Genuit Group plc

Audited results for the year ended 31 December 2023

Strong strategic progress despite a challenging market backdrop

Genuit Group plc ("Genuit", the "Company" or the "Group"), the UK's largest provider of sustainable water, climate and ventilation solutions for the built environment, today announces its audited results for the year ended 31 December 2023.

Financial Results

Statutory Measures	2023	2022	Change %
Revenue (£m)	**586.5**	622.2	(5.7)
Operating profit (£m)	**62.0**	53.4	16.1
Profit before tax (£m)	**48.4**	45.4	6.6
Earnings per share (basic - pence)	**15.5**	14.7	5.4
Cash generated from operations (£m)	**109.7**	93.9	16.8
Dividend per share (pence)	**12.4**	12.3	0.8

Alternative Performance Measures[1]	2023	2022	Change %
Underlying operating profit (£m)	**94.1**	98.2	(4.2)
Underlying operations cash conversion (%)	**87.7**	57.4	3030 bps
Underlying operating margin (%)	**16.0**	15.8	20 bps
Underlying profit before tax (£m)	**80.5**	90.6	(11.1)
Underlying earnings per share (basic - pence)	**25.2**	30.8	(18.2)
Leverage (times pro-forma EBITDA) [2]	**1.1**	1.2	-

1 Alternative performance measures (APMs) are used by the Group to assess the underlying performance of the business. A definition of all the APMs is set out in note 1 on page 23.

2. Pro-forma EBITDA is reconciled in note 13 on page 35.

Joe Vorih, Chief Executive Officer, said:

"2023 was a year of significant strategic progress for the Genuit Group in the context of a challenging market backdrop. The actions we have taken to simplify the business and deploy the Genuit Business System have enabled us to deliver an improved profit margin and strong cash conversion, despite the headwinds. Based on our strengthened balance sheet and confidence in our medium-term strategy, we are pleased to be increasing our full year dividend. These results are a credit to the whole Genuit team, and I'd like to thank all my colleagues for their contribution.

We have started 2024 in line with our expectations, in the context of continuing market headwinds. Our ongoing operational and commercial progress put us in a strong position to benefit from eventual market normalisation and, looking further ahead, we remain confident in our ability to capitalise on the structural, sustainability-linked growth drivers of our markets."

Financial Highlights

- Underlying operating margin up 20 basis points to 16.0%, despite a full year market-driven revenue reduction of 5.7%, demonstrating continued progress towards the Group's medium-term operating margin target of >20%.
- A full year volume reduction of 12.4% was partially offset by new product launches, balanced price and cost management and business simplification projects, resulting in a 4.2% year-on-year reduction in underlying operating profit.
- £15m of annualised cost savings underpinned across 2022 and 2023, partially offsetting inflationary headwinds and market-driven volume softness.
- Reported operating profit of £62.0m (2022: £53.4m) increased 16.1% year-on-year. On an underlying basis, operating profit was £94.1m (2022: £98.2m).
- Strong underlying operating cash generation of £82.5m (87.7% cash conversion), with net debt reduced from 1.2 times to 1.1 times underlying pro-forma EBITDA, in line with expectations.
- Underlying EPS decreased to 25.2p, predominantly as a result of increased tax and interest costs.
- New progressive dividend policy: total dividend per share for the year of 12.4p (2022: 12.3p), reflecting strength of the balance sheet and confidence in execution of strategy.

Strategic and operational highlights:

Growth - Focusing on higher- growth, sustainability-driven markets, via organic growth and disciplined M&A opportunities.

- Sustainable Building Solutions (SBS) revenue declined by 14.1%, while underlying operating profit margin improved, driven by business simplification projects.
  - Launched PolyPlumb Enhanced plastic plumbing range following multi million-pound investment programme. This is a key part of growing our market share in the RMI segment and features patented installation benefits.
- Water Management Solutions (WMS) revenue declined 1.2%, but with a stronger second half performance and business simplification projects driving an improvement in operating profit margin.
  - Launched SubTerra CT driving growth in fibre network rollout.
  - Continued growth in Permavoid, with UK showing significant uptake in green urbanisation solutions, addressing the twin issues of stormwater water attenuation and providing better urban spaces.
- Climate Management Solutions (CMS) revenue grew 4.6% with strong residential ventilation growth offsetting continued weakness in the boiler market. Underlying operating margin was lower on a full year basis but has improved in H2 versus H1.
  - Launched Nu-Deck underfloor heating range targeting the RMI segment to promote UFH and heat pump adoption outside of new build.
  - Drove further growth and specifications for MVHR with integral cooling module, addressing the need for combining low carbon heating and cooling, along with providing fresh healthy air.
- Across the Group international revenue increased by 9.8%, representing 11.5% of revenue in the year (2022: 9.9%).

Sustainability - Continually improving the sustainability of our operation to be the lowest-carbon choice for our customers.

- Progress on SBT's and Pathway to Net-Zero by 2050. Absolute carbon reduced by 33% vs prior year.
- Scopes 1 & 2 Carbon intensity remained consistent despite challenge of lower volumes.
- Recyclate use c. 50% with projects to further increase in 2024.
- Retained The 5% Club silver status with pathway to gold.

Genuit Business System - Creating value through lean transformation and operational excellence.

- Undertook 'lean lighthouse' projects across Adey and Polypipe Building Products and commenced a further project in Horncastle in 2024 to drive efficiencies.
- Lean tools and Kaizen methodologies being deployed on a multi-year basis across the Group to drive continuous improvement.
- Over 10% of Genuit employees have participated in lean Kaizen events or training so far, empowering and inspiring our workforce as we progress on our lean journey.

People and Culture – Creating value and enabling growth through the capability, expertise and development of our employees.

- Established the Genuit Leadership Team (top c.70) with increasingly cross-functional working practices and launched the Genuit Leadership programme.
- DE&I training rolled out for all Leaders and diversity of leadership team improving, with female representation now at 29%.
- Genuit Group became a strategic partner of Construction Inclusion Coalition.

Outlook

- Trading for 2024 has started in line with our expectations, despite continued market uncertainty.
- Current softness in UK construction expected to continue but will vary by end market.
    - New housebuilding volumes continue to be challenging.
    - Uncertainty in RMI and commercial sectors remains.
    - Pent-up demand for boiler replacements continues to grow.
    - Penetration of ventilation and stormwater attenuation continues to increase.
- Given the strategic and operational progress made in 2023, the Group is in a strong position to navigate the near-term market headwinds and benefit from eventual market normalisation.
- The Group remains confident in the medium-term growth drivers including demand generated by addressing the structural UK housing shortage, as well as regulatory changes and increasing customer demand for sustainability-linked solutions in both water and climate management.

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A copy of this report will be available on our website *www.genuitgroup.com* today from 0700hrs (BST).

A live webcast of the Final Results presentation, hosted by Joe Vorih, Chief Executive Officer, and Tim Pullen, Chief Financial Officer, will be broadcast at 0830 on Tuesday 12 March 2024. To access the live presentation on that date, participants will be required to register in advance using the following webcast link:

https://www.investis-live.com/genuit-group/65cde81a6195a5120007ae1a/hser

We recommend you register by 0815hrs (GMT). The webcast will be recorded, and a replay will be available shortly after the webcast ends via the same link above. A recording of the presentation and a copy of the slides will be available following the event on the Company's website at Results, Reports & Presentations - Genuit Group plc

Notes to Editors:

About Genuit Group plc

Genuit Group plc is the UK's largest provider of sustainable water, climate and ventilation products for the built environment. Genuit's solutions allow customers to mitigate and adapt to the effects of climate change and meet evolving sustainability regulations and targets.

The Group is divided into three Business Units, each of which addresses specific challenges in the built environment:

- **Sustainable Building Solutions** – Providing a range of construction solutions to reduce the carbon content of the built environment.
- **Water Management Solutions** – Driving climate adaptation and resilience through integrated surface and drainage solutions.
- **Climate Management Solutions** – Addressing the drivers for low carbon heating and cooling, and clean and healthy air ventilation.

Across these divisions, Genuit's brands are some of the most well-established and innovative in the industry, including Polypipe, Nuaire and Adey.

The Group primarily serves the UK and European building and construction markets with a presence in Italy and the Netherlands and sells to specific niches in the rest of the world.

Group Results

Group revenue for the year ended 31 December 2023 was £586.5m (2022: £622.2m), declining 5.7% despite an overall volume reduction of 12.4% year-on-year, in the context of market headwinds. UK revenue declined 7.4% but international revenue increased by 9.8%, representing 11.5% of revenue in the year (2022: 9.9%).

Underlying operating profit was £94.1m (2022: £98.2m), a decrease of 4.2% with a volume reduction offset by new product launches, balanced price and cost management and business simplification projects. As a result, the Group underlying operating margin increased by 20 basis points to 16.0% (2022: 15.8%), demonstrating progress towards medium-term margin targets despite the prevailing market softness.

The Group successfully completed several business simplification projects in 2022 and 2023, including a number of site closures and a centralised approach to procurement. The Group also started the multi-year deployment of the Genuit Business System (GBS) which focuses on continuous improvement. These activities have successfully underpinned £15m of annualised cost savings without any reduction in capacity to ensure strong operating gearing as volumes normalise.

Profit before tax was £48.4m (2022: £45.4m), an increase of 6.6%. The Group continued to invest in product development and innovation throughout the year. In 2023, operating profit benefitted from £1.5m of HMRC approved Research and Development expenditure credit, relating to the year ended 31 December 2023.

Non-underlying items decreased to £32.1m (2022: £45.2m) before tax. These were driven by non-cash amortisation of £14.8m (2022: £15.2m) and total impairment charges of £2.5m (2022: £14.8m) respectively. The Group incurred one off costs of restructuring of £15.3m (2022: £9.3m) related to the business simplification projects that have underpinned the £15m of annualised savings.

