in the early part of 2023.

**By order of the Board**  
**30 August 2022**

**CONSOLIDATED INCOME STATEMENT**

For the six months ended 30 June 2022

	<i>Notes</i>	<b>Unaudited Six months ended 30 June 2022 £000</b>	Unaudited Six months ended 30-June 2021 £000	Audited Year ended 31-December 2021 £000
<b>Continuing operations</b>				
<b>Revenue</b>		57,457	55,294	109,107
Cost of sales		(36,611)	(35,727)	(70,609)
<b>Gross profit</b>		20,846	19,567	38,498
Distribution expenses		(2,159)	(2,478)	(4,683)
Administrative expenses before separately disclosed items:		(14,374)	(13,707)	(28,125)
- separately disclosed items	3	(690)	(676)	(1,978)
Total administrative expenses		(15,064)	(14,383)	(30,103)
<b>Operating profit</b>		3,623	2,706	3,712
Financial expenses		(474)	(414)	(833)
<b>Profit from continuing operations before tax</b>		3,149	2,292	2,879
Taxation	4	(542)	(435)	(741)
<b>Profit from continuing operations</b>		2,607	1,857	2,138
<b>Earnings per share</b>	5			
<b>Basic earnings per share</b> - continuing operations		4.24p	3.02p	3.48p
<b>Diluted earnings per share</b> - continuing operations		4.19p	3.01p	3.45p

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the six months ended 30 June 2022

	<b>Unaudited Six months ended 30 June 2022 £000</b>	Unaudited Six months ended 30-June 2021 £000	Audited Year ended 31-December 2021 £000
<b>Profit for the period</b>	2,607	1,857	2,138
<b>Other comprehensive income</b>			
Items that will be reclassified subsequently to profit or loss			
-Exchange differences on translating foreign operations	153	(240)	(342)
<b>Total comprehensive income in the period</b>	2,760	1,617	1,796
<b>Total comprehensive income in the period attributable to owners of the parent company</b>	2,760	1,617	1,796

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 30 June 2022

	<b>Unaudited 30 June 2022 £000</b>	Unaudited 30 June 2021 £000	Audited 31 December 2021 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	63,164	63,164	63,164
Other intangible assets	4,107	4,958	4,517
Right of use assets	6,805	7,079	6,925
Property, plant, and equipment	6,904	6,996	6,891
<b>Total non-current assets</b>	<b>80,980</b>	<b>82,197</b>	<b>81,497</b>
<b>Current assets</b>			
Inventories	34,731	23,896	30,531
Trade and other receivables	24,293	23,503	21,566
Prepayments	1,129	1,174	472
Cash and cash equivalents	273	7,536	4,562
<b>Total current assets</b>	<b>60,426</b>	<b>56,109</b>	<b>57,131</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Lease liability	1,868	1,534	1,561
Trade and other payables	20,539	20,896	21,111
Tax Payable	1,154	875	604
<b>Total current liabilities</b>	<b>23,561</b>	<b>23,305</b>	<b>23,276</b>
<b>Net current assets</b>	<b>36,865</b>	<b>32,804</b>	<b>33,855</b>
<b>Non-current liabilities</b>			
Interest-bearing borrowings	19,947	19,907	19,927
Lease liability	5,178	5,742	5,586
Provisions	302	378	309
Deferred tax liabilities	1,437	1,257	1,528
<b>Total non-current liabilities</b>	<b>26,864</b>	<b>27,284</b>	<b>27,350</b>
<b>Net assets</b>	<b>90,981</b>	<b>87,717</b>	<b>88,002</b>
<b>Equity directly attributable to owners of the parent</b>			
Share capital	30,746	30,746	30,746
Share premium	60,959	60,959	60,959
Other reserves	187	187	187
Shares owned by the Employee Benefit Trust (EBT)	(141)	(337)	(276)
Merger reserve	293	293	293
Merger relief reserve	3,646	3,646	3,646
Currency translation reserve	66	(46)	(286)
Retained losses	(4,775)	(7,731)	(7,267)
<b>Total equity attributable to the owners of the parent company</b>	<b>90,981</b>	<b>87,717</b>	<b>88,002</b>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Share capital £000	Share premium £000	Other reserves £000	Shares owned by EBT £000	Merger reserve £000	Merger relief reserve £000	Currency translation reserve £000	Retained losses £000	Total equity £000
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Six months ended 30 June 2022 <i>unaudited</i>									
<b>Balance at 1 January 2022</b>	30,746	60,959	187	(276)	293	3,646	(286)	(7,267)	88,002
Profit for the period								2,607	2,607
Other comprehensive income							352	(199)	153
<b>Total comprehensive income for the year</b>							352	2,408	2,760
<b>Transaction with owners</b>									
Share options settled				135				(19)	116
Share-based payment charge								103	103
<b>Balance at 30 June 2022</b>	30,746	60,959	187	(141)	293	3,646	66	(4,775)	90,981

