LUCECO

DELIVERING SUSTAINED PROGRESS

ANNUAL REPORT AND
FINANCIAL STATEMENTS
2019

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Read more on page 01.

An overview of key actions and events in 2019 and early 2020 together with our priorities as we move forward.

Read more on page 54.

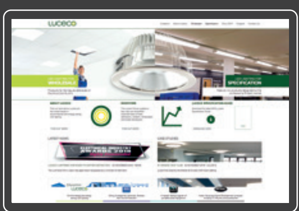
Introduced by our Chairman, Giles Brand, this section provides information on how the Company is governed, including risk management and activities of the Board.

Read more on page 94.

Includes our financial statements, notes and auditor's report for the Group.

Our Purpose

We deliver high quality, innovative electrical products to attractive markets worldwide through sustainable investment in our products, people and channels to market.



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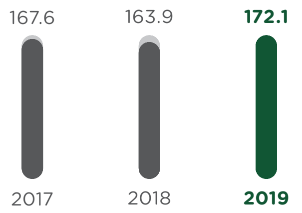
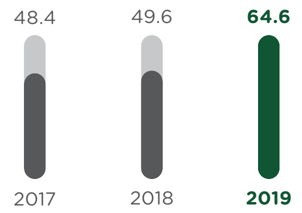
London Stock Exchange Group
1000 COMPANIES TO INSPIRE BRITAIN 2019

Highlights

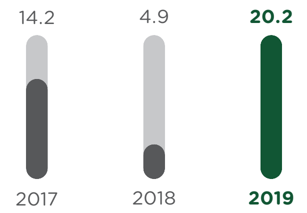
Revenue (£m)



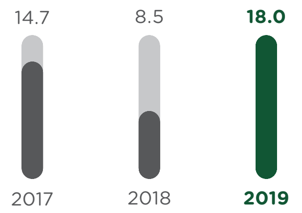
Gross profit (£m)



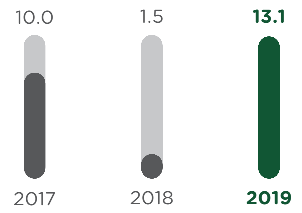
Operating profit (£m)



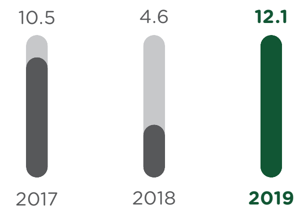
Adjusted[1] Operating Profit (£m)



Profit for the year (£m)



Adjusted[1] Profit for the Year (£m)



Financial highlights

- Sustained progress across a broad range of metrics in challenging market conditions:
  - Revenue of £172.1m, 5.0% higher than last year
  - Adjusted Operating Profit of £18.0m:
    - >100% conversion of revenue growth into operating profit
    - Adjusted Operating Margin doubled to 10.5%
  - Adjusted Free Cash Flow of £18.9m:
    - >100% conversion of operating profit growth into cash
    - Closing net debt reduced to 1.06x Adjusted EBITDA
  - Adjusted Basic EPS of 7.7p

Strategic highlights

- Focus on managed, profitable growth:
  - Investing in the best growth opportunities
  - Withdrawing investment from others
- Continuing to invest in our business model:
  - New product development, range expansion and cost reduction
  - Manufacturing and warehousing transformation and IT enhancements

SARS-CoV-2 (Coronavirus) summary

- Worldwide action to safeguard employees
- Chinese lockdown disrupted product supply in February and March 2020, but back to normal by the end of Q1 2020
- European lockdown disrupted demand from the start of Q2 2020:
  - Revenue currently at circa 50% of normal levels
  - Monthly cash outflow limited to £0.5m per month through proactive action to reduce cost
  - Adequate liquidity to fund this rate of loss: £24.5m of undrawn facilities at the end of Q1 2020, committed until end of 2021
- Resilience and optionality added to the funding plan:
  - Agreement reached with relationship bank to:
    - Loosen banking covenants in late 2020 to accommodate severe downside scenarios
    - Swap £10.0m of existing invoice financing facility for £10.0m of Revolving Credit Facility to underpin debt capacity
  - COVID Corporate Finance Facility applied for
  - China mortgage lending available

1. The definitions of the adjustments made and reconciliations to the statutory figures can be found in note 1 of the consolidated financial statements on page 108.

At a Glance

Head office in London with UK offices in Telford and Mansfield and global offices in China, Mexico, Germany, Spain, the United Arab Emirates and South Africa.

Wiring Accessories

Revenue
£70.1m
(2018: £65.8m)

of Group
41%
(2018: 40%)

Find out more on page 08

LED Lighting

Revenue
£54.2m
(2018: £51.8m)

of Group
31%
(2018: 32%)

Find out more on page 10

Portable Power

Revenue
£42.6m
(2018: £41.1m)

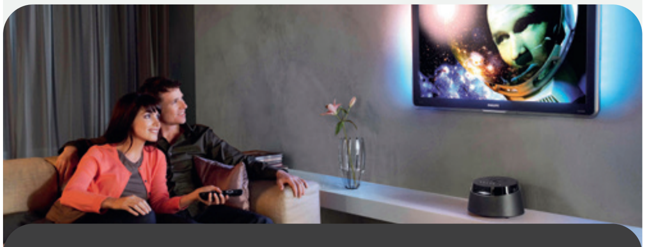
of Group
25%
(2018: 25%)

Find out more on page 09

Ross

Revenue
£5.2m
(2018: £5.2m)

of Group
3%
(2018: 3%)



Ross is a range of audio-visual products. This includes TV wall mounts, desk mounts and TV/audio interconnecting cables.

With over 70 years' experience, the brands of BG, Luceco, Kingfisher, Masterplug and Ross are market leaders in key electrical categories.

Customers across **73** countries	Number of employees c.**1,600**	Research and Development staff **79**	Number of product innovations 2019 **43**	Number of customers c.**2,600**

Chairman's Statement

A year of sustained progress

GILES BRAND
Chairman

23 April 2020

Review of the year

- Revenue growth 5.0%
- Adjusted Gross Margin 36.2%
- Adjusted Operating Profit £18.0m
- Adjusted[1] Operating Margin 10.5%
- Adjusted[1] Free Cash Flow £18.9m
- Net debt £27.4m
- Net debt : Adjusted EBITDA ratio 1.06x

1. The definitions of the adjustments made and reconciliations to the statutory figures can be found in note 1 of the consolidated financial statements on page 108.

Performance

Last year's Chairman's Statement reported the Board's satisfaction with the turnaround in performance delivered by Luceco in the second half of 2018. The structural improvements to the Group's people, processes and systems throughout 2018 made the Board cautiously optimistic that further progress could be made in 2019.

I am very pleased to report that the Group has indeed sustained progress throughout 2019. The achievement is all the more impressive considering the scale of the challenge and the macroeconomic environment in which the turnaround has been delivered.

Highlights are as follows:

- Return to revenue growth: 5.0% (2018: -2.2%)
- Strong Adjusted[1] Gross Margin enhancement: 36.2% (2018: 30.9%)
- Key profit and cash metrics have all more than doubled in the year:
  - Adjusted[1] Operating Profit: £18.0m (2018: £8.5m)
  - Adjusted[1] Operating Margin: 10.5% (2018: 5.2%)
  - Adjusted[1] Free Cash Flow: £18.9m (2018: £7.7m)
- Ratio of net debt to Adjusted[1] EBITDA halved: 1.06x (2018: 2.2x)

More information on the Group's performance during the period can be found in the Chief Financial Officer's Review on pages 36 to 42.

Luceco has enjoyed a decade of strong revenue growth. The Group's historic results demonstrate that the majority of growth has been profitable and value-enhancing. However, Luceco has sometimes found it difficult to fully optimise rapid top-line growth with equal progress in other areas of the business. Over the last two years, the Board is pleased to report that the senior management team has responded to these growing pains.

The Group remains focused on sustained growth and has ample market opportunities to do so. Today, opportunities for growth are now aligned with a disciplined approach to resource allocation to focus on the highest potential for both profit and cash generation versus simple market share gains. An equal emphasis is also now placed on continuing to invest in people and the operating effectiveness of the business model to improve profitability, quality of products and service and to ensure any growth delivered today is sustainable tomorrow.

Despite some very challenging market conditions, this re-invigorated discipline allowed financial progress to be made on a broad front in 2019. The Board is confident that the measures taken during 2018 and 2019 have improved Luceco's resilience, a quality that will no doubt be called upon in 2020 as the Group responds to the demands of both the coronavirus and Brexit.

Purpose and strategy

The Group's purpose is to deliver high quality, innovative electrical products to attractive markets worldwide through sustainable investment in products, people and channels to market.

Luceco's market-leading core product range generates cash for re-investment in synergistic growth markets. The Group addresses these markets with a unique culture and business model.

Approving the strategy and overseeing its effective implementation is one of the Board's primary responsibilities. The Group's six key strategic priorities are listed in the Chief Executive Officer's Review, together with an update on each. Luceco's strategic priorities remain unchanged from last year and are consistent with our choice of markets, business and financial model.

People

I would like to thank the entire Luceco team for delivering such a strong set of results in 2019 and for making significant progress across a range of initiatives that will sustain the Group's success into the future.

I would also like to note the arrival of Will Hoy to the Board in September 2019. Will's extensive industrial sector and mergers and acquisitions experience will be of particular use to the Group over the coming years.

Impact of SARS-CoV-2 (Coronavirus)

The management team has responded swiftly and comprehensively to the outbreak of the SARS-CoV-2 coronavirus over recent months.

Actions were implemented worldwide to safeguard the wellbeing of the Group's employees, starting in late January at the Group's Chinese factory in Jiaxing (800km from Wuhan). The senior management team is to be thanked for its diligent and professional response to this situation in difficult circumstances.

Production restarted at both our factory and our major suppliers in late February and the rate of supply is now more than adequate to meet demand.

Whilst very good progress has been made in mitigating the impact of the virus on supply, actions taken by governments to slow the spread of the virus in the markets in which we sell have begun to adversely impact demand. This was expected. The full extent of the impact is impossible to gauge accurately. It will largely depend on the progression of both government policy and human behaviour, neither of which can be reasonably predicted when the event itself is without recent precedent. Early actions taken to reduce cost, preserve cash and make the Group's funding arrangements more flexible for the unforeseen stand us in very good stead for whatever is to come.

A more detailed commentary on the impact of the virus on the business is included in the Chief Executive Officer's Review on pages 32 to 35.

Conclusion

The Group enters a period of unprecedented uncertainty with its highest profitability, lowest leverage and with significant liquidity. It has implemented a comprehensive plan to minimise the disruptive impact of the virus on operations. The plan ensures the business retains maximum flexibility to respond to a range of possible short-term outcomes to maximise long-term value.

The Board's desire for flexibility has led it to recommend the temporary suspension of dividends until the impact of the virus is better understood.

It has also taken the decision to withdraw its current profit guidance for 2020. New guidance will be issued as soon as it can be reasonably assessed.

Your Board believes the Group's business model, much improved balance sheet and financial performance provide the best possible starting point as we enter this challenging period. The Group has already proven its ability to withstand challenges and I have the utmost confidence it will do so again.

GILES BRAND
Chairman

23 April 2020

Investment Case and Strategic Priorities

Investment returns are a function of where and how a business chooses to operate. Our choices are determined by three objectives: **operate in attractive markets** that offer good returns for all; **develop an advantaged business model** that serves customer needs and is differentiated from the competition; and **operate an efficient financial model** that clearly defines the outcomes we expect for ourselves and for shareholders.

Objectives

Operate in attractive markets

Pages 08 to 11

Focus on core markets that are:
- Growing faster than gross domestic product ("GDP")
- Offer high margins
- Defendable from new entrants

Invest in growth markets that are:
- Synergistic with the core
- Fragmented and offer opportunities to gain share

Develop market-leading brands that are:
- Long established
- Have a loyal customer base
- Have a clear proposition

Strategic priorities

Increase sales to professional customers

- Complement our historic strength in UK retail by gaining share of sales to professional customers
- Leverage the route to market provided by Wiring Accessories to sell other products via trade distribution, e.g. LED lighting, smart devices and EV charging
- Sell products as part of a solution

Increase sales to international customers

- Sell existing "borderless" products globally (e.g. LED lighting) to maximise investment in product development
- Leverage manufacturing capacity globally
- Sell to international subsidiaries of existing UK customers
- Increase profitability of existing international markets to the Group average

Enter new product segments

- Sell adjacent products to existing customers
- Sell international variants of existing UK products
- Maximise payback/minimise risk of new product development
- Maximise capital efficiency of future growth

Develop an advantaged business model

Pages 12 to 13

A product development process that is:

- Customer-led
- Entrepreneurial
- Agile

A manufacturing process that is:

- Low cost
- Responsive to new opportunities

A fulfilment capability that is:

- Tailored to customer needs
- Common across all products

Operate an efficient financial model

Pages 18 to 19

Revenue:

- Growing faster than GDP through the cycle
- Organic growth supported by mergers and acquisitions (“M&A”)

Profit:

- Target Adjusted Operating Margin of 10-15%

Cash:

- Target Adjusted Free Cash Flow Margin of 5-10%
- Reinvest or return it to shareholders

Returns:

- Target Return on Capital Invested (“ROCI”) of 20-30%
- Maintain net debt leverage of 1.0-2.0x
- Payout 20-30% of Adjusted Profit for the Year in dividends

Enter new product segments

- Sell adjacent products to existing customers
- Sell international variants of existing UK products
- Maximise payback/minimise risk of new product development
- Maximise capital efficiency of future growth

Maximise manufacturing efficiency

- Optimise use of own/third-party manufacturing
- Optimise landed cost relative to product performance
- Optimise inventory

Maximise return on capital

- Prioritise growth that leverages existing capital invested
- Continually optimise working capital
- Apply a clear capital structure policy

Maintain best practice corporate governance

- Exercise diligent control
- Retain agility
- Improve the quality of decision making

Seek targeted acquisitions

- Gain share in existing markets
- Acquire presence in adjacent product markets
- Fund whilst maintaining capital structure policy

Attractive Markets

Wiring Accessories

A high quality core market that offers attractive margins and good growth prospects.

Branding
Products are sold under the BG (British General) brand, established in 1941.

Product range
The range consists of:

- Wiring devices including sockets and switches in both plastic and decorative metal finishes
- Low voltage circuit protection including consumer units and associated devices, as well as industrial switches
- Cable management and accessories

The Group has an excellent track record of using innovation to expand the category, such as successfully integrating USB charging, Wifi extenders and smart control into its product range. It has also expanded into adjacent categories sold through existing channels such as three phase circuit protection and power solutions for office environments.

Channels and end use sectors
BG wiring accessories are distributed via retailers, hybrids and trade wholesalers.

The range is focused on British Wiring Standard products sold to the UK, Ireland, the Middle East and parts of Africa.

Demand is largely driven by residential repair, maintenance and improvement activity in the above countries.

Market
Construction activity in the UK has grown faster than GDP at an average rate of 5% per annum between 2014 and 2019. The UK wiring accessory market has grown in line with construction output.

The Group's UK wiring accessories sales have grown by an average of 12% per annum over the same time period – more than twice as fast as the market – as a result of its product innovation, range expansion and an attractive brand proposition.

Competitors
The UK wiring accessories market is relatively consolidated.

While the market is highly competitive, it offers attractive returns, with European market participants achieving average EBIT margins of 17%. Wiring accessory brands command a loyal customer base that is responsive to product design, quality, innovation and availability through their preferred channels.

UK #2
Wiring devices

41% of Group revenue

Portable Power

masterplug

A mature core market of which the Group is the clear UK market leader.

Branding
Products are sold under the Masterplug brand, established in 1988.

Product range
Portable Power products include cable reels and extension leads for indoor and outdoor applications, surge protection devices, timers and travel adapters.

The range is designed using modular principles, allowing a number of core products to be easily adapted to produce international variants for different wiring standards.

The focus of product development in portable power is to leverage innovation from the wiring accessories category to add value to the Masterplug product range, for example by incorporating USB charging.

Products are designed, branded and tooled by the Group but made by third parties. Customers collect products from the manufacturer. This collectively keeps the capital investment required to support sales to an efficient minimum.

Channels and end use sectors
Masterplug products target the consumer market and are distributed via retailers. The majority of the business is in the UK, although the modular design approach has allowed the development of significant international sales.

Market
The market for portable power products in the UK is mature, with growth supported by an increasing number of electrical and electronic devices in the home. It is growing at a rate broadly consistent with GDP growth, which has averaged 3.7% per annum in the UK between 2014 and 2019.

Competitors
Masterplug is the clear market leader in portable power in the UK, where its competitors are predominantly retailer own brand products.

UK #1

Portable power supplier

25% of Group revenue

Attractive Markets continued

LED Lighting

A fragmented growth market in which the Group can continue to expand profitably.

Branding

Products are sold under the Luceco and Kingfisher Lighting brands.

Product range

The range consists of:

- Interior lighting, including panels, downlights, battens and high bay
- Exterior lighting, including floodlights, bulkheads, road lanterns and bollards
- Replacement lamps and tubes

The Group first entered the lighting market in 2013 and has built a substantial market presence in a short time period. Significant investment in branding and range expansion has resulted in a comprehensive range of interior and exterior products.

The Group offers well designed, high quality and high-performance LED lights at a competitive price with full product and design support.

Channels and end use sectors

LED products share the same distribution channels as both wiring accessories and portable power, which is both convenient for our customers and efficient for us.

The product offer is supported by the Group's project teams, who work with specifiers and contractors to develop cost-effective lighting schemes for larger projects.

Unlike wiring accessories, lighting standards are more consistent internationally. This allows the Group to sell its existing product range in multiple countries, which acts as a low-cost method of market entry.

The Group has progressively focused on higher-margin professionally installed products sold into a broad range of sectors including education, commercial and industrial refurbishment as well as residential new build.

Market

The market for LED lighting in the UK has experienced a period of rapid expansion as the greater energy efficiency and longevity of LED has driven replacement of legacy technologies.

The Group's UK LED lighting sales have organically grown by 31% per annum between 2014 and 2019, significantly faster than the 5% achieved by construction output over the same period. In 2017 the Group acquired Kingfisher Lighting to expand its presence in the sector.

Competitors

The UK lighting market is relatively fragmented, with the top ten suppliers accounting for only 50% of the market.

Market participants achieve average EBIT margins of 11%.

UK top 10

LED lighting supplier

31% of Group revenue

Opportunities for new growth

The Group's business model allows it to rapidly seize new growth opportunities that are synergistic with its core.

