Stelrad Group plc - preliminary announcement of final results for the year ended 31 December 2023

Resilient performance, strategically positioned for market improvement

Stelrad Group plc ("Stelrad" or "the Group" or "the Company", LSE: SRAD), a leading specialist manufacturer and distributor of steel panel and other designer radiators in the UK, Europe and Turkey, today announces its audited financial results for the year ended 31 December 2023.

Results summary	**2023**	**2022**	**Increase/ (decrease) %**
Revenue, £m	308.2	316.3	(2.6)
Operating profit, £m	26.7	22.6	17.9
Profit for the year, £m	15.4	4.3	257.9
Earnings per share – basic, pence	12.11	3.38	257.9
Adjusted operating profit, £m [(1)]	29.3	34.0	(13.8)
Adjusted profit for the year, £m [(1)]	17.3	24.3	(28.7)
Adjusted earnings per share – basic, pence [(1)]	13.62	19.11	(28.7)
Free cash flow, £m [(1)]	17.8	12.7	40.7
Net debt before finance leases, £m	60.4	68.4	(11.7)
Total dividend per share, pence	7.64	7.64	-

(1) The Group uses some alternative performance measures to track and assess the underlying performance of the business. Alternative performance measures are defined in the glossary of terms and reconciled to the appropriate financial statements line item at the end of this announcement.

Financial and operational highlights

- Revenue down 2.6%, 12.9% on a like-for-like basis, to £308.2 million, driven by subdued new build and renovation activity due to high inflation and interest rate environment.
  - UK & Ireland: revenue down 0.5% (0.6% like-for-like) broadly flat despite market headwinds.
  - Europe: revenue down 0.4% (21.2% like-for-like) as a result of depressed levels of RMI activity.
  - Turkey & International: revenue down 25.8% (30.5% like-for-like) driven primarily by volume decline in China.
- 13.0% rise in contribution per radiator, the sixth consecutive year on year increase, driven by proactive price and cost management.
- Volume mix of higher added-value premium steel panel radiators maintained despite challenging market backdrop.
- Operating profit rose to £26.7 million, an increase of £4.1 million, benefiting from foreign exchange gains and the discontinuation of IAS 29 accounting, partially offset by adverse sales volumes and higher depreciation charges.
- Adjusted operating profit of £29.3 million was adversely impacted by a 5.2% volume decline and a £3.7 million increase in depreciation and amortisation charges, partially offset by proactive margin management and cost reduction initiatives.
- Cost base management initiatives implemented in the second half of 2023, resulting in an exceptional charge of £2.9 million in the current year, with benefits to be realised from 2024 onwards.
- Strong cash flow performance driven by working capital management and a return to a maintenance level of capital spend.
- Leverage at 31 December 2023 was 1.47x (2022: 1.62x), based on net debt before finance leases.
- Recommended unchanged final dividend of 4.72 pence per share (2022 final dividend: 4.72 pence per share), to be paid on 29 May 2024, reflecting the Board's confidence in the Group's prospects and balance sheet.

Current trading and outlook

- Despite the headwinds impacting volumes in new build and RMI during 2023, the robust performance delivered by the Group has continued into 2024 with trading during the initial weeks of the current financial year remaining in line with management's expectations.
- Although we expect these headwinds to continue throughout 2024, Stelrad believes that management's considerable experience of successfully navigating other challenging market cycles will enable the business to navigate this turbulence and deliver another encouraging year of progress.
- The cost saving initiatives implemented in the second half of 2023 will be realised from 2024 onwards and will further strengthen the Group's resilience to challenging conditions, while ensuring that Stelrad remains well positioned for a sustained period of profitable growth when markets recover.
- As a result, our outlook for the current financial year remains unchanged thanks to the resilience and flexibility of our business model, the strength of our market positioning and the robustness of our strategy.
- Longer term, Stelrad will benefit from strong underlying replacement demand combined with regulatory tailwinds for decarbonised, energy efficient heating systems.

Commenting on the Group's performance, Trevor Harvey, Chief Executive Officer, said:
"Our performance in 2023 is testament to the resilience and flexibility of our business model, the strength of our market positioning and the robustness of our strategy that continues to see us focus on our four key strategic objectives of growing market share, improving product mix, optimising routes to market and positioning effectively for decarbonisation.

"After many years as challenger, Stelrad has now gained market leadership of both the steel panel radiator category and the hydronic heat emitter market in total, across the combined market of Europe, the UK and Turkey, taking market share from our competitors during a prolonged period of wider market uncertainty.

"Although we expect these macroeconomic headwinds to continue during 2024, management's considerable experience of managing through numerous other challenging market cycles will enable us to navigate current market conditions to deliver another robust financial performance. In combination with our focused strategy, this positions Stelrad well for a sustained period of profitable growth when markets recover, with the Group well placed to benefit from strong underlying replacement demand across Europe and the long-term regulatory tailwinds for decarbonised energy efficient heating systems."

For further information:

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Notes to Editors

Stelrad Group plc is Europe's leading specialist radiator manufacturer, selling an extensive range of hydronic, hybrid, dual fuel and electrical heat emitters to more than 500 customers in over 40 countries. These include standard, premium and low surface temperature (LST) steel panel radiators, towel warmers, decorative steel tubular, steel multicolumn and aluminium radiators.

The Group has five core brands: Stelrad, Henrad, Termo Teknik, DL Radiators and Hudevad. In the data reported by BRG Building Solutions for 2022, Stelrad moved into a market leadership position, with 18.8% share by volume of the combined UK, European and Turkish steel panel radiator market. The Group is now market leader in seven countries – the UK, Ireland, France, the Netherlands, Belgium, Denmark and Greece, with a top 3 position in a further nine territories.

Stelrad is headquartered in Newcastle upon Tyne in the UK and in 2023 employed 1,400+ people, with manufacturing and distribution facilities in Çorlu (Turkey), Mexborough (UK), Moimacco (Italy) and Nuth (Netherlands), with further commercial and distribution operations in Kolding (Denmark) and Krakow (Poland).

The Group's origins date back to the 1930s and Stelrad enjoys long established commercial relationships with many of its customers, having served each of its top five current customers for over twenty years.

Further information can be found at: https://stelradplc.com/.

Chair’s statement

Overview
Stelrad has delivered another extremely robust financial performance during 2023, despite challenging macroeconomic conditions. Inflationary pressures, higher interest rates and the resulting pressure on household budgets over the past year negatively impacted the housing market and constrained investment in renovation. Our performance in this environment is testament to the resilience and flexibility of the Group’s business model, the strength of Stelrad’s market positioning and the robustness of its strategy.

In the face of these challenges, management’s considerable experience of trading through numerous other challenging market cycles enabled the business to navigate wider market conditions successfully and deliver another robust financial performance during the period with proactive price and cost management leading to a 13.0% increase in contribution per radiator.

Although the Group is not anticipating an improvement in macroeconomic conditions during 2024, Stelrad is confident that it is well positioned for a sustained period of profitable growth when markets recover.

Performance and results
Operating profit was £26.7 million, after exceptional items of £2.5 million and amortisation of customer relationships of £0.1 million. After adjustment for these items, Stelrad’s adjusted operating profit of £29.3 million was in line with market expectations, despite a 5.2% reduction in volume and a 2.6% revenue reduction. The Group responded quickly and effectively to 2023’s difficult trading environment, leveraging its market leadership position and maintaining clear focus on its key strategic objectives.

Purpose
Stelrad’s purpose is **helping to heat homes sustainably**. Through its evolving product range, its relationships with both suppliers and channels to market and its influence on heating system specifiers, the Group has a pivotal role to play in the transition to low – and ultimately zero – carbon heating systems. Meaningful progress was made in 2023, through an enhanced and expanded product portfolio and the publication of Stelrad’s first Environmental Product Declarations (“EPDs”).

Environmental, social and governance (“ESG”) objectives
Achieving our purpose, **helping to heat homes sustainably**, demands relentless focus on reducing Stelrad’s own environmental impact, a consistently high level of employee engagement and high standards of corporate governance. These elements are at the heart of Stelrad’s culture and values.

Our sustainability framework, **Fit for the Future**, is consistent with that core purpose, setting out our approach to delivering both our business strategy and our sustainability commitments to stakeholders and the environment. It reflects Stelrad’s vision of the significant role the Group can play in the transition to a low – and ultimately zero – carbon heating industry.

People
George Letham, Chief Financial Officer and Executive Director of the Company, stepped down from the Board on 22 November 2023. George joined in 2003 and has played an instrumental role in improving Stelrad’s market position and financial performance. He has been retained on a part-time basis for a six-month period, in the capacity of Strategic Adviser to the Chief Executive Officer.

Following a rigorous recruitment process supported by an external search firm, George has been succeeded by Annette Borén, a highly experienced CFO who brings with her a proven track record in delivering financial leadership, operational excellence and strategic growth across different geographies and sectors. Most recently, she was CFO for Northern Europe at Hilti, a world leader in the manufacture of construction tools. Annette brings with her a wealth of experience which will enable her to make a significant contribution to the continued growth and success of the Group.

During the period, Terry Miller, Non-Executive Director and Senior Independent Director, stepped down from the Board and its Committees on 31 December 2023. She was replaced by Katherine Innes Ker as Senior Independent Director, who joined the Board on 1 February 2024 and brings significant listed company board experience in a Non-Executive capacity.

Dividend

The Board is recommending an unchanged final dividend of 4.72 pence per share. The final dividend will be paid on 29 May 2024 to shareholders on the register on 26 April 2024, subject to approval by shareholders at the Annual General Meeting on 22 May 2024.

Summary

Stelrad's management strength and experience, in combination with a robust strategy and a resilient business model, enabled the Group to deliver a strong financial performance in 2023 despite the significant headwinds impacting market demand.

Although these headwinds are set to continue into 2024, Stelrad is well-positioned to capitalise as markets recover.

The flexibility of the Group's business model, market leading positions, and the strength and breadth of the customer and supplier relationships means that the Group looks forward with confidence to achieving its key strategic objectives.

Bob Ellis
Chair
8 March 2024

Chief Executive Officer's review

Overview

2023 saw a continuation of the macroeconomic headwinds and challenging trading conditions that persisted throughout 2022. Nevertheless, our strong performance in the year is testament to the resilience and flexibility of our business model, the strength of our market positioning and the robustness of our strategy, combined with management experience of successfully navigating previous market cycles.

