FOR IMMEDIATE RELEASE **26 April 2023**

PENNANT INTERNATIONAL GROUP PLC

Final Results for the Year Ended 31 December 2022

Continued Positive Trading Momentum;

Full-Year EBITA Profit of £0.5m

Transformation of business mix produces significantly increased gross margin;
Further growth in recurring revenues; Robust order book

Pennant International Group plc (AIM:PEN)("**Pennant**", the "**Group**", the "**Company**"), a leading global provider of training technology and integrated product support solutions, announces its Final Results for the Financial Year ended 31 December 2022.

Commenting on the Group's performance, Phil Cotton, Chair, said:

"I am pleased to report that the Group has delivered a much-improved performance in the year ended 31 December 2022, with profitability in-line with market expectations despite reduced revenues, achieving an EBITA profit of £0.5 million for the year (2021: EBITA loss of £0.8 million) and an EBITDA profit of £1.0 million (2021: EBITDA loss of £0.1 million).

The improved performance was primarily the result of the progress made towards our technology and software transformation, coupled with the completion of the legacy engineered solution contract. The Group's ongoing focus on increasing revenues from software and technical services is reflected in these results, and generated revenues totalling £10.2 million in 2022 (2021: £9.1 million)."

Financial Summary

- Group revenues of £13.7 million (2021: £16.0 million);
- Gross profit margin of 42% (2021: 27%);
- EBITA profit of £0.5 million (2021: EBITA loss of £0.8 million);
- Loss before tax of £1.4 million (2021: loss before tax of £2.5 million);
- Loss for the year attributable to shareholders of £0.9 million (2021: loss of £1.6 million);
- Basic loss per share of 2.89p (2021: loss of 4.41p)
- Group net assets at year-end of £10.5 million (2021: £11.1 million);
- Net debt at year-end of £0.4 million (2021: net debt of £3.5 million);
- No final dividend recommended (2021: £NIL);
- Three-year order book at year-end stood at £25 million (2021: £22 million).

Post Period-End

- Acquisition of Track Access Productions Limited.
- Board strengthened with new appointments.
- Positive net cash position achieved in Q2 2023.

Operational Summary

A summary of new contract awards, amendments and operational achievements during the year is set out below:

- Contract secured from Boeing Defence UK Limited for the upgrade of UK Apache training equipment, worth £8.8 million over three years, with the initial engineering milestone event successfully passed.
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- Delivery and full device acceptance achieved on the £3.5 million UK Helicopter programme.
- 'Launch partner' programme for the new GenS software product initiated with key customers signed up.
- Surplus freehold site (Pennant Court) sold in August for £2.1 million with proceeds used to paydown borrowings.

On current trading and prospects, Mr Cotton concluded:

"Over the last financial year, the business has become more resilient as we continue to deliver on the critical objective of increasing visibility and recurrence of earnings, especially those derived from software and technical services.

The global economic and geo-political environment and supportive strategic backdrop for Pennant's capabilities means that the Board believes that the Group's underlying strengths - our long-term customer relationships with governments and major OEMs, our specialist services together with our quality-assured reputation - provide solid foundations for continued recovery and long-term success."

This announcement contains inside information for the purposes of Article 7 of the UK version of Regulation (EU) No 596/2014 which is part of UK law by virtue of the European Union (Withdrawal) Act 2018, as amended ("MAR"). Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

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CHAIRMAN'S STATEMENT

Results in-line, software & technical services focus, strong order book

The Group has delivered a much-improved performance in the year ended 31 December 2022 (the "**Period**") with profitability in-line with market expectations despite an expected decrease in revenues, achieving an EBITA profit of £0.5 million for the year (2021: EBITA loss of £0.8 million) and an EBITDA profit of £1.0 million (2021: EBITDA loss of £0.1 million).

The improved performance was primarily the result of the progress made towards our technology and software transformation, coupled with the completion of the legacy engineered solution contract. The Group's focus on increasing higher margin revenues from software and technical services is being reflected in the results, with such revenues totalling £10.2 million in 2022 (2021: £9.1 million).