Between 2014 and 2019 the Group delivered growth from three main sources:

- Expansion within established categories in the UK through successful product innovation and channel management (39% of growth)
- Category extension into LED lighting within existing and new channels in the UK, including through acquisition (32% of growth)
- Growth of established and new categories in international markets (29% of growth)

Expansion within established categories

As set out above, the Group continues to grow its established categories in its core UK market through product innovation and channel management.

Category extension

The Group continually explores potential new categories which offer opportunities to leverage its platform. Opportunities may include existing categories to which the Group is not exposed, such as life safety and security products, as well as developing categories such as electric vehicle ("EV") charging.

International growth

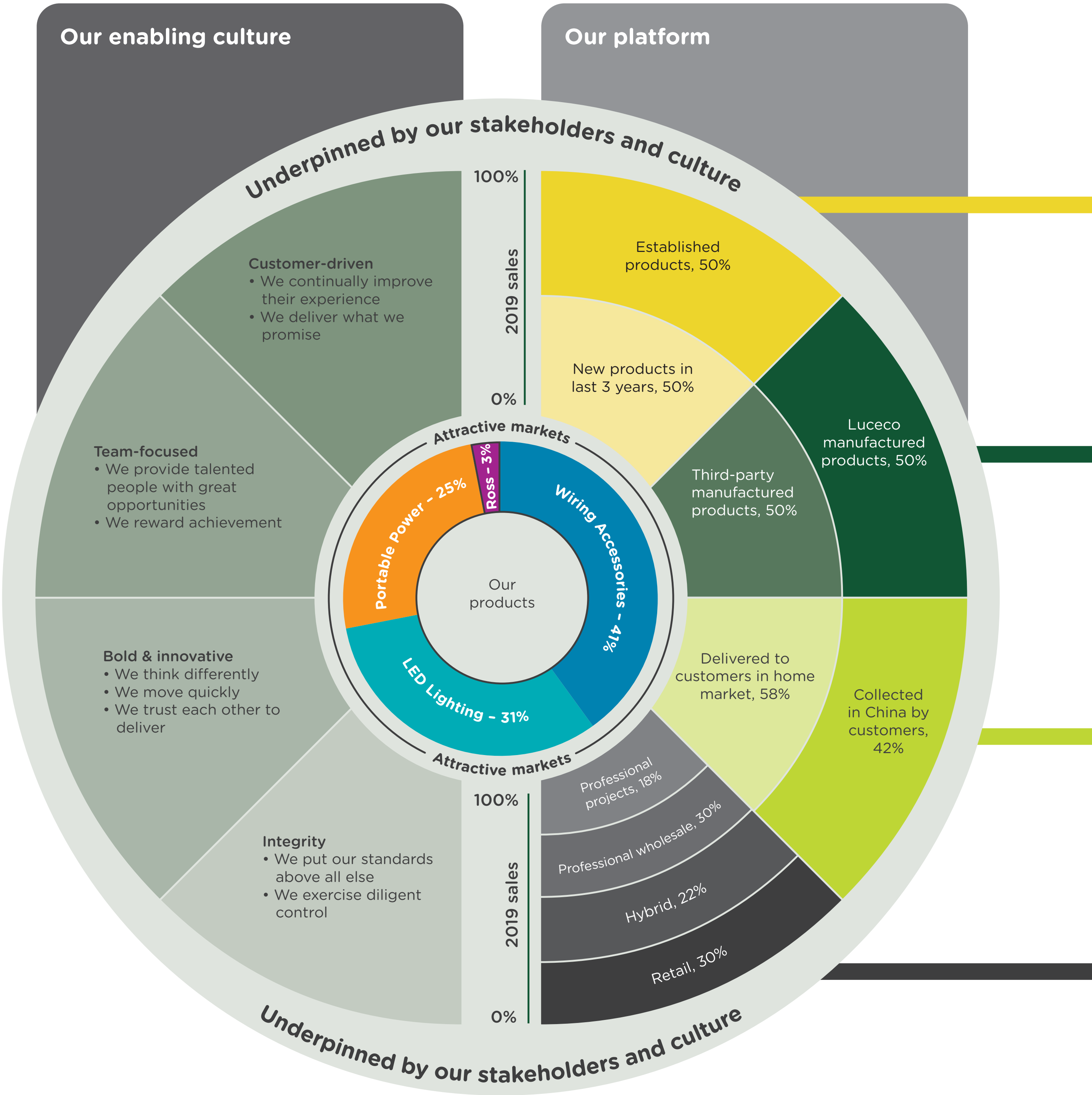
The Group has successfully established new businesses in a number of export markets including the United Arab Emirates ("UAE"), Germany, Spain and Mexico.

In recent years our focus has been on improving the profitability of these existing businesses by achieving scale. Where this has proven not to be possible within a reasonable timeframe, we have sought lower-cost ways of serving these territories.

New international territories offer attractive growth opportunities, though this is likely to be through acquisition. Organically, our focus remains on growing our established international businesses, which we believe offers better, lower-risk returns than entering new territories.

Advantaged Business Model

Our business model offers unique advantages to our customers and against our competition.



Product development

Case study 01:
BG Smart!

Read more on page 14

Assets

- Product development spanning the UK and China, closely integrated with customer-facing teams and with owned manufacturing
- Deep specialist knowledge across our sectors

Benefits

- Early identification of product opportunities and speed to market
- Products designed to maximise automation in manufacturing

Manufacturing

Case study 02:
Operational efficiency in China

Read more on page 16

Assets

- Fully owned, well invested manufacturing facility in Jiaxing
- Long-term, often exclusive, relationships with third-party manufacturers supported by on-the-ground presence

Benefits

- Certainty of supply and control over cost, quality and ethical treatment of employees
- Ability to invest for the long term, and respond rapidly to unexpected challenges and opportunities to reduce cost
- Benefit from scale advantage of third-party manufacturers where appropriate

Supply chain

Assets

- Customer support facility in China
- UK distribution centres in Telford and Mansfield
- International distribution centres in Germany, Spain, Dubai and Mexico

Benefits

- Our customers have immediate access to our extensive range of products
- Larger retail customers can leverage their own supply chains by collecting our products in China

Channels

Assets

- Established relationships with all the UK's major retailers and electrical wholesalers
- Field-based sales teams
- Market-leading brands

Benefits

- Our channels leverage a single shared supply chain and allow us to address all market segments: DIY, professional, and lighting as a service
- Our product categories share common sales channels, allowing us to serve our customers efficiently

Case Study 01:
BG Smart!

The BG brand is synonymous with innovation in the wiring accessory market. The launch of BG Smart! illustrates how the Group uses bold and innovative thinking to meet an emerging customer need and grow a product category.

Smart socket and adaptor

Story

Launched in June 2019, the smart socket and adaptor is the first product in a series of competitive, innovative Home Automation products that we will be calling BG Smart!

The smart double sockets and plug-in adapter will allow users to control and schedule power in the home wirelessly via voice commands or our mobile device app.

These value-added products continue BG's recent drive to lead innovation in the wiring accessory market, with products that are innovative, affordable and retrofittable.

- Affordable smart home integration
- Quick and simple to install
- Control using voice command, touch and smart phone
- Sold through existing distribution
- BG Smart! early to UK market with smart products

These value-added products continue BG's recent drive to lead innovation in the wiring accessory market, with products that follow our core values:

- Innovative
- Enhance everyday lives
- Affordable
- Retrofittable

Case Study 02:
Operational efficiency in China

High-quality Chinese manufacturing and sourcing has long been a competitive advantage for Luceco. Our investments below will sustain this advantage for the future.

Our factory in Jiaxing manufactures many of our products

Story

Luceco was one of the first to identify the importance of Chinese manufacturing to the UK electrical accessories market. It started to source products from China and was one of the first to establish its own manufacturing plant in 2008.

The low-cost and high-quality products produced by the plant have helped to sustain the Group's growth.

In order to sustain this success in the future, the Group has embarked on an ambitious transformation programme aimed at delivering a market-leading manufacturing capability.

The programme has started with investment in a new management team with experience in delivering similar transformation in other advanced manufacturing industries.

It will result in a leaner, continuously improving and more automated approach to manufacturing than is typically seen in our industry.

Pieces per day
50k

No. of colleagues
c.**1,075**

Significant research and development capability

Investment in environmental and automation efficiencies

Significant manufacturing efficiency gains since 2018

Automation introduced in 2019:

- Stamping machines
- Progressive stamping robot arms
- Auto-solder machines
- PCB loading machines
- Urea plate automation machine
- Humidity testing automation

In August we welcomed Ronnie Yu and Yoyo Li to Luceco

Ronnie is the Asia Managing Director responsible for manufacturing operations.

Ronnie was born in Zhejiang Province and graduated from Zhejiang University with a degree in Material Science and Engineering. This was followed by an MBA at the university in 2005.

Ronnie started his career at Motorola, working in various parts of the business including sourcing and supply chain. Latterly he worked for Bosch as Vice President of their Professional Tools Division.

Yoyo was appointed as the Asia Director of Finance with responsibility for running the finance team at the Jiaxing site.

Yoyo was born in Guizhou Province and graduated from Zhejiang University with degrees in both Economics and Accounting. She has over 18 years' experience working in plant control, accounting, tax and treasury.

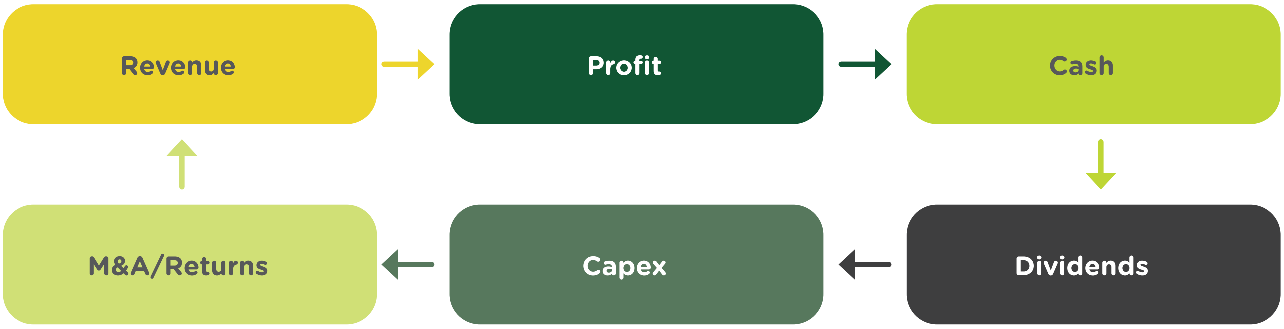
Prior to joining Luceco, Yoyo was the Finance Controller at Hella Lighting, a business with an annual turnover of RMB 2.5bn and over 1,200 employees.

Efficient Financial Model

Our Financial Model has two purposes:

- Clearly define what financial success looks like
- Set clear financial operating parameters that are designed to maximise shareholder returns

FINANCIAL OPERATING CYCLE



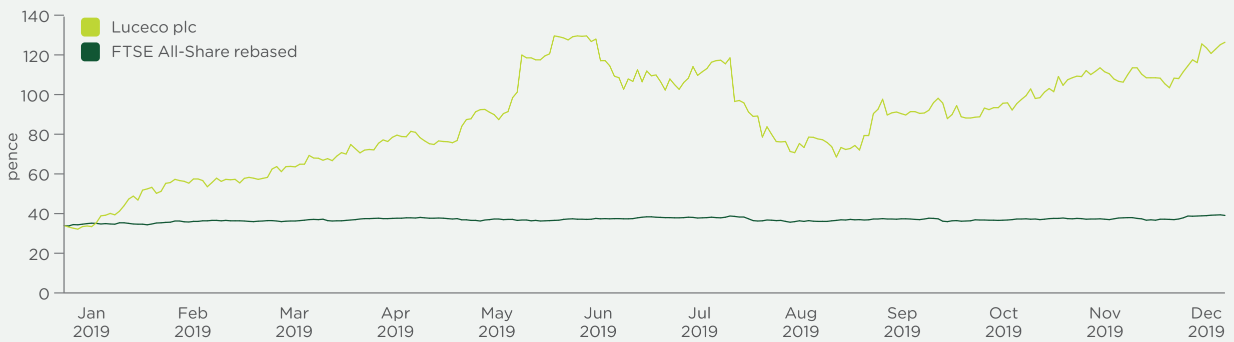
	Revenue	Profit	Cash

INPUTS	• Organic growth and M&A
	• Markets growing faster than gross domestic product (“GDP”)
	• Strong brands and market position
	• Investment to sustain growth:
	  • Product development
	  • Manufacturing excellence
	  • People development
		• Core markets generate high profit margins:
		  • Brand recognition and customer loyalty
		  • Consolidated
		  • Defendable from new entrants
		• Advantaged business model maximises market returns:
		  • Product development
		  • Manufacturing
		  • Fulfilment
			• Strong profit margins
			• Optimised working capital
			• Clear capital structure policy
			• Disciplined capital allocation

EXPECTED OUTPUTS	• Revenue growing faster than GDP through the cycle • Expected to average 5-10% per annum in normal circumstances	• Operating margin of 10-15% of revenue in normal circumstances	• >100% conversion of Adjusted EBITDA into Adjusted Operating Cash Flow • Adjusted Free Cash Flow margin of 5-10% in normal circumstances
2019	• £172.1m	• Adjusted Operating Profit £18.0m • Adjusted Operating Margin 10.5%	• Operating Cash Conversion 105.0% • Adjusted Free Cash Flow margin 11.0%

SHARE PRICE

We are delighted to report that Luceco plc was the best performing company in the FTSE All-Share in 2019. Our disciplined financial model is intended to build on this excellent performance in future years.



Dividends

- Strong and stable profit streams from core businesses
- Allowing balanced reinvestment in compelling growth opportunities and returns to shareholders

- Progressive dividend
- 20-30% earnings payout

- The uncertainty around the coronavirus and its impact on global demand has led the Board to take the decision not to pay a final dividend

Capex

- Disciplined capital allocation:
  - Projects generating >20% return on investment within three years
- Investment opportunities:
  - Product development
  - Manufacturing excellence
  - Fulfilment capability
  - IT enhancement

- Averaging 3-4% of revenue annually

- Net capital expenditure of 2.1% of revenue

M&A/Returns

- Funded by:
  - Net free cash flow remaining after investment in dividends and capex; or
  - Borrowing
- Borrowing limited to 1.0x-2.0x Adjusted EBITDA

- Annual net cash flow remaining after dividends and capex of up to 5% of revenue
- Sufficient to acquire up to 5% of new revenue growth
- Surplus cash returned to investors
- Group generating Return on Capital Invested of 20-30%

- Borrowing 1.06x Adjusted EBITDA
- ROCI of 21.8%

Read more about: Risks on pages 45 to 50, s172 on page 24 and Strategy on pages 06 to 07

Our Stakeholders

We believe that we must take account of what is important to our key stakeholders to maximise value and secure our long-term success.

CUSTOMERS

We have the following types of customers:

- Distributors to retail consumers
- Distributors to professional contractors
- Professional contractors
- Influencers over the above groups, such as designers, architects and specifiers

The Group engages to ensure customers are satisfied with existing services and well positioned to met their future needs.

Their material issues

- Product design and innovation
- Product quality
- Adherence to codes of conduct, e.g. ethical treatment of employees
- Product availability
- On-time delivery
- Price
- Payment terms

How we engage

- Salespeople with assigned relationships who are in continuous contact with our customers
- Attendance at trade shows
- Attendance at our customers' supplier events
- Customer visits to our key manufacturing and distribution sites
- Meetings with our customers' senior management teams to discuss long-term strategy
- Regular customer satisfaction surveys

2019 outcomes

- Like-for-like sales growth of 3.9%
- 43 new products launched
- Increasing the proportion of deliveries made on time and in full

Further information

- KPI section on pages 43 to 44
- Product development case study on page 14

EMPLOYEES

The Group employs c.1,600 people worldwide, with the majority based in the UK and China.

Our people are the source of our competitive advantage. They win new business, take orders, develop and manufacture our products and ensure they are delivered to our customers on time.

It is critical that we continuously engage with them to learn new ways to improve our business and to develop them as individuals.

Their material issues

- Learning and development
- Health and safety
- Opportunities for career progression
- Diversity and inclusion
- Reward

How we engage

- Completion of annual Group-wide employee satisfaction surveys
- Annual visits by the Board to major Group locations
- Regular visits by the CEO/CFO to all Group locations, which include employee "town hall" meetings
- Regular visits by Tim Surridge, our Director responsible for employee engagement, to Group locations to consult with small groups of employees
- Creation of personal development plans for each employee
- Monthly employee newsletter
- Employee access to a whistleblowing helpline
- Monthly meetings with employee representatives to discuss health and safety matters

2019 outcomes

- An employee satisfaction survey was undertaken, compared to the 2018 survey and an action plan developed for 2020

Further information

- Q&A with Tim Surridge on page 59

Our Stakeholders continued

SUPPLIERS

We have the following types of suppliers:

- Raw material/component suppliers
- OEM manufacturers
- Service providers

The Group engages with suppliers to ensure those in its supply chain work collaboratively to meet customer needs.

Their material issues

- Long-term partnership
- Price
- Fair payment terms

How we engage

- Site visits by the CEO/CFO to major OEM and electrical component manufacturers
- Group-wide Supplier Code of Conduct
- Supplier performance audits
- On-site quality testing teams
- Electronic auctioning of supply contracts
- Monitoring of creditor days to ensure payments are being made to terms

2019 outcomes

- Adjusted Gross Margin of 36.2%
- Creditor Days of 75

Further information

- KPI section on pages 43 to 44

SHAREHOLDERS

The Group's largest shareholders are listed on page 92.

Engagement ensures there is a clear understanding of the Group's strategy and performance, allowing shareholders to make an informed investment decision.

Their material issues

- Transparent of strategy and performance
- Adequate return on investment
- Appropriate governance

How we engage

- Investor Relations section of **www.lucecoplc.com**
- Twice-yearly results announcements and subsequent shareholder visits by the CEO/CFO
- Regular trading updates
- Liaison with research analysts
- Regulatory news announcements
- Annual General Meeting

2019 outcomes

- Share price growth of 266% in 2019 – the highest in the FTSE All-Share
- Strong shareholder engagement

Further information

- **www.lucecoplc.com**

FUNDING PROVIDERS

Borrowings allow the Group to invest in future growth whilst taking advantage of low interest rates and offsetting borrowing costs against taxable profits.

The Group is currently funded by bank debt and invoice discounting.

Engagement maximises access to sources of funding.