This experience meant that we were able to proactively leverage the flexibility of our well-invested operational platform, implementing cost-saving initiatives in the second half of 2023 that will lead to tangible benefits from 2024 onwards.

We made significant progress over the course of 2023, integrating the Radiators SpA acquisition and expanding our product portfolio compatible with low and zero carbon heating systems – including the launch of our first UK electric heat emitter range – and we continue to leverage our scale and market leadership to ensure Stelrad is well-positioned for market recovery.

Strong financial performance, proactive response to market headwinds

In 2023, Stelrad's revenue fell by 2.6% versus the prior year to £308.2 million, including the full year benefit of the Radiators SpA acquisition and equating to 12.9% like-for-like reduction. Operating profit was £26.7 million (2022: £22.6 million), an increase of £4.1 million, whilst adjusted operating profit was £29.3 million (2022: £34.0 million), in line with market expectations.

In the UK & Ireland, 2023 revenue was 0.5% lower than in 2022, a strong performance given the wider market uncertainty during the period, whilst adjusted operating profit increased by 7.8%. In Europe, 0.4% decline in revenue resulted in an adjusted operating profit reduction of 34.7%, reflecting lower volumes, low margins in Radiators SpA and a mix shift. In Turkey & International markets, driven by volume decline in China, revenue and adjusted operating profit fell by 25.8% and 34.4% respectively.

Market conditions in 2023 remained extremely challenging, with a combination of high inflation and high interest rates suppressing both housebuilding and renovation demand and driving continued distributor focus on inventory reduction, notably across mainland Europe.

Despite this market backdrop, Stelrad improved contribution per radiator for the sixth year running, delivering a further 13.0% increase relative to 2022. This contribution growth countered a 5.2% decrease in volume over the same period, which represented a reduction of 12.5% on a like-for-like basis.

Operational flexibility

Our flexible operational platform, based on Stelrad's standardised core heat emitter design and with our long-established, low-cost Turkish facility at its core, continues to provide significant competitive advantage. In combination with proactive price management, this has driven consistent year on year contribution improvement.

During the second half of 2023, we further optimised our operational facilities to enable a programme of cost-saving initiatives which will benefit the Group from 2024 onwards. The Group has optimised production across its Western European facilities with increased volumes transferred to our low cost facility in Corlu, Turkey. In addition, we have reduced fixed costs in Western Europe. The Group expects market environments to remain challenging in 2024 with the continuation of cost and wage inflation, and this reorganisation positions the Group well to mitigate these adverse factors.

Improved product mix
The Radiators SpA acquisition brought a considerable improvement in Stelrad's product mix in 2023. Higher added-value premium steel panel and other design radiators accounted for 8.9% of the Group's sales by volume in 2021, rising to 12.5% in 2022. This increased to 14.9% in 2023, a 6.0 percentage points improvement versus 2021 and up 2.4 percentage points relative to the prior year.

Total volume of the design radiator category, including premium steel panel products, rose by 13.2% in 2023 relative to 2022 and was 43.8% higher than in 2021, the year before the Radiators SpA acquisition took place. As markets recover, the underlying long-term growth trend for all design radiators and notably premium steel panel products, means that Stelrad is well placed to capitalise on its improved market share position and enhanced product portfolio.

Within the design radiator category, premium steel panel radiator volume represents a key performance indicator for Stelrad. Although volume in 2023 declined by 4.9%, premium steel panel mix of total steel panel radiator volume increased by 0.2 percentage points, from 6.0% to 6.2%

Radiators SpA
The strategic acquisition case for Radiators SpA is compelling, with the business already providing the Group with market share growth, increased access to key territories and channels to market and a product range orientated towards higher added-value designs, including those suitable for decarbonised heating systems. A combination of challenging market conditions and low levels of profitability with a major customer meant that 2023 financial performance was below expectations. Whilst macroeconomic headwinds will continue into 2024, improved product mix through new product introduction at that key account is anticipated to deliver improved profitability overall.

New products for decarbonised home heating
Stelrad launched its first UK range of electrical radiators in the second half of 2023, benefiting from Radiators SpA's comprehensive electric portfolio to introduce an innovative and targeted range of heat emitters, including towel warmer, aluminium and designer ranges, into the small but growing UK electrical radiator market. The introduction was well received in both new build and replacement market segments, generating specification by a leading UK housebuilder and stocking commitments from leading electrical distributors. The Electric Series leverages Radiators SpA's know-how and Stelrad's strong customer relationships, positioning Stelrad effectively in a segment with significant decarbonisation growth potential.

Outlook
Stelrad's resilience in the face of significant macroeconomic headwinds demonstrates the robustness and flexibility of the Group's business model and the effectiveness of our long-term strategy, driven by our four key strategic objectives: growing market share, improving product mix, optimising routes to market and positioning effectively for decarbonisation.

After challenging for many years, Stelrad has now gained market leadership of both the steel panel radiator category and the hydronic heat emitter market in total, across the combined market of Europe, the UK and Turkey.

Across our core markets, Stelrad is leveraging its strong brands and Radiators SpA's wider product portfolio to improve our positioning for decarbonisation, as evidenced by the launch of our first range of electric radiators into the small but growing UK market.

We continue to expand our range of higher heat output emitters, fully compatible with the low-temperature hydronic systems heated by low and zero carbon sources. In 2024, we are preparing to launch Stelrad Green Series, our first radiator range using steel manufactured with 90% lower embodied CO_2 emissions.

Although we expect macroeconomic headwinds to continue into 2024, our considerable management experience through other challenging market cycles will enable us to navigate this turbulence to deliver a robust financial performance.

In combination with our focused strategy, this positions Stelrad effectively for a sustained period of profitable growth as markets recover, benefiting from strong underlying replacement demand across Europe and the long-term regulatory tailwinds for decarbonised energy efficient heating systems.

Trevor Harvey
Chief Executive Officer
8 March 2024

Finance and business review

Group overview
The following table summarises the Group's results for the years ended 31 December 2023 and 31 December 2022.

	2023 £m	2022 £m	Increase/ (decrease) £m	Increase/ (decrease) %
Revenue	**308.2**	**316.3**	**(8.1)**	**(2.6)**
EBITDA[1]	**41.2**	**42.2**	**(1.0)**	**(2.2)**
Adjusted operating profit[1]	**29.3**	**34.0**	**(4.7)**	**(13.8)**
Exceptional items	(2.5)	(1.8)	(0.7)	(36.3)
Amortisation of customer relationships	(0.1)	(0.1)	-	(147.4)
Foreign exchange differences (2022 only)	-	(3.5)	3.5	n/a
Impact of IAS 29 (2022 only)	-	(6.0)	6.0	n/a
Operating profit	**26.7**	**22.6**	**4.1**	**17.9**
Net finance costs	(7.5)	(4.5)	(3.0)	(65.8)
Monetary losses – net (IAS 29)	-	(7.9)	7.9	n/a
Profit before tax	**19.2**	**10.2**	**9.0**	**87.2**
Income tax expense	(3.8)	(5.9)	2.1	36.7
Profit for the year	**15.4**	**4.3**	**11.1**	**257.9**
Earnings per share (p)	**12.11**	**3.38**	**8.73**	**257.9**
Adjusted profit for the year[1]	**17.3**	**24.3**	**(7.0)**	**(28.7)**
Adjusted earnings per share - basic (p)[1]	**13.62**	**19.11**	**(5.49)**	**(28.7)**
Total dividend per share (p)	**7.64**	**7.64**	**-**	**-**

(1) The Group uses some alternative performance measures to track and assess the underlying performance of the business. Alternative performance measures are defined in the glossary of terms and reconciled to the appropriate financial statements line item at the end of this announcement.

Financial overview
Business performance was negatively impacted by a reduction in demand during 2023. Renovation activity across the majority of European countries remained weak throughout the year, driven by a challenging macroeconomic environment related to high inflation and increasing interest rates. The impact of volume decline varied by operating segment, with the UK & Ireland being more robust than Europe and Turkey & International.

Revenue for the year was £308.2 million, a decrease of £8.1 million, or 2.6%, on last year (2022: £316.3 million). The decline in revenue was due to a 5.2% decrease in sales volumes during the year, partially offset by higher selling prices. Higher selling prices primarily represent the full year impact of 2022 price increases, in addition to 2023 price increases, which were applied to recover steel and other inflationary cost increases. The benefit of price increases implemented was reduced slightly by a decline in like-for-like volumes in Europe where average selling prices are higher. Revenue fell by 12.9% on a like-for-like basis.

Operating profit for the year was £26.7 million, an increase of £4.1 million, or 17.9%, compared to last year (2022: £22.6 million). The improvement in operating profit arises despite a small decline in EBITDA of £1.0 million. EBITDA was adversely impacted by the 5.2% year on year reduction in sales volumes (12.5% on a like-for-like basis) and, further, the additional volumes generated by Radiators SpA in the year were at lower margins which diluted overall Group margins. The impact of lower sales volumes and lower Radiators SpA margins was partially offset by proactive selling price and cost management and foreign currency gains. Cost management initiatives included operational improvements mainly relating to increased efficiencies at plants, with the Group fully utilising the flexibility of its manufacturing footprint. The proactive price and cost management have driven a 13.0% rise in contribution per radiator, which is the Group's key measure of variable profitability.

The Group continues to push the sale of premium panel radiators throughout its markets, recognising the additional margin that these products generate. Despite these efforts, the proportion of premium panel sales to total volumes was flat in the year at 5.6% with progress limited due to weakness in our European markets, where penetration levels are higher, and growth in designer radiator categories. Pleasingly, the proportion of premium steel panel to total steel panel volume increased by 0.2 percentage points, from 6.0% to 6.2%, and the proportion of premium sales in the UK showed a marginal improvement in the year. Premium panel products remain an integral part of the Group's strategy, with these products being underrepresented in several of the Group's key markets.

In 2022, the Group's results included foreign exchange losses of £3.5 million, which were not included in EBITDA. As a consequence of the change in functional currency of the Group's Turkish business these are now reported as part of EBITDA. In addition, following the change in functional currency of the Turkish business, the Group no longer applied IAS 29 in the year ended 31 December 2023, which resulted in a £4.4 million improvement in operating profit, excluding the 2022 impact of IAS 29 on depreciation of £1.6 million which remains in 2023.