Underlying finance costs increased to £13.6m (2022: £7.6m) due to significantly higher Standard Overnight Index Average (SONIA) interest rates partially offset by lower level of RCF borrowings. Interest cover was 8.2x for the year (2022: 16.0x).

Interest was payable on the RCF at SONIA (2022: SONIA) plus an interest rate margin ranging from 0.90% to 2.75%. The interest rate margin at 31 December 2023 was 1.65% (2022: 1.60%). The Group has commenced an interest rate hedging strategy in 2024 to provide increased certainty and manage interest rate risk.

The underlying tax charge in 2023 was £17.9m (2022: £14.1m) representing an effective tax rate of 22.2% (2022: 15.6%). This was below the composite UK standard tax rate of 23.5% (2022: 19.0%).

Underlying profit after tax was lower than the prior year at £62.6m (2022: £76.5m) due to the increase in finance costs and higher tax rate. Underlying basic earnings per share was 25.2 pence (2022: 30.8 pence).

Including non-underlying items, profit after tax was £38.5m (2022: £36.5m), and basic earnings per share was 15.5 pence (2022: 14.7 pence).

The final dividend of 8.3 pence (2022: 8.2 pence) per share is being recommended for payment on 5 June 2024 to shareholders on the register at the close of business on 3 May 2024. The ex-dividend date will be 2 May 2024. The Group is announcing a progressive dividend policy and an increase in the full-year dividend of 12.4p per share, despite challenging near-term trading conditions and changes to interest and tax costs. This reflects the Group's strong balance sheet and confidence in its medium-term strategy.

Revenue and operating profit and margin	2023 £m	2022 £m	Change %
Revenue	**586.5**	622.2	(5.7)
Underlying operating profit	**94.1**	98.2	(4.2)
Underlying operating margin	**16.0%**	15.8%	20 bps

Revenue by geographic destination	2023 £m	2022 £m	Change %
UK	**519.1**	560.8	(7.4)
Europe	**33.4**	32.4	3.1
Rest of World	**34.0**	29.0	17.2
Group	**586.5**	622.2	(5.7)

Chief Executive Officer Review

Our Results: Progress toward our mid-term targets

My second year as CEO of Genuit has been one of significant strategic progress for the Group, despite a backdrop of continued external challenges. Our performance was resilient in the face of ongoing softness in the UK construction market, with successful product launches, balanced price and cost management, ongoing business simplification and growth in our international revenues helping to offset this volume decline.

Importantly, our leadership team has remained fully focused on executing our Sustainable Solutions for Growth strategy, the benefits of which are already flowing through. All this has only been possible thanks to the great work of our incredible team across the entire Genuit Group.

Our business simplification programme over 2022 and 2023 has been highly successful, and we have announced £15m of annualised savings from a range of self-help measures that leave the Group more streamlined, efficient and better placed for profitable growth. This has included the site consolidation programme across six sites that we are in the final phases of completing, with no reduction to our productive capacity. The deployment of the Genuit Business System on a multi-year basis has also begun to bear fruit as we begin to implement lean processes throughout the Group in order to drive a culture of continuous improvement.

These strategic decisions have served to improve our annual underlying profit margin from 15.8% to 16.0% despite the market-driven decline in revenues of 5.7%. Underlying operating cash conversion has also been strong at 87.7%, approaching our 90% mid term target, strengthening our financial position and allowing us to de-leverage the balance sheet while continuing to invest in growth.

With the Group on a firm financial footing and with high confidence in our strategic direction, we are pleased to be able to propose an increase in our full-year dividend to 12.4p and formally introduce a progressive dividend policy.

Our Customers: Challenging market conditions remain

Genuit today is focused on sustainability-driven growth, helping our customers respond to climate adaptation and mitigation challenges. We continue to focus on segments that benefit from mid-term regulation and a customer-driven need for climate solutions – the electrification of our houses and workplaces to reduce carbon, better cooling and ventilation as the climate warms, more effective rainwater collection and reuse, and attenuation of flooding and storm runoff now more prevalent than ever. We provide these solutions into a range of end markets – new house building and RMI, commercial and multi-story residential construction, infrastructure including storm water management projects within road and rail – and we are growing in many of these sectors internationally.

The structural UK housing shortage continues and must be addressed, so that despite the recent weakness, mid-term growth in this sector should be robust as the UK seeks to build the houses needed. 2023 saw a decline in site openings and starts, with higher interest rates affecting mortgages, cost of living concerns continuing and planning constraints still affecting housebuilders. We are expecting these low levels to continue into 2024 but expect pent-up demand to drive stronger growth in time.

There were some important segmental trends in residential construction. Notably, our Nuaire ventilation business saw organic growth in 2023 driven by increased penetration of new ventilation solutions – most notably to control damp and mould in social housing. Our Nu-Heat business saw a decline in renewable energy conversion projects as affordability was a concern for consumers, though project interest has increased since the government announced the increase of the Boiler Upgrade Scheme from £5,000 to £7,500 – certainly a positive development. On the other hand, the gas boiler market remained below normal levels, as the supply chain constraints of 2022 were replaced with decreased demand as consumers put off boiler replacements, keeping existing systems running. Historically, this has created pent-up demand for replacement of boilers as they age, demand that may return quickly when confidence returns.

While the UK still represents nearly 90% of Group sales, our geographic expansion activity continues as the demand for water management and building drainage solutions in the Middle East continues to develop, and we introduced new network infrastructure products – including for the North American market.

Despite the short-term headwinds that continue in 2024, we do see positive developments. The Future Homes Standard is expected to drive a significantly increased uptake of air-sourced heat pumps (ASHP's) and underfloor heating, more heat recovery in ventilation, and a continued focus on energy efficiency and lower carbon products. Again, last year, we saw hotter summers and more pronounced storms and flooding – challenging construction in the short term but reaffirming confidence in the need for our water management and green urbanisation solutions. In addition, lower carbon content (such as with the higher recycled-content plastic products we provide) is quickly moving up the agenda for our customers, in line with their own carbon commitments or driven by local initiatives such as the London Plan. On balance, while the short-term outlook is unsettled, there has never been a better time to be focused on creating sustainable living.

Our Strategy: Sustainable Solutions for Growth

Our Sustainable Solutions for Growth strategy is built around four key pillars:

- **Growth -** Focus on higher-growth, sustainability-driven markets, via organic growth and disciplined M&A opportunities
- **Sustainability -** Continually improve the sustainability of our operations to be the lowest-carbon choice for our customers
- **Genuit Business System -** Create value through lean transformation and operational excellence
- **People and Culture -** Create value and enable growth through the capability, expertise and development of our employees

I am pleased with the progress that we have made against each of these commitments in 2023, which has seen us drive improvements throughout the business and strengthen our position going into 2024.

Growth

By focusing on sustainability-driven markets in the built environment, we see significant opportunities to outperform the broader construction market. The necessity of adapting to climate change, regulatory changes and shifting customer preferences create a series of structural tailwinds that will enable us to achieve organic growth and open the possibility for disciplined M&A opportunities.

Despite the softness in the UK construction sector in 2023 and the overall decline in volumes, I'm pleased to say that this approach helped to secure revenue opportunities across all three of our divisions. Sustainability-driven structural growth drivers including the need for greater ventilation in social housing and stormwater attenuation have served to drive demand for our solutions.

The launch of exciting new product lines, including Polyplumb Enhanced in Sustainable Building Solutions (SBS), Nu-Deck and MVHR with cooling in Climate Management Solutions (CMS) and SubTerra CT in Water Management Solutions (WMS), demonstrates our commitment to innovating within our product ranges and providing customers with innovative and highly relevant solutions. All these products tie into the need to address climate adaptation challenges and improve the resilience of the built environment.

Solution selling, including expanding the Nu-heat direct-to-contractor or homeowner offering, and working with national and regional homebuilders to install early ASHP and underfloor heating solutions – ahead of the Future Homes Standard – were effective. Our commercial offering has expanded with Polypipe Advantage pre-fabricated solutions growing, enhanced with a new Stax line of pre-configured solutions. We merged our Keytec and Alderburgh installation businesses to create a class leading water management solution partner with national reach.

The launch of these products, solutions and services, with a continued pipeline of development, means that despite some variation as products mature, we remain on track to maintain our target of 25% of all sales coming from products developed in the last five years. Furthermore, our success in integrating past acquisitions successfully, stronger leadership capability, and decreased leverage, all position the Group well to continue to develop and pursue strategic acquisitions that will add to our organic growth potential and enhance shareholder returns in the future.

Sustainability

Our growth strategy is inextricably linked to sustainability, as the key driver of our markets and the core of our product suites. It is therefore imperative that we are continually pursuing a programme of improvement in regard to our own sustainability metrics, ensuring that we are the lowest-carbon supplier of choice to our customers.

We are on a trajectory to become net-zero by 2050, and our sustainability plans have progressed well in the year. Most notably, in 2023 we became the first amongst our UK peers to have verified SBTi approval for our near-term carbon reduction targets, which amongst other commitments will see us reduce our scopes 1 & 2 GHG emissions by 30% by 2027 compared to 2021.

We are also the largest user of recycled polymers across our European peer group, making up almost half our total tonnage, and we have held the Green Mark since 2019 with over 70% green revenues.

We said that we would leverage sustainability leadership for growth, remain the champion of the most sustainable building solutions and extend our plastic recycling usage. As these sustainability targets are a key component of our strategy, they form an integral part of Executive and senior management remuneration to ensure reward is fully aligned with our strategic priorities. In 2023, we added the annual measure of carbon reduction into the annual bonus arrangements for a wider cohort of our managers.