Following a strong order intake in 2022, including securing an £8.8 million contract with Boeing Defence UK for the upgrade of Apache training devices, the Group has a contracted year end order book of £25 million (2021: £22 million), underpinning forecasts and providing good visibility for 2023 and beyond.

Strategy

Our focus remains firmly on increasing the proportion of the Group's revenues which derive from the sale of software and technical services, particularly those of a recurring nature, while expanding the Group's market coverage and addressing gaps in the product range through the Group's 'Innovation' programmes.

In addition, the Group continues to seek other strategic opportunities to partner with or acquire complementary businesses.

Post Period-end, the Group announced the completion of the acquisition of Track Access Productions, a provider of driver training, route mapping and route familiarisation services to the UK rail industry, which aligns with the Group's software and technical services strategy and is designed to enhance the Group's rail capability.

Key Financials

For the year ended 31 December 2022, the Group recorded consolidated revenues of £13.7 million (2021: £16.0 million). Turnover was underpinned by the Group's contracted revenue base, in particular the continued delivery of the Group's overseas services contracts and the successful achievement of programme deliveries.

The Group's gross margin for the year increased significantly to 42% (2021: 27%) due to the change in sales mix, and as a result the Group posted a consolidated EBITA profit of £0.5 million (2021: EBITA loss £0.8 million) in line with market expectations.

The Group's net debt significantly reduced during the Period from £3.5 million to £0.4 million as a result of improved trading performance, delivering against contract milestones and the rationalisation of the property portfolio.

Dividend

Taking account of the Group's 2022 financial performance, the trading outlook and the Group's cash position, the Directors believe that it is both prudent and, in the Company's, and shareholders' current best interests to retain cash for working capital.

The Board will therefore not be recommending the payment of a final dividend for the year ended 31 December 2022.

Our People

To deliver a successful performance in 2023, the Group must have a committed workforce, appropriately incentivised and motivated. I would like to publicly thank all our employees for their commitment to supporting the Group and for the resilience and flexibility they have demonstrated in meeting our customer's needs.

The Group is constantly seeking ways to attract, retain and reward the specialist skills that we need in order to deliver. During the Period the business undertook a detailed review of Pennant's Employee Value Proposition, which resulted in the implementation of an enhanced set of employee benefits across the Group coupled with an unbudgeted interim pay award.

It is our people we rely on to deliver our strategy and in order to deliver successful results in the current year and beyond, we must continue to pay particular attention to their needs and as a Board we remained focused on supporting them.

Our Culture

The Board remains committed to ensuring that all Group employees understand and embody the Group's 'Core Values'. These underpin the approach to all activities whether they be in an operational or customer facing environment. These values are also critical in terms of the approach taken to all our policies whether they are mandated by law (such as anti-bribery or anti-counterfeiting laws) or mandated by behavioural ethics (such as fair treatment and equality of opportunity), treating all individuals with the respect they deserve regardless of their position. This requires strong leadership at all levels.

Governance

The Board is committed to maintaining robust corporate governance. It has worked closely with its advisors and in 2022 monitored governance frameworks to ensure strong, proportionate governance throughout the Group; this is important given the number of geographies in which we are present. The Board has established appropriate risk management procedures and keeps key risks to the Group under regular review.

Board Changes

During the Period and post Period-end, there were a number of Board changes.

Sadly, in the Autumn of 2022 our Chairman, John Ponsonby OBE, died following a short period of illness. On behalf of the Board, I would like to take this opportunity to recognise the significant contribution John made to Pennant during his tenure – he was an inspirational leader and is sadly missed by everyone at Pennant.

On 24 February 2023 it was announced that I would be succeeding John as Chair. It is an honour and a privilege to be appointed and to have the opportunity to continue John's work.