Their material issues

- Transparent strategy and performance
- Repayment in accordance with loan agreements
- Compliance with loan covenants
- Security

How we engage

- Regular meetings between the CEO/CFO and relationship bank(s)
- Meetings with existing and future lenders ahead of planned refinancings
- Covenant compliance certification

2019 outcomes

- Net debt to Adjusted EBITDA ratio reduced from 2.20 (rebased from 1.95 to reflect the impact of IFRS 16 adoption) to 1.06 times in the period
- Adjusted Free Cash Flow of £18.9m in 2019

Further information

- Financial instruments disclosures on pages 131 to 132
- Capital management notes on pages 138 to 139

LOCAL COMMUNITIES

We operate in 11 locations globally and contribute in each of the local communities.

We aim to have a positive impact on the environment in locations in which we operate. We have a vested interest in the long-term success of each community, from which our workforce is drawn.

Their material issues

- Job creation
- Environmental compliance
- Contribution to the development of the wider community

How we engage

- The creation of c.1,600 jobs globally
- Compliant with various recognised environmental standards: ISO 14001, WWF LCMP, ESOS II
- Heavily involved in local university in Jiaxing, establishing a “Luceco Class”

2019 outcomes

- Tonnes of CO_2 per £m revenue reduced by 3.6%

Further information

- Environment, Social and Governance on pages 25 to 31

Our Stakeholders continued

Section 172(1) Statement

The Directors confirm that they have acted in a way that they consider, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have had regard, amongst other matters, to the matters set out in s172(1) of the Companies Act 2006 ("s172 Matters"). This statement, together with the examples on pages 20 to 23 and those sections of the Annual Report incorporated by cross reference, describes how the Directors have had regard for s172 Matters in respect of the year.

The Company Secretary sets out the s172 Matters in all Board meeting packs to ensure these are front of mind, and the Directors are reminded of their duty under s172(1) at the start of each Board meeting. Consideration of the broader s172 Matters forms an integral part of Board discussion; the Directors as a matter of course have regard to the need to maintain a reputation for high standards of business conduct, the need to act fairly between shareholders, and the long-term consequences of their decisions. These considerations are referenced in meeting papers as relevant and discussions thereof recorded in the meeting minutes.

With regard to more Company-specific stakeholder groups, the Board carried out a review of the Group's stakeholders in respect of the year and identified those key to the Company based on each group's potential to a) be impacted by the Company's activities, and/or b) have an impact on the Company's activities. These key stakeholders, as agreed by the Directors, are set out on pages 20 to 23, together with information about their material issues and methods of engagement.

Whilst Directors engage directly with stakeholders on certain topics, stakeholder considerations on the whole are brought to the Board's attention through reports and presentations from the Executive Directors and senior management. This is an integral element of regular Board reporting and, in the case of certain stakeholders such as the workforce, may be discussed as a separate agenda item.

As a result of these processes, the Directors have the necessary oversight of the Company's engagement with stakeholders to enable them to discharge their duty under s172(1) in the course of their decision-making. Moreover, the Board has concluded that the Company's key stakeholders set out on pages 20 to 23 are appropriate and that the methods of engagement for each are proportionate and effective.
The Company's key stakeholders and methods of engagement will be kept under review and reported on each year in the Company's Annual Report.

Environment, Social and Governance

Being a responsible business contributes to our ability to create value for shareholders and our other stakeholders. We look to behave safely and ethically in our relationships with our employees, customers and suppliers, to reduce the environmental impact of our activities and to contribute to our local communities.

What's in this section

Environment	26
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Supply chain	30
Communities	31

Environment, Social and Governance continued

The environment

We have an excellent long-term record of addressing environmental issues that affect our business and developing products that protect the environment. LED lights in particular have significant environmental benefits, due to their energy efficiency. We have an ISO 14001 accredited environmental management system at our manufacturing facility to measure, control and reduce our environmental impacts.

Environmental policy

Our approach to managing our environmental responsibilities is set out in our Code of Conduct. This requires us to seek to protect the environment, by preventing or minimising the environmental impact of our activities and products through appropriate design, manufacturing, distribution and disposal practices. More information about the Code of Conduct can be found in the Ethical Business section on page 29.

We expect all employees to play a role in protecting the environment. If an employee becomes aware of any violation of environmental law, or any action that may appear to conceal such a violation, they should immediately report the matter to their manager or, if required, to the Board via the complaints procedure. No such issues were raised during the year.

The Group also has a Supplier Code of Conduct. This requires suppliers to:

- Comply with all applicable legal environmental requirements
- Continuously monitor, and disclose to us, their energy and natural resource usage, emissions, discharges, carbon footprint and disposal of waste
- Take a progressive approach to minimising their environmental impact on the environment
- Reduce our environmental impact

Minimising our environmental footprint helps us to manage our costs and supports our customers' sustainability requirements.

As far as possible, we use recycled materials for packaging our products. We continue to look at ways of reducing the quantity of packaging we use and to minimise the amount of single-use plastic in our packaging.

Free on Board ("FOB") sales significantly reduce the miles over which our products travel to customers. In stocking the UK warehouse, we ship goods in large quantities to reduce the environmental impact and use air freight only as a last resort. Our Chinese facility generates electricity using solar panels and we continue to look for other ways to reduce the factory's energy use. We also keep in contact with customers using modern methods of communication, to reduce the number of business miles incurred by our sales teams.

Greenhouse gas ("GHG") emissions

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 require the Group to disclose its annual GHG emissions. The Group's emissions have been independently calculated by its carbon consultants, using the operational control approach in accordance with the GHG Protocol. GHG emission factors published by the UK Government, the International Energy Agency and the World Resources Institute have been used.

The table overleaf shows the Scope 1 and 2 GHG emissions for the Group for the year ended 31 December 2019. The figures provided for 2018 have been restated to reflect:

- Electricity emission factors for overseas operations that have been updated by the International Energy Agency
- Natural gas consumption data at the Telford site following the identification of a meter malfunction
- The reclassification of a delivery vehicle

Under GHG reporting guidelines, Scope 1 and 2 emissions are the key mandatory areas to report, illustrating the Group's environmental impact for activities where it has direct control, namely operation of its sites and vehicles.

		Total GHG tCO_2e		
	Source	**2019**	2018[1]	Change (%)
Scope 1	Natural gas	**549**	639	(14.1)
	HFCs (refrigerants)	**82**	95	(13.7)
	Company-owned vehicles	**455**	464	(1.9)
Scope 2	Electricity (location based)	**3,581**	3,411	5.0
	Electricity (market based)	**3,109**	3,377	(7.9)
Total Scope 1 and Scope 2 (location based)		**4,667**	4,609	1.3
tCO_2e per £m revenue		**27.1**	28.1	(3.6)

1. Restated using the latest International Energy Agency emission factors to provide a more accurate representation of historic emissions.

Absolute GHG emissions have increased by 1.3% compared to last year. Natural gas emissions have decreased by 14%, reflecting operational improvements in the paint shop at the China manufacturing facility and reduced space heating costs due to milder temperatures across Europe. HFC emissions have fallen by 14% through fewer refrigerant top-ups during the reporting period. Emissions from Company-owned vehicles fell by 2%, a reduction in business car mileage was offset by increased mileage by the Kingfisher delivery fleet, with the benefit arising from Kingfisher having changed several older vehicles for new, more fuel-efficient vehicles fitted with "Euro 6" standard low emission engines.

Emissions from electricity consumption (market-based) has decreased by 7.9%, whereas electricity consumption (location-based) has increased by 5%. These measures have arisen from a 3.7% rise in electric kWh, which includes a 7% rise in China. The largest electricity user is the China factory, accounting for 86% of total consumption. The Group has invested in energy efficiency initiatives to improve its carbon footprint, which include: the generation of electricity from the solar PV array on the roof of the manufacturing facility, this accounted for 13% of the electricity consumed at the site; and improvements to the heating elements on the injection moulding machines, LED lighting, solar water heaters and energy efficiency air compressors.

Our Chinese operations have been awarded a gold label through the WWF Low Carbon Manufacturing Program in China for the fourth year running and further energy-saving initiatives are targeted for delivery in 2020.

The Group has improved relative emissions performance compared to turnover by 3.6% over the period.

The table below shows the proportion of energy use (electricity, natural gas and company vehicles) that occurs in the United Kingdom and non-UK countries. In 2019, 34% of the Group's energy consumption and 18% of carbon emissions arose from UK operations.

	Energy use 2019		Carbon emissions 2019	
Area	kWh	%	tCO_2e	%
UK	3,770,836	34%	836	18%
Non-UK	7,173,017	66%	3,831	82%
Total	**10,943,853**	**100%**	**4,667**	**100%**

Environment, Social and Governance continued

People

We aim to recruit and retain people who are passionate about innovation and customer service, and to recognise and reward outstanding performance.

People policies

The Group's primary people-related policy is its Equality and Diversity Policy. This policy reflects our commitment to:

- Developing an ethos which respects and values all individuals equally
- Eliminating all forms of discrimination
- Ensuring there are no barriers which limit or discourage access to promotion, recruitment or training
- Ensuring that all aspects of employment avoid stereotyping based upon colour, culture, ethnicity, race, religion, disability, gender, sexuality or age
- Promoting good understanding of cultural, racial, ethnic and religious diversity, good race relations, disability, gender and age equality
- Taking positive action to encourage the development of a more diverse workforce

The policy is available on our intranet and all new starters are made aware of it during their induction into the business and are expected to subscribe to it at the time of their appointment. The policy is reviewed on an ongoing basis and a full review takes place at least annually.

We do not tolerate behaviour which breaches the policy and encourage staff to use our grievance procedure to report any actual or suspected breaches. We are not aware of any breaches during the year.

Gender diversity

The table below shows the gender diversity of our workforce at the year end:

	2019				2018			
	Male		Female		Male		Female	
Board	6	86%	1	14%	5	83%	1	17%
Senior management[1]	9	82%	2	18%	7	78%	2	22%
Direct reports[2]	33	73%	12	27%	31	72%	12	28%
Other employees	815	53%	709	47%	702	46%	830	54%
Total	**863**	**54%**	**724**	**46%**	745	47%	845	53%

1. Individuals reporting directly to the CEO or CFO.
2. Individuals reporting directly to senior management.

Employee involvement

We recognise the importance of good internal communication. The Board communicates the strategy to employees each year and we provide regular updates on progress and any changes taking place in the business. Employees are invited to contribute product or operational ideas and are supported by their line managers and HR department if they have any concerns.

Health and safety

Our Health and Safety Policy sets out our approach to providing attractive working conditions for our people. We aim to prevent harm to, and promote the health of, all employees, by applying health and safety programmes, rules and regulations at all of our sites. All employees are responsible for complying with health and safety regulations and we have a health and safety champion in each operating unit, who is responsible for ensuring compliance with best practice and all local regulations.

Our Health and Safety Policy is made available in local languages and all new starters must confirm that they have read and understood it. The policy is reviewed in full at least annually and more regularly if required.

We continually monitor our health and safety performance to ensure compliance and to enable us to take any corrective action if issues are identified. During the year, there were 20 non-reportable accidents reported in our Telford facility (2018: 19) and two reportable accidents (2018: one). In China, six minor accidents were reported (2018: five).

Ethical business

We require our people to act fairly in their dealings with fellow employees, customers, suppliers and business partners. Our global Code of Conduct applies to all Group employees and our external business partners. It aims to ensure that Luceco maintains consistently high ethical standards across the globe, while recognising that our businesses operate in markets and countries with cultural differences and practices.

The Code of Conduct is available on our intranet and all new employees are made aware of it during their induction.

Anti-bribery and Corruption Policy

Our Anti-bribery and Corruption Policy sets out our zero-tolerance approach, which extends to all business dealings and transactions in which we are involved. The policy is widely publicised across all our operations and is also available on out intranet. All new starters are made aware during their induction. It includes a prohibition on offering or receiving inappropriate gifts or making undue payments to influence the outcome of business dealings. We routinely review our policy and guidance in this area.

We maintain a log of all hospitality and gifts offered to and by our people, whether or not the hospitality or gifts are accepted. The policy also makes clear how our people can raise concerns or report any issues, which should be raised with the Chief Financial Officer as soon as possible. No concerns were reported during the year.

Environment, Social and Governance continued

People continued

Ethical business continued

Whistleblowing

We encourage an open culture, so any issues can be raised and handled at a local business level. However, we recognise that there may be times when it is uncomfortable or inappropriate for our people to raise a concern through line management. We therefore have a whistleblowing policy ("Speak Up"), which is available on the corporate intranet. The policy is widely publicised across our operations and sets out clearly how colleagues should report whistleblowing concerns.

Whistleblowing contacts are initially received by an independent specialist company, then passed to a nominated Non-Executive Director, the Chief Financial Officer and the HR manager for further investigation as necessary. The Board routinely reviews the whistleblowing process and the reports arising from its operation, and ensures that arrangements are in place for the proportionate and independent investigation of such matters and for follow-up action. There were no reports that required follow up in the year.

Human rights

One of our business principles is that we will support fundamental human rights, in line with the legitimate role of business. Our Code of Conduct sets out our policies in respect of a range of human rights and related issues, including child labour, forced labour, the right to organise, collective bargaining and participation in political life.

The Group's operations in high-risk countries must perform self-assessments, to make sure they are aware of the human rights impact of their operations. If a negative impact seems possible or likely, they are encouraged to take precautions or find solutions that are beneficial for employees and the communities in which they operate.

Among our international operations, China is the location where people's rights could be most at risk. By owning the facility in China, we can directly control the environment and conditions in which our employees live and work, to ensure they are treated fairly and in accordance with our policies. The Directors regularly visit China and routinely invite customers to the facility, so they can witness the working and living conditions of our employees. This helps our customers to fulfil their own responsibility agendas.

The UK Modern Slavery Act 2015 requires us to outline the steps we take to identify and prevent modern slavery within our organisation and supply chain. The latest statement is available on our website, www.lucecoplc.com.

Supply chain

The Group wants to do business with partners who endorse our values and our social and environmental standards. We regard the application of our business principles as being of prime importance in deciding whether to enter into or to continue relationships with suppliers and contractors. Our Supplier Code of Conduct is designed to ensure that all of our business partners, suppliers and manufacturing meet our basic expectations of doing business related to legal requirements, ethical practices, human rights and environmental management. These standards are based on well-respected and recognised international standards, including the International Labour Organisation, United Nations Universal Declaration of Human Rights and industry best practices.

We source raw materials and certain products from suppliers in close proximity to the factory in China. The Executive Directors visit suppliers periodically, to inspect their operations and ensure they are satisfied by how the supply process is managed, the quality of products produced and the working environment of the employees.

Communities

We are keen to contribute to the communities we operate in and our Code of Conduct encourages our people to actively participate and to propose projects to site management or site committees.

In Jiaxing, China, we are heavily involved with the local university, establishing a "Luceco class" where students were selected to receive weekly lectures for three terms. These are led by our managers or technical experts and aim to provide students with greater business sense and awareness, career advice and preparation for entering the work environment, with exposure to marketing, management, product knowledge and development and project management.

Non-financial information statement

The table below sets out where stakeholders can find information in our Strategic Report that relates to non-financial matters detailed under Section 414CB of the Companies Act 2006.

Reporting requirement	Where to read more in this report	Page
Environmental matters	Environment, Social and Governance Statement – Environmental policy, environmental impact and greenhouse gas information	26 to 27
Employees	Environment, Social and Governance Statement – People policies, gender diversity, employee involvement, health and safety	28
	Chief Executive Officer's Review	35
	Principal Risks and Uncertainties – Team members	49
Human rights	Environment, Social and Governance Statement – Ethical business, supply chain, human rights	29 to 31
Social matters	Environment, Social and Governance Statement – Communities	31
Anti-bribery and corruption	Environment, Social and Governance Statement – Anti-bribery and Corruption Policy	29
Business model	Advantaged business model	12 to 13
Principal risks	Principal risks and uncertainties	45 to 50
Non-financial KPIs	Key performance indicators	43 to 44

Chief Executive Officer's Review

Strong progress on a broad front

JOHN HORNBY
Chief Executive Officer

23 April 2020

Business performance

The return to revenue growth in 2019 was achieved amid challenging conditions in our key UK market, from which we derive 80% of revenue.

UK business confidence and construction sector activity were held back by the uncertainty created by two successive Brexit extensions and a change of government. Despite this, year-on-year revenue growth started strongly, totalling 10% in the first half, but slowed in the second as we reached tougher comparatives, resulting in full year growth of 5.0%.

We saw strong and sustained growth from our international businesses. In Continental Europe, which continues to reap the benefit of earlier investments in both product development and sales resource, revenue growth was 14.8% in 2019 and has totalled almost 300% over the last five years. Sales to Middle Eastern customers also grew well, at improved margins.

We continue to review and allocate our resources to those markets with the greatest opportunity for returns. We ceased operations in the USA in 2018, merged our businesses in France and Spain in 2019 and we will close our Hong Kong sales office in the first half of 2020. These activities free up resources to accelerate progress in other markets where we have greater potential.

Group revenue grew in each of its key product group segments of Wiring Accessories (6.5%), LED Lighting (4.6%) and Portable Power (3.6%). A detailed review of the operating segment performances can be found in the Chief Financial Officer's Review.

Adjusted Gross Margin increased by 5.3 percentage points to 36.2% (2018: 30.9%). Gross margins benefited from the positive impact of manufacturing efficiency gains, lower cost product designs, product mix and favourable currency and commodity price movements.

The combination of the growth in revenue, improved gross margins and a well-controlled cost base has resulted in the Group delivering Adjusted Operating Profit of £18.0m at an operating margin of 10.5% (2018: 5.2%). This result provides confidence that once the current coronavirus outbreak is resolved, the Group has the ability to surpass the previous peak operating margin of 10.8%.

More information on our performance during the year can be found on pages 36 to 42.

Impact of SARS-CoV-2 (Coronavirus)

The SARS-CoV-2 coronavirus (which causes the COVID-19 disease) was discovered in the city of Wuhan, China in December 2019 and has since spread worldwide.

The Group responded swiftly and comprehensively to this situation. Everything possible was done to safeguard the wellbeing of our employees, who were our utmost priority. I would like to take this opportunity to thank my team for their rapid response and unerring commitment in these challenging times.