Depreciation and amortisation increased by £1.9 million in the year, which is due to the inclusion of a full year's charge for Radiators SpA and additional charges following the completion of significant capital projects.

Exceptional items in the year were £2.5 million, an increase of £0.7 million compared to the prior year (2022: £1.8 million), representing exceptional costs of £2.9 million and exceptional income of £0.4 million. The exceptional costs in 2023 relate largely to a restructuring exercise undertaken in quarter four of the year in order to drive cost savings for future periods. The exceptional costs incurred in 2022 related to restructuring costs to reconfigure and optimise production, acquisition costs and the reversal of the IFRS 3 uplift on finished goods and work in progress required as part of business combination accounting.

Adjusted operating profit for the year was £29.3 million, a decrease of £4.7 million, or 13.8%, compared to last year (2022: £34.0 million). Adjusted operating profit was impacted by the decrease in EBITDA of £1.0 million noted earlier. Additionally, depreciation and amortisation reported within adjusted operating profit increased by £3.7 million in the year. The depreciation and amortisation increase was mainly due to the 2022 IAS 29-led revaluation of Turkish fixed assets and a full year's charge for Radiators SpA.

Profit for the year increased by £11.1 million, or 257.9%, to £15.4 million (2022: £4.3 million). Adjusted profit for the year decreased by £7.0 million, or 28.7%, to £17.3 million (2022: £24.3 million) due to a reduction in adjusted operating profit and increased interest charges partially offset by a reduction in tax charges. Earnings per share was 12.11 pence (2022: 3.38 pence), with the 2022 earnings per share impacted by IAS 29. Adjusted earnings per share was 13.62 pence (2022: 19.11 pence).

At 31 December 2023 the Group had cash of £21.4 million (2022: £22.6 million) and undrawn available facilities of £18.7 million (2022: £10.1 million), with net debt before finance leases of £60.4 million (2022: £68.4 million).

Revenue by geographical market

The table below sets out the Group's revenue by geographical market.

Revenue by geographical market	**2023**	**2022**	**Increase / (decrease)**	**Increase / (decrease)**
	£m	**£m**	**£m**	**%**
UK & Ireland	139.4	140.0	(0.6)	(0.5)
Europe	149.1	149.7	(0.6)	(0.4)
Turkey & International	19.7	26.6	(6.9)	(25.8)
Total	**308.2**	**316.3**	**(8.1)**	**(2.6)**

UK & Ireland
The Group's revenue in UK & Ireland for the year was £139.4 million (2022: £140.0 million), a decrease of £0.6 million, or 0.5%. This was principally a result of a decrease in sales volumes partially offset by the impact of selling price increases implemented to mitigate the impact of inflationary costs. On a like-for-like basis, adjusting for the acquisition of Radiators SpA, the Group's revenue in UK & Ireland for the year was £139.2 million, a decrease of £0.8 million, or 0.6% from 2022.

Europe
The Group's revenue in Europe for the year was £149.1 million (2022: £149.7 million), a decrease of £0.6 million, or 0.4%. The decline is primarily due to a decline in like-for-like volumes, partially offset by the full year impact of the acquisition of Radiators SpA and selling price increases implemented to mitigate the impact of inflationary costs. On a like-for-like basis, adjusting for the acquisition of Radiators SpA, the Group's revenue in Europe for the year was £117.9 million, a decrease of £31.8 million, or 21.2% from 2022. Our European markets have been most affected by the weak demand experienced in the year, giving rise to a significant reduction in like-for-like sales. All markets across Europe have suffered a significant decline, most notably Germany, Poland and Belgium.

Turkey & International
The Group's revenue in Turkey & International for the year was £19.7 million (2022: £26.6 million), a decrease of £6.9 million, or 25.8%. This was principally a result of significantly lower sales volumes to China. On a like-for-like basis, adjusting for the acquisition of Radiators SpA, the Group's revenue in Turkey & International for the year was £18.5 million, a decrease of £8.1 million, or 30.5% from 2022.

Adjusted operating profit by geographical market

The table below sets out the Group's adjusted operating profit by geographical market.

Adjusted operating profit by geographical market *	2023	2022	Increase/ (decrease)	Increase/ (decrease)
	£m	£m	£m	%
UK & Ireland	24.5	22.7	1.8	7.8
Europe	9.1	13.9	(4.8)	(34.7)
Turkey & International	1.3	2.1	(0.8)	(34.4)
Central costs	(5.6)	(4.7)	(0.9)	(20.1)
Total	**29.3**	**34.0**	**(4.7)**	**(13.8)**

* Adjusted operating profit is a key performance indicator of the Group and is used by management when analysing performance by geographical market.

UK & Ireland

The Group's adjusted operating profit in UK & Ireland for the year was £24.5 million (2022: £22.7 million), an increase of £1.8 million, or 7.8%. This was principally as a result of proactive margin management leading to increased contribution per radiator, partially offset by lower sales volumes and higher post-IAS 29 depreciation.

Europe

The Group's adjusted operating profit in Europe for the year was £9.1 million (2022: £13.9 million), a decrease of £4.8 million, or 34.7%. The additional volumes generated from Radiators SpA, following the acquisition in July 2022, have only partially offset a significant like-for-like decline in sales volumes. Additionally, the sales volumes from Radiators SpA are at lower margins. Like-for-like sales volumes have fallen significantly due to a weak macroeconomic environment which, in addition to higher post-IAS 29 depreciation, has reduced adjusted operating profit, partially compensated for by proactive margin management.

Turkey & International

The Group's adjusted operating profit in Turkey & International for the year was £1.3 million (2022: £2.1 million), a reduction of £0.8 million, or 34.4%. This was principally as a result of lower sales volumes and higher post-IAS 29 depreciation.

Central costs

Central costs for the year were £5.6 million (2022: £4.7 million), an increase of £0.9 million, or 20.1%, partially as a result of additional provisions for bonuses and ongoing inflation.

Exceptional items

During the year the charge for exceptional items was £2.5 million (2022: £1.8 million).

The exceptional items in 2023 mainly relate to a £2.9 million restructuring exercise undertaken in quarter four of the year in order to drive cost savings for future periods, partially offset by exceptional income related to the acquisition of Radiators SpA of £0.4 million.

The exceptional items in 2022 related to restructuring costs to reconfigure and optimise production, acquisition costs and the reversal of the IFRS 3 uplift on finished goods and work in progress required as part of business combination accounting.

These costs are one-off in nature and disclosing these costs as exceptional allows the true underlying performance of the Group to be better understood.

Finance costs

The Group's net finance costs for the year were £7.5 million (2022: £4.5 million). The increase of £3.0 million is due to an increase in the interest rate of the Group's debt (blended 6.3%, including a margin of 2.25%) during 2023 and a higher average level of debt due to the acquisition of Radiators SpA in July 2022.

Income tax expense

The Group's income tax expense for the year was £3.8 million (2022: £5.9 million), a decrease of £2.1 million, or 36.7%. The 2022 charge was increased by £1.9 million due to the impact of IAS 29. The 2023 tax charge has benefited from a deferred tax credit associated with higher tax asset values allowed by the Turkish government due to hyperinflation, partially offset by increased withholding tax charges associated with the repatriation of cash from Turkey. The Group's 2023 effective tax rate of 19.6% was low because of the deferred tax credit. In 2024, the Group's effective tax rate is expected to be higher at around 29% because of the full impact of the increase in the UK corporation tax rate and ongoing withholding tax charges.

Earnings per share and adjusted earnings per share

Profit for the year increased by £11.1 million, or 257.9%, to £15.4 million (2022: £4.3 million) and basic earnings per share was 12.11 pence (2022: 3.38 pence). The weighted average number of shares was 127.4 million (2022: 127.4 million). Adjusted profit for the year decreased by £7.0 million, or 28.7%, to £17.3 million (2022: £24.3 million) and, consequently, basic adjusted earnings per share was 13.62 pence (2022: 19.11 pence).

Dividends and reserves

The Group is committed to delivering returns for its shareholders. It adopted a progressive dividend policy at the time of IPO, targeting an initial pay-out of approximately 40% of adjusted earnings, with capital allocation focused on reinvestment for growth. The Group intends to split dividend payments approximately 33% and 67% between the Group's interim and final dividend payments respectively across the fiscal year.

The Group paid an interim dividend in respect of the year ended 31 December 2023 of 2.92 pence per share (2022: 2.92 pence). The Board has recommended a final dividend of 4.72 pence per share (2022: 4.72 pence) at a cost of £6.0 million to the Group. The total dividend in respect of the year ended 31 December 2023 will be 7.64 pence per share (2022: 7.64 pence).

The Group's intention to maintain the 2023 dividend at the same level as the 2022 dividend, despite lower earnings due to short term trading headwinds, reflects the Board's prudent view on the current commercial and strategic position of the business, confidence in the Group's financial position and cash generation, and the intention to support shareholder returns through the cycle.

Functional currency

On 1 January 2023, the functional currency of the Group's Turkish business was changed from Turkish Lira to Euro. The functional currency change has arisen due to an evolution in the strategic focus of the Turkish business, which led to the Directors confirming that the Turkish business would be operated primarily as an export company going forward.

Further details on the changes to the relevant underlying transactions, events and conditions that led the Directors to consider whether the functional currency for the Turkish business should be changed are outlined in note 2 of this announcement. Note 2 of this announcement also includes the analysis of the functional currency of the Turkish business, by reference to the key indicators outlined in IAS 21 The Effects of Changes in Foreign Exchange Rates, which led the Directors to confirm that the functional currency of the Turkish business is Euro.

IAS 29 Financial Reporting in Hyperinflationary Economies
As a result of inflation in Turkey exceeding 100% over a three-year period, the Group was required to adopt IAS 29 in respect of its Turkish subsidiary for the first time in the financial statements for the year ended 31 December 2022. On 1 January 2023, the functional currency of the Turkish business was changed from Turkish Lira to Euro and, as a result, IAS 29 is no longer being applied after this date.

Cash flow
The following table summarises the Group's cash flow for the years ended 31 December 2023 and 31 December 2022.