We were delighted to appoint Michael Brinson to the Board as Chief Financial Officer with effect from 1 January 2023. Michael joined the Group as Head of Finance in February 2020. Also in January 2023, the Group announced the appointment of Deborah Wilkinson as Non-Executive Director with effect from 1 February 2023.

Encouraging outlook

Over the past Period the business has become more resilient as we continue to deliver on the critical objective of increasing visibility and recurrence of earnings, especially those derived from software and technical services.

The global economic and geo-political environment and supportive strategic backdrop for Pennant's capabilities means that the Board believes that the Group's underlying strengths - our long-term customer relationships with governments and major OEMs, our specialist services together with our quality-assured reputation - provide solid foundations for continued recovery and long-term success.

With our contracted three-year order book, valued at over £25 million (with £13 million scheduled for delivery in 2023) underpinning forecasts, further enhanced by the post Period end acquisition, the Board is confident about prospects for 2023 and beyond.

P Cotton
Chairman

CHIEF EXECUTIVE'S REVIEW

Software & services transformation, momentum building

2022 saw the acceleration of the Group's strategy with the focus on software and higher margin software-linked activities, the impact of which is now starting to come through in our financial performance.

As a result, Group profit for the year was in line with expectations and represents the third consecutive six-month trading period where we have reported a positive EBITA.

Pennant's return to EBITA profitability coupled with expanding gross margins and strong order intake, indicates momentum is building.

Operational Highlights

During the Period, Pennant realigned its operations to enable effective and efficient global delivery, by organising the Group into three key regions (UK & Europe, North America, and Australasia).

This was designed to allow the 'full spectrum' of Pennant products and services to be offered and delivered in across all three geographical regions.

Over this Period the strategic backdrop for our products and services has shifted. The Russian invasion of Ukraine has seen a heightened focus amongst governments, particularly European and NATO members on their spending plans on defence.

It is difficult to predict the duration of the conflict and impact on the Group's trading but it is clear that Pennant is well positioned, in particular the integrated product support process and the management of data is becoming evermore critical and the cost and complexity of programs is directly impacting the training requirements.

The table below highlights Pennant's regional revenue for 2021 and 2022.

	Regional revenue	
	2022	2021
	£000s	£000s
UK & Europe	5,557	8,161
North America	4,985	4,451
Australasia	3,144	3,353
Total	**13,686**	**15,965**

<u>UK & Europe</u>

Revenue generated in the UK & Europe region during 2022 was low by historic levels, at £5.6 million (2021: £8.2 million).

Order intake improved with the Group securing an £8.8 million contract, over three years, with Boeing Defence UK, and with recent events highlighting the importance of national security and strategic investment in capability the outlook appears to be improving.

In terms of operational delivery, the region had a successful Period with notable highlights including site acceptance and final delivery of a UK Helicopter trainer programme, achieved on time and on budget. Following the contract award, the business successfully passed the initial engineering milestone event on the Apache upgrade programme and successfully completed delivery of all four MTE training devices to General Dynamics UK.

CHIEF EXECUTIVE'S REVIEW (CONTINUED)

With the Group's increasing software focus and reduced reliance on resource-intensive hardware engineering activities, the Board commissioned a comprehensive review of the Group's UK facilities during 2022. Recognising a reduced requirement for space at its Cheltenham operating sites, the Board decided to market for sale the Group's former Cheltenham head office, Pennant Court which was sold in August 2022 for £2.1 million with proceeds used to paydown borrowings. The profit generated on this disposal was £0.37 million.

As a result of this facilities review, the Group also terminated its office lease in Stevenage. The Group continues to have sufficient UK facilities to service its order book and pipeline opportunities with 30,000 square feet of retained facilities in Cheltenham alone.

North America

Our North American business performed well in 2022 reporting 12% growth in revenue, with approximately 75% of its annual revenue recurring.

Pennant's long-term contract with the Canadian Department of National Defence was successfully extended to the end of 2023 and the business secured a second software and services order in the commercial aerospace sector (overall order value: USD$1.7 million), for a new strategic customer which underpinned the growth.