Six months ended 30 June 2021 <i>unaudited</i>									
<b>Balance at 1 January 2021</b>	30,746	60,959	187	(372)	293	3,646	343	(9,795)	86,007
Profit for the period								1,857	1,857
Other comprehensive income	-	-	-	-	-	-	(389)	149	(240)
<b>Total comprehensive income for the year</b>	-	-	-	-	-	-	(389)	2,006	1,617
<b>Transaction with owners</b>									
Share-based payment charge								63	63
Share options settled	-	-	-	35	-	-	-	(5)	30
<b>Balance at 30 June 2021</b>	30,746	60,959	187	(337)	293	3,646	(46)	(7,731)	87,717

Twelve months ended 31 December 2021 <i>audited</i>									
<b>Balance at 1 January 2021</b>	30,746	60,959	187	(372)	293	3,646	343	(9,795)	86,007
Profit or the year	-	-	-	-	-	-	-	2,138	2,138
Other comprehensive income	-	-	-	-	-	-	(535)	193	(342)
<b>Total comprehensive income for the year</b>							(535)	2,331	1,796
<b>Transaction with owners:</b>									
Shares options settled	-	-	-	96	-	-	-	(14)	82
Share-based payment charge	-	-	-	-	-	-	-	166	166
Other movements							(94)	45	(49)
<b>Total transactions with owners</b>	-	-	-	96	-	-	(94)	197	199
<b>Balance at 31 December 2021</b>	30,746	60,959	187	(276)	293	3,646	(286)	(7,267)	88,002

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Notes	Unaudited Six months ended 30-June 2022 £000	Unaudited Six months ended 30-June 2021 £000	Audited Year ended 31-December 2021 £000
<b>Net cash from operating activities</b>	6	(2,505)	170	(441)
<b>Cash flow from investing activities</b>				
Acquisition of property, plant, and equipment		(683)	(808)	(1,342)
Acquisition of intangible assets		(62)	-	(761)
Proceeds from sale of property, plant, and equipment (*)		34	432	525
<b>Net cash used in investing activities</b>		<b>(711)</b>	<b>(376)</b>	<b>(1,578)</b>
<b>Cash flows from financing activities</b>				
Repayment of lease liabilities (*)		<b>(830)</b>	(1,015)	(1,882)
Interest on lease liabilities		<b>(118)</b>	(123)	(246)
Other interest		<b>(336)</b>	(271)	(547)
Proceeds from sale of shares held by EBT		<b>155</b>	30	108
<b>Net cash generated from / (used in) financing activities</b>		<b>(1,129)</b>	<b>(1,379)</b>	<b>(2,567)</b>
<b>Net change in cash and cash equivalents</b>		<b>(4,345)</b>	<b>(1,585)</b>	<b>(4,586)</b>
<b>Cash and cash equivalents at start of period</b>		<b>4,562</b>	<b>9,235</b>	<b>9,235</b>
<b>Exchange differences on cash and cash equivalents</b>		<b>56</b>	<b>(114)</b>	<b>(87)</b>
<b>Cash and cash equivalents at end of period</b>		<b>273</b>	<b>7,536</b>	<b>4,562</b>

(\*) H1 2021 and FY 2021 includes net proceeds from disposal of right of use property located at Willenhall £119k. The lease agreement included a clause for compulsory purchase of the property on payment of £300k on termination of lease, shown as repayment of lease liabilities. The right of use asset was disposed immediately, realising £419k, after expenses.

	Long-term borrowings £000	Lease liabilities £000	Total £000
At 1 January 2022	19,927	7,147	27,074
<b>Cash flows</b>			
Repayment		(830)	(830)
Other movements	20	(189)	(169)
<b>Non-cash</b>			
Foreign exchange		26	26
<b>At 30 June 2022</b>	<b>19,947</b>	<b>7,046</b>	<b>27,066</b>

## NOTES TO THE HALF-YEAR REPORT

For the six months ended 30 June 2022

### 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, Wilmslow, SK9 1DP.

The registered number is 09010518.