	2023 £m	**2022 £m**	**Increase/ (decrease) £m**
EBITDA	41.2	42.2	(1.0)
Exceptional items	(2.5)	(1.8)	(0.7)
Gain on disposal of property, plant and equipment	-	(0.2)	0.2
Share-based payment charge	0.5	0.3	0.2
Working capital (adjusted for foreign exchange 2022)	1.6	(9.2)	10.8
Net capital expenditure	(9.3)	(11.6)	2.3
Cash flow from operations	**31.5**	**19.7**	**11.8**
Income tax paid	(7.5)	(3.8)	(3.7)
Net interest paid	(6.2)	(3.2)	(3.0)
Free cash flow	**17.8**	**12.7**	**5.1**

	2023	**2022**	**Increase/ (decrease)**
Cash flow from operations (£m)	31.5	19.7	11.8
Adjusted operating profit (£m)	29.3	34.0	(4.7)
Cash flow from operations conversion (%)	107.6	57.9	49.7

The Group's free cash flow for the year was £17.8 million (2022: £12.7 million), an increase of £5.1 million. This reflects an improvement in cash flow from operations offset by higher income tax and interest payments.

The Group's cash flow from operations for the year was £31.5 million (2022: £19.7 million), an increase of £11.8 million. This was principally as a result of a slight reduction in working capital in 2023, compared to an outflow in 2022 linked to reduced production, combined with a return to lower levels of capital spend in 2023. Adjusted operating profit for the period was £29.3 million (2022: £34.0 million), a decrease of £4.7 million, mainly due to an increase in depreciation. Cash flow from operations conversion for the year was 107.6% (2022: 57.9%), an increase of 49.7pp, reflecting the movements in cash flow from operations described above.

Capital expenditure

The Group's capital expenditure mainly relate to investment in operating plant and equipment. The following table sets out the Group's capital expenditure, including right-of-use assets, net of transfers from assets under construction.

	2023 **£m**	**2022** **£m**
Freehold land and buildings	0.6	2.0
Leasehold buildings	1.1	0.4
Plant and equipment	5.4	7.2
Fixtures, fittings and motor vehicles	2.2	1.6
Intangible assets	0.5	0.2
Total	**9.8**	**11.4**

Key capital expenditure in the year ended 31 December 2023 related to the finalisation of the installation of a new steel panel radiator line at the Group's facilities in Italy. The Group's capital expenditure will reduce in future years.

Net debt and leverage

At 31 December 2023, net debt (including finance leases) of £70.3 million (2022: £78.4 million) comprises £81.8 million (2022: £91.0 million) drawn down against the multicurrency facility and £9.9 million (2022: £10.0 million) finance leases net of £21.4 million (2022: £22.6 million) cash.

	2023 **£m**	**2022** **£m**
Revolving credit facility – GBP	46.9	55.3
Revolving credit facility – EUR	10.4	10.6
Term loan	24.5	25.1
Cash	(21.4)	(22.6)
Net debt before lease liabilities	**60.4**	**68.4**
Lease liabilities	9.9	10.0
Net debt	**70.3**	**78.4**

Leverage at 31 December 2023 was 1.47x (2022: 1.62x), based on net debt before lease liabilities. During the year ended 31 December 2023, the Group's revolving credit facility and term loan facility were extended by two years to November 2026 by exercising a two year extension option included in the facility agreement.

Annette Borén
Chief Financial Officer
8 March 2024

Consolidated income statement

for the year ended 31 December 2023

	Note	**2023 £'000**	2022 £'000
Continuing operations			
Revenue	3	**308,193**	316,315
Cost of sales (excluding exceptional items)		**(221,343)**	(235,194)
Exceptional items	3	**—**	(1,054)
Cost of sales		**(221,343)**	(236,248)
Gross profit		**86,850**	80,067
Selling and distribution expenses		**(42,278)**	(40,800)
Administrative expenses (excluding exceptional items)		**(16,624)**	(12,811)
Exceptional items	3	**(2,466)**	(755)
Administrative expenses		**(19,090)**	(13,566)
Other operating income/(expenses)	4	**1,199**	(3,073)
Operating profit		**26,681**	22,628
Finance income		**182**	50
Finance costs	5	**(7,681)**	(4,573)
Monetary losses – net		**—**	(7,860)
Profit before tax		**19,182**	10,245
Income tax expense	6	**(3,758)**	(5,936)
Profit for the year		**15,424**	4,309

	Note	**2023**	2022
Earnings per share			
Basic	7	**12.11p**	3.38p
Diluted	7	**12.11p**	3.38p
Adjusted earnings per share			
Basic	7	**13.62p**	19.11p
Diluted	7	**13.62p**	19.11p

Consolidated statement of comprehensive income

for the year ended 31 December 2023

	Note	**2023 £'000**	2022 £'000
Profit for the year		**15,424**	4,309
Other comprehensive income/(expense)			
Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods:			
Net gain on monetary items forming part of net investment in foreign operations and qualifying hedges of net investments in foreign operations		**674**	1,691
Income tax effect	6	**(158)**	(631)
Exchange differences on translation of foreign operations		**(2,250)**	(5,941)
Net other comprehensive expense that may be reclassified to profit or loss in subsequent periods		**(1,734)**	(4,881)
Other comprehensive expense not to be reclassified to profit or loss in subsequent periods:			
Remeasurement losses on defined benefit plans		**(936)**	(1,932)
Income tax effect	6	**206**	423
Net other comprehensive expense not to be reclassified to profit or loss in subsequent periods		**(730)**	(1,509)
Other comprehensive expense for the year, net of tax		**(2,464)**	(6,390)
Total comprehensive income/(expense) for the year, net of tax attributable to owners of the parent		**12,960**	(2,081)

Consolidated balance sheet

as at 31 December 2023

	Note	**2023 £'000**	2022 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**87,247**	91,604
Intangible assets	10	**5,251**	3,855
Trade and other receivables	14	**301**	317
Deferred tax assets	6	**6,685**	5,397
		99,484	101,173
Current assets			
Inventories	13	**63,376**	77,851
Trade and other receivables	14	**50,674**	60,497
Income tax receivable		**243**	235
Cash and cash equivalents	15	**21,442**	22,641
		135,735	161,224
Total assets		**235,219**	262,397
Equity and liabilities			
Equity			
Share capital	18	**127**	127
Share premium	18	**—**	—
Merger reserve		**(114,469)**	(114,469)
Retained earnings		**233,329**	227,849
Foreign currency reserve		**(63,792)**	(62,058)
Total equity		**55,195**	51,449
Non-current liabilities			
Interest-bearing loans and borrowings	12	**88,227**	98,513
Deferred tax liabilities	6	**218**	2,611
Provisions	17	**1,980**	1,799
Net employee defined benefit liabilities		**4,053**	4,542
		94,478	107,465
Current liabilities			
Trade and other payables	16	**78,056**	99,214
Financial liabilities	12	**318**	—
Interest-bearing loans and borrowings	12	**2,469**	1,520
Income tax payable		**1,686**	1,829
Provisions	17	**3,017**	920
		85,546	103,483
Total liabilities		**180,024**	210,948
Total equity and liabilities		**235,219**	262,397

Consolidated statement of changes in equity

for the year ended 31 December 2023

	Attributable to the owners of the parent					
	Issued share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Foreign currency £'000	Total £'000
At 1 January 2022	127,353	13,391	(114,469)	57,814	(57,177)	26,912
IAS 29 adjustment	—	—	—	8,327	—	8,327
At 1 January 2022 (restated)	127,353	13,391	(114,469)	66,141	(57,177)	35,239
Profit for the year	—	—	—	4,309	—	4,309
Other comprehensive expense for the year	—	—	—	(1,509)	(4,881)	(6,390)
Total comprehensive income/(expense)	—	—	—	2,800	(4,881)	(2,081)
Capital reduction	(127,226)	(13,391)	—	140,617	—	—
IAS 29 adjustment to retained earnings in the year	—	—	—	22,982	—	22,982
Share-based payment charge	—	—	—	250	—	250
Dividends paid (note 8)	—	—	—	(4,941)	—	(4,941)
At 31 December 2022	127	—	(114,469)	227,849	(62,058)	51,449
Profit for the year	**—**	**—**	**—**	**15,424**	**—**	**15,424**
Other comprehensive expense for the year	**—**	**—**	**—**	**(730)**	**(1,734)**	**(2,464)**
Total comprehensive income/(expense)	**—**	**—**	**—**	**14,694**	**(1,734)**	**12,960**
Share-based payment charge	**—**	**—**	**—**	**515**	**—**	**515**
Dividends paid (note 8)	**—**	**—**	**—**	**(9,729)**	**—**	**(9,729)**
At 31 December 2023	**127**	**—**	**(114,469)**	**233,329**	**(63,792)**	**55,195**

Consolidated statement of cash flows
for the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Operating activities			
Profit before tax		**19,182**	10,245
Adjustments to reconcile profit before tax to net cash flows:			
– Depreciation of property, plant and equipment	9	**11,615**	9,700
– Amortisation of intangible assets	10	**457**	163
– Loss/(gain) on disposal of property, plant and equipment		**11**	(220)
– Monetary loss IAS 29		**—**	7,860
– IAS 29 – inflation adjustment before taxation		**—**	3,530
– Share-based payments charge		**515**	250
– Finance income		**(182)**	(50)
– Finance costs	5	**7,681**	4,573
Working capital adjustments:			
– Decrease in trade and other receivables		**8,237**	1,632
– Decrease in inventories		**12,884**	5,831
– Decrease in trade and other payables		**(20,364)**	(11,528)
– Increase/(decrease) in provisions		**2,214**	(1,297)
– Movement in other financial liabilities		**319**	—
– Decrease in other pension provisions		**(7)**	(23)
– Difference between pension charge and cash contributions		**(1,674)**	(319)
		40,888	30,347
Income tax paid		**(7,497)**	(3,801)
Interest received		**182**	50
Net cash flows generated from operating activities		**33,573**	26,596
Investing activities			
Proceeds from sale of property, plant, equipment and intangible assets		**352**	316
Purchase of property, plant and equipment	9	**(6,586)**	(9,671)
Purchase of intangible assets	10	**(507)**	(164)
Business combination of subsidiaries, net of cash acquired	11	**—**	(20,484)
Net cash flows used in investing activities		**(6,741)**	(30,003)
Financing activities			
Transaction costs related to refinancing		**(500)**	(429)
Proceeds from external borrowings		**—**	34,122
Repayment of external borrowings		**(8,350)**	(1,250)
Repayment of borrowings acquired with subsidiary		**—**	(10,746)
Payment of lease liabilities		**(2,619)**	(2,049)
Interest paid		**(6,428)**	(3,269)
Dividends paid	8	**(9,729)**	(4,941)
Net cash flows (used in)/generated from financing activities		**(27,626)**	11,438
Net (decrease)/increase in cash and cash equivalents		**(794)**	8,031
Net foreign exchange difference		**(405)**	(953)
Cash and cash equivalents at 1 January	15	**22,641**	15,563
Cash and cash equivalents at 31 December	15	**21,442**	22,641

Notes to the consolidated financial statements
for the year ended 31 December 2023

1 Basis of preparation
The results for the year ended 31 December 2023, including comparative financial information, have been prepared in accordance with UK adopted international accounting standards (“IFRS”) in conformity with the requirements of the Companies Act 2006 and the disclosure guidance and transparency rules sourcebook of the United Kingdom’s Financial Conduct Authority.