Australasia

Our Australasia business enjoyed a solid year and delivered results broadly in line with the prior year.

Pennant's existing long term technical services contract in Wagga Wagga continued to perform well and was extended into 2025 (year 12 out of 20 year framework).

The transformation to longer term software and technical services has been accelerated with new contracts secured with the Australian Defence Force for technical publications and data conversion.

The Group also secured its first 'Launch Partner' to participate in a programme of testing and product promotion for the new GenS product signed in Australasia.

CHIEF EXECUTIVE'S REVIEW (CONTINUED)

Investing in the future

In line with the Group's core strategic objectives, investment in innovation has been targeted to drive growth and expand the Group's market coverage.

During the Period the Group invested circa £1.1 million in the development of new and enhanced solutions with the aim of improving the overall customer proposition.

The following new products are under development:

- Continued development of the new GenS software solution (OmegaPS successor product) with release of version 2.0 scheduled for May 2023
- Development of next generation of training aids – modular, software / technology led.

Pennant anticipates that it will continue to invest in its software products and technology-led software solutions during 2023 and expects the level of investment to be at a higher level than 2022.

The Group also has an active pipeline of potential product innovations and improvements that are undergoing a detailed assessment process with a view to obtaining Board funding approval if a business case can be established.

Year-end order book & pipeline

At 31 December 2022, the Group's three-year contracted order book stood at £25 million (2021: £22 million), of which £13 million of revenue (2021: £10 million) is scheduled for recognition in 2023 based on anticipated completion of generic products, execution of software & services projects and progress made on engineered-to-order contracts.

Of the total order book, 50% (2021: 42%) is denominated in sterling, 12% (2021: 31%) is denominated in Canadian dollars, 15% is denominated in US dollars (2021: 5%) and 23% (2021: 22%) is denominated in Australian dollars.

The overall value of the Group's active pipeline at Period-end was in excess of £70 million.

Post Period-end – acquisition

Post Period-end, the Group completed the acquisition of Track Access Productions. Track Access provides driver training, route mapping and route familiarisation services to the rail industry. Its acquisition aligns with the Company's strategy, in particular by enhancing recurring revenues and further diversifying into civilian markets while also enhancing the Group's existing rail capabilities and complementing Pennant's Track Access Services business.

Implementing our strategy

The mix shift towards higher margin software and technical services, diversified global revenues and order intake momentum together with the evolving strategic backdrop provide a firm platform for continued progress in the current year.

P H Walker
Director

CHIEF FINANCIAL OFFICER'S REVIEW

Record gross margins, and strengthened balance sheet

Financial review

The results and the key financial performance indicators are set out below.

<u>Performance</u>

Revenue for the year was delivered broadly in line with expectations at £13.7 million (2021: £16.0 million) with equal contributions to revenue in the first and second half of the year.

There was significant growth in the gross profit margin for the Period to 42% (2021: 27%) which is at record levels for the Group. This reflects the change in the sales mix in the Period and shift in the strategic direction of the Group towards higher margin, software-related products.

Despite inflation-linked remuneration reviews in the Period to support the workforce with increasing costs of living, overall staff costs were held in line with 2021 at £8.7 million (2021: £8.7 million).

The improved margins coupled with the controlled cost base, resulted in the operating margin recovering to a loss of £1.0 million (2021: operating loss £2.2 million) and an EBITA profit of £0.5 million (2021: EBITA loss £0.8 million). The Group has now reported an EBITA profit in both the first and second half of 2022 per the table below. H2 2021 also delivered a profit at an EBITA level, meaning the Group has reported an EBITA profit in the last three six-month periods.