Genuit Business System

Embedding the lean transformation of the business and creating a culture of continuous operational improvement and excellence is at the heart of our value creation strategy. The Genuit Business System (GBS) will enable the Group to standardise processes, share best practices and achieve benefits of scale, and will be at the core of our journey to achieving our medium-term >20% operating margin target.

In 2022, we started our journey to implement these principles as we began to deploy the GBS at Adey as our first Lean Lighthouse. We have seen significant productivity improvements, financial savings and space savings from this first lean site transformation.

In 2023, we extended that Lean Lighthouse deployment across Polypipe Building Products, and we also commenced a further project in Horncastle that will accelerate in 2024.

The success of our Lean Lighthouse projects has energised our people and allowed us to continue the multi-year deployment of the Genuit Business System on a wider scale across the Group. In the first full year, over 10% of Genuit employees have now participated in lean Kaizen events or training – showing both the pace of deployment across the group and how much more progress and benefit there is to realise. We are very pleased with the results of this so far and believe that it will help to empower and inspire our people. Enabling our people to unlock the full potential of our business is at the heart of what we are building.

People and Culture

Our people are the heart of our business and the key driver of our success, and as such our growth strategy is highly focused on making sure that they are empowered to drive progress. Accordingly, we have continued to invest in talent, engagement and culture throughout 2023.

Core to the creation of a positive culture has been the creation of our Genuit Leadership Team (GLT) in 2022, consisting of c.70 of the top leaders across the Group. This group was instrumental in defining our new purpose (Together, we create sustainable living) and forming our trademark behaviours that will underpin our culture – We work together, We take ownership and We find a better way. Since this team will be instrumental in modelling and strengthening our culture and executing our strategy, we have focused our diversity and leadership development efforts with them first. We are proud that GLT membership now consists of 29% female leaders, and all of them will participate in a new Genuit Leadership Programme over the coming year.

We have also worked to strengthen the Group-wide talent pipeline in 2023 and are committed to providing accredited learning programmes through our graduate schemes and apprenticeships. Further, we have been able to develop an accredited programme to help our current workforce be better prepared for the future, learning basic manufacturing and lean tools. All these efforts have helped us increase the percentage of our workforce in such programmes to 8% - a significant improvement and a sign of the importance we place on career development. The year also saw us launch Workday - our new self-serve HR platform to make people management and development more effective, and in early 2024 we plan to undertake our first employee engagement survey. Additionally, our use of the Workplace platform has resulted in stronger cross-Group communication with all our colleagues.

Lastly, Genuit Group became a strategic partner of Construction Inclusion Coalition in 2023, extending our commitment to inclusion in this all-important industry.

Summary: We are well-placed for 2024 and beyond

Overall, this has been a year of significant strategic progress towards our medium-term targets. We have successfully created a more streamlined and effective business, leading to improved margins and a strong financial position that has given us the confidence to implement a progressive dividend policy. Across our strategic pillars we have made good progress, and the work that has been done to create a Group that can achieve growth and efficiencies, underpinned by sustainability and a strong culture, is evident.

The macro economic uncertainty that impacted the construction sector in 2023 is likely to continue into 2024, and the softness in volumes is therefore expected to continue across several markets. The strategic successes that we have achieved in 2023, however, mean that Genuit is in an excellent position to navigate the near-term market headwinds, and will be well-placed to benefit when the market normalises. I remain highly confident that we are moving in the right direction, and sustainability-driven tailwinds such as the need for increasing energy efficiency in heating and ventilation, stormwater solutions to address significant rainfall events and the need for lower carbon building materials will significantly benefit our businesses over the medium-term.

I would like to close by thanking all my colleagues at Genuit for their efforts in the year. Ever since I joined as CEO, I have been constantly impressed by their dedication, imagination, and hard work, and I look forward to continuing to work with them all to create sustainable living together.

Business Unit Review

Revenue	2023 £m	2022 £m	Change %	LFL Change %
Sustainable Building Solutions	**242.8**	282.5	(14.1)	(14.1)
Water Management Solutions	**170.4**	172.4	(1.2)	(1.8)
Climate Management Solutions	**165.9**	158.6	4.6	4.6
	579.1	613.5	(5.6)	(5.8)
Other*	**7.4**	8.7	(14.9)	(14.9)
Total Group	**586.5**	622.2	(5.7)	(6.0)

* Relates to assets held for sale which are not reported as part of the Group's Strategic Business Units.

Underlying operating profit	2023 £m	ROS %*	2022 £m	ROS %*	Change Bps
Sustainable Building Solutions	**53.1**	**21.9**	59.3	21.0	**90**
Water Management Solutions	**17.7**	**10.4**	14.1	8.2	**220**
Climate Management Solutions	**22.7**	**13.7**	25.2	15.9	**(220)**
	93.5	**16.1**	98.6	16.1	**-**
Other**	**0.6**	**8.1**	(0.4)	(4.6)	**1270**
Total Group	**94.1**	**16.0**	98.2	15.8	**20**

* Return on sales (ROS) is equivalent to underlying operating margin (underlying operating profit/ revenue)
** Relates to assets held for sale which are not reported as part of the Group's Strategic Business Units.

Revenue, in the Strategic Business Units, for year ended 31 December 2023 was 5.6% lower than the prior year at £579.1m (2022: £613.5m). On a like-for-like basis, excluding the impact of acquisitions, revenue was 5.8% lower than prior year.

Ongoing self-help measures, deployment of the Genuit Business System and continued business simplification have strengthened our financial performance to offset continued levels of high inflation in materials, energy and labour costs. The team have worked hard on continuing to improve efficiencies, creating value and positioning us for growth.

We have built on the momentum from prior year in driving commercial excellence which has enabled us to successfully launch new products whilst balancing price and cost management. We have strived to improve our portfolio profit mix by taking ongoing actions on lower margin business. Against a backdrop of more challenging conditions, notably in the residential new build and RMI markets, we have continued optimising the cost base whilst maintaining capacity, investing in new equipment and boosting operational efficiency to ensure we are well positioned for improved market conditions.

Sustainable Building Solutions

Sustainable Business Solutions (SBS) provides a range of construction solutions to reduce the carbon content of the built environment.

The strength and resilience of the SBS Business Unit was evident in a challenging market environment in 2023. Trading in SBS was resilient with revenue of £242.8m (2022: £282.5m), 14.1% lower than prior year. The volume decline was in-line with the UK residential new build and RMI sectors.

Despite volume challenges, underlying operating profit margin improved by 90 basis points, driven primarily by effective cost management through several improvement projects. As part of the wider Group business simplification plans, SBS executed an operating footprint consolidation with the completion on the sale of the Glasgow distribution centre and exiting of the Kirk Sandall site, both of which were integrated into the larger and strategic Doncaster facilities. The improvement projects were designed to simplify and improve the cost base without impacting service or reducing capacity.

The deployment of a lean transformation started with the continual, multi-year implementation of GBS at Polypipe Building Products (Doncaster) leading to improved customer service levels and providing a foundation for continuous business improvement. Management successfully completed a significant equipment refresh programme, which enabled a substantial reduction in past due orders, yielding both efficiency and inventory benefits. The Business Unit remains poised to take advantage of the eventual recovery in construction markets and in the meantime is focused on generating organic growth through significant product developments, including the PolyPlumb Enhanced range and value-add sustainability focused solutions such as Polypipe Advantage and Stax.

Water Management Solutions

Water Management Solutions (WMS) is focused on driving climate adaptation and resilience through integrated surface and drainage solutions.

WMS revenue of £170.4m (2022: £172.4m) declined by 1.2% versus 2022 (1.8% on a like-for-like basis). The Business Unit performed well with revenue generated from new products and geographical expansion. In the second half of 2023, WMS revenue grew by 2.1% driven by structural climate change relating to growth drivers, namely the increased frequency and severity of flood events resulting in a greater number of projects requiring stormwater attenuation solutions.

The Business Unit reported an underlying operating margin of 10.4% during the period, representing a 220-basis points improvement versus prior year. This improvement was driven by a combination of business and brand rationalisations, cost controls and focused investment in our people, processes and manufacturing capabilities.

The WMS medium term growth strategy is underpinned by focused commercial activity, leveraging the increased levels of product development in 2023 and the business unt expects to benefit from changes in water management and biodiversity legislation.

Climate Management Solutions

Climate Management Solutions (CMS) addresses the drivers for low carbon heating and cooling, and clean and healthy air ventilation.

Revenue of £165.9m (2022: £158.6m) in Climate Management Solutions (CMS) increased by 4.6% versus 2022. This increase was driven by strength in the residential ventilation market, with structural drivers associated with ventilating to reduce mould and damp problems, particularly in the social housing sector. This growth was partially offset by reduced demand for new boiler and heating system installations which has adversely affected the Adey business. The Adey business remains well positioned to benefit from the eventual recovery in the boiler market.

The CMS Business Unit reported an underlying operating margin of 13.7% in 2023, 220 basis points lower than 2022. This resulted predominantly from lower volumes at Adey and one-off IT security investment to achieve Group standard. The continual, multi-year implementation of GBS has begun in the Business Unit and business simplification projects including the consolidation of the Surestop business into Adey were completed in the year.

The Business Unit now has a solid foundation for profitable growth and is well-positioned to benefit from legislative and environmental tailwinds to deliver growth into the future.

Financial Review

Non-underlying items

Non-underlying items before tax decreased to £32.1m (2022: £45.2m). These were driven by non-cash amortisation of £14.8m (2022: £15.2m) and total impairment charges of £2.5m (2022: £14.8m) respectively. The Group incurred one off costs of restructuring of £15.3m (2022: £9.3m) related to the business simplification projects that have underpinned the £15m of annualised savings.