Stelrad Group plc ("the Company") has adopted all IFRS in issue and effective for the year.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements that comply with IFRS in March 2024.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2023 but is derived from those accounts. Statutory accounts for 2023 will be delivered in due course. The auditors have reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) of the Companies Act 2006.

Going concern
Having considered the Group’s current trading, cash flow generation and debt maturity and applying severe but plausible stress testing scenarios, the Directors have concluded that it is appropriate to prepare the consolidated financial statements on a going concern basis. Under a severe but plausible downside scenario, the Group remains within its debt facilities and its financial covenants until 31 December 2026. Based on this going concern review, the Directors have concluded that, at the time of approving the financial statements, the Group will be able to continue to operate within its existing facilities and is well placed to manage its business risks successfully.

The financial information presented in respect of the year ended 31 December 2023 has been prepared on a basis consistent with the financial information presented for the year ended 31 December 2022 except for IAS 29 which is no longer applied.

2 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made judgements which would have a significant effect on the amounts recognised in the consolidated financial statements.

Functional currency

Following the economic crisis in Turkey in 2018 the Group has tried to limit its exposure to volatility in Turkish Lira (TL) in the Turkish business. Over that time export growth opportunities for the Turkish business have also increased as the Group has looked to take advantage of the lower manufacturing cost in Turkey. Both of these factors have resulted in a gradual decrease in sales into the local Turkish market with the percentage of the Turkish business' sales in TL over that period reducing to c.15% of total sales in Turkey. The strategic focus for the Turkish business has evolved over that time and following the installation of two additional radiator manufacturing lines in the Group's Turkish factory, the Directors confirmed that a strategic change was now complete and that the Turkish business would be operated primarily as an export company going forward. Based on this decision the Directors recognised they needed to consider whether the functional currency for the Turkish business should be changed taking into account IAS 21 paragraph 13 which stipulates that the functional currency should only be changed when there is a change in the relevant underlying transactions, events and conditions.

When considering whether or not there had been a change in the underlying transactions, events and conditions the Directors considered the increased production capabilities at the Turkish factory arising from the installation of the two additional manufacturing lines, which are predominantly to serve the European and UK export markets, and the resultant sales to European and UK export markets that this change has created. They considered this alongside the steady reduction in TL sales and rise in Euro and GBP sales in recent years. In the Directors' judgement these factors confirm that there has been a change in the currency profile of the Turkish business which is now a permanent change and is expected to continue. As a result, the Directors carried out a review of the functional currency of the Turkish business by reference to the primary and secondary indicators outlined in IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Another relevant factor that the Directors took into consideration was the decision from 1 January 2023 to put in place Euro:USD forward contracts at the point of purchase for all USD purchases and Euro:GBP forward contracts at the point of sale for all GBP sales made by the Turkish business.

The results of this review, which are outlined below, led the Directors to decide that it was necessary to change the functional currency of the Turkish business from Turkish Lira to Euros from 1 January 2023.

An analysis of the functional currency of the Turkish business by reference to the key indicators outlined in IAS 21 The Effects of Changes in Foreign Exchange Rates is outlined below:

Indicator	**Analysis**
Sales price The currency that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for goods and services are denominated and settled).	A high proportion of sales are denominated and settled in GBP and Euro due to the predominant sales markets being GBP (UK) and Euro (Europe) denominated. These two currencies now make up approximately 80 – 85% of total sales for the Turkish business. Local competition in the UK and European sales markets dictates the sales price. Sales prices are negotiated in both GBP and Euro. Selling prices and margins for all customers in all geographies are analysed, benchmarked and assessed by the business in Euros.
Sales market The currency of the country whose competitive forces and regulations mainly determine the sales prices of goods and services.	The predominant sales markets are GBP (UK) and Euro (Europe) denominated.
Costs The currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).	Raw material purchases are denominated in USD and Euro. Selling and distribution expenses and administrative expenses are denominated in Euro and TL. Employee and utilities costs are denominated in TL, with management salaries being benchmarked against Euro equivalents annually. Capital expenditure is predominantly in Euro including one of the two recently installed additional manufacturing lines.
Financing The currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated.	Intercompany loans are denominated in Euro. Historically, external loan arrangements, where undertaken, have been exclusively in Euro.
Cash flows The currency in which receipts from operating activities are usually retained.	The majority of excess cash from operating activities is retained in Euro. Since 1 January 2023, Euro:USD forward contracts are put in place at the point of purchase for USD purchases made by the Turkish business, and Euro:GBP forward contracts are put in place at the point of sale for GBP sales made by the Turkish business. As a result, Euro is the currency that underpins the majority of cash flows. Cash balances exists in GBP and USD intermittently following receipt of income and in advance of supplier payments being made. A small amount of cash is retained in TL for local funding. Dividends from the business are made in Euro.

Based on the indicators for functional currency being mixed between Euro, GBP and USD, IAS 21 requires the Directors to use their judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

In the judgement of the Directors, the functional currency is Euro based on the following factors:

- the agreed strategy to operate the Turkish business primarily as an export company;
- Euro accounts for a significant proportion of both sales and costs;
- all financing is carried out in Euro;
- excess cash from operating activities is retained in Euro, with the use of Euro:USD forward contracts for USD purchases and Euro:GBP forward contracts for GBP sales. As a result, Euro is the currency that underpins the majority of cash flows;
- the increase in production capabilities in the second half of 2022 was carried out to accommodate higher Euro sales; and
- the Turkish business has historically prepared its Group level reporting information in Euro.

The Directors recognise that determining whether or not there has been a change in the relevant underlying transactions, events and conditions in relation to the Turkish business and the functional currency of the Turkish business are critical judgements.

Business combinations
In July 2022, the Group acquired Radiators SpA, an Italian manufacturer of heat emitters, for €28.3 million. As a result, an exercise was undertaken to measure the fair value of assets and liabilities acquired as part of the business combination. This included ascertaining a fair value for all inventory acquired as part of the business combination. Management exercised judgement in determining whether any additional intangible assets, such as customer relationships, should be identified and the valuation assigned to these. Management engaged with experts in order to assist with the valuation of certain tangible and intangible assets, including customer relationships. The opening acquisition balance sheet was finalised in the period with the changes from the initial assessment outlined in note 11.

Impairment of non-financial assets
Intangible assets, including goodwill, that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Details of the impairment assessment of goodwill are disclosed in note 10.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Rebates
A proportion of rebates is paid to the end consumers of goods sold. Uncertainties exist over the value of rebates recognised as, until claims are made by end consumers, the Group cannot be certain which consumers have purchased which products. Due to this uncertainty it is therefore judgemental what contractual rates, if any, will apply to goods sold.

Significant management judgement is required in order to assess the level of rebate required at the balance sheet date. Management is able to utilise market information and historical/current data and trends in order to make an appropriate estimate.

A reasonably possible change in the estimates surrounding rebates would not result in a material impact to the financial statements.

3 Segmental information

IFRS 8 Operating Segments requires operating segments to be determined from the Group’s internal reporting to the Chief Operating Decision Maker (“CODM”). The CODM has been determined to be the Chief Executive Officer and Chief Financial Officer, who receive information on the Group’s revenue channels in key geographical regions based on the Group’s management and internal reporting structure. The CODM assesses the performance of geographical segments based on a measure of revenue and adjusted operating profit.

Adjusted operating profit is earnings before interest, tax, amortisation of customer relationships, exceptional items, the impact of IAS 29 (until 31 December 2022) and foreign exchange differences (until 31 December 2022).

IAS 29 was applied in the year ended 31 December 2022. The impact of IAS 29 has been removed in arriving at adjusted operating profit, as management believes that the pre-IAS 29 results give a more meaningful presentation of the Group’s underlying performance.

On 1 January 2023, the functional currency of the Turkish business was changed from Turkish Lira to Euro and, as a result, IAS 29 is no longer being applied after this date. Also, after this date, the impact of foreign exchange differences is no longer adjusted for in arriving at adjusted operating profit.

Revenue by geographical market

	2023 £’000	2022 £’000
UK & Ireland	**139,422**	140,066
Europe	**149,063**	149,673
Turkey & International	**19,708**	26,576
Total revenue	**308,193**	316,315

The revenue arising in the UK, being the Company’s country of domicile, was £133,323,000 (2022: £133,458,000).

Adjusted operating profit by geographical market

	2023 £’000	2022 £’000
UK & Ireland	**24,485**	22,716
Europe	**9,061**	13,877
Turkey & International	**1,348**	2,055
Central costs	**(5,606)**	(4,668)
Adjusted operating profit	**29,288**	33,980
Exceptional items	**(2,466)**	(1,809)
Amortisation of customer relationships	**(141)**	(57)
Foreign exchange differences	**—**	(3,446)
Impact of IAS 29	**—**	(6,040)
Operating profit	**26,681**	22,628

In the year ended 31 December 2023 the exceptional items relate to a £2,908,000 restructuring exercise undertaken in quarter four of the year in order to drive cost savings for future periods, partially offset by exceptional income related to the acquisition of Radiators SpA of £442,000.

In the year ended 31 December 2022 the exceptional items within administrative expenses of £755,000 relate to redundancy costs and acquisition costs, and the exceptional item within cost of sales of £1,054,000 relates to the reversal of the IFRS 3 fair value uplift on finished goods and work in progress.

All exceptional items have been presented as such because they are one-off in nature and separate disclosure allows the underlying trading performance of the Group to be better understood.