£m	H1	H2	**2022**	2021
Revenue	6.9	6.8	13.7	16.0
Gross profit	2.8	3.0	5.8	4.3
Gross profit %	*41%*	*44%*	*42%*	*27%*
Admin costs (net of other Income)	(3.6)	(3.2)	(6.8)	(6.5)
Operating loss	(0.8)	(0.2)	(1.0)	(2.2)
EBITA	0.1	0.4	**0.5**	(0.8)

Growth in Software and Services

An analysis of the Group's revenue by product group is as follows:

	2022 £000s	2021 £000s
Software licences & products	1,377	1,080
Software maintenance	1,458	1,056
Software and technical services	7,410	6,994
Sub-total Software and Services	**10,245**	9,130
Engineered solutions	2,410	4,211
Generic products	1,031	2,624
Sub-total Training Solutions	**3,441**	6,835
Total Group Revenue	**13,686**	15,965

Revenues contributed by Software and Services have increased to £10.2 million in 2022 (2021: £9.1 million) representing 75% of the total revenue in the Period (2021: 57%). The upturn in software product sales has resulted in increased maintenance revenues in the Period which will be recurring in nature.

Recurring revenues, a key performance indicator, increased to £7.7 million (2021: £7.4 million) in 2022 representing 56% (2021: 46%) of the total revenue for the Period.

Software and Services

Software licences & products

The circa 30% increase in software product sales between 2021 and 2022 was primarily driven by R4i software sales, with the associated recurring maintenance revenues (circa 20% per annum) to follow on a recurring basis. Revenues are recognised upon installation of the software and tend to be non-recurring in nature.

Software maintenance

Software maintenance revenues are recurring by nature and are growing year on year driven by the growth in the global customer base for the Group's software solutions. The revenue is recognised over the duration of the maintenance period for each customer which can range from annual renewals to multi-year agreements. The average longevity of the customer relationship is in excess of 10 years.

Software and technical services

The predominantly recurring, software and technical services revenue stream has grown from 57% of the Group's revenues in 2021 to 75% in 2022. In addition to the long-standing, recurring revenue streams there are a number of consultancy related tasks across the Group. The revenues are typically recognised on a consumption of benefit basis over time .

Training Solutions

Engineered solutions

Revenues associated with engineered solutions reduced from £4.2 million in 2021 to £2.4 million in 2022. This is reflective of the stages of the major programmes which form the basis of this revenue which is recognised over time under IFRS 15. Revenue on engineered solutions is expected to increase in 2023 as progress is made on engineered solutions workstreams.

Generic products

The revenue recognition for generic products is at a point in time (typically on delivery) under IFRS 15. The reason for the reduced revenues for these products in 2022 (£1.0 million) compared to 2021 (£2.6 million) is due to timing of delivery of the various generic products to customers with the final Qatar installations occurring in 2021.

Cashflow

Cash generated in operations amounted to £2.6 million (2021: cash used in operations of £0.1 million). This reflects milestone achievements on major programmes in 2022 and associated cash payments being received.

The Group had net borrowings at the year-end of £0.4 million (2021: net borrowings of £3.5 million) excluding lease liabilities. The net borrowings have significantly reduced through the cash generated in operations and the sale of the Group's Headquarters, Pennant Court, for £2.1 million.

Research & development

Research and development tax credits claimed in the UK during the year amounted to £1.9 million (2021: £1.8 million) with further claims on current projects expected to be made during 2023. These claims mostly relate to the development of innovative new software products.

Taxation

The Group's tax position shows a tax credit of £0.3 million (2021: tax credit of £0.9 million). The Group has unrelieved UK tax losses carried forward of £7.1 million (2021: £6.7 million), all of which have been recognised in the deferred tax balance as at 31 December 2022.

Looking forward

With the shift towards software and services driving improved gross margins, and a strengthened balance sheet, the course is set for the Group's continued financial progress.