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

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

This consolidated Half-year report and the financial information for the six months ended 30 June 2022 does not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 and are unaudited. This unaudited Half-Year Report was approved by the Board of Directors on 30 August 2022.

The Group's financial statements for the year ended 31 December 2021 have been filed with the Registrar of Companies. The Group's auditor's report on these financial statements was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

#### Electronic communications

The Company does not intend to bulk print and distribute hard copies of this Half-year report, although copies can be requested by contacting: The Company Secretary, Flowtech Fluidpower plc, Bollin House, Bollin Walk, Wilmslow, SK9 1DP. Email: [info@flowtechfluidpower.com](mailto:info@flowtechfluidpower.com).

The Board believes that by utilising electronic communication it delivers savings to the Company in terms of administration, printing and postage, and environmental benefits through reduced consumption of paper and inks, as well as speeding up the provision of information to shareholders. News updates, regulatory news, and financial statements can be viewed and downloaded from the Group's website <https://www.flowtechfluidpower.com>.

### 2. ACCOUNTING POLICIES

#### 2.1 Basis of preparation

The financial information set out in this consolidated Half-year report has been prepared under International Accounting Standards in conformity with the requirements of the IFRIC interpretations issued by the International Accounting Standards Board (IASB) and the Companies Act 2006 and in accordance with the accounting policies which will be adopted in presenting the Group's Annual Report and Financial Statements for the year ended 31 December 2022. These are consistent with the accounting policies used in the Financial Statements for the year ended 31 December 2021.

#### 2.2 Going concern

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

- The Group generated underlying operating profit of £4.3m.
- The Group is financed by revolving credit facilities totaling £20m (extended to November 2023) and £5m overdraft facility, repayable on demand.
- The Group has operated, and is expected to continue to operate, well within its Banking facilities.

The Directors have revisited the forecasts and continue to anticipate a profitable performance in the second half of 2022. Updated cash flow forecasts continue to show the business operating well within the limits of its Banking facilities.

Naturally, these forecasts include a number of key assumptions notably relating, inter alia, to revenue, margins, costs and working capital. 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 aggregate £25m banking facility. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

### 3. OPERATING SEGMENTS

The operations of the business are reviewed based on three segments – Flowtech, Fluidpower Group Solutions and Fluidpower Group Services (as explained in note 2.18 of the Annual report 2022). 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 is as follows:

Half year ended 30 June 2022	Flowtech £000	Fluidpower Group Solutions £000	Fluidpower Group Services £000	Inter- segmental transactions £000	Central Costs (**) £000	Total continuing operations £000
<b>Income statement – continuing operations:</b>						
Revenue from external customers	26,751	21,190	9,516	-	-	57,457
Inter segment revenue	863	652	409	(1,924)	-	-
<b>Total revenue</b>	<b>27,614</b>	<b>21,842</b>	<b>9,925</b>	<b>(1,924)</b>		<b>57,457</b>
<b>Underlying operating result*</b>	3,725	2,952	328	-	(2,692)	4,313
Net financing costs	(72)	(31)	(8)	-	(363)	(474)
<b>Underlying segment result</b>	3,653	2,921	320	-	(3,055)	3,839
Separately disclosed items (see below)	(108)	(335)	(57)	-	(190)	(690)
<b>Profit before tax</b>	<b>3,545</b>	<b>2,586</b>	<b>263</b>	-	<b>(3,245)</b>	<b>3,149</b>
<b>Specific disclosure items</b>						
Depreciation on owned plant ,property and equipment	509	77	85	-	-	671
Depreciation on right-of-use assets	355	322	72	-	99	848
Amortisation	108	307	57	-	-	472
<b>Reconciliation of underlying operating result to operating profit:</b>						
Underlying operating result*	3,725	2,952	328	-	(2,318)	4,313
Separately disclosed items (see below)	(108)	(335)	(57)	-	(190)	(690)
<b>Operating profit/ (loss)</b>	<b>3,617</b>	<b>2,617</b>	<b>271</b>	-	<b>(2,882)</b>	<b>3,623</b>