The revenue information above is based on the locations of the customers. All revenue arises from the sale of goods.

No customer has revenues in excess of 10% of revenue (2022: none).

Non-current operating assets

	2023 **£'000**	2022 £'000
UK	**17,547**	18,823
The Netherlands	**20,581**	22,757
Turkey	**26,500**	26,854
Italy	**26,818**	25,786
Other	**1,052**	1,239
Total	**92,498**	95,459

4 Other operating income/(expenses)

	2023 **£'000**	2022 £'000
Net (loss) / gain on disposal of property, plant and equipment	**(11)**	220
Foreign currency gains / (losses)	**1,736**	(3,446)
Net losses on forward derivative contracts	**(689)**	—
Sundry other expenses – environmental claim	**(104)**	—
Sundry other income	**267**	153
	1,199	(3,073)

5 Finance costs

	2023 **£'000**	2022 £'000
Interest on bank loans	**5,663**	2,564
Amortisation of loan issue costs	**513**	492
Interest expense on defined benefit liabilities	**357**	481
Finance charges payable on lease liabilities	**120**	124
Other finance charges	**1,028**	912
	7,681	4,573

6 Income tax expense

The major components of income tax expense are as follows:

	2023 £'000	2022 £'000
Consolidated income statement		
Current income tax:		
Current income tax charge	**7,214**	4,090
Adjustments in respect of current income tax charge of previous year	**10**	(290)
Deferred tax:		
Relating to origination and reversal of temporary differences	**(3,466)**	2,802
Relating to change in tax rates	**—**	(666)
Income tax expense reported in the income statement	**3,758**	5,936

	2023 £'000	2022 £'000
Consolidated statement of comprehensive income		
Tax related to items recognised in other comprehensive income/(expense) during the year:		
Deferred tax on actuarial loss	**(206)**	(423)
Current tax on monetary items forming part of net investment and on hedges of net investment	**158**	631
Income tax (credited)/expensed to other comprehensive income	**(48)**	208

Reconciliation of tax expense and the accounting profit at the tax rate in the United Kingdom of 23.5% (2022: 19%):

	2023 £'000	2022 £'000
Profit before tax	**19,182**	10,245
Profit before tax multiplied by standard rate of corporation tax in the UK of 23.5% (2022: 19%):	**4,508**	1,947
Adjustments in respect of current income tax charge of previous year	**10**	(290)
Non-deductible expenses	**60**	147
Adjustments due to IAS 29 – non-tax deductible expenses	**—**	4,779
Differences arising due to tax losses	**1,205**	(321)
Other timing differences (including 2023 inflation adjustment to Turkish tax assets)	**(3,163)**	(161)
Benefit of overseas investment incentives	**(263)**	(1,042)
Withholding tax on dividend income	**1,760**	527
Effect of changes in overseas tax rates	**—**	(127)
Effect of different overseas tax rates	**(359)**	1,016
Effect of changes in UK deferred tax rate	**—**	(539)
Total tax expense reported in the income statement	**3,758**	5,936

Deferred tax

Deferred tax relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000
Capital allowances	**279**	204	**(538)**	(730)
Pension	**719**	806	**(275)**	10
Fixed asset fair value adjustments	**(1,421)**	(1,711)	**252**	116
Losses available for offsetting against future income	**4,387**	5,471	**(1,039)**	572
Other temporary differences	**2,503**	(1,984)	**5,066**	(2,104)
Deferred tax credit/(charge)			**3,466**	(2,136)
Net deferred tax assets	**6,467**	2,786		
Reflected in the balance sheet as:				
Deferred tax assets	**6,685**	5,397		
Deferred tax liabilities	**(218)**	(2,611)		
Deferred tax assets, net	**6,467**	2,786		

Reconciliation of deferred tax assets, net

	2023 £'000	2022 £'000
Opening balance as at 1 January	**2,786**	6,158
On business combination	—	315
IAS 29 opening balance sheet adjustment	—	(2,284)
Tax income/(charge) recognised in income statement	**3,466**	(2,136)
Tax income recognised in other comprehensive income/(expense)	**206**	423
Exchange adjustment	**9**	310
Closing balance as at 31 December	**6,467**	2,786

The Group offsets tax assets and liabilities if it has a legally enforceable right to set them off and they are levied by the same tax authority. Deferred tax assets in respect of losses of £2,130,000 (2022: £1,821,000) have been recognised in respect of two (2022: two) loss making subsidiary companies; these are recognised on the grounds of future projected performance.

Deferred tax asset recognition

During the years ended 31 December 2022 and 31 December 2023, the Group chose to derecognise certain tax losses, in particular those arising from Corporate Interest Restriction ("CIR") rules. An increase in debt to finance the acquisition of Radiators SpA and an increase in interest rates mean that these tax losses will take longer to utilise and therefore an element has been derecognised.

The deferred tax assets have been analysed in detail at the year end and the recognition of assets, in particular those in respect of tax losses, has been scrutinised in detail with modelling undertaken to ensure that they are likely to be utilised over a period of time where profitability can be estimated with reasonable certainty.

Unrecognised deferred tax balances

	2023 £'000	2022 £'000
Capital allowances	**20**	17
Losses available for offsetting against future income	**3,733**	2,810
	3,753	2,827

The Group has tax losses which arose in the United Kingdom of £14,932,000 (2022: £11,240,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they either relate to CIR losses which cannot be reliably utilised in the short term or they arose prior to April 2017 in subsidiaries that are not profit making and where there is no evidence of recoverability in the near future.

Changes in the corporate income tax rate

The UK corporation tax rate rose to 25% from 1 April 2023.

7 Earnings per share

	2023 £'000	2022 £'000
Net profit for the year attributable to owners of the parent	**15,424**	4,309
Exceptional items	**2,466**	1,809
Amortisation of customer relationships	**141**	57
Foreign exchange differences	**—**	3,446
Impact of IAS 29	**—**	13,906
Tax on exceptional items	**(651)**	(462)
Tax on foreign exchange differences	**—**	(656)
Tax on amortisation of customer relationships	**(39)**	(16)
Tax on IAS 29	**—**	1,940
Adjusted net profit for the year attributable to owners of the parent	**17,341**	24,333

IAS 29 was applied in the year ended 31 December 2022. The impact of IAS 29 has been removed in arriving at adjusted net profit, as management believes that the pre-IAS 29 results give a more meaningful presentation of the Group's underlying performance.

On 1 January 2023, the functional currency of the Turkish business was changed from Turkish Lira to Euro and, as a result, IAS 29 is no longer being applied after this date. Also, after this date, the impact of foreign exchange differences is no longer adjusted for in arriving at adjusted net profit.

	2023 Number	2022 Number
Basic weighted average number of shares in issue	**127,352,555**	127,352,555
Diluted weighted average number of shares in issue	**127,352,555**	127,352,555
Earnings per share		
Basic earnings per share (pence per share)	**12.11**	3.38
Diluted earnings per share (pence per share)	**12.11**	3.38
Adjusted earnings per share		
Basic earnings per share (pence per share)	**13.62**	19.11
Diluted earnings per share (pence per share)	**13.62**	19.11

8 Dividends paid

The Board is recommending a final dividend of 4.72 pence per share (2022: 4.72 pence per share), which, if approved, will mean a final dividend payment of £6,011,000 (2022: £6,011,000).

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.

	2023 £'000	2022 £'000
Declared and paid during the year		
Equity dividend on ordinary shares:		
Final dividend for 2022: 4.72p per share (2021: 0.96p per share)	**6,011**	1,223
Interim dividend for 2023: 2.92p per share (2022: 2.92p per share)	**3,718**	3,718
	9,729	4,941

	2023 £'000	2022 £'000
Dividend proposed (not recognised as a liability)		
Equity dividend on ordinary shares:		
Final dividend for 2023: 4.72p per share (2022: 4.72p per share)	**6,011**	6,011

9 Property, plant and equipment

	Freehold land and buildings £'000	Leasehold buildings £'000	Assets under construction £'000	Plant and equipment £'000	Fixtures, fittings and motor vehicles £'000	Total £'000
Cost						
At 31 December 2021	21,828	11,019	4,768	47,906	6,919	92,440
IAS 29 opening adjustment	7,282	—	31	14,517	1,005	22,835
At 1 January 2022	29,110	11,019	4,799	62,423	7,924	115,275
On business combination	10,608	127	974	4,321	1,498	17,528
Additions	228	427	7,773	1,577	1,276	11,281
Transfers	1,820	—	(6,183)	4,068	295	—
Disposals	—	—	—	(94)	(488)	(582)
IAS 29 adjustment	5,528	—	—	13,853	922	20,303
Exchange adjustment	(821)	649	(94)	(2,760)	(193)	(3,219)
At 31 December 2022	46,473	12,222	7,269	83,388	11,234	160,586
Additions	**233**	**1,100**	**3,616**	**2,833**	**1,483**	**9,265**
Transfers	**406**	**—**	**(9,539)**	**8,434**	**699**	**—**
Disposals	**(88)**	**(292)**	**—**	**(3,779)**	**(1,006)**	**(5,165)**
Exchange adjustment	**(822)**	**(289)**	**(80)**	**(1,798)**	**(130)**	**(3,119)**
At 31 December 2023	**46,202**	**12,741**	**1,266**	**89,078**	**12,280**	**161,567**
Accumulated depreciation and impairment						
At 31 December 2021	9,302	3,123	—	21,316	5,005	38,746
IAS 29 opening adjustment	1,845	—	—	10,748	847	13,440
At 1 January 2022	11,147	3,123	—	32,064	5,852	52,186
Depreciation charge	1,289	1,330	—	5,785	1,296	9,700
Transfers	—	—	—	(101)	101	—
Disposals	—	—	—	(87)	(457)	(544)
IAS 29 adjustment	1,180	—	—	7,502	575	9,257
Exchange adjustment	(241)	230	—	(1,399)	(207)	(1,617)
At 31 December 2022	13,375	4,683	—	43,764	7,160	68,982
Depreciation charge	**1,634**	**1,482**	**—**	**6,676**	**1,823**	**11,615**
Disposals	**(88)**	**(292)**	**—**	**(3,577)**	**(877)**	**(4,834)**
Exchange adjustment	**(172)**	**(113)**	**—**	**(1,097)**	**(61)**	**(1,443)**
At 31 December 2023	**14,749**	**5,760**	**—**	**45,766**	**8,045**	**74,320**
Net book value						
At 31 December 2023	**31,453**	**6,981**	**1,266**	**43,312**	**4,235**	**87,247**
At 31 December 2022	33,098	7,539	7,269	39,624	4,074	91,604
At 31 December 2021	12,526	7,896	4,768	26,590	1,914	53,694

The carrying value of right-of-use assets within property, plant and equipment, by line item, at the year end is:

	2023 £'000	2022 £'000
Leasehold buildings	**6,927**	7,466
Plant and equipment	**1,255**	896
Fixtures, fittings and motor vehicles	**1,700**	1,672
	9,882	10,034

Right-of-use asset additions within property, plant and equipment, by line item, during the year are:

	2023 £'000	2022 £'000
Leasehold buildings	**1,090**	418
Plant and equipment	**731**	153
Fixtures, fittings and motor vehicles	**858**	1,039
	2,679	1,610

Depreciation of right-of-use assets within property, plant and equipment, by line item, during the year is:

	2023 **£'000**	2022 £'000
Leasehold buildings	**1,456**	1,307
Plant and equipment	**374**	282
Fixtures, fittings and motor vehicles	**700**	439
	2,530	2,028

Land and buildings with a carrying amount of £20,022,000 (2022: £21,547,000) are subject to a first charge to secure the Group's bank loan.