M J Brinson
Director

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022	2021
Continuing operations		**£000s**	£000s
Revenue		13,686	15,965
Cost of sales		(7,897)	(11,609)
Gross profit		**5,789**	**4,356**
Land and buildings revaluation		-	117
Profit on sale of land and buildings		374	-
Other administration expenses		(7,276)	(6,826)
Administrative expenses		(6,902)	(6,709)
Other income		123	203
Operating loss	3	**(990)**	**(2,150)**
Finance costs		(377)	(329)
Finance income		2	-
Loss before taxation		**(1,365)**	**(2,479)**
Taxation		464	865
Loss for the year attributable to the equity holders of the parent		**(901)**	**(1,614)**
Earnings per share			
Basic		(2.45p)	(4.41p)
Diluted		(2.45p)	(4.41p)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022	2021
		£000s	£000s
Loss for the year attributable to the equity holders of the parent		**(901)**	(1,614)
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		109	(64)
Prior year amortisation adjustment		39	-
Items that will not be reclassified to profit or loss			
Net revaluation gain		-	353
Deferred tax charge – property, plant and equipment		248	(156)
Total comprehensive loss for the period attributable to the equity holders of the parent		**(505)**	(1,481)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2022

	Notes	2022 £000s	2021 £000s
Non-current assets			
Goodwill	4	2,507	2,403
Other intangible assets	5	4,690	5,081
Property, plant and equipment		4,002	6,009
Right-of-use assets		503	661
Deferred tax assets		1,497	850
Total non-current assets		**13,199**	**15,004**
Current assets			
Inventories		1,001	865
Trade and other receivables		4,129	4,528
Corporation tax recoverable		354	330
Cash and cash equivalents		1,107	901
Total current assets		**6,591**	**6,624**
Total assets		**19,790**	**21,628**
Current liabilities			
Trade and other payables		5,862	3,595
Bank overdraft		1,533	4,441
Current tax liabilities		155	367
Lease liabilities		174	209
Deferred consideration on acquisition		327	432
Total current liabilities		**8,051**	**9,044**
Net current assets / (liabilities)		**(1,460)**	**(2,420)**
Non-current liabilities			
Lease Liabilities		385	529
Deferred tax liabilities		-	-
Warranty provisions		107	122
Contingent consideration on acquisition		552	789
Total non-current liabilities		**1,044**	**1,440**
Total liabilities		**9,095**	**10,484**
Net assets		**10,695**	**11,144**
Equity			
Share capital		1,840	1,832
Share premium account		5,366	5,345
Capital redemption reserve		200	200
Retained earnings		2,844	2,687
Translation reserve		335	226
Revaluation reserve		110	854
Total equity		**10,695**	**11,144**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital	Share Premium	Capital redemption reserve	Retained earnings	Translation reserve	Revaluation reserve	Total equity
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
At 1 January 2021	1,822	5,295	200	2,243	290	683	12,533
(Loss) for the year	-	-	-	(1,614)	-	-	(1,614)
Other comprehensive income	-	-	-	-	(64)	197	133
Total comprehensive income	1,822	5,295	200	2,629	226	880	11,052
Issue of new ordinary shares	10	50	-	-	-	-	60
Recognition of share based payment	-	-	-	32	-	-	32
Transfer from revaluation reserve	-	-	-	26	-	(26)	-
At 31 December 2021	1,832	5,345	200	2,687	226	854	11,144
(Loss) for the year	-	-	-	(901)	-	-	(901)
Other comprehensive income / (loss)	-	-	-	1,031	109	(744)	396
Total comprehensive income	1,832	5,345	200	2,817	335	110	10,639
Issue of new ordinary shares	8	21	-	(2)	-	-	27
Recognition of share based payment	-	-	-	29	-	-	29
Transfer from revaluation reserve	-	-	-	-	-	-	-
At 31 December 2022	**1,840**	**5,366**	**200**	**2,844**	**335**	**110**	**10,695**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 £000s	2021 £000s
Net cash from operations		**2,572**	(127)
Investing activities			
Interest received		2	-
Earn-out payment for acquisition of subsidiary		(547)	(549)
Purchase of intangible assets		(1,150)	(966)
Purchase of property, plant and equipment		(63)	(134)
Proceeds from disposal of property, plant and equipment		2,117	22
Net cash used in investing activities		**359**	(1,627)
Financing activities			
Proceeds from issue of ordinary shares		24	60
Repayment of lease liabilities		(263)	(309)
Net cash from financing activities		**(239)**	(249)
Net (decrease)/increase in cash and cash equivalents		**2,692**	(2,003)
Cash and cash equivalents at beginning of year		(3,540)	(1,453)
Effect of foreign exchange rates		422	(84)
Cash and cash equivalents at end of year		**(426)**	(3,540)