Half year ended 30 June 2021	Flowtech £000	Fluidpower Group Solutions £000	Fluidpower Group Services £000	Inter- segmental transactions £000	Central costs £000	Total continuing operations £000
<b>Income statement – continuing operations:</b>						
Revenue from external customers	26,688	20,084	8,522	-	-	55,294
Inter segment revenue	2,789	461	662	(3,912)	-	-
<b>Total revenue</b>	<b>29,477</b>	<b>20,545</b>	<b>9,184</b>	<b>(3,912)</b>		<b>55,294</b>
<b>Underlying operating result*</b>	3,962	2,053	194	-	(2,827)	3,382
Net financing costs	(71)	(44)	(2)	-	(297)	(414)
<b>Underlying segment result</b>	3,891	2,009	192	-	(3,124)	2,968
Separately disclosed items (see below)	(159)	(376)	(62)	-	(79)	(676)
<b>Profit before tax</b>	<b>3,732</b>	<b>1,633</b>	<b>130</b>	-	<b>(3,203)</b>	<b>2,292</b>
<b>Specific disclosure items</b>						
Depreciation on owned plant ,property and equipment	359	65	85	-	-	509
Depreciation on right-of-use assets	295	358	37	-	74	764
Amortisation	121	343	62	-	-	526
<b>Reconciliation of underlying operating result to operating profit:</b>						
Underlying operating result*	3,962	2,053	194	-	(2,827)	3,382
Separately disclosed items (see below)	(159)	(376)	(62)	-	(79)	(676)
<b>Operating profit/ (loss)</b>	<b>3,803</b>	<b>1,677</b>	<b>132</b>	-	<b>(2,906)</b>	<b>2,706</b>

For the year ended 31 December 2021	Flowtech	Fluidpower Group Solutions	Fluidpower Group Services	Inter- segmental transactions	Central costs	Total continuing operations
	£000	£000	£000	£000	£000	£000
<b>Income statement – continuing operations:</b>						
Revenue from external customers	52,135	39,575	17,397		-	109,107
Inter segment revenue	5,164	970	833	(6,967)		-
<b>Total revenue</b>	<b>57,299</b>	<b>40,545</b>	<b>18,230</b>	<b>(6,967)</b>		<b>109,107</b>
<b>Underlying operating result*</b>	7,101	3,505	140		(5,056)	5,690
Net financing costs	(141)	(72)	(20)	-	(600)	(833)
<b>Underlying segment result</b>	6,960	3,433	120	-	(5,656)	4,857
Separately disclosed items (see below)	(925)	(723)	(124)		(206)	(1,978)
<b>Profit / (loss) before tax</b>	<b>6,035</b>	<b>2,710</b>	<b>(4)</b>	-	<b>(5,862)</b>	<b>2,879</b>
<b>Specific disclosure items</b>						
Depreciation and impairment on owned plant, property and equipment	773	137	175		-	1,084
Depreciation on right-of-use assets	656	615	192	-	180	1,643
Impairment of acquired intangibles	673	-	-	-	-	673
Amortisation	247	683	124		-	1,054
<b>Reconciliation of underlying operating result to operating profit:</b>						
Underlying operating result*	7,101	3,505	140	-	(5,056)	5,690
Separately disclosed items (see below)	(925)	(723)	(124)	-	(206)	(1,978)
<b>Operating profit/ (loss)</b>	<b>6,176</b>	<b>2,782</b>	<b>16</b>	-	<b>(5,262)</b>	<b>3,712</b>

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

#### SEPARATELY DISCLOSED ITEMS

	Six months ended 30 June 2022 £000	Six months ended 30 June 2021 £000	Year ended 31 December 2021 £000
<b>Separately disclosed items within administrative expenses:</b>			
Acquisition costs	3	3	11
Amortisation of acquired intangibles	472	526	1,054
Impairment of acquired intangibles	-	-	673
Share-based payment costs	103	63	166
Restructuring costs	112	84	74
Total	690	676	1,978

- Acquisition costs relate to outline research into potential acquisition opportunities which are presented to us
- Share-based payment costs relate to the provision made in accordance with IFRS 2 "Share-based payment" following the issue of share options to employees
- Restructuring costs related to restructuring activities of an operational nature following acquisition of business units and other restructuring activities in established businesses. Costs include restructuring advice, service contract termination costs and employee redundancies

#### 4. TAXATION

	Six months ended 30 June 2022 £000	Six months ended 30 June 2021 £000	Year ended 31 December 2021 £000
<b>Current tax on income for the period - continuing operations:</b>			
UK tax	511	296	493
Overseas tax	211	149	241
Adjustments in respect of prior periods/ other differences	(89)	104	(60)
Deferred tax credit / (charge)	(91)	(114)	67
<b>Total taxation</b>	<b>542</b>	<b>435</b>	<b>741</b>

The taxation for the period has been calculated by applying the estimated tax rate for the financial year ending 31 December 2022.