Non underlying items comprised:

	2023 £m	2022 £m
Amortisation of intangible assets	**14.8**	15.2
Impairment of goodwill	**-**	12.0
Impairment of intangible assets	**2.5**	2.8
Restructuring costs	**15.3**	9.3
Employment matters	**2.0**	-
Contingent consideration on acquisitions	**1.8**	3.1
Workday configuration (SaaS)	**1.2**	-
Acquisition costs	**0.4**	0.2
Profit on disposal of property, plant and equipment	**(4.7)**	-
Product liability claim	**(1.2)**	1.0
Isolated cyber incident	**-**	1.2
Unamortised deal costs	**-**	0.4
Non-underlying items before taxation	**32.1**	45.2
Tax effect on non-underlying items	(8.0)	(5.2)
Non-underlying items after taxation	**24.1**	40.0

Exchange rates

The Group trades predominantly in Sterling but has some revenue and costs in other currencies, mainly the US Dollar and the Euro, and takes appropriate forward cover on these cash flows using forward currency derivative contracts in accordance with its hedging policy.

Finance Costs

Underlying finance costs increased to £13.6m (2022: £7.6m) due to significantly higher Standard Overnight Index Average (SONIA) interest rates partially offset by lower level of RCF borrowings. Interest cover was 8.2x for the year (2022: 16.0x).

Interest was payable on the RCF at SONIA (2022: SONIA) plus an interest rate margin ranging from 0.90% to 2.75%. The interest rate margin at 31 December 2023 was 1.65% (2022: 1.60%). The Group has commenced an interest rate hedging strategy in 2024 to provide increased certainty and manage interest rate risk.

Pensions

The Group does not have any defined benefit pension schemes and only has defined contribution pension arrangements in place. Pension costs for the year amounted to £5.4m (2022: £6.5m) reflecting the reduction in headcount in the Group across the year.

Taxation

Underlying taxation

The underlying tax charge in 2023 was £17.9m, (2022: £14.1m) representing an effective tax rate of 22.2% (2022: 15.6%). This was below the composite UK standard tax rate of 23.5% (2022: 19.0%).

Taxation on non-underlying items

The non-underlying taxation credit of £8.0m (2022: £5.2m) represents an effective rate of 24.8% (2022: 11.5%).

Earnings per share

	2023 £m	2022 £m
Pence per share:		
Basic	**15.5**	14.7
Underlying basic	**25.2**	30.8
Diluted	**15.4**	14.6
Underlying diluted	**25.1**	30.5

The Directors consider that the underlying basic earnings per share (EPS) measure provides a better and more consistent indication of the Group's underlying financial performance and more meaningful comparison with prior and future periods to assess trends in our financial performance.

Underlying basic EPS decreased by 18.2% in 2023 predominantly the result of increased interest and tax costs, driven by external factors.

Dividend

The final dividend of 8.3 pence (2022: 8.2 pence) per share is being recommended for payment on 5 June 2024 to shareholders on the register at the close of business on 3 May 2024. The ex-dividend date will be 2 May 2024. The proposed increase in the full-year dividend reflects the Group's strong balance sheet and confidence in its medium-term strategy.

The Group aims to pay a progressive dividend, based on dividend cover of 2.0x or greater over the business cycle. The Directors intend that the Group will pay the total annual dividend in two tranches, an interim dividend and a final dividend, announced at the time of publication of the interim and preliminary results.

Balance Sheet

The Group's balance sheet is summarised below:

	2023 £m	2022 £m
Property, plant and equipment	**176.4**	169.9
Right-of-use assets	**22.9**	22.3
Goodwill	**454.1**	455.4
Other intangible assets	**142.7**	159.7
Net working capital	**28.3**	33.8
Taxation	**(44.7)**	(47.9)
Other current and non-current assets and liabilities	**6.2**	0.1
Net debt (loans and borrowings, and lease liabilities, net of cash and cash equivalents)	**(149.3)**	(166.2)
Net assets	**636.6**	**627.1**

The net value of property, plant and equipment has increased by £6.5m following the continued focus on investing in targeted capital expenditure offset by the sale of two additional sites.

Cash flow and net debt

The Group's cash flow statement is summarised below:

	2023 £m	2022 £m
Operating cash flows before movement in net working capital	**105.6**	113.6
Add back non-underlying cash items	**14.2**	9.6
Underlying operating cash flows before movement in net working capital	**119.8**	123.2
Movement in net working capital	**4.1**	(19.7)
Net Capital expenditure excluding non-underlying proceeds of sale	**(33.8)**	(40.9)
Settlement of lease liabilities	**(7.6)**	(6.2)
Underlying cash generated from operations after net capital expenditure (excluding non-underlying proceeds of sale)	**82.5**	56.4
Income tax paid	**(12.1)**	(7.0)
Interest paid	**(13.4)**	(3.7)
Non-underlying proceeds of sale	**6.9**	-
Other non-underlying cash items	**(14.2)**	(9.6)
Settlement of deferred and contingent consideration	**(1.6)**	(0.5)
Acquisition of businesses	**-**	(2.6)
Debt issue costs	**-**	(3.1)
Dividends paid	**(30.5)**	(30.5)
Proceeds from exercise of share options net of purchase of own share	**0.3**	0.4
Other	**(0.7)**	2.2
Movement in net debt – excluding IFRS 16	**17.2**	2.0
Movement in IFRS 16	**(0.3)**	(2.5)
Movement in net debt – including IFRS 16	**16.9**	(0.5)

Delivery of strong cash generation remains core to the Group's strategy. Underlying operating cash conversion of 87.7% (2022: 57.4%) calculated as underlying operating cashflow (after payments for capital expenditure excluding non-underlying proceeds of sale and lease liabilities) divided by underlying operating profit. The Group remains committed to achieving a conversion rate of 90.0% over the medium term.

A positive working capital movement in the year was achieved through lower levels of inventory following increases in prior periods to improve customer service performance following the recovery in demand and supply chain disruption that followed the pandemic.

Net capital expenditure investment (excluding non-underlying proceeds from sale) decreased to £33.8m (2022: £40.9m) as the Group continued to focus on investing in targeted manufacturing facility development, capacity and key, strategic and innovative projects.

Net debt of £149.3m comprised:

	2023	2022
	£m	£m
Bank loans	**(145.0)**	(195.9)
Cash and cash equivalents	**17.0**	50.0
Net debt (excluding unamortised debt issue costs)	**(128.0)**	(145.9)
Unamortised debt issue costs	**2.1**	2.8
IFRS 16	**(23.4)**	(23.1)
Net debt	**(149.3)**	(166.2)
Net debt (excluding unamortised deal issue costs): pro-forma EBITDA	**1.1**	1.2

Financing

The Group has a Sustainability-Linked Loan (SLL) committed through to August 2027 with two further uncommitted annual renewals through to August 2029 following a refinancing with the existing bank syndicate in 2022. The facility limit is £350.0m with an additional uncommitted ‘accordion’ facility of up to £50.0m. At 31 December 2023, £120.0m of the RCF was drawn down. Additionally, in 2022 the Group entered a fixed rate £25.0m seven-year private placement loan note until August 2029 with an uncommitted shelf facility of an additional £125.0m.

The Group is subject to two financial covenants. At 31 December 2023, there was significant headroom and facility interest cover and net debt to EBITDA covenants were comfortably achieved:

Covenant

	Covenant requirement	Position at 31 December 2023
Interest cover	>4.0:1	8.2:1
Leverage	<3.0:1	1.1:1

Going Concern

The Group continues to meet its day-to-day working capital and other funding requirements through a combination of long-term funding and cash deposits. The Group’s bank financing facilities consist of a £350.0m Sustainability-Linked Loan with an uncommitted ‘accordion’ facility of £50.0m and a seven-year private placement loan note of £25.0m with an uncommitted £125.0m shelf facility. At 31 December 2023, liquidity headroom (cash and undrawn committed banking facilities) was £247.0m (2022: £229.1m). The Group’s focus will continue to be on deleveraging, and its net debt to EBITDA ratio stood at 1.1x pro-forma EBITDA at 31 December 2023 (2022: 1.2x). This headroom means the Group is well-positioned with a strong balance sheet.

As a result, the Directors have satisfied themselves that the Group has adequate financial resources to continue in operational existence for a period of at least the next 21 months to 31 December 2025. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Principal Risks and Uncertainties

The Board continually assesses and monitors the key risks of the Business, and the Group has developed a risk management framework to identify, report, and manage its principal risks and uncertainties. The principal risks and uncertainties that could have a material impact on the Group's performance and prospects, and the mitigating activities which are aimed at reducing the impact or likelihood of a major risk materialising are those detailed in the Group's Annual Report and Accounts. They have not changed significantly during the year.

Forward-Looking Statements

This report contains various forward-looking statements that reflect management's current views with respect to future events and financial and operational performance. These forward-looking statements involve known and unknown risks, uncertainties, assumptions, estimates and other factors, which may be beyond the Group's control, and which may cause actual results or performance to differ materially from those expressed or implied from such forward-looking statements. All statements (including forward-looking statements) contained herein are made and reflect knowledge and information available as of the date of preparation of this report and the Group disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein. Nothing in this report should be construed as a profit forecast.

Directors' Responsibilities

Each of the Directors confirms that, to the best of their knowledge, the consolidated financial statements, prepared in accordance UK-Adopted International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and undertakings included in the consolidation taken as a whole; and the Group Results, Chief Executive Officer Review and Financial Review includes a fair review of the development and performance of the business and the position of the Group and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Annual General Meeting

The Annual General Meeting is scheduled to be held on 28 May 2024.