The full impact of the outbreak on our business is not yet clear. The commentary below summarises what we know or can reasonably expect:

Supply impact

- The Group sources nearly all of its products from China
- Approximately half of these products come from the Group's own production facility in Jiaxing, roughly 800km from Wuhan. It employs 1,000 people out of a Jiaxing population of five million
- The Jiaxing area has been relatively unaffected by the outbreak. At the time of writing there is only one active case of COVID-19 in the city
- There have been no infections in the Group's Chinese workforce
- In response to the outbreak, the facility was closed for the two weeks immediately following the Chinese New Year holidays, but reopened on 17 February, albeit at reduced capacity due to a lack of workers. Capacity has gradually recovered since
- The Group holds c.100 days of inventory that partially mitigates the impact of any production shortfall
- The rate of product supply from our facility and other vendors has now returned to normal. Any additional costs incurred in dealing with the virus will be excluded from the Group's Adjusted metrics in 2020

Demand impact

- We took the following actions in March 2020 to reduce cost or preserve cash, in expectation that the strict constraints placed on free movement by governments to contain the spread of the virus would impact demand across our industry:
  - Suspension of dividends
  - Cancellation of bonus payments
  - Temporary pay cuts from the Board down
  - Reducing production headcount in China
  - Furloughing sales, administration and distribution headcount in the rest of the Group
  - Cancellation of all discretionary spend including capex
  - Through these measures, we have reduced our fixed cost spend, that is, minimum spend with no sales or purchase activity, by £1.9m to £3.5m per month
- Whilst Q1 2020 was in line with budget, since the start of Q2 2020 we have seen Group revenue reduce by circa 50% as a result of lockdown measures in the UK and Europe. Our cash outflow at this level of activity is £0.5m per month and EBITDA is close to breakeven
- We have £50m of bank facilities from our long-standing relationship bank that are committed until the end of 2021. £24.5m of this was undrawn at the end of Q1 2020
- The facilities above have financial covenants. Our base case forecast shows clear compliance with these covenants for the foreseeable future. Nevertheless, our relationship bank has agreed to reset future quarterly financial covenant limits in Q3 and Q4 2020 to accommodate a severe but plausible downside scenario. This will be legally contracted by early May 2020. This is discussed in more detail in the Chief Financial Officer's Review

Chief Executive Officer’s Review continued

Strategy update

The Group’s investment case has six key strategic objectives, which have previously been communicated to shareholders. An update on the progress of each objective is provided below:

Increase sales to professional customers

Our aim over recent years has been to grow our professional business to match our established retail business. The Group’s focus on clearly branded, high quality, innovative and readily available products, with extensive supporting services, is appealing to this group of customers. In the past year, we have:

- Invested in our customer service by:
  - Simplifying our pricing structure to make ourselves easier to do business with and to reward customer loyalty
  - Upgrading the IT systems supporting our UK warehouse
  - Building a transactional website through which professional customers can place and track orders and manage their account
- Invested in our sales teams by:
  - Developing a Customer Relationship Management platform to provide them with better information on both current and potential customers
  - Providing them with the skills necessary to develop relationships throughout the value chain
  - Providing them with both product training and easier access to technical product content

Increase sales to international customers and improve international profitability

Increasing sales to international customers remains key to growing our business organically whilst progressively reducing our reliance on the UK market. This type of growth allows the Group to maximise returns from the development of existing products, particularly products like LED that share a near-global standard.

The Group set up six new international sales offices between 2015 and 2016 to deliver this strategy. Its success is illustrated by a tripling of international revenue since then.

Our desire to maximise profit from this growth will result in our international customers being served by three fewer offices by the end of 2020 following the end of operations in the USA, France and Hong Kong over the last three years. Resources have been redeployed into our other international businesses that we believe can offer higher returns.

These actions have allowed the international business to contribute its first aggregate net profit this year.

Sales by geography can be found on page 37.

Enter new product segments that are synergistic with our existing business

New product development is key to expanding the basket of products we sell to each customer and to expanding the value of each product category through innovation. 2019 was a relatively quiet year for new product development as we focused our engineers on designing better versions of existing products. Nevertheless we still introduced, amongst others:

- BG Smart! – an innovative range of automation products that allow users to control and schedule power in the home
- Electric Vehicle (“EV”) chargers – Mode 2 chargers for electric vehicles
- Office electrics – on-the-desk power and data solutions for offices
- Professional LED luminaires – ongoing expansion of our range for the professional market

Maximise manufacturing efficiency and effectiveness

The last two years have seen a significant improvement in the performance of our China manufacturing facility. After a period of rapid capacity expansion, the lower revenue growth experienced by the Group in the last two years has allowed us to place more emphasis on improving plant efficiency.

We believe there are more efficiency gains to come. To that end, we recruited a new Managing Director and Director of Finance for the facility in the year. Both come with extensive experience of world-class manufacturing environments in the German automotive industry.

The new management team has launched an ambitious transformation plan to improve productivity and further reduce manufacturing costs. This plan will include investment in factory automation in the coming years.

The progress we are making in China is complemented by investment in our Telford warehouse, which accounts for c.40% of Group revenue.

We are implementing a UK warehouse management system that will optimise warehouse operations through integrating resource planning, stock management and purchasing. To improve productivity and efficiency, we will also be investing in equipment that will improve stock storage, retrieval and picking.

We expect these investments to deliver enhanced customer service, increased capacity and improved efficiency in 2020 and beyond.

Maximise return on capital and maintain capital discipline

The reduction in net debt to £27.4m at 31 December 2019 meant that the Group ended the year with net debt leverage at 1.06x, at the bottom of our targeted range. We also reduced our use of debt factoring as planned.

The balance sheet is now well positioned.

Maintain best practice corporate governance

We continue to invest in our governance framework to maximise control and drive operational efficiency.

Investment in the finance team started in 2018 and we continue to improve the efficiency of our finance systems and processes.

We increased investment in IT across the business in 2019 to improve the efficacy of our business model.

The Board was strengthened by the appointment of Will Hoy as a Non-Executive Director in September 2019.

People

Our employees are critical to the success of the Group and its ability to meet its objectives. We aim to communicate regularly with our employees to maximise their engagement.

Bulletins and reports provide employees with a common awareness of the financial and economic factors affecting the Group's performance. Our quarterly employee newsletter "Luceco Limelight" includes sections on: our people globally, key initiatives, headline financial performance and new product launches.

CFO Matt Webb, and I regularly brief our colleagues on published financial results and we hold open question and answer sessions with our teams.

Employees are consulted as appropriate to reflect their views when making decisions that are likely to affect their interests. Our annual employee engagement survey captures and responds to the views of the workforce.

In accordance with the 2018 UK Corporate Governance Code, Tim Surridge was appointed by the Board as the designated Non-Executive Director for workforce engagement; more about his role can be found on page 59.

The Group endeavours to provide supportive working conditions and an environment to accommodate the employment of disabled people. Once employed, a career plan is developed to ensure suitable opportunities for each disabled person. If employees become disabled whilst employed by the Group, they will continue to be employed wherever practical in the same role. If this is not practicable, every effort is made to train and redeploy within the Group.

Further information on our people can be found in the Environment, Social and Governance section on page 28.

Outlook

2019 was a year of excellent performance on a broad front, which is testament to the hard work and dedication of the entire Luceco team. We witnessed sustained progress across a broad range of metrics in challenging market conditions. Our focus has been on managing profitable growth, investing in our resilient business model and laying the right foundations for further progress in the years to come.

The coronavirus outbreak has temporarily disrupted this progress. Our primary focus is on the safety and well-being of our colleagues. The full impact of the pandemic is, as yet, unknown but we entered this period on a strong footing and with considerable liquidity.

We are confident in being able to make further progress in the years to come and look forward to the future with optimism.

JOHN HORNBY

Chief Executive Officer

23 April 2020

Chief Financial Officer's Review

Compelling results that underline our potential

MATT WEBB
Chief Financial Officer

23 April 2020

Use of alternative performance measures

The commentary in the Chief Financial Officer's Review uses alternative performance measures, which are described as "Adjusted". Definitions of these measures can be found in note 1 of the consolidated financial statements on page 108. The measures provide additional information for users on the underlying performance of the business, enabling consistent year-on-year comparisons.

Overview

Luceco has grown rapidly and successfully over an extended period in markets that are not known for high growth. It has seized share from incumbents by moving quickly with innovative, customer-centric and entrepreneurial thinking. It has built a culture in which talented people with purpose are encouraged to make a difference. As a result, it has built strong positions in attractive core markets that generate healthy and relatively dependable profits. It can reinvest these profits in clearly defined future growth opportunities or return them to shareholders if none are forthcoming. It operates a clear, simple and yet deceptively hard to replicate business model. All of this should generate an attractively predictable financial outcome in normal market conditions.

Our expected financial outcomes, or financial model, are shown below, together with a summary of how we performed against them in 2019:

Financial model	Expected outcome (in normal market conditions)	2019 results
Revenue	• Like-for-like revenue growing faster than GDP	3.9% (faster than GDP)
	• Total revenue growth averaging 5-10% through the economic cycle	5.0%
Profit	• Adjusted Operating Margin of 10-15%	10.5%
Cash	• >100% conversion of Adjusted EBITDA into Adjusted Operating Cash Flow	105.0%
	• Adjusted Free Cash Flow Margin of 5-10%	11.0%
Dividends	• Progressive	0.6p
	• 20%-30% earnings payout	7.8% earnings payout
Capex	• 3-4% of annual revenue	2.1%
Capital structure and returns	• Return on Capital Invested of 20-30%	21.8%
	• Net Debt : Adjusted EBITDA of 1.0x to 2.0x	1.06x
	• Annual Adjusted Net Cash Flow (Adjusted Free Cash Flow less dividends and Employee Benefit Trust share purchases) equal to 5% of revenue	7.9%

Revenue

Group revenue increased by £8.2m (5.0%) to £172.1m. The primary drivers are shown below:

Group revenue bridge:	£m	Change %
2018 Revenue	163.9	
Closure of US operations	(1.5)	(0.9%)
Currency movements	3.2	2.0%
Like-for-like increase	6.5	3.9%
Total movement	8.2	5.0%
2019 Revenue	**172.1**	

Revenue grew by 10.1% in the first half, boosted by weak comparatives at the start of 2018. Growth slowed as expected in the second half as we reached tougher comparatives and experienced subdued demand from professional channels in a wider UK market that faced considerable macro-economic uncertainty.

Revenue by geographical location of customer:	**2019 £m**	2018 £m	Change %
UK	**137.6**	130.1	5.8%
Europe	**17.8**	15.5	14.8%
Middle East and Africa	**9.0**	9.1	(1.1%)
Asia Pacific	**4.2**	5.3	(20.8%)
Americas	**3.5**	3.9	(10.3%)
Total Revenue	**172.1**	163.9	5.0%

UK growth of 5.8% was underpinned by the full year effect of selling price updates made in 2018 and customer destocking that left retail volumes unusually weak in the comparative period.

Europe experienced another year of double-digit growth, led by strong progress in Spain, Germany and Ireland, where we have built businesses with excellent long-term potential. Growth slowed temporarily in the second half as we made structural changes in France to improve management and lower costs. Regional growth recovered to double-digit rates in early 2020.

Mid-single digit revenue growth in the Middle East was offset by a slowdown in Africa caused by difficult economic conditions.

Asia Pacific did not repeat an excellent 2018 performance which benefited from unusually high one-off promotional sales. The region also experienced some tough economic conditions. However, our focus on improving the sales mix helped to fully offset the decline in revenue, leaving profits flat.

The decline in Americas revenue includes the impact of ending loss-making US operations in August 2018.

Profit

Gross margin

The Adjusted Gross Margin for the year was 36.2% (2018: 30.9%). As shown below, the Group's focus on mix improvement, product cost savings and selling price updates improved the margin over 10 percentage points between the first half of 2018 and the second half of 2019. This has sustained the Group's profit growth in challenging market conditions. Margins are now at a record high and the Group's strategy should yield further improvements over time in normal circumstances.

	H1 2018	H2 2018	**FY 2018**	H1 2019	H2 2019	**FY 2019**
Adjusted Gross Margin %	27.3%	33.9%	**30.9%**	35.0%	37.4%	**36.2%**
Average currency rates:						
USD:GBP	1.37	1.31	**1.33**	1.29	1.26	**1.28**
RMB:GBP	8.74	8.88	**8.84**	8.76	8.85	**8.80**
Average copper price $ (tonne)	6,919	6,258	**6,527**	6,165	5,844	**5,998**

Chief Financial Officer's Review continued

Profit continued

Operating costs

Adjusted Operating Costs were £44.3m, or 5.2% higher than last year, which was broadly in line with revenue growth.

Approximately half of the growth was caused by cost inflation. The remainder is attributable to additional bonus payable as a result of improved business performance, increased share scheme charges and net investment in new sales resource.

Operating margin

Solid revenue growth, strong gross margin improvement and tight control of overheads allowed the Group to more than double operating margins from 5.2% to 10.5% in 2019. It is this attractive combination that the Group is trying to replicate going forward.

Net finance expense

A higher USA Federal Funds Rate and a stronger dollar resulted in an increase in the cost of USD-denominated borrowing, which offset the benefit of lower overall net debt to leave Adjusted Net Finance Expense in line with the prior year at £2.2m.

Taxation

The effective tax rate on Adjusted Profit Before Tax reduced from 27.0% in 2018 to 23.4% in 2019. This was as a result of a greater proportion of Group profits being taxed at 19.0% in the UK and greater access to brought-forward losses following changes to the corporate structure.

Adjusted Free Cash Flow

£m	**Adjusted[1] 2019**	Adjusted[1] 2018
Adjusted Operating Profit	**18.0**	8.5
Adjusted Depreciation and Amortisation	**7.9**	6.5
Adjusted EBITDA	**25.9**	15.0
Changes in working capital	**1.0**	1.3
Other items	**0.3**	(0.4)
Adjusted Operating Cash Flow	**27.2**	15.9
Adjusted Operating Cash Conversion[2]	**105.0%**	106.0%
Net capital expenditure	**(3.6)**	(4.7)
Interest paid	**(2.1)**	(2.2)
Tax paid	**(2.6)**	(1.3)
Adjusted Free Cash Flow	**18.9**	7.7
Adjusted Free Cash Flow as % Revenue	**11.0%**	4.7%

1. A reconciliation of the reported to Adjusted results is shown within note 1 of the consolidated financial statements.
2. Adjusted Operating Cash Conversion is defined as Adjusted Operating Cash Flow divided by Adjusted EBITDA.

The Group achieved excellent free cash flow of £18.9m (2018: £7.7m), representing a free cash flow margin of 11.0% (2018: 4.7%). The margin was better than the expected range of 5-10% due to unusually high conversion of working capital into cash and unusually low capital expenditure.

The working capital performance reflects another year of significant improvement in inventory management and receivables collection. Inventory days were 135 days at the end of 2017. They reduced to 112 days in 2018 and stood at 105 days in 2019, driven by better management of stock levels through the product life cycle and the elimination of aged items. Receivable days reduced from 91 in 2018 to 89 in 2019, partly as a result of a change to incentive arrangements that placed greater onus on cash collection. Payable days were further reduced from 88 days in 2018 to 75 days.

Whilst further improvement in working capital management is being targeted, it will naturally be difficult to sustain such large strides in the coming years.

Dividends

Given the uncertainty presented by the coronavirus, the Board has taken the difficult decision not to recommend a final dividend payment. An interim dividend of 0.6p per share had been paid during the year. The Board remains fully confident in the Group's progressive dividend strategy and will reinstate the Group's dividend as soon as it is practicable. The Group has a progressive dividend policy equal to between 20% and 30% of Group earnings.

Capital expenditure

The Group's net capital expenditure consists of capitalised product development costs and the purchase of physical assets. Net expenditure reduced by £1.1m to £3.6m (2018: £4.7m). The Group has adequate manufacturing and fulfilment capacity as a result of earlier investments, reducing current spend. Its R&D activities in 2019 were largely focused on updating versions of existing products rather than introducing new products, reducing the capitalised amount.

Capex is expected to average 3-4% of revenue in normal circumstances. Whilst 2019 was only 2.1%, I expect spend to return to the average over time as we continue to expand our product range and invest in better manufacturing, fulfilment and IT capabilities to enhance our business model.

Capital structure and returns

Return on capital

Return on Capital Invested improved from 9.9% in 2018 to 21.8% in 2019 thanks to improved profitability and tight control of capex and working capital.

The Group continually reviews the deployment of its capital to ensure it is invested in areas with the greatest opportunity for future returns. It has set clear investment criteria for the deployment of additional capital. Its investment in product development activities is focused on the low-risk expansion of ranges sold through existing distribution channels. It continually invests in projects that improve internal efficiency and deliver a quick, relatively assured payback. Through these means, it aims to improve its return on capital over time.

Capital structure

Net debt at 31 December 2019 was £4.8m lower than prior year at £27.4m (31 December 2018: £32.2m).

The headline reduction of £4.8m does not do full justice to the progress made in deleveraging the business.

This is because, over the same period, the Group adopted IFRS 16 Leases and swapped off-balance sheet non-recourse debt factoring for traditional on-balance sheet debt. Both actions brought existing debt-like commitments onto the Group's balance sheet and into reported net debt, thereby limiting the apparent progress made.

The table below illustrates the underlying progress made if the prior year position is normalised for IFRS 16 and non-recourse debt factoring. It shows that normalised net debt reduced by £15.3m and leverage reduced by 1.64x in comparable terms.

	Reported		
	2019	2018	Change
Reported net debt	**£27.4m**	£32.2m	(£4.8m)
Add: Non-recourse debt factoring	**£5.0m**	£12.4m	(£7.4m)
Add: IFRS 16 (adopted 1 January 2019)	**–**	£3.1m	(£3.1m)
Normalised net debt	**£32.4m**	£47.7m	(£15.3m)
Normalised net debt : Adjusted EBITDA	**1.25**	2.89	1.64

At 31 December 2019, the Group's non-utilised facilities totalled £24.0m. These are committed until 31 December 2021.

The Company's covenants and headroom are summarised as follows:

2019 full-year covenant	Covenant	Actual	Headroom
Net debt : Adjusted EBITDA	2.50 : 1	1.06	Net debt headroom: £37.4m
			Adjusted EBITDA headroom: £14.9m
Adjusted EBITDA : Net finance expense	4.00 : 1	11.77	Adjusted EBITDA headroom: £17.1m
			Net finance expense headroom: £4.3m

The key measures which management use to evaluate the Group's use of its financial resources and capital management are set out below:

	Adjusted 31 December 2019	Adjusted 31 December 2018
Adjusted Earnings Per Share (pence)	**7.7**	2.9
Net debt : Adjusted EBITDA (times)	**1.06**	1.95
Adjusted Free Cash Flow (£m)	**18.9**	7.7

Note 1 in the notes to the condensed consolidated financial statements provides an explanation of the Group's alternative performance measures. EBITDA reflects certain adjustments required by the Company's loan agreements, including proforma adjustments for acquisitions and business closures.