ABBREVIATED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Basis of Preparation

The financial information set out in this preliminary announcement does not constitute statutory accounts for the purposes of the Companies Act 2006.

The statement of financial position at 31 December 2022 and income statement, statement of changes in equity, statement of cash flows and associated notes for the year ended 31 December 2022 have been extracted from the Group's 2022 financial statements upon which the auditor opinion is unqualified. The audit report includes a material uncertainty in respect of going concern arising from the potential impact of missing a major programme milestone due in October 2023. The directors' assessment of the uncertainty is set out in note 3 of the notes to the financial statements as contained the 2022 Annual Report and Accounts. Following such assessment, the Directors concluded that it was appropriate to prepare the financial statements using the 'going concern' basis.

The financial information in this preliminary statement has been prepared in accordance with the accounting policies, and on the basis set out, in the Group's 2022 financial statements.

The 2022 Annual Report and Accounts will be available on the Company's website: www.pennantplc.co.uk Copies may be obtained by contacting the Company Secretary at Unit D1, Staverton Connection, Old Gloucester Road, Cheltenham GL51 0TF.

2. Segment information

The operating segments that are regularly reviewed by Executive Management in order to allocate resources to segments and to assess performance are the three regions; UK & Europe, North America and Australasia as these represent the way the Group reports financial performance and position internally.

2.1 *Segment revenues and results*

	Segment revenue		**Segment profit/(loss)**	
	2022	2021	**2022**	2021
	£000s	£000s	**£000s**	£000s
UK & Europe	5,557	8,161	(158)	(1,801)
North America	4,985	4,451	1,435	1,050
Australasia	3,144	3,353	366	978
External Sales	**13,686**	15,965	**1,643**	227
Management charges and licence fees			(2,633)	(2,377)
Net finance costs			(375)	(329)
Loss before tax			**(1,365)**	(2,479)

The segment profit or loss for the period is stated after amortisation of intangible assets. Recharges are made the parent company for central management and group services. Licence fees are recharged to the segments for the use of intellectual property rights owned by the parent.

3. Operating loss for the year

The operating loss for the year is stated after charging /(crediting):

	2022	2021
	£000s	£000s
Net foreign exchange loss	119	-
Research and development costs*	818	1,309
Other income arising from RDEC claim (R&D)	(113)	(157)
Other income arising from Coronavirus Job Retention Scheme	-	(29)
Property rental and sundry other income	(10)	(17)
Amortisation of intangible assets	1,519	1,366
Effect of land and buildings revaluation	-	(117)
Depreciation of property, plant and equipment	373	460
Depreciation of right-of-use assets	183	243
Share-based payment (note 29)	29	32
Profit/Loss on disposal of land and buildings (note 17)	(374)	-
Profit/Loss on disposal of other property, plant and equipment (note 17)	(6)	-

* In 2022 research and development costs of £1,139k were capitalised (2021: £966k)

4. Goodwill

Carrying amount:	**£000s**
At 1 January 2021	2,428
Currency translation	(25)
At 1 January 2022	2,403
Currency translation	104
At 31 December 2022	**2,507**

Goodwill acquired in a business combination is allocated, at acquisition, to cash generating units ("CGUs") that are expected to benefit from that business combination. The goodwill will not be deductible for tax purposes. Although the Group operates as a single operation selling and delivering all revenue streams globally, for the purposes of impairment testing, it has been determined that the Group has two CGUs (Training and Software). The carrying amount of goodwill has been allocated as follows:

	2022	2021
Cash generating unit:	**£000s**	£000s
Training	584	584
Software	1,923	1,819
	2,507	2,403

The Group tests goodwill annually for impairment. The recoverable amounts of the CGU's are determined from value in use calculations. The Group prepares cash flow forecasts for the following twelve months derived from the most recent annual financial budgets approved by the Board of Directors and extrapolates cash flows as follows:

Software CGU:

Cashflows are extrapolated for a further four years beyond the twelve-month annual budget period at a growth rate of 5% (2021: 3%). The forecast includes a terminal value.