By order of the Board:

Joe Vorih	**Tim Pullen**
Chief Executive Officer	**Chief Financial Officer**

Group Statement of Comprehensive Income
For the year ended 31 December 2023

	Notes	2023 Underlying £m	2023 Non-underlying £m	2023 Total £m	2022 Underlying £m	2022 Non-underlying £m	2022 Total £m
Revenue	2	**586.5**	**-**	**586.5**	622.2	-	622.2
Cost of sales		(338.7)	(2.0)	(340.7)	(372.1)	(2.5)	(374.6)
Gross profit		**247.8**	**(2.0)**	**245.8**	250.1	(2.5)	247.6
Selling and distribution costs		(73.5)	(1.0)	(74.5)	(81.5)	-	(81.5)
Administration expenses		(79.4)	(11.8)	(91.2)	(70.2)	(12.3)	(82.5)
Amortisation of intangible assets		(0.8)	(14.8)	(15.6)	(0.2)	(15.2)	(15.4)
Impairment of intangible assets		-	(2.5)	(2.5)	-	(2.8)	(2.8)
Impairment of goodwill		-	-	-	-	(12.0)	(12.0)
Operating profit	2	**94.1**	**(32.1)**	**62.0**	98.2	(44.8)	53.4
Finance costs	5	(13.6)	-	(13.6)	(7.6)	(0.4)	(8.0)
Profit before tax		**80.5**	**(32.1)**	**48.4**	90.6	(45.2)	45.4
Income tax	6	(17.9)	8.0	(9.9)	(14.1)	5.2	(8.9)
Profit for the period attributable to the owners of the parent company		**62.6**	**(24.1)**	**38.5**	76.5	(40.0)	36.5
Basic earnings per share (pence)	7			**15.5**			14.7
Diluted earnings per share (pence)	7			**15.4**			14.6
Dividend per share (pence) – interim	8			**4.1**			4.1
Dividend per share (pence) – final				**8.3**			8.2
				12.4			12.3

Non-underlying items are presented separately and are detailed in note 4.

Group Statement of Comprehensive Income
For the year ended 31 December 2023

	2023 £m	2022 £m
Profit for the period attributable to the owners of the parent company	**38.5**	36.5
Other comprehensive income:		
Items which may be reclassified subsequently to the income statement:		
Effective portion of changes in fair value of forward foreign currency derivatives	0.1	0.1
Exchange differences on translation of foreign operations	(0.1)	-
Other comprehensive income for the period net of tax	**-**	0.1
Total comprehensive income for the period attributable to the owners of the parent company	**38.5**	36.6

Group Balance Sheet
At 31 December 2023

	Notes	31 December 2023 £m	31 December 2022 £m
Non-current assets			
Property, plant and equipment	9	**176.4**	169.9
Right-of-use assets	10	**22.9**	22.3
Intangible assets	11	**596.8**	615.1
Total non-current assets		**796.1**	807.3
Current assets			
Inventories		**69.2**	89.9
Trade and other receivables		**73.9**	68.1
Income tax receivable		**5.4**	2.2
Cash and cash equivalents	13	**17.0**	50.0
Derivative financial instruments	13	**0.1**	-
Assets held-for-sale		**17.1**	10.7
Total current assets		**182.7**	220.9
Total assets		**978.8**	1,028.2
Current liabilities			
Trade and other payables		**(114.8)**	(124.2)
Lease liabilities	10, 13	**(5.0)**	(5.8)
Liabilities held-for-sale		**(2.8)**	(2.6)
Deferred and contingent consideration	12	**(8.2)**	-
Total current liabilities		**(130.8)**	(132.6)
Non-current liabilities			
Loans and borrowings	13	**(142.9)**	(193.1)
Lease liabilities	10, 13	**(18.4)**	(17.3)
Deferred and contingent consideration	12	**-**	(8.0)
Deferred income tax liabilities		**(50.1)**	(50.1)
Total non-current liabilities		**(211.4)**	(268.5)
Total liabilities		**(342.2)**	(401.1)
Net assets		**636.6**	627.1
Capital and reserves			
Equity share capital		**0.2**	0.2
Share premium		**93.6**	93.6
Capital redemption reserve		**1.1**	1.1
Hedging reserve		**0.1**	-
Foreign currency retranslation reserve		**(0.1)**	-
Other reserves		**116.5**	116.5
Retained earnings		**425.2**	415.7
Total equity		**636.6**	627.1

Group Statement of Changes in Equity
For the year ended 31 December 2023

	Equity share capital £m	Share premium £m	Capital redemption reserve £m	Hedging reserve £m	Foreign currency retranslation reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
At 31 December 2023								
Opening balance	**0.2**	**93.6**	**1.1**	**-**	**-**	**116.5**	**415.7**	**627.1**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**38.5**	**38.5**
Other comprehensive income	**-**	**-**	**-**	**0.1**	**(0.1)**	**-**	**-**	**-**
Total comprehensive income for the period	**-**	**-**	**-**	**0.1**	**(0.1)**	**-**	**38.5**	**38.5**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**(30.5)**	**(30.5)**
Share-based payments charge	**-**	**-**	**-**	**-**	**-**	**-**	**2.1**	**2.1**
Share-based payments settled	**-**	**-**	**-**	**-**	**-**	**-**	**0.3**	**0.3**
Share-based payments excess tax benefit	**-**	**-**	**-**	**-**	**-**	**-**	**(0.9)**	**(0.9)**
Closing balance	**0.2**	**93.6**	**1.1**	**0.1**	**(0.1)**	**116.5**	**425.2**	**636.6**
At 31 December 2022								
Opening balance	0.2	93.6	1.1	(0.1)	-	116.5	406.4	617.7
Profit for the period	-	-	-	-	-	-	36.5	36.5
Other comprehensive income	-	-	-	0.1	-	-	-	0.1
Total comprehensive income for the period	-	-	-	0.1	-	-	36.5	36.6
Dividends paid	-	-	-	-	-	-	(30.5)	(30.5)
Share-based payments charge	-	-	-	-	-	-	2.9	2.9
Share-based payments settled	-	-	-	-	-	-	0.4	0.4
Share-based payments excess tax benefit	-	-	-	-	-	-	-	-
Closing balance	0.2	93.6	1.1	-	-	116.5	415.7	627.1

Group Cashflow Statement
For the year ended 31 December 2023

	Notes	**2023 £m**	2022 £m
Operating activities			
Cash generated from operations	14	**109.7**	93.9
Income tax paid		**(12.1)**	(7.0)
Net cash flows from operating activities		**97.6**	86.9
Investing activities			
Settlement of deferred and contingent consideration	12	**(1.6)**	(0.5)
Acquisition of businesses net of cash at acquisition	12	**-**	(2.6)
Proceeds from disposal of property, plant and equipment		**7.6**	2.9
Purchase of property, plant and equipment		**(32.8)**	(41.1)
Patent and development costs expenditure		**(1.7)**	(2.7)
Net cash flows from investing activities		**(28.5)**	(44.0)
Financing activities			
Debt issue costs		**-**	(3.1)
Drawdown of bank loan		**50.0**	266.2
Repayment of bank loan		**(100.9)**	(268.3)
Interest paid		**(13.4)**	(3.7)
Dividends paid		**(30.5)**	(30.5)
Proceeds from exercise of share options		**0.3**	0.4
Settlement of lease liabilities		**(7.6)**	(6.2)
Net cash flows from financing activities		**(102.1)**	(45.2)
Net change in cash and cash equivalents		**(33.0)**	(2.3)
Cash and cash equivalents – opening balance		**50.0**	52.3
Cash and cash equivalents – closing balance		**17.0**	50.0

1. Basis of preparation

The preliminary results for the year ended 31 December 2023 have been prepared in accordance with UK-Adopted International Accounting Standards (UK-Adopted IAS). Whilst the financial information included in this preliminary announcement has been computed in accordance with the recognition and measurement requirements of IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The accounting policies adopted have been consistently applied in all material aspects to all the periods presented.

The financial information set out in this announcement does not constitute the statutory accounts for the Group within the meaning of Section 435 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2022 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2023 will be filed in due course. The auditor's report on these accounts was not qualified or modified and did not contain any statement under Sections 498(2) or (3) of the Companies Act 2006 or any preceding legislation.

There were no accounting standards or interpretations that have become effective in the current reporting period which had an impact on disclosures, financial position, or performance.

The Directors have made enquiries into the adequacy of the Group's financial resources, through a review of the Group's budget and medium-term financial plan, including cash flow forecasts. The Group has modelled a range of scenarios with the base forecast being one in which, over the 24 months ending 31 December 2025, sales volumes grow in line with external construction industry forecasts. In addition, the Directors have considered several downside scenarios, including adjustments to the base forecast, a period of significantly lower like-for-like sales, profitability, and cash flows. The Directors have considered the impact of climate-related matters on the going concern assessment and it is not expected to have a significant impact on the Group's going concern.

At 31 December 2023, the Group had available £230.0m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The Group's borrowing facilities were renewed on 10 August 2022 and included an increase in the RCF facility to £350.0m available until at least August 2027, subject to covenant headroom, and a seven-year private placement loan note of £25.0m repayable August 2029. The Directors are satisfied that the Group has sufficient liquidity and covenant headroom to withstand reasonable variances to the base forecast, as well as the downside scenarios. In addition, the Directors have noted the range of possible additional liquidity options available to the Group, should they be required.