Chief Financial Officer’s Review continued

Capital structure and returns continued

Capital structure continued

The Group complied with its covenant requirements throughout the year.

Coronavirus stress testing and liquidity assessment

We have reviewed and stress-tested our funding arrangements in light of the coronavirus.

We have considered both base case and severe but plausible downside case scenarios.

In our base case, we have assumed that Group revenue remains at circa 50% of normal levels until the end of June 2020, gradually recovering to 80% by August 2020, then 100% from January 2021. We have assumed that the mitigating actions described in the Chief Executive Officer’s Review remain in place to an appropriate extent for the duration of the downturn.

In our severe but plausible downside case, we have modelled a second virus-driven lockdown from September to November 2020, which leaves Group revenue at 25% of normal levels for its duration, gradually recovering to 100% of normal levels by February 2021. All other assumptions remain the same as the base case, including the application of the same mitigating actions for the duration of the second downturn.

In both scenarios, the Group has adequate headroom in existing bank facilities to fund itself.

In the severe but plausible downside case only, the Group exceeds the financial covenants applicable to its existing facilities shown above in Q4 2020 and Q1 2021. Subject to contract, our relationship bank has therefore agreed to reset the covenants limits applicable in 2020 as shown:

Financial covenant	Existing limit	Reset limit
Net debt : Adjusted EBITDA:		
Q2 2020	<2.5	<2.5
Q3 2020	<2.5	<3.5
Q4 2020	<2.5	<5.5
Adjusted EBITDA : Net finance expense:		
Q2 2020	>4.0	>4.0
Q3 2020	>4.0	>3.7
Q4 2020	>4.0	>2.9

With facilities due to mature on 31 December 2021, the Group is planning to refinance in the normal course of business in H2 2020, at which point Q1 2021 covenant will be set as needed. In addition, our relationship bank has agreed to swap £10.0m of invoice financing for £10.0m of extra revolving credit facility to maintain our access to lending if the number of invoices reduces.

These changes will be legally contracted by early May 2020. We are also pursuing funding via the Bank of England’s COVID Corporate Finance Facility, which we may meet the criteria for, to prudently add redundancy to our funding options. The Group has historically used mortgage lending in China and has the option to do so again.

Operating segment review

The revenue and profit generated by the Group operating segments are shown below. Operating profits are stated after the proportional allocation of fixed central overheads. The profit contribution for each segment, before fixed central overheads, is also shown to illustrate the likely profit impact of future growth.

Wiring Accessories

	Adjusted[1]			Reported		
	2019	2018	Change	**2019**	2018	Change
Revenue	**£70.1m**	£65.8m	6.5%	**£70.1m**	£65.8m	6.5%
Contribution profit	**£19.6m**	£11.4m	71.9%	**£21.1m**	£11.5m	83.5%
Contribution margin %	**28.0%**	17.3%	10.7ppts	**30.1%**	17.5%	12.6ppts
Operating profit	**£12.7m**	£6.5m	95.4%	**£14.3m**	£6.2m	130.6%
Operating margin %	**18.1%**	9.9%	8.2ppts	**20.4%**	9.4%	11.0ppts

1. Further details of Adjustments are in note 1 of the consolidated financial statements.

Wiring Accessories is the Group’s largest and most profitable segment.

Revenue increased by £4.3m (6.5%). Double-digit growth in sales to UK retail customers was the key driver of this, particularly in the first half of the year. Sales to Middle East markets that share British wiring standards also grew strongly. Overall progress was only held back by relatively flat sales to UK professional customers in a period of economic and political uncertainty.

Profit contribution margin increased significantly in the period thanks in the main to lower production costs from the Group's factory in China, which overwhelmingly makes wiring accessories. Adjusted Operating Margin almost doubled in the period to 18.1%.

LED Lighting

	Adjusted[1]			Reported		
	2019	2018	Change	**2019**	2018	Change
Revenue	**£54.2m**	£51.8m	4.6%	**£54.2m**	£51.8m	4.6%
Contribution profit	**£5.1m**	£3.2m	59.4%	**£5.7m**	£2.7m	111.1%
Contribution margin %	**9.4%**	6.2%	3.2ppts	**10.5%**	5.2%	5.3ppts
Operating profit/(loss)	**£1.2m**	£0.5m	140.0%	**£1.7m**	£(1.6)m	(206.3%)
Operating margin %	**2.2%**	1.0%	1.2ppts	**3.1%**	(3.1)%	6.2ppts

1. Further details of Adjustments are in note 1 of the consolidated financial statements.

The Group entered the lighting market in 2013 as the industry adopted LED technology.

It developed a wide range of products which it initially sold through existing UK channels at low incremental cost to serve. From 2015 onwards, it also used LED products to open up six new international markets, leveraging lighting's near-global product standard.

It has built a business with revenue in excess of £50.0m over six years, largely organically but bolstered by the acquisition of Kingfisher Lighting in 2017.

It continues to invest in both its product line and in the sales resources necessary to grow the business. The focus for future growth in this segment is on professional-grade products and expansion in international markets. This investment inevitably takes time to mature, which holds back margins in the short term.

Despite not being at full maturity, the segment delivered an Adjusted Contribution Margin of 9.4% in 2019. This was the product of a 13.1% margin in the UK and a 0.5% margin internationally, underlining the potential for margin improvement as international investments reach maturity.

Headline revenue growth of 4.6% was held back by the Group's exit from low margin product lines and the US market. Absent these effects, growth would have been 8.5%. Whilst sales in Europe grew by nearly 40%, project-based sales to UK customers, which represent 40% of the segmental total, reduced in uncertain economic conditions in which orders were repeatedly delayed rather than cancelled. The Group's focus on higher margin opportunities during this period helped to improve Adjusted Operating Margin from 6.2% to 9.4%.

Portable Power

	Adjusted[1]			Reported		
	2019	2018	Change	**2019**	2018	Change
Revenue	**£42.6m**	£41.1m	3.6%	**£42.6m**	£41.1m	3.6%
Contribution profit	**£8.2m**	£4.7m	74.5%	**£8.3m**	£4.2m	97.6%
Contribution margin %	**19.2%**	11.4%	7.8ppts	**19.2%**	10.2%	9.0ppts
Operating profit	**£4.1m**	£1.5m	173.3%	**£4.1m**	£0.3m	1,266.7%
Operating margin %	**9.6%**	3.6%	6.0ppts	**9.6%**	0.7%	8.9ppts

1. Further details of Adjustments are in note 1 of the consolidated financial statements.

The Group enjoys a leading position in the UK portable power market.

Segmental revenue increased by £1.5m (3.6%) following a recovery in demand from the major UK retailers after an unusually subdued 2018. Operating margins recovered to close to the Group average after a weak prior year as a result of price updates made in 2018 in response to input cost inflation.

Ross

	Adjusted[1]			Reported		
	2019	2018	Change	**2019**	2018	Change
Revenue	**£5.2m**	£5.2m	nil%	**£5.2m**	£5.2m	nil%
Contribution profit	**£0.5m**	£0.4m	25.0%	**£0.6m**	£0.4m	50.0%
Contribution margin %	**9.6%**	7.7%	1.9ppts	**11.5%**	7.7%	3.8ppts
Operating profit	**£nil**	£nil	nil%	**£0.1m**	£nil	nil%
Operating margin %	**nil%**	nil%	nil	**1.9%**	nil%	1.9ppts

1. Further details of Adjustments are in note 1 of the consolidated financial statements.

Chief Financial Officer's Review continued

Operating segment review continued

Ross continued

Ross revenue was flat in the period. Ross products are sold through the same channels as other segments, allowing the business to contribute an incremental £0.5m of Adjusted Contribution Profit to the payment of fixed central overheads in 2019.

Impact of foreign exchange movements

A summary of the consolidated income statement on a constant currency basis is shown below. Current period balances have been translated at the prior year's average exchange rates and demonstrate the impact of the movement in exchange rates during the period (see note 19 of the consolidated financial statements).

	2019 Adjusted actual[1]	Currency impact		Adjusted 2019 at Constant Currency[2]	Constant Currency variance to 2018		Adjusted 2018 actual
	£m	£m	%	£m	£m	%	£m
Revenue	172.1	3.2	1.9%	168.9	5.0	3.1%	163.9
Cost of sales	(109.8)	(1.2)	1.1%	(108.6)	4.7	(4.1%)	(113.3)
Gross profit	**62.3**	**2.0**	**3.3%**	**60.3**	**9.7**	**19.2%**	**50.6**
Gross margin %	36.2%		0.5ppts	35.7%		4.8ppts	30.9%
Operating costs	(44.3)	–	–	(44.3)	(2.2)	5.2%	(42.1)
Operating profit	**18.0**	**2.0**	**12.5%**	**16.0**	**7.5**	**88.2%**	**8.5**
Operating margin %	10.5%		1.0ppts	9.5%		4.3ppts	5.2%

1. Year ended 31 December 2019 translated at 2019 average exchange rates.
2. Year ended 31 December 2019 translated at 2018 average exchange rates.

The Group's main currency exposures are with US dollar ("USD") and Chinese Renminbi ("RMB"). A 4% strengthening of USD against sterling led to a 1.9% increase in revenue, with USD representing just under half of Group sales. The RMB weakened slightly against sterling, lowering the cost of our products and improving margins. For 2020, the Group has hedged forward all of its currency needs. For 2021, it has sold forward 50% of its expected USD income and bought forward 30% of its RMB costs.

The commentary above focuses on Adjusted metrics (see note 1 on page 108) which, the Board believes are a better indicator of performance. Our Reported performance surpassed our Adjusted performance thanks largely to one-off cash refunds of aged items in the UK and China. The following table summarises Reported key lines from the Consolidated Income Statement:

Summary of results (£m)	**Reported 31 December 2019**	Reported 31 December 2018
Revenue	**172.1**	163.9
Operating profit	**20.2**	4.9
Profit before tax	**17.1**	3.0
Taxation	**(4.0)**	(1.5)
Profit for the year	**13.1**	1.5

Going concern and viability statement

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and as such has applied the going concern principle in preparing the Annual Report and Accounts. This is considered in more detail in note 1 of the consolidated financial statements.
The Group's Viability Statement can be found on pages 51 to 53 and the Group's Going Concern Statement can be found on page 90.

MATT WEBB
Chief Financial Officer
23 April 2020

Key Performance Indicators

The Board uses key performance indicators to measure its progress against the Group's strategic priorities.

Revenue growth

%

2019	**5.0**
2018	(2.2)
2017	25.4

Definition
- Revenue from sales stated net of rebates and discounts

Link to remuneration
- Annual bonus and Performance Share Plan ("PSP") are linked to profitable growth
- Read more in the Remuneration Committee Report on pages 69 to 88

Link to strategy

Link to risk
1 2 4 5
6 7 9

Adjusted[1] operating margin

%

2019	**10.5**
2018	5.2
2017	8.8

Definition
- Operating margin is calculated as operating profit divided by revenue, expressed as a percentage
- Adjusted[1] operating margin excludes costs, that are not regarded as being part of the ongoing nature of the business, from operating profit to provide a better understanding of the underlying performance of the business

Link to remuneration
- Annual bonus and PSP are linked to profitable growth
- Read more in the Remuneration Committee Report on pages 69 to 88

Link to strategy

Link to risk
1 2 4 5
6 7 8 9

Adjusted[1] profit for the year

%

2019	**12.1**
2018	4.6
2017	10.5

Definition
- Profit for the year is calculated as profit after charging all expenses, including interest and tax
- Adjusted[1] profit for the year excludes costs, that are not regarded as being part of the ongoing nature of the business, from profit for the year to provide a better understanding of the underlying performance of the business

Link to remuneration
- Annual bonus and PSP are linked to Adjusted Profit for the Year and Adjusted EPS respectively
- Read more in the Remuneration Committee Report on pages 69 to 88

Link to strategy

Link to risk
1 2 4 5
6 7 8 9

1. The definitions of the adjustments made and reconciliations to the statutory figures can be found in note 1 of the consolidated financial statements on page 108.

Key to strategy:

- Increase sales to professionals, particularly LED
- Increase sales to international customers and improve profitability
- Enter new product segments that are synergistic with our existing business
- Maximise manufacturing efficiency and effectiveness
- Maximise return on capital
- Seek targeted acquisitions
- Maintain best practice corporate governance

Key to principal risks:

1. Impact of coronavirus
2. Disruption to operating activities
3. Technology, information systems
4. Business relationships
5. Team members
6. Strategy – acquisitions
7. Macroeconomic, political and environmental
8. Legal and regulatory
9. Finance and treasury

Key Performance Indicators continued

UK professional revenue growth
%

2019	**(1.3)**
2018	19.5
2017	35.6

Definition
- Revenue growth attributable to UK trade, LED projects and Kingfisher Lighting

Link to remuneration
- Annual bonus and PSP are linked to profitable growth

Link to strategy

Link to risk

1 2 4 5 7 9

International revenue growth
%

2019	**2.1**
2018	17.8
2017	51.1

Definition
- Total growth in revenue by location of customer, excluding that attributable to the UK

Link to remuneration
- Annual bonus and PSP are linked to profitable growth

Link to strategy

Link to risk

1 2 4 5 7 9

Return on Capital Invested
%

2019	**21.8**
2018	9.9
2017	18.4

Definition
- Adjusted[1] Operating Profit divided into the average capital invested in the last two years, as a percentage
- Capital invested is the sum of net assets, net debt and non-recourse debt factoring

Link to remuneration
- Annual bonus is linked to Adjusted Free Cash Flow which will improve with Return on Capital Invested

Link to strategy

Link to risk

1 5 6

Adjusted[1] Free Cash Flow margin
%

2019	**11.0**
2018	4.7
2017	3.3

Definition
- Adjusted[1] Free Cash Flow is the free cash flow adjusted for cash flows in respect of the items excluded from Adjusted Profit For The Year

Link to remuneration
- Annual bonus is linked to Adjusted[1] Free Cash Flow

Link to strategy

Link to risk

1 2 4 5 6 7 9

1. The definitions of the adjustments made and reconciliations to the statutory figures can be found in note 1 of the consolidated financial statements on page 108.

Principal Risks and Uncertainties

The Board is responsible for identifying, reviewing and managing business and operational risk. It is also responsible for determining the level of risk appetite it is prepared to take in the ordinary course of business to achieve the Group's strategic objectives and to ensure that appropriate and sufficient resource is allocated to the management and mitigation of risk.

In addition to the risk management framework, the Board has delegated responsibility to the Audit Committee for reviewing the overall process of assessing business risks and managing the impact on the Group as described on pages 66 to 68. The Group's risk management process is set out below.

The principal risks identified and actions taken to minimise their potential impact are included on pages 46 to 50. This is not an exhaustive list but those the Board believes may have an adverse effect on the Group's cash flow and profitability.

In determining whether it is appropriate to adopt the going concern basis in the preparation of the financial statements, the Directors have considered these principal risks and uncertainties. The Viability Statement on pages 51 to 53 considers the prospects of the Group should a number of these risks crystallise together.

Risk management process

The senior management team maintains a register of identified business risks (financial and non-financial) which it categorises in terms of probability of occurrence and the potential impact on the Group should the risk crystallise. Mitigating actions undertaken and recommendations for further reduction of risk are also included. Recommended actions are put forward to the Executive Directors for consideration.

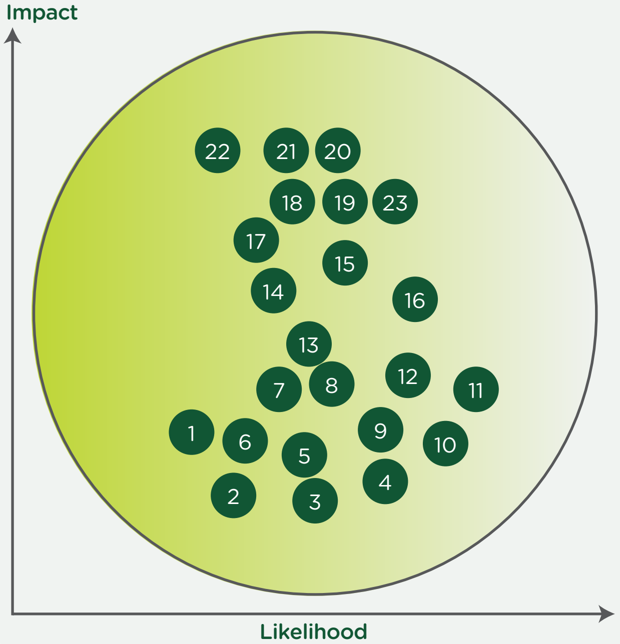
The Executive Directors review and challenge the content of the risk register and the recommendations. Risk mitigation actions are agreed, and a plan is created. Each action is assigned an owner who is responsible for carrying out the required action within an agreed timescale. The Executive Directors review the progress made against any actions that have been carried forward.

The Audit Committee regularly reviews risk management and is provided an update in respect of progress made in the reduction of existing risks, summary of newly identified risks and the actions agreed to reduce them to an acceptable level.

These risks are reviewed in conjunction with the Audit Committee's other responsibilities including the internal control framework, external audit process and financial reporting.

The Audit Committee provides an update and appropriate recommendation to the Board, where required, for the Board to consider in conjunction with the strategic objectives of the Group.

Heatmap



1. China supply chain
2. Poor quality of supplied or shipped goods
3. Loss or inappropriate release of data
4. Transfer pricing
5. Talent
6. Laws and regulations
7. Intellectual property protection
8. Currency exposures
9. Misappropriation of Group assets
10. M&A underperformance
11. Erosion of customer base
12. Increase in input costs
13. Reporting error
14. Disruption to key supplier facility
15. Disruption to non-China facility
16. UK macroeconomy
17. Fail to innovate/market shift
18. Supply and transportation disruption
19. Loss of key customer
20. Disruption to production facility in China
21. Liquidity
22. Public health issue
23. Impact of coronavirus

Principal Risks and Uncertainties continued

Senior management	Executive Directors	Audit Committee	The Board
Reviews and updates the risk register for new risks, identifies mitigations in place and recommends actions to reduce risk.	Review and challenge the risks identified and the actions proposed to mitigate them; approve and monitor agreed actions.	Monitors and reviews the risks in conjunction with the internal control framework, audit process and financial reporting.	Holds overall responsibility for effective internal control, risk management and the risk appetite of the Group.

Principal risks

Impact of coronavirus on supply and demand of Luceco products

The full impact of the coronavirus outbreak on the Group is inherently uncertain, but it has the potential to impact both the supply and demand of the Luceco product range. The Group sources nearly all of its products from China, either from its own manufacturing facility or through its suppliers.