No borrowing costs have been capitalised since the assets have not met the criteria for qualifying assets.

10 Intangible assets

	Goodwill £'000	Customer relationships £'000	Technology and software costs £'000	Total £'000
Cost				
At 1 January 2023	**1,294**	**1,865**	**865**	**4,024**
Final fair value adjustment on business combination	**1,481**	**—**	**—**	**1,481**
Additions	**—**	**—**	**507**	**507**
Disposals	**—**	**—**	**(32)**	**(32)**
Exchange adjustment	**(43)**	**(43)**	**(21)**	**(107)**
At 31 December 2023	**2,732**	**1,822**	**1,319**	**5,873**
Accumulated amortisation and impairment				
At 1 January 2023	**—**	**59**	**110**	**169**
Depreciation charge	**—**	**141**	**316**	**457**
Disposals	**—**	**—**	**—**	**—**
Exchange adjustment	**—**	**(1)**	**(3)**	**(4)**
At 31 December 2023	**—**	**199**	**423**	**622**
Net book value				
At 31 December 2023	**2,732**	**1,623**	**896**	**5,251**
At 31 December 2022	**1,294**	**1,806**	**755**	**3,855**

Included in technology and software costs are assets under construction of £126,000 (2022: £345,000), which are not amortised. The remaining amortisation period of the customer relationships, being those acquired upon the acquisition of Radiators SpA, is eleven years and seven months.

Impairment assessment of goodwill

Goodwill is not amortised but is subject to annual impairment testing. All of the goodwill recognised is allocated to a single cash-generating unit ("CGU"), being the Radiators SpA division. A CGU represents the lowest level in the Group at which goodwill is monitored for internal management purposes.

Impairment tests on the carrying amounts of goodwill are performed by analysing the carrying amount allocated to each CGU against its value in use. Value in use is calculated for each CGU as the net present value of that CGU's discounted future pre-tax cash flows covering a three-year period. These pre-tax cash flows are based on budgeted cash flows information for a period of three years. Terminal growth rates of 2% have been applied beyond this, based on historical macroeconomic performance and projections of the sector served by the CGUs.

When assessing for impairment of goodwill, management has considered the impact of climate change, particularly in the context of the risks and opportunities identified within the Task Force on Climate-related Financial Disclosures Report, and has 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.

A pre-tax discount rate of 15.32% 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. Other key assumptions include EBITDA, which is included in the terminal value at a margin of 7.7%.

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. Details of the sensitivity analysis are disclosed in relation to Radiators SpA because it is sensitive to changes in assumptions. The base case scenario for Radiators SpA has headroom of £1.9 million. A change in EBITDA margin of 0.5% percentage points, holding all other assumptions constant, would erode the headroom to zero for Radiators SpA. A change in discount rate of 0.75%, holding all other assumptions constant, would erode the headroom to zero for Radiators SpA. A reasonably possible change to the EBITDA margin of 1.0% would give rise to an impairment of £1.6 million.

11 Business combinations

On 13 July 2022, Stelrad Radiator Holdings Limited, a wholly owned subsidiary of the Group, acquired 100% of Radiators SpA, a radiator manufacturer incorporated in Italy. The total consideration paid was €28,346,000.

The fair value of the net assets acquired was as follows:

	Book value £'000	Provisional fair value adjustments £'000	Fair value at 31 December 2022 £'000	Final fair value adjustments £'000	Fair value at 31 December 2023 £'000
Intangible assets	713	1,761	2,474	—	2,474
Property, plant and equipment	11,054	6,474	17,528	—	17,528
Inventory	24,499	1,034	25,533	(398)	25,135
Trade and other receivables	17,837	—	17,837	(952)	16,885
Trade and other payables	(28,403)	—	(28,403)	—	(28,403)
Deferred taxation	1,853	(1,538)	315	—	315
Current taxation	(49)	—	(49)	—	(49)
Cash and cash equivalents	3,490	—	3,490	—	3,490
Provisions	(3,580)	—	(3,580)	(131)	(3,711)
Pension liabilities	(1,033)	—	(1,033)	—	(1,033)
Loans and other borrowings	(11,360)	—	(11,360)	—	(11,360)
Total identifiable net assets	**15,021**	**7,731**	**22,752**	**(1,481)**	**21,271**
Goodwill on the business combination			**1,222**		**2,703**
Discharged by:					
Cash consideration			**23,974**		**23,974**

During the year ended 31 December 2023, the provisional fair values of the identifiable net assets were revisited with the fair value reduced by £1,481,000 which increased the goodwill value to £2,703,000. Goodwill of £2,703,000 reflects certain intangibles that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the business combination and the experience and skill of the acquired workforce. The fair value of the customer relationships was identified and included in intangible assets.

The gross amount of trade and other receivables is £18,681,000 in both the provisional and final fair values. All of the trade and other receivables are expected to be collected in full, other than those that have been provided for.

Transaction costs relating to professional fees associated with the business combination in the year ended 31 December 2023 were £81,000 (2022: £251,000) and have been expensed.

During the year ended 31 December 2022, Radiators SpA generated revenue of £31,541,000 and a loss of £405,000 (adjusted profit of £485,000) in the period from acquisition to 31 December 2022 which are included in the consolidated statement of comprehensive income for this reporting period. If the combination had taken place at 1 January 2022, the Group's revenue would have been £40,588,000 higher and the profit for the year from continuing operations would have been £1,296,000 lower than reported.

12 Financial liabilities

a) Financial liabilities – other – not interest bearing

Financial instruments through profit or loss reflect the positive change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

Liabilities	**2023 £'000**	2022 £'000
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedges – foreign exchange forward contracts	**318**	—
Total instruments at fair value through profit or loss	**318**	—
Current	**318**	—
Non-current	**—**	—

b) Financial liabilities – interest bearing loans and borrowings

	Effective interest rate %	Maturity	**2023 £'000**	2022 £'000
Current interest-bearing loans and borrowings				
Lease liabilities			**2,469**	1,520
			2,469	1,520
Non-current interest-bearing loans and borrowings				
Lease liabilities			**7,402**	8,516
Revolving credit facility – GBP	SONIA + 2.25%	9 Nov 2026	**46,900**	55,250
Revolving credit facility – Euro	Euribor + 2.25%	9 Nov 2026	**10,399**	10,647
Term loan	Euribor + 2.25%	9 Nov 2026	**24,563**	25,150
Unamortised loan costs			**(1,037)**	(1,050)
			88,227	98,513
Total interest-bearing loans and borrowings			**90,696**	100,033

On 10 November 2021, the Group refinanced its external debt as part of the IPO and entered into an £80 million revolving credit facility ("RCF") jointly financed by National Westminster Bank plc and Barclays Bank PLC, which was first drawn on 10 November 2021.

On 8 July 2022, the £80 million revolving credit facility was increased by £20 million by means of an accordion option. The facility consists of a £76.027 million revolving credit facility and a €28.346 million term loan facility. During the year ended 31 December 2023, the £76.027 million revolving credit facility and the €28.346 million term loan facility were extended by two years to 9 November 2026 by exercising the two-year extension option included in the facility agreement.

The RCF and term loan facilities are secured on the assets of certain subsidiaries within the Group.

c) Changes in liabilities arising from financing activities

	I January 2023 £'000	Cash flows £'000	Non-cash changes £'000	**31 December 2023 £'000**
Revolving credit facility – GBP	55,250	(8,350)	—	**46,900**
Revolving credit facility – Euro	10,647	—	(248)	**10,399**
Term loan	25,150	—	(587)	**24,563**
Lease liabilities	10,036	(2,619)	2,454	**9,871**
Cash and cash equivalents	(22,641)	794	405	**(21,442)**
Net liabilities arising from financing activities	78,442	(10,175)	2,024	**70,291**

13 Inventories

	2023 **£'000**	2022 £'000
Raw materials – cost	**21,723**	32,111
Work in progress – cost	**3,327**	3,530
Finished goods – lower of cost and net realisable value	**34,509**	38,974
Other consumables	**3,817**	3,236
	63,376	77,851

The cost of inventories recognised as an expense in the year was £221,343,000 (2022: £236,248,000). The provision for the impairment of stocks increased in the year, giving rise to a cost of £355,000 (2022: cost of £138,000). At 31 December 2023, the provision for the impairment of stocks was £3,347,000 (2022: £2,640,000).