As a result, the Directors have satisfied themselves that the Group has adequate financial resources to continue in operational existence for a period of at least the next 21 months. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Four non-statutory measures have been used in preparing the consolidated financial statements:

- Underlying profit and earnings measures exclude certain non-underlying items (which are detailed in note 4) and, where relevant, the tax effect of these items. The Directors consider that these measures provide a better and more consistent indication of the Group's underlying financial performance and more meaningful comparison with prior and future periods to assess trends in the Group's financial performance.
- Underlying operating cash conversion is defined as cash generated from operations, adjusted for non-underlying cash items, after movement in net working capital and capital expenditure net of underlying proceeds from disposals of property, plant and equipment divided by underlying operating profit.
- Leverage is defined as net debt divided by pro-forma EBITDA (both are reconciled in note 13). Net debt within the leverage calculation is defined as loans and borrowings net of unamortised issue costs less cash and cash equivalents, excluding the effects of IFRS 16.
- Pro-forma EBITDA is defined as pre-IFRS 16 underlying operating profit before depreciation, amortisation and share-based payment charges, for the 12 months preceding the balance sheet date, adjusted where relevant, to include a full year of EBITDA from acquisitions made during those 12 months.

2. Segment information

From 1 January 2023, reporting segments have been aligned with the Group's Sustainable Solutions for Growth strategy and reorganised into three segments – Sustainable Building Solutions (SBS), Water Management Solutions (WMS) and Climate Management Solutions (CMS). Adey, Nuaire, Domus, Nu-Heat and Surestop have been reallocated from the Residential Systems segment into CMS, with the remainder of Residential Systems moving into SBS. The Commercial and Infrastructure segment is now reported as WMS without the commercial element of Nuaire which is now reported in CMS. The reporting segments are organised based on the nature of the end markets served. Inter-segment sales are on an arm's length basis in a manner similar to transactions with third parties. The prior year comparatives have been restated to the three divisions.

Year ended 31 December 2023	Sustainable Building Solutions £m	Water Management Solutions £m	Climate Management Solutions £m	Other £m	Total £m
Segmental revenue	268.0	193.9	169.2	8.4	639.5
Inter segment revenue	(25.2)	(23.5)	(3.3)	(1.0)	(53.0)
Revenue	**242.8**	**170.4**	**165.9**	**7.4**	**586.5**
Underlying operating profit****	**53.1**	**17.7**	**22.7**	**0.6**	**94.1**
Non-underlying items – segmental	(1.4)	(11.3)	(15.0)	(0.3)	(28.0)
Non-underlying items – Group					(4.1)
Segmental operating profit / (loss)	**51.7**	**6.4**	**7.7**	**0.3**	**62.0**
Finance costs					(13.6)
Profit before tax					**48.4**

* The other revenue of £7.4m (2022: £8.8m) relates to assets held for sale which do not form part of the Group's reporting segments.

** Underlying operating profit is stated before non-underlying items as defined in the Group Accounting Policies in the Annual Report and Accounts and is the measure of segmental profit used by the Group's CODM. Details of the non-underlying items of £32.1m (2022: £45.2m) are detailed in note 4.

2. Segment information (continued)

Year ended 31 December 2022	Sustainable Building Solutions £m	Water Management Solutions £m	Climate Management Solutions £m	Other £m	Total £m
Segmental revenue	311.5	189.2	162.4	9.7	672.8
Inter segment revenue	(29.0)	(16.8)	(3.8)	(1.0)	(50.6)
Revenue	282.5	172.4	158.6	8.7	622.2
Underlying operating profit / (loss)**	59.3	14.1	25.2	(0.4)	98.2
Non-underlying items – segmental	(4.4)	(6.1)	(28.8)	(1.2)	(40.5)
Non-underlying items – Group					(4.3)
Segmental operating profit / (loss)	54.9	8.0	(3.6)	(1.6)	53.4
Finance costs					(7.6)
Non-underlying items - finance costs					(0.4)
Profit before tax					45.4

Geographical analysis

Revenue by destination	**2023 £m**	2022 £m
UK	519.1	560.8
Rest of Europe	33.4	32.4
Rest of World	34.0	29.0
Total – Group	586.5	622.2

3. Operating Profit

	2023 £m	2022 £m
Income statement charges		
Depreciation of property, plant and equipment (owned)	20.3	19.4
Depreciation of right-of-use assets	5.6	5.4
Cost of inventories recognised as an expense	287.9	318.3
Research and development costs expensed	9.0	8.8
Income statement credits		
Research and development expenditure credit	1.5	1.2
Profit on disposal of property, plant and equipment	0.4	0.7

4. Non-underlying items

Non-underlying items comprised:

	2023			2022		
	Gross £m	**Tax £m**	**Net £m**	Gross £m	Tax £m	Net £m
Cost of sales:						
Inventory write down	1.5	(0.3)	1.2	1.5	(0.3)	1.2
Restructuring costs	0.4	(0.1)	0.3	-	-	-
Employment matters	1.3	(0.2)	1.1	-	-	-
Product liability claim	(1.2)	(0.1)	(1.3)	1.0	-	1.0
Selling and distribution costs :						
Restructuring costs	1.0	(0.2)	0.8	-	-	-
Administration expenses						
Restructuring costs	12.4	(2.3)	10.1	7.8	(1.5)	6.3
Acquisition costs – acquisition and other M&A activity	2.2	(0.1)	2.1	3.3	-	3.3
Workday configuration (SaaS)	1.2	(0.3)	0.9	-	-	-
Employment matters	0.7	(0.1)	0.6	-	-	-
Isolated cyber incident costs	-	-	-	1.2	(0.2)	1.0
Profit on disposal of property plant and equipment	(4.7)	-	(4.7)	-	-	-
Amortisation of intangible assets	14.8	(3.7)	11.1	15.2	(2.6)	12.6
Impairment of intangible assets	2.5	(0.6)	1.9	2.8	(0.5)	2.3
Impairment of Goodwill	-	-	-	12.0	-	12.0
Finance costs:						
Unamortised deal fees	-	-	-	0.4	(0.1)	0.3
Total non-underlying items	32.1	(8.0)	24.1	45.2	(5.2)	40.0

Restructuring costs incurred in both periods are in relation to the reorganisation of the Group, which concluded during 2023, with a cumulative cost over the two-year period of £24.6m. The Group reviewed its operating footprint which resulted in the closure of six sites, this included the sale of two properties which accounts for the profit on disposal, reorganisation costs in relation to the new operating structure of the segmental units (see note 2) and costs incurred for consultancy fees for advisory support as part of the initial deployment and design of the Genuit Business system. SaaS costs related to the design and configuration of Workday software that is a significant project to support the Group's medium-term strategy.

The product liability claim is associated with a historic acquisition and comprised of an increase in the provision for remediation works which have been ongoing in 2023, the total amount recognised as a liability on the balance sheet for the remaining works at 31 December 2023 is £1.3m (2022: £3.3m). This is offset by a settlement being received, net of legal costs incurred, associated with the acquisition.

Acquisition costs in both years relate predominantly to a £1.8m (2022: £3.1m) charge arising in connection with contingent consideration treated as remuneration in respect of the acquisition of Plura.

Costs associated with Employment matters are in relation to one off regulatory claims.

During 2022, there was an isolated cyber incident at one of the Group's businesses, which resulted in temporary disruption to manufacturing and consequently sales in April and May 2022.

Impairment of intangible assets of £2.5m (2022: £2.8m) related to assets associated with the closure of a site within the year and in 2022 is in respect of a customer relationship agreement ending early and impairment of goodwill relates to a 2021 acquisition. Amortisation charged relates to intangible assets arising on business combinations.

5. Finance costs

	2023 £m	2022 £m
Interest on bank loan	**11.6**	6.2
Debt issue cost amortisation	**0.8**	0.5
Unwind of discount on lease liabilities	**1.2**	0.8
Other finance costs	**-**	0.1
	13.6	7.6

6. Income tax

(a) Tax expense reported in the income statement

	2023 £m	2022 £m
Current income tax:		
UK income tax	**11.0**	7.7
Overseas income tax	**0.2**	0.1
Current income tax	**11.2**	7.8
Adjustment in respect of prior years	**(0.4)**	(0.5)
Total current income tax	**10.8**	7.3
Deferred income tax:		
Origination and reversal of timing differences	**(1.9)**	0.4
Effects of changes in income tax rates	**0.1**	1.3
Deferred income tax	**(1.8)**	1.7
Adjustment in respect of prior years	**0.9**	(0.1)
Total deferred income tax	**(0.9)**	1.6
Total tax expense reported in the income statement	**9.9**	8.9

Details of the non-underlying tax credit of £8.0m (2022: £5.2m) are set out in Note 4.

(b) Reconciliation of the total tax expense

A reconciliation between the tax expense and the product of accounting profit multiplied by the UK standard rate of income tax for the years ended 31 December 2023 and 2022 is as follows:

	2023 £m	2022 £m
Accounting profit before tax	**48.4**	45.4
Accounting profit multiplied by the UK standard rate of income tax of 23.52% (2022: 19.0%)	**11.4**	8.6
Expenses not deductible for income tax	**1.6**	3.4
Non-taxable income	**(2.2)**	(0.4)
Adjustment in respect of prior years	**0.5**	(0.6)
Effects of patent box	**(1.1)**	(1.6)
Effects of changes in income tax rates	**0.1**	1.3
Effects of super deduction	**(0.1)**	(1.8)
Effects of other tax rates/credits	**(0.3)**	-
Total tax expense reported in the income statement	**9.9**	8.9

The effective rate for the full year was 20.5% (2022: 19.6%). If the impact of non-underlying items is excluded, the underlying income tax rate would be 22.2% (2022: 15.6%).

6. Income tax (continued)

(c) Deferred income tax

The deferred income tax included in the Group balance sheet is as follows:

	31 December 2023 £m	31 December 2022 £m
Deferred income tax liabilities/(assets)		
Short-term timing differences	**31.4**	37.8
Capital allowances in excess of depreciation	**23.0**	16.9
Share-based payments	**(1.3)**	(2.1)
Tax losses	**(3.0)**	(2.5)
	50.1	50.1

The Group offsets tax assets and liabilities if, and only if, it has a legally enforceable right to offset current income tax assets and current income tax liabilities and the deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same tax authority.