Impact	Mitigation	Link to strategy
The Group's Chinese operation and supply chain has been adversely affected by the coronavirus outbreak. Social distancing measures introduced to suppress the spread of the virus have adversely impacted demand for Luceco products. The continued spread of the coronavirus could impact the Group's ability to distribute from its warehouses. Enabling colleagues to work from home could stretch IT resources and impact effective communication.	The senior management team has put in place plans to progressively respond to the coronavirus. The Group has modelled various scenarios to ensure these plans are sufficient to allow the Group to operate and fund itself. These are described in detail in the Chief Financial Officer's Review on page 40. The Group has put in place a series of actions to lower cost and preserve cash, as set out in the Chief Executive Officer's Review on page 33. The Group has agreed with its relationship bank to make certain changes to its funding arrangements to accommodate a severe but plausible downside scenario. These are described in more detail in the Chief Financial Officer's Review. The Group holds approximately 100 days of inventory that in part mitigates the impact of any production shortfall. The executive management team are in regular liaison with local management to ensure they are aware of any changing dynamics in each country. Precautions are being taken in all Group facilities to safeguard against the spread of the virus. The Board is monitoring the situation daily and adopting recommendations from the relevant authorities in territories in which we operate. Management are identifying key activities that could be undertaken remotely and ensuring that colleagues have the resources that they require.	

Key to strategy:

- Increase sales to professionals, particularly LED
- Increase sales to international customers and improve profitability
- Enter new product segments that are synergistic with our existing business
- Maximise manufacturing efficiency and effectiveness
- Maximise return on capital
- Seek targeted acquisitions
- Maintain best practice corporate governance

Disruption to operating activities

The Group's key manufacturing operation and major suppliers are based in China. Changes in China could impact the Group's ability to manufacture its products.

Impact	Mitigation	Link to strategy
The Group's Chinese operation and supply chain could be adversely affected if there is any disruption to legal, political, economic or social conditions in China. If the key operational and supplier sites went offline for any reason or period of time, it would have a material adverse effect upon the Group's ability to manufacture and bring its products to market, severely impacting its business, financial position and future prospects.	The executive management team are in regular liaison with their China management team and are aware of any changing dynamics in the country. The Group has a disaster recovery plan in place to protect its operations. The Chinese factory comprises separate buildings, reducing disruption. Appropriate precautions are taken in all factories and warehouses to safeguard against theft and fire. Operational sites are regularly asked to assess the quality of their continuity planning with action plans produced to address any weaknesses. The Group has long-standing relationships with its key suppliers and executives regularly visit. Luceco Quality Control colleagues operate on site at our key suppliers. The Group owns its own tooling and patents and OEM production could be transferred to other sites. The Group has business interruption and key supplier insurance in place. The Group has adequate headroom on its funding position.	

Technology, information systems

The Group is reliant on its IT systems to ensure its operations function efficiently. Any loss of data could adversely impact the business.

Impact	Mitigation	Link to strategy
Release of commercially sensitive or personal data could impact on competitiveness, damage reputation and lead to criminal and civil sanction. Applies to paper records as well as electronic data.	The Group has an IT security policy and a disaster recovery plan in place to protect its operations. Operational sites are regularly asked to assess the quality of their IT security with action plans produced to address any weaknesses.	

Key to strategy:

- Increase sales to professionals, particularly LED
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Principal Risks and Uncertainties continued

Principal risks continued

Business relationships

Raw materials represent a significant cost to the Group. The Group faces risks from currency and copper price volatility as well as other key raw materials and is reliant on third parties to supply some of its products and components. The Group has a large number of customers but there is significant concentration within the customer base. This concentration presents a risk should one or more of the customers cease purchasing from the Group. Customer agreements are typically for a 6 to 12 month period. The Group could lose market share through the loss of one or more of its major customers with whom it does not have long-term contracts, or through erosion if it is unable to maintain its innovative edge, particularly in the competitive LED lighting market.

Impact	Mitigation	Link to strategy
Suppliers may increase product prices as a result of copper or other commodity price fluctuations, reducing profit margins. Tariffs may change following the UK's departure from the EU. Profitability will be negatively impacted if the Group is unable to pass rapid price fluctuations on to its customers or there is a time lag in achieving a price increase. Suppliers may not fulfil order requirements or products may be of poor quality, negatively impacting the Group's reputation, financial position and contractual commitments. LED technology is constantly changing and customer demand rapidly evolving, giving risk of product obsolescence. A significant proportion of the Group's trade is with a small number of customers that are not committed to purchasing the Group's products on a long-term basis. Customers could cease trading or cease to purchase from the Group at relatively short notice, negatively impacting trading and working capital as there would be a lag in adjusting manufacturing volume.	The Group has a clear currency and copper hedging strategy. The effectiveness of this strategy is closely monitored. This hedging eliminates fluctuations for the typical duration of fixed selling price agreements with customers. Price fluctuations are passed on to customers as soon as the agreements reach maturity. The Group has long-term relationships with suppliers who are able to meet the Group's requirements. Quality control teams are in place at all key operational locations to ensure quality of supply. Continued expansion will lessen reliance on any particular economy or customer. The Group invests heavily in R&D to remain at the forefront of capturing and delivering changing customer requirements and market trends. The Group registers its designs with the design and patent office in the country of the market the product is sold in. The Group has long-standing relationships with many of its customers and works closely with them to meet their requirements. Rebate arrangements are used to increase the likelihood of customer retention. The Group's ability to rapidly embrace new consumer trends and its distribution flexibility make it a valued supplier. We closely monitor our competitors' product ranges.	

Key to strategy:

- Increase sales to professionals, particularly LED
- Increase sales to international customers and improve profitability
- Enter new product segments that are synergistic with our existing business
- Maximise manufacturing efficiency and effectiveness
- Maximise return on capital
- Seek targeted acquisitions
- Maintain best practice corporate governance

Team members

The business is reliant on key employees.

Impact	Mitigation	Link to strategy
Loss of key executives could result in damage to ongoing business relations or loss of knowledge. Failure to identify skills required in the future and/or develop these skills would lead to competitive disadvantage.	Senior executive remuneration packages are reviewed regularly by the Remuneration Committee. Long-term share schemes promote retention.	

Strategy – acquisitions

The acquisition strategy may incur substantial expense and divert management attention from the day-to-day business. The ability to pursue such a strategy is dependent upon the retention of key personnel to ensure that there is no disruption to the Group's operations.

Misjudging key elements of an acquisition or failing to integrate it in an efficient and timely manner could disrupt existing operations.

Impact	Mitigation	Link to strategy
The cost and integration of an acquisition may reduce profit and increase indebtedness in the short term. Management are distracted from the effective operation of the existing business.	The Group has a clear acquisition strategy and process approved by the Board. The process is implemented by a dedicated and experienced acquisitions team. The Group has a clear capital structure policy that limits indebtedness. Detailed integration plan and dedicated integration teams in place prior to acquisition.	

Macroeconomic, political and environmental

Most of the Group's revenue is generated from the UK and profitability is directly influenced by the UK economic climate. Supply chain links to China are important for the business.

Impact	Mitigation	Link to strategy
The Group's international supply chain could be disrupted owing to geopolitical factors including Brexit. Any downturn in the UK economy could adversely impact the Group's financial position if demand for its products reduces and there are limitations on its ability to increase or maintain its prices. The Group's third-party supply chain in China may not meet the Group's ethical resourcing standards, compromising its reputation.	Many of our products are essentials and have a "defensive" quality against slow macroeconomic growth. The economies and markets of all the Group's operations are reviewed regularly by the Board with mitigating action taken. Continued international expansion will lessen reliance on any particular economy or customer. The Group's capital structure policy and funding arrangements can accommodate temporary shortfalls in cash. The Group has long-standing relationships with its suppliers and the Executive Directors frequently visit their operations. We have colleagues based on site at our key supplier sites. Our stock levels in the EU have increased following the UK's departure from the EU. Supply routes have changed such that very little product now crosses the UK-EU border.	

Key to strategy:

- Increase sales to professionals, particularly LED
- Increase sales to international customers and improve profitability
- Enter new product segments that are synergistic with our existing business
- Maximise manufacturing efficiency and effectiveness
- Maximise return on capital
- Seek targeted acquisitions
- Maintain best practice corporate governance

Principal Risks and Uncertainties continued

Principal risks continued

Legal and regulatory

The risk of regulatory non-compliance is increasing as the Group is expanding rapidly into new territories, each with its own laws and regulations. Keeping up to date with changing laws and regulations is also a risk that the Group faces with its current operations.

Impact	Mitigation	Link to strategy
Any defence or claim against infringement of intellectual property ("IP") rights could be costly to instigate and pursue. Infringement of third-party IP would limit the Group's product offering and ability to compete. Changes in the laws and regulations in the countries the Group operates in could result in incurring costs and adversely impact its reputation should it be found to be non-compliant with any aspect. The Group's transfer pricing arrangements may be potentially challenged by local tax authorities, which could lead to increasing tax liabilities particularly in respect of its customer contracts, product supplied by the Group's Chinese factory and the performance of its sales operations. New technologies (e.g. LED lighting) may have unforeseen public health implications.	The Group registers its designs with the design and patent office in the country of the market the product is sold in. Management monitor the changing landscape of laws and regulations in the jurisdictions in which the Group operates. Management seek appropriate advice before setting up operations in new territories and setting internal transfer prices. We have corporate policies to ensure ongoing compliance with legal obligations (e.g. anti-bribery policy, employee and supplier codes of conduct). Management closely monitor research into potential health issues associated with our products. Management have taken professional advice and have benchmarking studies in place for the year.	

Finance and treasury

A significant proportion of the Group's revenue is invoiced in US dollars and the majority of costs are paid in RMB, exposing the Group to currency fluctuations.

The business also faces financial risk relating to liquidity, fraud and reporting error.

Impact	Mitigation	Link to strategy
The Group's funding arrangements include an invoice finance facility applicable to UK customers only. A downturn in UK sales may reduce funding liquidity. Any weakening of sterling relative to the RMB, or strengthening relative to the USD, could adversely affect profit. External or management reporting error may result in poor management decisions or misleading financial statements. Physical property may be stolen by an employee. Money may be stolen, for example through Treasury or accounts payable fraud.	The Group has set a prudent Capital Structure Policy that is designed to mitigate this risk. In 2018 the Group extended the maturity of its main banking facilities to 31 December 2021 on terms which have allowed the Group to improve its liquidity position by reducing reliance on invoice financing in favour of more committed and dependable traditional bilateral bank lending. It has also significantly reduced its use of invoice factoring. Currency fluctuations are mitigated by a hedging policy and selling prices changes. The finance leadership team has been further strengthened during the year. A Luceco Finance Manual has been rolled out globally that defines compliance standards. We continue to invest in finance systems.	

Viability Statement

LUCECO PLC – VIABILITY STATEMENT APPROACH

Viability – assessing long-term prospects	Viability – assessment analysis	
Current position	Scenario testing	Underlying assumptions and assessment
Strategy and business model	Mitigation	↓
Principal risks	Likely output	Viability Statement

Viability Statement – assessing long-term prospects

Current position

- The Group has a significant share of the UK market, particularly for Wiring Accessories and Portable Power products. It has expert market knowledge, long-established customer relationships and a broad product offering. Its large share of this market generates significant economies of scale
- The Group has successfully penetrated the rapidly growing LED market. Its competitive range of high quality, affordable products should sustain future market share gains
- The Group is using its product experience to build profitable businesses internationally
- The Group has a successful track record of new product development
- The Group's own manufacturing facility in China allows high quality products to be brought to market quickly and cost-efficiently
- The Group's policy is to operate with net debt between 1 and 2 times Adjusted EBITDA to ensure the Group has sufficient cash to reinvest in growth and respond to changing circumstances

Strategy and business model

- Grow profitability in core markets:
  - Maximise the profit potential of existing product segments and geographies
  - Prioritise growth in existing markets with above-average margin potential
  - Balance historic reliance on the UK market with faster growth overseas
  - Focus on new product segments that are synergistic with the existing product portfolio (e.g. new products that can be sold to existing customers)
  - Focus on raising the margins of the existing international businesses to the Group average before entering new markets
- Deliver best-in-class customer service to complement our best-in-class products
- Deliver best-in-class product quality and manufacturing cost
- Continue to optimise working capital and improve cash generation
- Reinvest cash in growth opportunities, including bolt-on acquisitions, whilst maintaining a conservative capital structure

Principal risks to strategy and business model (in order of impact on viability)

- **Impact of coronavirus on supply and demand of Luceco products** The coronavirus outbreak has the potential to impact both the supply and demand of Luceco products. The Group sources nearly all of its products from China, either from its own manufacturing facility or through suppliers
- **Disruption to manufacturing operations** in China due to an event such as a fire, flood, power outage, or IT failure
- **UK macroeconomic downturn** could adversely affect the demand for and pricing of our products
- **Loss of a key customer** would result in a short-term shortfall in profit and cash whilst sales were replaced by growth elsewhere
- **Shipping and transportation disruption** between the Group's end markets and its sources of product supply which are overwhelmingly in China

Viability Statement continued

Viability Statement – assessment analysis

Viability principal risk (Ranked in order of importance)	Mitigation	Scenario test	Likely output
1st Risk – impact of coronavirus on supply and demand of Luceco products	• The senior management team has put in place plans to respond to the coronavirus • The Group has modelled various scenarios to ensure these plans are sufficient to allow the Group to operate and fund itself • The Group has put in place a series of actions to lower cost and preserve cash, as set out in the Chief Executive Officer's Review on page 33 • The Group holds approximately 100 days of inventory that in part mitigates the impact of any production shortfall • The executive team are in regular liaison with local management to ensure they are aware of any changing dynamics in the country • Precautions are being taken in all Group facilities to safeguard against the spread of the virus • The Board is monitoring the situation daily and adopting recommendations from the relevant authorities in territories in which we operate • Management are identifying key activities that could be undertaken remotely and ensuring that colleagues have the resources that they require	• Management have modelled two scenarios: 1. Base case: a. Lockdown April-June 2020 with 50% reduction in activity b. Gradual recovery to 80% of normal demand by August 2020, then 100% from 1 January 2021 c. Debtor days extended from 95 in March to 120 by May before recovering gradually in H2 2020 2. Plausible downside case: a. 1st lockdown April-June 2020, with the same activity as the base case b. 2nd lockdown September-November 2020, with 75% reduction in activity c. Gradual recovery to 100% of normal demand by February 2021 d. Debtor days extended to 120 during both lockdowns	• Management have completed these scenarios testing and concluded that none would impact either viability or compliance with its financial covenants. The basis for this is that they have approval from the lender's Credit Committee for a change in the covenant in Q3 and Q4 2020 and will be resetting covenants in 2021, if required, as part of normal refinancing for the business in 2020.
2nd Risk – disruption to manufacturing operations (own or third-party sourced)	• The executive management are in regular liaison with their Chinese management team and are aware of changing dynamics in the country • The Group has a disaster recovery plan in place • The Group's China facility comprises separate buildings, reducing risk • Assessment and precautions are in place for all factories to safeguard against theft and fire • Inventory held in the UK mitigates loss of supply from China • The Group has business interruption and key supplier insurance in place	• Management have run a scenario in which the Group loses all of its sales of products sourced from China for which no inventory buffer is held outside of China for two months whilst alternative sourcing arrangements are made • The scenario also allows for a 5% reduction in gross margin for two months after alternative sourcing commences	• Management have completed this scenario test and concluded this would not impact compliance with its financial covenants or viability

Viability principal risk (Ranked in order of importance)	Mitigation	Scenario test	Likely output
3rd Risk – UK macroeconomic downturn	• Many of our products are either essentials or repair/replacement and have a "defensive" quality against slow macroeconomic growth • Continued diversification and expansion in international markets means less reliance on a particular economy or customer • Relatively low market share in some UK segments such as LED provides an opportunity to gain market share to mitigate any market decline • The Group's capital structure policy and funding arrangements can accommodate temporary shortfalls in cash • Slower sales would mean less need to invest in working capital, mitigating the impact on cash	• Management have modelled the following two scenarios in UK macroeconomic downturn: 1. Reduction in UK sales and gross profit for six months which reduces Group revenue by 2% and Group gross profit by 2.5% 2. Total loss of the Group's largest customer for six months (whilst its sales are replaced)	• Management have completed this scenario test and concluded this would not impact compliance with its financial covenants or viability
4th Risk – shipping and transportation disruption	• Brexit may disrupt our supply chain but some goods are shipped directly from China to subsidiaries without passing through the UK • Airfreight option available • UK business holds >100 days of inventory • Our stock levels in the EU have increased following the UK's departure from the EU. Supply routes have changed such that very little product now crosses the UK-EU border	• Management have modelled the impact of a 15% reduction in Group sales for six months as a result of shipping and transportation disruption	• Management have completed this scenario test and concluded this would not impact compliance with its financial covenants or viability

The Viability Statement is dependent on the following process and assumptions

Process:

- The financial forecast on which the Viability Statement is based is aligned with the annual corporate plan for 2020 to 2022 approved by the Board in December 2019 with input from the Group's senior management team
- Progress against financial budgets and key objectives are reviewed on a monthly basis to determine progress and identify any changes to the original detailed plan

Assumptions:

- Future organic growth assumptions are consistent with those recently achieved by each of the Group's businesses
- Working capital as a percentage of revenue is held broadly flat
- Capex broadly equal to depreciation
- Dividends consistent with the Group's dividend policy
- No additional investment in acquisitions (since these are discretionary and within the control of management)

The Viability Statement

- The Board considers that it is a reasonable expectation that the Company will be able to meet its liabilities as they fall due over a three-year period to 31 December 2022. This assessment been chosen for the following reasons:
  - A full assessment of prospects and assessment of viability has been completed
  - The financial and strategic planning period is currently three years, which is the current level of visibility we have as a Board on the forecasts
- The Company has secured banking facilities over the majority of that period, expiring on 31 December 2021, and is confident that this will be extended in the next refinancing that will be completed in 2020
- Approval by the lender's Credit Committee to reset covenants in Q3 and Q4 2020 in view of the severe but plausible downside case as outlined in the Chief Financial Officer's Review

The Strategic Report on pages 01 to 53 was approved by the Board of Directors on 23 April 2020.