## 5. 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 outstanding during the period. 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 period. For diluted loss per share the weighted average number of ordinary shares in issue is not adjusted.

	Six months ended 30 June 2022			Six months ended 30 June 2021			Year ended 31 December 2021		
	Earnings	Weighted average number of shares	Earnings per share	Earnings	Weighted average number of shares	Earnings per share	Earnings	Weighted average number of shares	Earnings per share
	£000	000's	Pence	£000	000's	Pence	£000	000's	Pence
<b>Basic earnings per share</b>									
Continuing operations	2,607	61,493	4.24	1,857	61,493	3.02p	2,138	61,493	3.48
<b>Diluted earnings per share</b>									
Continuing operations	2,607	62,236	4.19	1,857	61,702	3.01p	2,138	61,894	3.45

	Six months ended 30 June 2022 £000	Six months ended 30 June 2021 £000	Year ended 31 December 2021 £000
Weighted average number of ordinary shares for basic and diluted earnings per share	61,493	61,493	61,493
Impact of share options	743	209	401
Weighted average number of ordinary shares for diluted earnings per share	62,236	61,702	61,894

## 6. NET CASH FROM OPERATING ACTIVITIES

	Six months ended 30 June 2022 £000	Six months ended 30 June 2021 £000	Year ended 31 December 2021 £000
<b>Reconciliation of profit before taxation to net cash flows from operations:</b>			
Profit from continuing operations before tax	3,149	2,292	2,879
Depreciation and impairment on property, plant, and equipment	671	497	1,084
Depreciation on right-of-use assets (IFRS 16)	848	764	1,643
Finance costs	474	414	833
(Gain) / Loss on sale of plant and equipment	(24)	(181)	(209)
Other movements			(95)
Amortisation of intangible assets	472	526	1,054
Impairment of intangible assets			673
Cash settled share options	(40)	-	(26)
Equity settled share-based payment charge	103	63	166
<b>Operating cash inflow before changes in working capital and provisions</b>	5,653	4,375	8,002
Change in trade and other receivables	(3,316)	(5,660)	(3,325)
Change in stocks	(4,099)	(1,743)	(8,764)
Change in trade and other payables	(642)	2,694	3,496
Change in provisions	(7)	9	(59)
Cash generated from operations	(2,410)	(325)	(650)
Tax paid / (reclaimed)	(94)	495	209
<b>Net cash generated / (used) from operating activities</b>	(2,505)	170	(441)

## **7. PRINCIPAL RISKS AND UNCERTAINTIES**

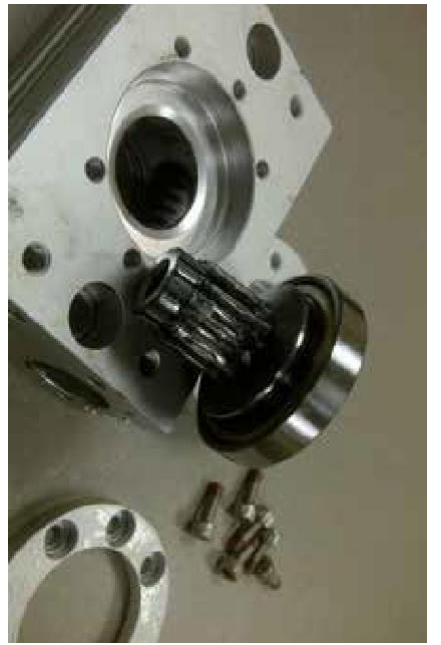
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In common with all organisations, Flowtech faces risks which may affect its performance. The Group operates a system of internal control and risk management to provide assurance that we are managing risk whilst achieving our business objectives. No system can fully eliminate risk and therefore the understanding of operational risk is central to management processes. The long-term success of the Group depends on the continual review, assessment, and control of the key business risks it faces. The Directors set out in the 2021 Annual Report and Financial Statements the principal risks identified during this exercise, including quality control, systems and site disruption and employee retention. The Board does not consider that these risks have changed materially in the last six months.

## **8. FORWARD-LOOKING STATEMENTS**

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







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