(d) Change in corporation tax rate

On 24 May 2021, legislation was passed which substantively enacted an increase in UK corporation tax rate from 19% to 25% from April 2023. Deferred tax on the balance sheet at 31 December 2023 was therefore measured at 25%.

(e) Unrecognised tax losses

No deferred income tax has been recognised on non-trading losses and other timing differences of £3.4m (2022: £1.3m) as the Directors do not consider that they will be utilised in the foreseeable future.

7. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the period attributable to the owners of the parent company by the weighted average number of ordinary shares outstanding during the period. The diluted earnings per share amounts are calculated by dividing profit for the period attributable to the owners of the parent company by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of potential ordinary shares that would be issued on the conversion of all the dilutive share options into ordinary shares.

The calculation of basic and diluted earnings per share is based on the following:

	2023	2022
Weighted average number of ordinary shares for the purpose of basic earnings per share	248,182,934	248,001,063
Effect of dilutive potential ordinary shares	1,024,432	2,414,364
Weighted average number of ordinary shares for the purpose of diluted earnings per share	249,207,366	250,415,426

Underlying earnings per share is based on the result for the period after tax excluding the impact of non-underlying items of £24.1m (2022: £40.0m). The Directors consider that this measure provides a better and more consistent indication of the Group's underlying financial performance and more meaningful comparison with prior and future periods to assess trends in the Group's financial performance. The underlying earnings per share is calculated as follows:

	2023	2022
Underlying profit for the period attributable to the owners of the parent company (£m)	62.6	76.5
Underlying basic earnings per share (pence)	25.2	30.8
Underlying diluted earnings per share (pence)	25.1	30.5

8. Dividends per share

	2023 £m	2022 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2022 of 8.2p per share (2021: 8.2p)	**20.3**	20.3
Interim dividend for the year ended 31 December 2023 of 4.1p per share (2022: 4.1p)	**10.2**	10.2
	30.5	30.5
Proposed final dividend for the year ended 31 December 2023 of 8.3p per share (2022: 8.2p)	**20.6**	20.3

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these consolidated financial statements.

9. Property, plant and equipment

	Freehold land and buildings £m	**Plant and other equipment £m**	**Total £m**
Cost			
At 1 January 2022	58.4	183.5	241.9
Additions	4.9	36.1	41.0
Disposals	(0.1)	(10.6)	(10.7)
Transfer to assets held for sale	-	(6.4)	(6.4)
Acquisition of businesses	-	0.4	0.4
Exchange adjustment	-	0.4	0.4
At 31 December 2022	63.2	203.4	266.6
Additions	**6.2**	**26.6**	**32.8**
Disposals	**(4.6)**	**(10.6)**	**(15.2)**
Transfer to assets held for sale	**(3.6)**	**(0.3)**	**(3.9)**
Exchange adjustment	**-**	**(0.1)**	**(0.1)**
At 31 December 2023	**61.2**	**219.0**	**280.2**
Depreciation			
At 1 January 2022	9.1	81.1	90.2
Provided during the year	1.7	17.7	19.4
Disposals	-	(8.7)	(8.7)
Transfer to assets held for sale	-	(4.0)	(4.0)
Exchange adjustment	-	(0.2)	(0.2)
At 31 December 2022	10.8	85.9	96.7
Provided during the year	**2.0**	**18.3**	**20.3**
Disposals	**(2.6)**	**(10.1)**	**(12.7)**
Transfer to assets held for sale	**(0.3)**	**(0.4)**	**(0.7)**
Exchange adjustment	**-**	**0.2**	**0.2**
At 31 December 2023	**9.9**	**93.9**	**103.8**
Net book value			
At 31 December 2023	**51.3**	**125.1**	**176.4**
At 31 December 2022	52.4	117.5	169.9

9. Property, plant and equipment (continued)

In 2023 as part of the Group simplification to reduce its operational footprint it undertook the following actions:

- Sold the land and buildings of one of its operating warehouses, the net gain on disposal has been recognised in non-underlying items see (note 4).
- Exited two freehold land and buildings during the year which have been reclassified to assets held for sale at net book value, which is lower than fair value less cost to sell. The properties are marketed as for sale and completion is expected within 12 months of the reporting date.

During the year the Group revised its depreciation policy for Plant and other equipment. This reduced the depreciation charge by £0.6m.

Included in freehold land and buildings is non-depreciable land of £17.9m (2022: £18.2m).

Capital commitments

At 31 December 2023, the Group had commitments of £7.1m (2022: £2.8m) relating to plant and equipment purchases.

10. Right-of-use assets and lease liabilities

	Freehold land and buildings £m	Plant and other equipment £m	Motor vehicles £m	Total £m	Lease liabilities £m
At 1 January 2022	12.7	7.8	0.1	20.6	(20.6)
Additions	3.2	3.8	1.1	8.1	(8.2)
Disposals	(0.5)	(0.6)	-	(1.1)	-
Depreciation of right-of-use asset	(2.2)	(2.7)	(0.5)	(5.4)	–
Depreciation on disposal of right-of-use asset	0.1	0.4	-	0.5	-
Transfer to assets held for sale	(0.4)	-	-	(0.4)	0.3
Unwind of discount	–	–	–	–	(0.8)
Settlements	–	–	–	–	6.2
At 31 December 2022	12.9	8.7	0.7	22.3	(23.1)
Additions	**1.8**	**2.2**	**3.9**	**7.9**	**(7.9)**
Disposals	**(1.2)**	**(1.5)**	**(0.6)**	**(3.3)**	**1.2**
Depreciation of right-of-use assets	**(1.9)**	**(2.5)**	**(1.2)**	**(5.6)**	**-**
Depreciation on disposal of right – of – use asset	**-**	**1.2**	**0.4**	**1.6**	**-**
Unwind of discount on lease liabilities	**-**	**-**	**-**	**-**	**(1.2)**
Settlement of lease liabilities	**-**	**-**	**-**	**-**	**7.6**
At 31 December 2023	**11.6**	**8.1**	**3.2**	**22.9**	**(23.4)**

11. Intangible Assets

	Goodwill £m	Patents £m	Brand names £m	Customer relationships £m	Licences £m	Customer order book £m	Development costs £m	Total £m
Cost								
At 1 January 2021	467.7	39.5	66.5	114.3	0.8	0.9	2.0	691.7
Additions	–	0.5	–	–	–	–	2.3	2.8
Acquisition of businesses	2.9	–	–	–	–	–	–	2.9
Transfer to Assets held for sale	(3.2)	–	–	–	–	–	–	(3.2)
At 31 December 2022	467.4	40.0	66.5	114.3	0.8	0.9	4.3	694.2
Additions	**–**	**0.4**	**–**	**–**	**–**	**–**	**1.3**	**1.7**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**
Transfer to Assets held for sale	**(1.3)**	–	–	–	–	–	–	**(1.3)**
At 31 December 2023	**466.1**	**40.4**	**66.5**	**114.3**	**0.8**	**0.9**	**5.0**	**694.0**
Amortisation and impairment losses								
At 1 January 2022	–	15.4	19.2	13.4	0.3	0.4	0.2	48.9
Charge for the year	–	3.4	5.1	6.1	0.1	0.5	0.2	15.4
Impairment losses	12.0	–	–	2.8	–	–	–	14.8
At 31 December 2022	**12.0**	**18.8**	**24.3**	**22.3**	**0.4**	**0.9**	**0.4**	**79.1**
Charge for the year	**–**	**3.3**	**5.1**	**6.4**	**0.1**	**–**	**0.7**	**15.6**
Impairment losses	**–**	**1.0**	**0.9**	**0.6**	**–**	**–**	**–**	**2.5**
At 31 December 2023	**12.0**	**23.1**	**30.3**	**29.3**	**0.5**	**0.9**	**1.1**	**97.2**
Net book value								
At 31 December 2023	**454.1**	**17.3**	**36.2**	**85.0**	**0.3**	**–**	**3.9**	**596.8**
At 31 December 2022	455.4	21.2	42.2	92.0	0.4	–	3.9	615.1

Brand names and customer relationships which arise from business combinations are amortised over their estimated useful lives of five to twenty years. There are two existing brands that have a significant carrying value: Nuaire (£4.0m) and Adey (£23.2m) with an estimated useful life of five and eighteen years respectively. Customer relationships that have a significant carrying value are Adey's relationships with key customers (£73.5m) with an estimated useful life of between nine and 18 years and Manthorpe's (£5.9m) with an estimated useful life of ten years.

Impairment testing of goodwill

Goodwill is not amortised but is subject to annual impairment testing. Goodwill has been allocated for impairment testing purposes to a number of cash-generating units (CGUs) which represent the lowest level in the Group at which goodwill is monitored for internal management purposes.

11. Intangible Assets (continued)

The carrying amount of goodwill allocated to each of the CGUs is as follows:

CGU	**31 December 2023 £m**	31 December 2022 £m
Building Services & International	**29.1**	30.4
Infrastructure & Landscape	**43.6**	43.6
Residential Systems	**169.6**	169.6
Climate & Ventilation	**93.7**	93.7
Nu-Heat	**17.3**	17.3
Adey	**95.5**	92.8
Others	**5.3**	8.0
	454.1	455.4

At 31 December 2023, £4.5m (2022: £3.2m) of goodwill has been allocated to assets held-for-sale from the Building Services & International CGU, in relation to Polypipe Italia SRL. During the year Surestop was hived up into Adey Innovation and as such the goodwill arising on the acquisition of Surestop was subsequently transferred to the Adey CGU.

From 1 January 2023, reporting segments have been aligned with the Group's Sustainable Solutions for Growth strategy and reorganised into three segments – Sustainable Building Solutions (SBS), Water Management Solutions (WMS) and Climate Management Solutions (CMS). Adey, Nu-Heat and Climate & Ventilation CGUs have been allocated into CMS, Residential Systems and Building Services & International CGUs are allocated into SBS and Infrastructure & Landscape and Ulster CGUs are now reported as WMS.