JOHN HORNBY

Chief Executive Officer

MATT WEBB

Chief Financial Officer

Chairman's Introduction

> Corporate governance provides the structure to enable the Board of Directors to effectively execute the Group's strategy within a framework that ensures it is well controlled and mitigates undue risk

GILES BRAND
Chairman

23 April 2020

Dear Shareholder,

I am pleased to present the Corporate Governance Report for the year ended 31 December 2019 ("year"). This section of the Annual Report describes our corporate governance structures and processes and how they have been applied throughout the year.

Good corporate governance is fundamental to the success of our business. The Board and its Committees have a key role in our governance framework by providing external and independent support and challenge, understanding the views of shareholders and wider stakeholder communities, and ensuring that a culture of good governance is promoted across the business. Our continuing aim is to promote and maintain an environment of openness, transparency, accountability and responsibility.

My role as Chairman

My role is to ensure that the Luceco Board operates effectively in delivering the long-term success of the Company. In fulfilling this role I seek to ensure that Board proceedings are conducted in such a way as to allow all Directors to have the opportunity to express their views openly and that, in particular, the Non-Executive Directors are able to provide constructive support and challenge to the senior management team. More about my role, and the roles of all the Directors and Committees, can be found on page 58.

The new Code

This year saw the roll-out of the 2018 UK Corporate Governance Code ("Code") which applied to the Company from 1 January 2019. This gave the Board the opportunity not only to assess its existing corporate governance arrangements but also to deepen its understanding of the wider issues underpinning the delivery of the Group's strategy, most notably with regard to Company culture, which is being continuously improved through the work of the senior management team with the support of the full Board. Our work in this area is described on page 55.

In accordance with the new Code, we also appointed Tim Surridge as the designated Non-Executive Director for workforce engagement. A discussion with Tim about his role is included on page 59. Our statement of compliance with the Code is provided on the opposite page.

Appointment and induction of Will Hoy

The Directors were pleased to welcome Will Hoy as a member of the Board and the Audit Committee in September 2019 and I discuss Will's appointment process in the Nomination Committee Report on pages 64 to 65. It is my responsibility to ensure that all new Directors receive a full, formal and tailored induction on joining the Board. Will was provided with a comprehensive programme to give him the necessary understanding of Luceco's business, people and practices to fulfil his role. This included a day at our Telford site where he met with senior leaders from across the business, including comprehensive sessions with the Finance and IT Development teams, as well as the UK Managing Director, who provided a valuable insight into the customer-facing side of the business.

The Company Secretary provided an induction to the Board's governance structure and the role of the Audit Committee in particular. Will also had a one-to-one session with the external auditor's Lead Audit Partner and individual meetings with each of the Executive Directors, Non-Executive Directors, and myself. Will also met with the Group's Asia Managing Director, together with the other Directors, for a detailed update on the Group's Chinese operations.

Board and Committee evaluation

As Chairman I am also responsible for leading the annual evaluation of the effectiveness of the Board, Committees and individual Directors ("Evaluation"). The 2019 Evaluation was undertaken internally by way of a questionnaire, a method I believe to be appropriate and proportional to the Company, and which yields useful results. The 2019 Evaluation considered the composition, balance of skills, experience, knowledge and collaboration on the Board, as well as other factors relevant to its effectiveness, including diversity. Results were anonymised by the Company Secretary and provided to me for analysis. I presented the findings to the Board, including individual recommendations made by Directors. My performance was appraised by the independent NEDs under the leadership of the Senior Independent Director. We discussed the outcomes and agreed that the Board, Committees and individual Directors were operating effectively, whilst also noting areas for development. The Evaluation also assisted us in identifying our key areas of focus for 2020, being culture, ongoing improvements to the China production facility, and operational efficiency. We also agreed our strategic priorities for 2020. These are set out in the Strategic Report on pages 01 to 53.

The year ahead

The Board has made good progress this year in enhancing its governance arrangements and strengthening the composition of the Board, but we recognise there is still work to do. I am committed to continually monitoring and improving the governance of our Board and will continue to seek out ways to enhance our corporate governance in line with developing best practice.

COMPLIANCE WITH THE 2018 UK CORPORATE GOVERNANCE CODE

The Company is subject to the principles and provisions of the 2018 UK Corporate Governance Code ("Code"), a copy of which is available at www.frc.org.uk. For the year ended 31 December 2019, the Board considers that it has complied in full with the Code's Principles and Provisions with the exception of Provisions 9 and 19. Provision 9 states that the Chairman should be independent on appointment when assessed against the circumstances set out in Provision 10. Therefore, as a major shareholder, Giles Brand was not independent on appointment. Provision 19 states that the Chairman should not remain in post beyond nine years from the date of their first appointment to the Board. Giles was appointed as a Director of the Company in 2010 and then appointed Chairman in 2016 when the Company listed on the London Stock Exchange. The Company's relationship with Giles Brand and EPIC Investments LLP (who together own 33.29% of the Company's voting rights) is governed by a relationship agreement which serves to regulate the relationship and deliver effective independence.

Further information on how the Board has applied the Principles and complied with the Provisions of the Code in respect of the year can be found within this Annual Report and Accounts as follows:

BOARD LEADERSHIP AND COMPANY PURPOSE

The Board is collectively responsible for leading and controlling all activities of the Group, with overall authority for establishing the Company's purpose and overseeing the management and conduct of the Group's business, strategy and development. This is discussed in the Corporate Governance Report which follows on pages 58 to 63.

DIVISION OF RESPONSIBILITIES

The Board comprises the Chairman, two Executive Directors and four independent Non-Executive Directors ("NEDs"). The key roles and responsibilities of the members of the Board, including the division of responsibilities between the Chairman and CEO, are discussed on page 58.

COMPOSITION, SUCCESSION AND EVALUATION

The Board has formally delegated authority to the Nomination Committee to assist the Board in satisfying its responsibilities relating to the composition and make-up of the Board and its Committees; discussion of these matters can be found in the Nomination Committee Report on pages 64 to 65. Details of the methodology used in the 2019 Evaluation of Board Effectiveness can be found on page 55.

AUDIT, RISK AND INTERNAL CONTROL

The Board has overall responsibility for ensuring that the Group maintains a sound system of risk management and internal control. The Board has formally delegated specific responsibilities for audit, risk management and financial control to the Audit Committee, whose report can be found on pages 66 to 68. The Board considers and determines the principal risks faced by the Company, which are set out on pages 45 to 50, and also conducts an annual review of the effectiveness of the risk management and internal control systems.

REMUNERATION

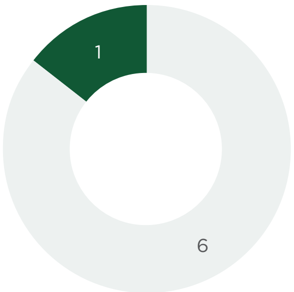
The Remuneration Committee formally assists the Board in discharging its responsibilities in relation to Executive Director remuneration. The Remuneration Committee Report is provided on pages 69 to 88. The Board will be seeking approval of its Remuneration Policy at the 2020 Annual General Meeting and this policy is included on pages 69 to 79.

Board of Directors

The Board of Directors has overall responsibility for the Group. Its aim is to represent all stakeholders and to provide leadership and control in order to ensure the growth and development of a successful business.

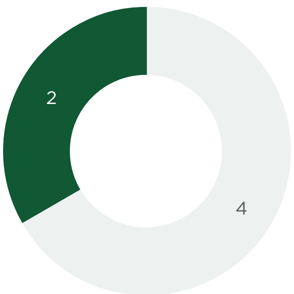
Board balance

Gender diversity



- Male
- Female

Independence[1]



- Independent Non-Executive Directors
- Executive Directors

1. Excluding the Chairman.

Sector experience

- Finance/Capital Markets
- Governance
- Operational
- Strategy
- Manufacturing/Industrial
- Consumer/Retail
- Digital

GILES BRAND
Non-Executive Chairman

Skills and experience
Giles is the founder and Managing Partner of EPIC Private Equity LLP, an independent investment manager, advisory and placement agent and administrator. EPIC Private Equity LLP is the investment adviser to EPIC Investments LLP, whose affiliates are the Company's largest shareholder. Since 2001, Giles has led over 30 buyout, turnaround, distressed and growth capital transactions. Many of these transactions have made multiple bolt-on acquisitions in the UK and overseas.

Other roles
Giles is currently the Non-Executive Chairman of Whittard of Chelsea and a Non-Executive Director of the Reader Organisation, a not-for-profit educational charity.

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JOHN HORNBY
Chief Executive Officer

Skills and experience
John was appointed Chief Executive Officer of the Group in 2005 having originally joined Luceco in 1997. John led the original management buyout of Luceco from a listed plc in 2000 and led the secondary buyout with EPIC Private Equity LLP in 2005. Since then, John has led the development of the Group's Chinese operations. John began his career with Knox D'Arcy Management Consultants following his graduation from The University of Oxford with a degree in Economics.

Other roles
John holds no other listed or non-listed directorships.

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MATT WEBB
Chief Financial Officer

Skills and experience
Matt joined the Group as Chief Financial Officer on 19 February 2018. Matt joined from FTSE 100 listed multinational building materials distribution company Ferguson plc, where he most recently spent five years as Finance Director for its market-leading US Blended Branches business, based in the USA. Prior to that, Matt held other senior Group roles at Ferguson, including Group Financial Controller and Strategic Planning Manager. Matt qualified as a Chartered Accountant with KPMG LLP and holds a degree in Engineering Science from The University of Oxford.

Other roles
Matt holds no other listed or non-listed directorships.

D

Key R Remuneration Committee A Audit Committee N Nomination Committee D Disclosure Committee Chair

JOHN BARTON
Senior Independent
Non-Executive Director

Skills and experience
John joined the Group as Senior Independent Non-Executive Director on 27 September 2016. John has previously served as Chairman of Next plc, Cable and Wireless Worldwide plc, Brit Holdings plc and Wellington Underwriting plc and has served as Senior Independent Director of WHSmith plc, Hammerson plc and SSP Group plc. John was also the Chief Executive of insurance broker JIB Group plc from 1984 to 1997 and after JIB's merger with Lloyd Thomson in 1997, he became Chairman of the combined group, Jardine Lloyd Thompson Group plc, until 2001. John is a qualified Chartered Accountant and received an MBA from Strathclyde University.

Other roles
John is currently Chairman of easyJet plc and is a Non-Executive Director of Matheson & Company Limited.

A N R

CAROLINE BROWN
Independent
Non-Executive Director

Skills and experience
Caroline joined the Group as an independent Non-Executive Director and Chair of the Audit Committee on 27 September 2016. Caroline has managed divisions of FTSE 100 groups and AIM businesses with international industrial and technology operations and has worked as a corporate finance adviser to governments and corporations with Merrill Lynch, UBS and HSBC. She has chaired audit committees of several other listed companies and is a Fellow of the Chartered Institute of Management Accountants. Caroline holds a first-class degree and PhD in Natural Sciences from the University of Cambridge and a Master of Business Administration from the Cass Business School, University of London.

Other roles
Caroline is currently a Non-Executive Director of three other public companies: NAHL Group plc (Chair), Georgia Capital plc and IP Group plc. Caroline also serves as a Trustee of the Raspberry Pi Foundation.

A N R

TIM SURRIDGE
Independent
Non-Executive Director

Skills and experience
Tim joined the Group as an independent Non-Executive Director on 27 September 2016. Previously, Tim has served as Group Chief Financial Officer at Olive Group Capital Limited, a Dubai-based security solution provider, and as Chief Financial Officer and an Executive Director at Dangote Cement plc, Nigeria's largest cement producer. Tim joined KPMG LLP UK in 1991 and became a partner in the firm's Transactional Services business in 2006. Tim has considerable accounting and advisory experience including stock market listings, reverse takeovers, management buyouts and acquisitions. Tim is a qualified Chartered Accountant.

Other roles
Tim is currently a Principal at NM Capital.

A R

WILL HOY
Independent
Non-Executive Director

Skills and experience
Will joined the Group as an independent Non-Executive Director on 1 September 2019. Will held a number of senior finance roles in a career with GKN spanning over 20 years, including nine years as Head of Corporate Finance in which he oversaw GKN's M&A activities. Prior to joining GKN, Will qualified as a Chartered Accountant at KPMG and worked in its Corporate Finance department.

Other roles
Will holds no other listed or non-listed directorships.

A

Key R Remuneration Committee A Audit Committee N Nomination Committee D Disclosure Committee Chair

Corporate Governance Report

The Board is fully accountable to the shareholders for the performance and conduct of the business and recognises the importance of maintaining an open dialogue, keeping them informed of the Group's strategy, progress and prospects.

Board composition

The Board comprises the Chairman, two Executive Directors and four independent Non-Executive Directors ("NEDs"). The key responsibilities of the members of the Board, including the division of responsibilities between the Chairman and CEO, are set out below.

Luceco plc

CHAIRMAN

Giles Brand

Giles Brand has held the role of Chairman since 2 October 2016. The Chairman is Non-Executive and is responsible for the leadership and governance of the Board, organising, planning and setting the agenda of Board meetings (in conjunction with the Chief Executive Officer) and communicating information to shareholders. The Chairman maintains regular contact with the independent NEDs to discuss and address any issues or concerns outside of formal Board meetings. The Chairman also provides support to the Executive Directors where required.

EXECUTIVE DIRECTORS

CHIEF EXECUTIVE OFFICER ("CEO")

John Hornby

The CEO has delegated responsibility for the management of the Group's day-to-day operations, including product development, quality control, sourcing of raw materials, customer and supplier relations, distribution and health and safety. The CEO also prepares and communicates the strategy of the Group and the detailed underlying operational plans to deliver it.

CHIEF FINANCIAL OFFICER ("CFO")

Matt Webb

The CFO works closely with the CEO to ensure that strategic plans are underpinned by strong financials and that they deliver growth in shareholder value. The CFO is responsible for producing budgets and forecasts to deliver and measure against the strategy and assessing the benefit of new investment opportunities. He is also responsible for internal control and risk management, in conjunction with the Audit Committee.

INDEPENDENT NON-EXECUTIVE DIRECTORS

SENIOR INDEPENDENT DIRECTOR ("SID")

John Barton

In addition to the responsibilities of an independent NED, the SID is available to shareholders should they have concerns which contact through the Chairman or other Board members has failed to resolve or for which such contact is inappropriate. The SID is also responsible for conducting the annual performance evaluation of the Chairman, in conjunction with the other independent NEDs. All Board members who wish to deal in the Company's securities must seek approval from the SID.

NON-EXECUTIVE DIRECTORS ("NEDs")

Caroline Brown, Will Hoy, Tim Surridge

The NEDs are independent and contribute to the strategic direction of the Group, providing an independent sounding board to the Chairman and Executive Directors. They have been appointed for their knowledge and expertise and provide healthy debate and challenge to the Executive Directors and senior management team. The independent NEDs are also members of the Board Committees, with the exception of the Disclosure Committee, with responsibility for the oversight of audit, financial control and risk management, composition and remuneration of the Board. Tim Surridge has been appointed as the designated Non-Executive Director for workforce engagement. More about his work in this area can be found on page 59.

The four independent NEDs are considered by the Board to meet the independence criteria set out in Provision 10 of the Code and to be independent of the Company's executive management and free from any business or other relationship that could affect their ability to exercise independent judgement. The letters of appointment of the Chairman and independent NEDs are available for inspection at the Company's registered office.

Q&A with Tim Surridge

"Designated Non-Executive Director for workforce engagement"

TIM SURRIDGE
Workforce engagement Non-Executive Director

23 April 2020

Q:
How would you describe your role?
As the designated Non-Executive Director for workforce engagement, I seek to ensure that the Board (i) understands and considers the views of the wider workforce and (ii) gives appropriate focus in the Boardroom to employee issues.
I aim to take an active role engaging with our employees which, this year, included a visit to our Telford site, where most of our UK employees are based. Having direct conversations and interactions on the ground and being able to get a feel for the working culture first hand enabled me to corroborate the results from the employee engagement surveys more effectively. I wanted to get time with as wide a variety of people as possible and, in addition to general conversations, I had nine one-to-one sessions with employees from all areas of the business at different levels.

Q:
What were the main themes coming out of the discussions?
Many people commented on how communications across the business had improved. They feel much more connected with the business and generally more informed. They read the Luceco Limelight newsletter from the CEO and they appreciate the fact that they have the opportunity to discuss financial results with senior management.
A number of our people commented that they were rewarded for hard work, that Luceco looks after its staff and that they enjoyed the people they work with. Overall, I was really struck by how enthusiastic our employees are. They enjoy the culture and they have a positive view of senior management. I could see this for myself in how people interacted with the CEO and with each other. It felt like a good place to work.

Q:
Were there any negative comments?
Yes, and I was pleased that people felt they could raise these things with me. There were mixed responses to the implementation of personal development plans, so that highlighted an area for improvement. There was also a feeling that training, especially for new joiners, could be better, both in terms of individual jobs and in terms of overall understanding of the business and its products.
Fundamentally, I felt that people are eager to develop and engage and we need to make sure we are giving people every opportunity to do that.

Q:
How were the results of your visit fed back to the Board?
I presented a summary of my findings to the Board and we discussed this alongside the employee engagement survey results. I think this gave the Directors confidence that all the hard work that's been put in to develop Luceco's people and culture was paying off, whilst highlighting where we still need to improve. It was also reassuring to see that the comments received in person were generally aligned with the results from the employee surveys.

Q:
What next?
As regards next steps, I think the 2019 Telford visit will serve as a good basis to build upon. Together with the employee survey, this gives us a well-rounded picture of what our people need to thrive, and it is absolutely essential to have this knowledge in the Boardroom.
I will continue to keep engagement methods under review and plan to visit both the UK and China operations in 2020. Our new Managing Director in China is extremely people-focused and I look forward to working with him and exploring how the UK and China teams can learn from each other as we strive to make Luceco a place that's known for being somewhere that people want to work.

Corporate Governance Report continued

Re-election

In accordance with the Code and the Company's Articles of Association ("Articles"), all Directors are subject to annual re-election by the shareholders at the Annual General Meeting.

Time commitment

Each Director's other commitments are disclosed and, in the case of significant appointments, approved by the Board in advance. The Board reviews a schedule of Directors' interests at each Board meeting. The Board is satisfied that the other commitments of the Chairman and the independent NEDs do not prevent them from devoting sufficient time to the Company. The Executive Directors work solely for the Group; neither John Hornby nor Matt Webb hold any external directorships.

Access to advice

All Directors have access to the advice and services of the Company Secretary, who is responsible for advising the Board on corporate governance matters. The Directors are able to take independent, professional advice to assist them, if necessary, at the Company's expense.