14 Trade and other receivables

	2023 **£'000**	2022 £'000
Current		
Trade receivables	**47,619**	55,739
Other receivables	**2,462**	4,197
Prepayments	**593**	561
	50,674	60,497
Non-current		
Other receivables	**301**	317
	301	317

The table below sets out the movements in the allowance for expected credit losses of trade receivables:

	2023 **£'000**	2022 £'000
At 1 January	**763**	204
On business combination	**—**	844
Charge for the year	**155**	—
Utilised	**—**	(223)
Unused amounts reversed	**(95)**	(122)
Exchange adjustment	**(17)**	60
At 31 December	**806**	763

As at 31 December, the details of the provision matrix used to calculate provisions for trade receivables (with the ageing gross of impairment) are as follows:

	Total £'000	Current £'000	<30 days £'000	30–90 days £'000	>90 days £'000
2023					
Gross carrying amount	**48,425**	**41,635**	**4,600**	**777**	**1,413**
Expected credit loss rate (%)	**2**	**—**	**1**	**16**	**45**
Expected credit loss	**806**	**—**	**46**	**125**	**635**
2022					
Gross carrying amount	56,502	49,403	3,217	3,056	826
Expected credit loss rate (%)	1	—	1	3	77
Expected credit loss	763	—	32	92	639

15 Cash and cash equivalents

	2023 **£'000**	2022 £'000
Cash at bank and on hand	**21,442**	22,641

16 Trade and other payables

	2023	2022
	£'000	£'000
Current		
Trade payables	**49,263**	73,903
Other payables and accruals	**22,319**	18,860
Other taxes and social security	**5,685**	6,045
Interest payable	**789**	406
	78,056	99,214

17 Provisions

	Warranty	Compensation fund	Restructuring	Unused vacation	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2022	35	—	—	302	337
On business combination	587	1,125	1,868	—	3,580
Arising during the year	218	12	—	537	767
Utilised	(274)	(5)	(1,184)	(557)	(2,020)
Unused amounts reversed	—	—	(27)	(16)	(43)
Exchange adjustment	27	67	62	(58)	98
At 31 December 2022	593	1,199	719	208	2,719
On business combination	**—**	**—**	**131**	**—**	**131**
Arising during the year	**864**	**50**	**2,652**	**728**	**4,294**
Utilised	**(696)**	**—**	**(799)**	**(506)**	**(2,001)**
Exchange adjustment	**(15)**	**(29)**	**(19)**	**(83)**	**(146)**
At 31 December 2023	**746**	**1,220**	**2,684**	**347**	**4,997**
Current	194	—	2,684	139	3,017
Non-current	552	1,220	—	208	1,980

Compensation fund

The supplementary customer compensation fund is made in accordance with European legislation to provide for potential severance payments to agents.

Restructuring

Restructuring provisions at 31 December 2023 relate to a Group-wide restructuring programme undertaken to drive cost savings for future periods.

Restructuring provisions at 31 December 2022 related to the remaining costs still to be settled in respect of the closure of a manufacturing site in Italy. The site was closed prior to the acquisition of Radiators SpA and the costs were provided for at the point of acquisition.

Unused vacation

A provision is recognised in respect of an unused vacation pay liability due to certain employees in Turkey. The timing of the provision is dependent on the rate at which employees take additional vacation.

18 Share capital and reserves

	2023	**2023**	2022	2022
	Number	**£**	Number	£
Authorised, called up and fully paid				
Ordinary shares of £0.001 each	**127,352,555**	**127,353**	127,352,555	127,353
		127,353		127,353

On 25 January 2022, a capital reduction application was approved by the courts, reducing the value of ordinary shares in issue from £1 to £0.001. Under the same application the courts approved the reduction of the Company's share premium account in full. The reduction of share capital and share premium was transferred to retained earnings.

19 Commitments and contingencies

Commitments

Amounts contracted for but not provided in the financial statements amounted to £215,000 (2022: £433,000) for the Group. All amounts relate to property, plant and equipment.

Contingent liabilities

Termo Teknik Ticaret ve Sanayi A.S. has issued letters of guarantee and letters of credit to its steel suppliers amounting to $18,309,000 (2022: $22,685,000) and $10,204,000 (2022: $11,175,000) respectively. Termo Teknik Ticaret ve Sanayi A.S. has also issued letters of guarantee denominated in Turkish Lira totalling TL14,876,000 (2022: TL13,220,000).

The Group enters into various forward currency contracts to manage the risk of foreign currency exposures on certain purchases and sales. The total amount of unsettled forward contracts as at 31 December 2023 is £12,197,000 (2022: £nil) on purchases and £20,750,000 (2022: £nil) on sales.

The fair value of the unsettled forward contracts held at the balance sheet date, determined by reference to their market values, is a liability of £318,000 (2022: £nil).

As part of the £100 million loan facility, entered into in November 2021, and amended on 8 July 2022, the Group is party to a cross-collateral agreement secured on specific assets of certain Group companies. No liability is expected to arise from the agreement.

Under an unlimited multilateral guarantee, the Company, in common with certain fellow subsidiary undertakings in the UK, has jointly and severally guaranteed the obligations falling due under the Company's net overdraft facilities. No liability is expected to arise from this arrangement.

Reconciliation of alternative performance measures and glossary of terms

The Group uses some alternative performance measures to monitor and assess the underlying performance of the business. These measures include adjusted operating profit and adjusted profit for the year. These measures are deemed useful as they aid comparability year on year. The use of alternative performance measures compared to statutory IFRS measures does give rise to limitations, including a lack of comparability across companies and the potential for them to present a more favourable view. Further, these measures are not a substitute for IFRS measures of profit. Alternative performance measures are defined in the glossary of terms below. Alternative performance measures are reconciled to the appropriate financial statements line item being disclosed.

On 1 January 2023, the functional currency of the Turkish business was changed from Turkish Lira to Euro and, as a result, IAS 29 is no longer being applied after this date. As a result of the change in functional currency, the foreign exchange differences are no longer adjusted for in the Group's alternative performance measures and the IAS 29 differences no longer arise.

Reconciliation of adjusted profit for the year and adjusted earnings per share

	2023	2022
	£'000	£'000
Profit for the year	**15,424**	4,309
Adjusted for:		
Exceptional items	**2,466**	1,809
Amortisation of customer relationships	**141**	57
Foreign exchange differences (2022 only)	**—**	3,446
Impact of IAS 29 (2022 only)	**—**	13,906
Tax on exceptional items	**(651)**	(462)
Tax on foreign exchange differences (2022 only)	**—**	(656)
Tax on amortisation of customer relationships	**(39)**	(16)
Tax on impact of IAS 29 (2022 only)	**—**	1,940
Adjusted profit for the year	**17,341**	24,333
Basic weighted average number of shares in issue	**127,352,555**	127,352,555
Diluted weighted average number of shares in issue	**127,352,555**	127,352,555
Earnings per share		
Basic earnings per share (pence per share)	**12.11**	3.38
Diluted earnings per share (pence per share)	**12.11**	3.38
Adjusted earnings per share		
Basic earnings per share (pence per share)	**13.62**	19.11
Diluted earnings per share (pence per share)	**13.62**	19.11

Reconciliation of adjusted operating profit and EBITDA

	2023	2022
	£'000	£'000
Operating profit	**26,681**	22,628
Adjusted for:		
Exceptional items	**2,466**	1,809
Amortisation of customer relationships	**141**	57
Foreign exchange differences (2022 only)	**—**	3,446
Impact of IAS 29 (2022 only)	**—**	6,040
Adjusted operating profit	**29,288**	33,980
Adjusted for:		
Depreciation (excluding IAS 29 depreciation of £1,628,000 - 2022 only)	**11,615**	8,072
Amortisation (excluding customer relationships)	**316**	106
EBITDA	**41,219**	42,158

Reconciliation of cash flow from operations, adjusted cash flow from operations and free cash flow

	2023	2022
	£'000	£'000
EBITDA (see reconciliation above)	**41,219**	42,158
Adjusted for:		
Exceptional items	**(2,466)**	(1,809)
Loss/(gain) on disposal of property, plant and equipment	**11**	(220)
Share-based payments	**515**	250
Working capital adjustments (adjusted for foreign exchange – 2022 only)	**1,609**	(9,150)
Net capital expenditure	**(9,360)**	(11,568)
Cash flow from operations	**31,528**	19,661
Income tax paid	**(7,497)**	(3,801)
Interest paid – net	**(6,246)**	(3,219)
Free cash flow	**17,785**	12,641

Reconciliation of net debt and leverage before finance leases

	2023 £'000	2022 £'000
Total interest-bearing loans and borrowings	**90,696**	100,033
Cash and cash equivalents	**(21,442)**	(22,641)
Adjusted for:		
Unamortised loan costs	**1,037**	1,050
Lease liabilities	**(9,871)**	(10,036)
Net debt before finance leases	**60,420**	68,406
EBITDA (see reconciliation above)	**41,219**	42,158
Debt leverage ratio before finance leases	**1.47**	1.62

Adjusted cash flow from operations: cash flow from operations before exceptional items and the impact of exceptional items on working capital.

Adjusted EPS: adjusted earnings per share is calculated on adjusted profit for the year divided by the weighted average number of shares in issue.

Adjusted operating profit: operating profit before exceptional items, amortisation of customer relationships, foreign exchange differences (until 31 December 2022) and the impact of IAS 29 (until 31 December 2022).

Adjusted profit for the year: earnings before exceptional items, amortisation of customer relationships, foreign exchange differences (until 31 December 2022), the impact of IAS 29 (until 31 December 2022) and tax thereon.

Business capital employed: the sum of property, plant and equipment, technology and software costs, trade and other receivables, inventories, other current financial assets, provisions, net employee defined benefit liabilities, trade and other payables and other current financial liabilities.

Cash flow from operations: EBITDA, less exceptional items, plus or minus movements in operating working capital, less share-based payment expense, less net investments in property, plant and equipment, less technology and software costs, less finance lease payments.

Cash flow from operations conversion: calculated by dividing cash flow from operations by adjusted operating profit.

Contribution: revenue from sale of the Group's products less any cost of direct materials, variable distribution costs, variable selling costs, direct labour costs and other variable costs.

EBITDA: profit before interest, taxation, depreciation, amortisation, exceptional items, foreign exchange differences (until 31 December 2022) and the impact of IAS 29 (until 31 December 2022).

Free cash flow: cash flow from operations less tax paid less net interest paid.

Return on capital employed: adjusted operating profit as a percentage of business capital employed.

RMI: repair, maintenance and improvement activities.

Certain statements in this presentation are forward-looking statements which are based on Stelrad Group plc's expectations, intentions and projections regarding its future performance, anticipated events or trends and other matters that are not historical facts. Such forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as "aim", "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "believe", or other words of similar meaning. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Given these risks and uncertainties, prospective investors are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date of such statements and, except as required by applicable law, Stelrad Group plc undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.