Key assumptions used for value-in-use calculations:

The recoverable amount of all CGUs are determined from value -in-use calculations, being the net present value of future pre-tax cash flows, discounted at a mid-year position, covering a 5-year period. These pre-tax cash flows are based on budgeted cash flows information for a period of one year, construction industry forecasts of growth for the following year and management's forecast of growth between 1.6% to 7.3% for years 3 to 5 (2022: 2.0% to 5.0%). Terminal growth rates between 2.0% to 2.4% (2022: 2.0% to 2.4%) have been applied beyond this, based on historical macroeconomic performance and projections of the sector served by the CGUs.

A pre-tax discount rate of 13.9% (2022: 12.9%) has been applied in determining the recoverable amounts of CGUs. The pre-tax discount rate is estimated based on the Group's risk adjusted cost of capital. When assessing for impairment of goodwill, management have considered the impact of climate change and have not identified any material short-term impacts from climate change that would impact the carrying value of goodwill. Over the longer term, the risks and opportunities are more uncertain, and management will continue to assess the quantitative impact of risks at each balance sheet date.

Recoverable amounts and sensitivities:

The Group has applied sensitivities to assess whether any reasonably possible changes in assumptions could cause an impairment that would be material to these consolidated financial statements. The application of these sensitivities did not cause an impairment of goodwill.

At 31 December 2022 the Group recognised a £12.0m impairment charge in the Adey CGU, leaving the recoverable amount equal to that of the carrying value. The headroom resulting from the value-in-use calculations at 31 December 2023 indicates that the Adey CGU is sensitive to changes in the key assumptions and management considers that a reasonably possible change in any single assumption could give rise to an impairment of the corresponding carrying amount of goodwill. The detailed sensitivity analysis indicates that the following changes in each of these key assumptions would result in an impairment charge being recognised:

• The pre-tax discount rate increasing to 14.2% from that used in the value-in-use calculations of 13.9%. would give rise to an impairment charge of £4.2m.

11. Intangible Assets (continued)

• A reduction in the long-term growth rate to 2.0% from that used in the value-in-use calculations of 2.4% would give rise to an impairment charge of £3.8m.

• Average revenue growth rates declining by 0.5% points from used in the value-in-use calculations would give rise to an impairment charge of £7.5m.

• Gross margin efficiencies are not achieved by 2028 and margin declines by 3% points from used in the value-in-use calculations would give rise to an impairment charge of £16.1m.

Management has reviewed the forecasts associated with the CGU noting the assumptions used, the sensitivity analysis performed and the ability of the business to adapt to challenging economic environments in which they operate, and is satisfied that no further impairments are necessary at 31 December 2023.

12. Acquisitions

Keytec

On 31 March 2022, the Group acquired 100% of the voting rights and shares of Keytec Geomembranes Holding Company Limited (Keytec), for an initial cash consideration of £2.5m on a cash-free and debt-free basis plus a deferred consideration of £0.6m, which was paid in early 2023. The total cash consideration of £2.9m included a payment for net cash and working capital commitments on completion of £0.4m. Keytec is a supplier and installer of stormwater attenuation products, geomembranes and gas protection products.

No material intangible assets were identified. The goodwill arising on the acquisition primarily represented the technical expertise of the Keytec staff, synergies of companies offering both supply and install services and market share. The goodwill was initially allocated entirely to the Commercial and Infrastructure Systems, which is now the Water Management Solutions segment.

Acquisition-related deferred and contingent consideration comprised:

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Deferred and contingent consideration on Keytec acquisition	**-**	0.6
Deferred consideration on Plura acquisition	**8.2**	7.4
	8.2	8.0

An amount of £1.8m has been recognised as a non-underlying expense in the Group Income Statement in the year ended 31 December 2023 in respect of the Plura contingent consideration arrangement. This takes the total amount recognised as a liability on the Group Balance Sheet at 31 December 2023 to £8.2m. A payment of £1.0m was made in relation to this arrangement in December 2023. Accordingly, the aggregate final total amount payable under the contingent consideration is expected to be approximately £9.2m. Contingent consideration was determined based upon the agreed purchase price of the remaining 49% of shares on 8 December 2023. There is no material difference between the cash consideration and the fair value and the final payment was subsequently paid in February 2024.

Acquisition-related cash flows comprised:

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Operating cash flows – settlement of acquisition costs		
Keytec	**-**	0.1
Other	**-**	0.1
	-	0.2

12. Acquisitions (continued)

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Investing cash flows – Settlement of deferred and contingent consideration		
Keytec	**0.6**	-
Plura	**1.0**	-
Permavoid	**-**	0.5
	1.6	0.5

	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Investing cash flows – acquisition of businesses net of cash at acquisition		
Keytec	**-**	2.6
	-	2.6

13. Financial Liabilities

	31 December 2023 £m	31 December 2022 £m
Non-current loans and borrowings:		
Bank loan – principal	**120.0**	170.9
– unamortised debt issue costs	**(2.1)**	(2.8)
Loan notes	**25.0**	25.0
Total non-current loans and borrowings	**142.9**	193.1
Cash at bank and in hand	**(17.0)**	(50.0)
Net debt (excluding lease liabilities)	**125.9**	143.1

	31 December 2023 £m	31 December 2022 £m
Other financial liabilities:		
Trade and other payables	**114.7**	124.2
Lease liabilities	**23.4**	23.1
Deferred and contingent consideration	**8.2**	8.0
	146.3	155.3

On 10 August 2022, the Group renewed its banking facilities and entered a Sustainability-Linked Loan revolving credit facility agreement for £350.0m with a £50.0m uncommitted accordion facility expiring in August 2027 and a separate agreement for private placement loan notes of £25.0m with an uncommitted £125.0m shelf facility repayable in August 2029.

Interest is payable on the bank loan at SONIA plus an interest margin ranging from 0.90% to 2.75% which is dependent on the Group's ESG targets and the Group's leverage (net debt excluding lease liabilities as a multiple of pro-forma EBITDA) and reduces as the Group's leverage reduces. The interest margin at 31 December 2023 was 1.65% (2022: 1.46%). Pro-forma EBITDA for the year was £114.9m (2022: £120.3m) and is defined as pre-IFRS 16 underlying operating profit before depreciation, amortisation and share-based payment charges, for the 12 months preceding the Balance Sheet date adjusted where relevant to include a full year of EBITDA from acquisitions made during those 12 months.

13. Financial Liabilities (continued)

	31 December 2023 £m	31 December 2022 £m
Pro-forma EBITDA (12 months preceding the balance sheet)		
Underlying operating profit	**94.1**	98.2
Depreciation of property, plant and equipment	**19.1**	19.4
Amortisation of internally generated intangible assets	**0.8**	0.2
Unwind of discount on lease liabilities	**(1.2)**	(0.8)
Share-based payments charge	**2.1**	3.1
	114.9	120.1
EBITDA from acquisitions	**-**	0.2
	114.9	120.3

At 31 December 2023, the Group had available, subject to covenant headroom, £230.0m (2022: £179.1m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The Group is subject to a number of covenants in relation to its bank loan which, if breached, would result in the bank loan becoming immediately repayable. These covenants specify certain maximum limits in terms of net debt, excluding lease liabilities, as a multiple of pro-forma EBITDA and interest cover. At 31 December 2023, the Group was not in breach of any bank covenants. The covenant position was as follows:

Covenant	**Covenant requirement**	**Position at 31 December 2023**
Interest cover (Underlying operating profit: Finance costs excluding debt issue cost amortisation)	>4.0:1	**8.2:1**
Leverage (Net debt excluding lease liabilities: pro-forma EBITDA)	<3.0:1	**1.1:1**

14. Reconciliation of profit before tax to cash generated from operations

Operating activities			
Profit before tax		**48.4**	45.4
Finance costs	5	**13.6**	8.0
Operating profit		**62.0**	53.4
Non-cash items:			
Profit on disposal of property, plant and equipment (underlying)		**(0.4)**	(0.7)
Research and development expenditure credit		**(1.5)**	(1.2)
Warranty provision release		**-**	(1.0)
Non-underlying items:			
– amortisation of intangible assets arising on business combinations	4	**14.8**	15.2
– impairment of intangible assets arising on business combinations	4	**2.5**	2.8
– impairment of goodwill arising on business combinations	4	**-**	12.0
– provision for acquisition costs	4	**2.2**	3.3
– provision for restructuring costs	4	**14.1**	9.3
– provision for restructuring costs - accelerated depreciation of property, plant and equipment (non-underlying)	4	**1.2**	-
– Workday configuration (SaaS)	4	**1.2**	-
– provision for product liability claim	4	**(1.2)**	1.0
– Employment matter	4	**2.0**	-
– Isolated cyber incident	4	**-**	1.2
– Gain on sale of property	4	**(4.7)**	1.2
Depreciation of property, plant and equipment (underlying)	9	**19.1**	19.4
Depreciation of right-of-use assets	10	**5.6**	5.4
Amortisation of internally generated intangible assets		**0.8**	0.2
Share-based payments		**2.1**	2.9
Cash items:			
– settlement of acquisition costs		**(0.4)**	(0.2)
– settlement of net product liability claim costs		**(1.7)**	-
– settlement of restructuring costs		**(12.1)**	(8.2)
– settlement of isolated cyber incident		**-**	(1.2)
Operating cash flows before movement in working capital		**105.6**	113.6
Receivables		**(6.9)**	7.8
Payables		**(9.9)**	(10.4)
Inventories		**20.9**	(17.1)
Cash generated from operations		**109.7**	93.9