Training CGU:

Cashflows are forecast for an additional two years beyond the twelve-month approved financial budget period based on a contract level review with the addition of expected cash flows generated from 'pipeline' opportunities. As at 31 December 2022 the Training CGU had an active pipeline of over £60 million (2021: £50 million) and in testing the goodwill for impairment the Directors have assumed a prudent conversion rate of circa 40%. For years four and five, a growth rate of 3% per annum (2021: 3%) is assumed. The forecast does not include a terminal value.

The forecast cash flows of each CGU are discounted at the following pre-tax rates to provide the value in use for each CGU:

Training CGU: 13.78% per annum (2021: 10.93% per annum); post-tax rate 12.02% (2021: 7.21%)
Software CGU: 16.51% per annum (2021: 17.76% per annum); post-tax rate 12.02% (2021: 9.28%)

The rates have been calculated to reflect the working capital structure of the Group as each CGU utilises the optimal capital structure, being both debt and equity.

The discounted cash flows provide headroom for the goodwill carrying values in excess of their respective assets in the case of each CGU with the Training headroom being £0.4 million without considering terminal values and Software headroom of £8.2 million when considering terminal values.

Key assumptions are based on past experience and external sources. No impairment of goodwill has been recorded in either the year ending 31 December 2022 or 31 December 2021. The Directors have assessed the sensitivity of the assumptions detailed above and consider that it would require significant adverse variance in any of the assumptions to reduce fair value to a level where it matched the carrying value.

5. Other intangible assets

	Software	Development costs	Total
	£000s	£000s	£000s
Cost			
At 1 January 2021	535	7,982	8,517
Currency translation	-	(113)	(113)
Reclassifications	(157)	157	-
Additions	-	966	966
Disposals	(30)	-	(30)
At 1 January 2022	348	8,992	9,340
Currency translation	-	20	20
Reclassifications	240	(240)	-
Additions	11	1,139	1,150
Disposals	(50)	-	(50)
At 31 December 2022	**549**	**9,911**	**10,460**
Amortisation			
At 1 January 2021	331	2,616	2,947
Currency translation	-	(29)	(29)
Reclassifications	(73)	73	-
Charge for the year	84	1,282	1,366
Disposals	(25)	-	(25)
At 1 January 2022	317	3,942	4,259
Currency translation	2	1	3
Reclassifications	240	(240)	-
Charge for the year*	22	1,536	1,558
Disposals	(50)	-	(50)
At 31 December 2022	**531**	**5,239**	**5,770**
Carrying amount			
At 31 December 2022	**18**	**4,672**	**4,690**
At 31 December 2021	31	5,050	5,081

*Includes £39k charged to retained earnings (prior year adjustment).

During 2022 the Group capitalised £1,139k (2021: £966k) of costs in relation to the ongoing development of the GenS software solution along with enhancements to existing software related assets. The Group also capitalised costs related to the development of three (2021: five) new products. These costs will be amortised over the estimated useful life of the asset.

In 2021, the useful economic life of one intangible asset was reviewed by management and, as a result, the economic life for straight line amortisation was reduced from five to two years. In the current year, under the revised useful economic life, amortisation of £397k (2021: £397k) was charged in the period with the asset having a net book value of £nil as at December 2022 (2021: £397k). If the useful economic life had remained at five years, the amortisation charge would have been £159k (2021: £159k) with a net book value at the year-end of £476k (2021: £635k).