Matters reserved for the Board

The Board keeps a formal schedule of matters specifically reserved for its decision. These include the approval of the annual and half-yearly results and associated announcements, recommendation of dividends, convening of shareholder meetings, Board appointments, strategic plans and budgets, significant capex proposals, acquisitions, systems of internal control and risk management and corporate governance arrangements. No one Board member has the power to make a decision without the sanction of the other members.

Committee responsibilities

The Board has formally delegated specific responsibilities for audit, risk management and financial control, public announcements, Board composition and remuneration to four standing Committees, namely the Audit Committee, Nomination Committee, Remuneration Committee and Disclosure Committee. Each is chaired by the Chairman or an independent NED, enabling them to take an active role in influencing and challenging the work of the Executive Directors and senior management team. Details of the Disclosure Committee are provided below; information on the composition, responsibilities and activities of the other Board Committees are set out in their respective reports on the following pages:

- Audit Committee pages 66 to 68;
- Nomination Committee pages 64 to 65; and
- Remuneration Committee pages 69 to 88.

The terms of reference of the Committees are reviewed annually.

Disclosure Committee

The Board has delegated responsibility to the Disclosure Committee to oversee the Company's compliance with the FCA's Listing Rules, the Disclosure, Guidance and Transparency Rules and the Market Abuse Regulation, in respect of the disclosure and control of inside information directly concerning the Company. The Committee meets as appropriate and met three times during the year. The Disclosure Committee is chaired by Giles Brand and its other members are John Hornby and Matt Webb. Its terms of reference can be found on the Company's website.

Leadership and Company purpose

The Board is collectively responsible for leading and controlling all activities of the Group, with overall authority for establishing the Company's purpose, values and culture and overseeing the management and conduct of the Group's business, strategy and development. The Board sets the Group's strategic direction and approves strategic projects, policy and investment decisions. These decisions are underpinned by financial reporting and a robust approach to risk management. The Board is also responsible for ensuring appropriate resources are in place to enable the senior management team to deliver the strategic objectives and enact their policies and decisions.

The Board has agreed the Company's purpose, as stated on page 05, and has satisfied itself through regular reports from, and discussions with, management that the culture promoted by the Board and by senior management supports this purpose.

People and culture

The Board assesses and monitors Company culture through a number of channels including regular reports from the Executive Directors and senior management, whistleblowing reports and employee surveys. During the year the Board agreed that it was necessary to strengthen the internal controls and procedures with regard to the Group's China operations. The Executive Directors presented their proposed solutions which were scrutinised and challenged by the Board, after which an action plan was agreed and implemented, ultimately leading to the appointment of a new senior management team at the China facility.

Ronnie Yu, the new Asia Managing Director, presented the Board with his vision for the transformation of the China factory (see page 16 for more about the China transformation), all of which was underpinned by an imperative to improve workplace culture, with a strong focus on improving transparency, reducing hierarchies and harnessing colleagues' enthusiasm for development. The Directors continue to support Ronnie in and outside the Boardroom and to monitor progress.

2019 saw the deployment of the second annual employee engagement survey in the UK, as well as the roll-out of the survey for the first time in China. The UK results enabled the Board to assess the direction of travel as against the previous year, which showed that actions implemented in response to the 2018 survey results were having the desired effect. This included an 18% increase in the percentage of respondents who said they would recommend a role at Luceco to their friends and family, plus reports of increased understanding of the Group's activities through better communications. The results of the China survey provided management with enormous insight into the China workforce experience and will provide a useful benchmark against which to track the progress of transformation plans.

In accordance with the revised Code, the Board has appointed Tim Surridge as the designated Non-Executive Director for workforce engagement. More information on his activities in this area is provided on page 59. Workforce engagement is also discussed in the Strategic Report on pages 21 and 29.

During the year the Board reviewed the Company's People Strategy and discussed management's proposed actions to establish a framework that ensures the workforce has the necessary competencies at all levels to deliver the Company's long-term strategy. The initiatives within this framework, which include salary benchmarking and standardisation of skills matrices, aim to deliver a consistent and transparent approach with regard to competencies, compensation and benefits, and to deliver a more structured approach to variable compensation, including an element of reward for Company performance for all employees.

Whistleblowing and compliance

The Board is responsible for monitoring and periodically reviewing the Group's whistleblowing, anti-bribery and anti-fraud policies. The Board reviewed these during 2019 and satisfied itself that sufficient arrangements are in place to assist in the prevention of fraud and enable employees to report irregularities confidentially and allow appropriate investigation and follow-up action to be taken. The Board is also responsible for reviewing any whistleblowing reports.

Wider stakeholder considerations

A stakeholder assessment exercise was carried out in respect of the year and the Directors agreed the Group's key stakeholder groups as set out in the Strategic Report on pages 20 to 23. Further information is included in the Section 172(1) Statement in the Strategic Report on page 24.

Board meetings

In advance of its meetings, the Board is provided with an agenda and all relevant documentation and financial information in a timely manner to assist it in the discharge of its duties and ensuring that decisions are well informed and made in the best interests of the Group. If any member is unable to attend a Board meeting, they have the opportunity to discuss any agenda items with the Chairman before the meeting. Conflicts of interest are managed in accordance with the procedure described under "Directors' conflicts of interest" on page 91.

Corporate Governance Report continued

Meeting attendance

The table below shows the number of scheduled Board and Committee meetings attended by each Director during the year against the total number of possible meetings in respect of each Director.

Name	Board	Audit Committee	Nomination Committee	Remuneration Committee
Giles Brand	8/9	n/a	4/4	n/a
John Hornby	9/9	n/a	n/a	n/a
Matt Webb	9/9	n/a	n/a	n/a
John Barton	9/9	3/3	4/4	4/4
Caroline Brown	9/9	3/3	4/4	4/4
Tim Surridge	8/9	2/3	n/a	4/4
Will Hoy	3/3	1/1	n/a	n/a

Tim Surridge was unable to attend the April Board and Audit Committee meetings, and Giles Brand was unable to attend the September Board meeting, due to prior commitments which were communicated to and agreed by the Board in advance.

Board activity

The Board agenda focuses on the themes of driving strategy, monitoring risk, and execution of the strategy through regular business, financial and departmental updates. These are complemented and underpinned by updates and discussions around culture, people and stakeholders, as well as corporate governance considerations including legal and regulatory matters. A summary of the activity of the Board during the year is set out below:

Strategy

- Regularly received and discussed strategic updates, proposals and reviews from the Executive Directors and senior management; supported the development of strategy through individual insights and robust challenge
- Received and discussed a presentation from the new Asia Managing Director setting out plans for the Group's Chinese operations and the role of culture in ensuring their success
- Considered the impact of Brexit on the Group's operations
- Approved investments into strategic initiatives
- Considered the closure of the Group's Hong Kong operations

Internal control and risk management

- Reviewed the Group's approach to risk management and carried out a robust assessment of the Company's principal risks
- Reviewed the Company's hedging arrangements and strategy
- Oversaw the roll-out of the Group's Finance Manual

Financial

- Considered the financial performance of the Group and key performance targets, including a review of the monthly management accounts at each Board meeting
- Monitored the performance against the 2019 budget through regular presentations from the CFO
- Approved the 2020 budget and three-year plan
- Approved the Annual Report, half-year and annual results announcements and analyst presentations

Culture, people and stakeholders

- Discussed the development of the Group's People Strategy
- Discussed the results of the 2019 employee engagement surveys carried out in the UK and China
- Received updates on employee engagement from the designated Non-Executive Director for workforce engagement; discussed results and considered the nature and extent of engagement
- Discussed the Company's key stakeholders and the Board's engagement with them
- Reviewed and approved the Board Diversity & Inclusion Policy
- Reviewed and approved the Group's Whistleblowing Policy and oversaw its effectiveness

Corporate governance

- Reviewed the Company's compliance with the 2018 UK Corporate Governance Code
- Discussed the outcome of the Evaluation of Board Effectiveness and agreed actions for 2020
- Considered feedback from brokers and analysts as relevant throughout the year
- Received regular updates on legal and governance developments affecting the Company;
- Appointed Will Hoy as a Non-Executive Director and as a member of the Audit Committee
- Approved changes to the senior management team at the Group's Chinese production facility
- Reviewed and approved the Company's revised Share Dealing Code

Shareholder engagement

The Board, led by the Chairman, is committed to maintaining an open and constructive dialogue with shareholders, to ensure there is a common understanding of the strategic objectives, governance and performance of the Group. The CEO and the CFO undertake investor roadshows following the release of financial results, with the presentations made available on the Company's website. Any feedback gained from a roadshow is reported to the Board, to enable Directors to understand the views of shareholders. Where appropriate, the Company consults with shareholders on significant issues. During 2019, major shareholders were offered the opportunity to meet the Chairman, CEO and CFO to discuss Luceco's strategy and governance arrangements. In addition, the Company has appointed financial public relations advisers and corporate brokers to gather investor and analyst feedback, which is presented to and reviewed by the Board.

Annual General Meeting

The 2020 AGM will take place at 12:00 noon on 4 June 2020 at the Company's registered office, Building E Stafford Park 1, Stafford Park, Telford, Shropshire, TF3 3BD. The AGM has traditionally served as the principal forum for dialogue with shareholders and would normally include a presentation outlining recent developments in the business, followed by a question-and-answer session to enable shareholders to ask about specific areas or the business in general. However, under the UK Government's current prohibition on non-essential travel and public gatherings, it will, unfortunately, not be possible for shareholders to attend the 2020 AGM. Shareholders are strongly encouraged to register their proxy votes online and to send any questions via email in advance of the meeting. Further details will be included in the Notice of AGM, which will be sent to shareholders with the prescribed timescales. In the event that UK Government guidance changes prior to the meeting such that shareholders are able to attend, the Company will update shareholders through an announcement to the London Stock Exchange and also on the Company's website.

GILES BRAND
Chairman

23 April 2020

Nomination Committee Report

> We have focused on ensuring Luceco has a strong, experienced and diverse Board and senior management team in place to provide a platform for the Company to achieve its long-term potential

GILES BRAND
Nomination Committee Chair

23 April 2020

Chair: Giles Brand
Other members: John Barton and Caroline Brown

Key responsibilities
The Committee's main responsibilities, as outlined in its terms of reference, are:

- Reviewing the size, structure and composition of the Board and its Committees
- Identifying and nominating candidates to fill Board vacancies as the need arises
- Ensuring adequate succession planning is in place for Directors and members of the senior management team
- Reviewing the results of the Board performance evaluation process

The Committee's terms of reference are available on the Company's website. Committee meeting attendance is set out on page 62.

Dear Shareholder,

I am pleased to present the report of the Nomination Committee ("Committee") for the year ended 31 December 2019. During the year the Committee made good progress towards strengthening the mix of skills and experience on the Board, leading to the appointment of Will Hoy as a Non-Executive Director in September.

Diversity & Inclusion Policy

Luceco recognises the benefits of having a diverse Board and sees increasing diversity and inclusion at Board and senior management level as key to maintaining competitive advantage. The Board is committed to ensuring that recruitment and promotion of individuals at Board and senior management level is based on merit and objective criteria and that, within this context, each candidate is judged on their unique combination of skills, knowledge and experience, as well as their social and professional background, cognitive and personal strengths, gender and ethnicity. The Committee reviews the effectiveness of this Diversity & Inclusion Policy annually and recommends any required amendments to the Board for approval.

Gender balance of senior management and direct reports

The gender balance of the Board, senior management and direct reports is included in the Environment, Social and Governance Report on page 29.

Appointments

In accordance with its terms of reference, the Committee led the search for an additional Non-Executive Director to strengthen the Board's collective expertise to ensure it is well equipped to meet the current and future needs of the Group. The Committee agreed a role description which considered the knowledge and experience required for the role, noting that more than one individual may be required in light of the breadth of expertise required. Candidates were initially sought through the Directors' professional networks, Will Hoy having come to the Committee's attention through an independent third party as part of a previous Director search. Noting in particular his strong background in the industrial sector and extensive M&A experience, the Committee unanimously agreed to recommend Will's appointment to the Board and as a member of the Audit Committee, both of which were approved by the Board to take effect on 1 September 2019.

The Committee subsequently engaged Russell Reynolds Associates to lead the search for an additional Non-Executive Director to join the Board. Russell Reynolds Associates, who have no other connection with the Company or with any individual Director, were provided with a role description and, as part of this, were instructed that increasing the diversity of the Board was desirable but that the overriding requirement was possession of the necessary skills and commercial experience. This search is ongoing as at the date of this report.

Board composition

Each year the Committee formally reviews the size, composition and capabilities of the Board, including its diversity, as part of the annual Evaluation of Board Effectiveness. The Committee concluded in the 2019 Evaluation that the Board had an appropriate mix of skills and experience to provide strong and effective leadership, noting that this was being strengthened through ongoing succession planning. The standing Board Committees were also considered and it was agreed that the composition of each was appropriate and balanced. Informed by this review and ongoing monitoring, the Committee will continue to oversee the refreshment of the Board and Committees and to maintain an appropriate balance of skills, commercial expertise and diversity to satisfy the evolving needs of the Group.

Succession planning

The Board has delegated responsibility to the Committee for leading the process for identifying and nominating Board candidates, as well as keeping the diversity of the Board under review. When making a Board appointment, the Committee seeks to identify an individual with the skills, knowledge and experience required to fulfil the role, within this context taking account of the added value that the individual brings to the Board in terms of creating a diverse, and therefore more effective, decision-making body.

The Committee also oversees the development of a diverse pipeline of potential Directors and senior managers. This is supported by the Group's Equality & Diversity Policy described on page 28, which ensures that all employees, regardless of gender, ethnicity, age or other factors, are provided with the opportunity to progress within the organisation, supported by an inclusive culture underpinned by fair and equitable practices and procedures. The Committee believes that this is an appropriate and balanced approach to facilitating the development of a diverse pipeline.

Annual evaluation of the Nomination Committee

As part of the Evaluation of Board Effectiveness conducted during 2019, the Committee undertook an evaluation of its own effectiveness and concluded that it was operating effectively. Details of the full Evaluation of Board Effectiveness, including how it was conducted and the actions taken as a result, can be found on page 55.

Directors' performance

The Directors' biographies are set out on pages 56 and 57. The Committee has considered the performance of each Director and concluded that they continue to demonstrate the necessary knowledge and commitment to contribute effectively to the Board.

Priorities for 2020

During the forthcoming year, the Committee will focus on continuing to strengthen the mix of skills and experience on the Board to ensure that collectively it has the necessary expertise to drive and support the sustained growth of the business.

GILES BRAND

Nomination Committee Chair

23 April 2020

Audit Committee Report

> We have overseen the continued enhancement of the UK finance function, strengthened the management team in China and implemented a programme for the development of procedures and internal controls across the Group

CAROLINE BROWN
Audit Committee Chair

23 April 2020

Chair: Caroline Brown
Other members: John Barton, Will Hoy and Tim Surridge

Key responsibilities
The Committee's main responsibilities, as outlined in its terms of reference, are:

- Overseeing the Group's internal financial controls and risk management systems
- Recommending the half and full-year financial results to the Board
- Monitoring the integrity of all formal reports and announcements relating to the Group's financial performance
- Overseeing the relationship with the external auditor and reporting the findings and recommendations of the auditor to the Board

The Committee's terms of reference are available on the Company's website. Committee meeting attendance is set out on page 62.

Dear Shareholder,

I am pleased to present the report of the Audit Committee ("Committee") for the year ended 31 December 2019. During the year the Committee continued to oversee the enhancement of the finance function as well as the development and implementation of new initiatives to strengthen internal controls around the Group's Chinese operations.

Internal financial controls and risk management systems

The Board is responsible for the risk management framework and the Committee has been delegated responsibility for reviewing the overall process of assessing business risks and managing the impact on the Group. The Board retains overall responsibility for the level of risk the Group is willing to take and for allocating sufficient resource to the management of business risk. The risk management process is detailed on page 45.

The Group operates its system of internal control by using the following key elements:

- Regular review meetings of various groups, including business functions, senior management, sub-committees and the Board, to discuss key issues
- A detailed business planning process, combining top-down and bottom-up approaches, with outputs reviewed by the Directors
- A system of financial controls, including preventative controls and a review process
- Ongoing dialogue with Directors, including financial reports and trading updates

The Committee, on behalf of the Board, has reviewed the effectiveness of the internal control systems and risk management processes in place during the year, taking account of any material developments since the year end.

During the year the Committee reviewed management's progress in embedding a system of robust internal controls throughout the business and strengthening the skills and capabilities of the finance team. This included new appointments in the Group finance and China finance teams, the continuing roll-out of enhanced Group policies and the Luceco Finance Manual, the implementation of a new Group financial consolidation system; and the consolidation of the Group's global banking arrangements and related controls.

A key area of focus for the Committee in 2019 was oversight of the strengthening of internal controls in relation to the Group's China operations. The Committee considered the matter in depth with management and provided insight and input into proposals. Areas discussed included the digitisation of delegated financial authorities, enhanced whistleblowing arrangements, and tighter central controls around cash movements globally, all of which were implemented during the year.

Review of half and full-year financial results

The Board is ultimately responsible for reviewing and approving the Annual Report and Financial Statements and the half-yearly reports. At the Board's request, the Committee has reviewed the Annual Report and Financial Statements and is satisfied that the information contained therein is fair, balanced and understandable and provides shareholders with the necessary information to assess the Group's position and performance, business model and strategy.

Significant issues considered

Significant issues considered by the Committee in 2019 and early 2020 were:

- Coronavirus, particularly with regard to going concern, Principal Risks and Uncertainties and post-balance sheet events
- Brexit
- Disclosure quality of the going concern statement, particularly with regard to the description in the Basis of Preparation of any material uncertainty stemming from the coronavirus
- Capitalisation of development costs
- Inventory valuation
- Revenue recognition
- Management override of controls
- Chinese management team
- Recovery of intra-Group debt

These were addressed through reporting from, and discussion with, the Chief Financial Officer and the auditor, both of whom are regular Committee meeting attendees. KPMG LLP has set out its audit approach and the work it performed to satisfy its audit requirements in these areas in its Independent Auditor's Report on pages 94 to 101.

The principal risks and uncertainties of the Group and their mitigation are included on pages 45 to 50. The crystallisation of these risks has been considered in the Viability Statement on pages 51 to 53 and going concern assessment on page 90. The Committee has considered the impact of coronavirus and Brexit as part of the ongoing assessment of the business's principal risks and uncertainties.

The Committee confirms that it is satisfied that the presentation of the 2019 financial statements is appropriate and in accordance with the Group's accounting policies.

External auditor

KPMG LLP has been the Group's auditor since 2014 and Michael Froom has been the senior statutory auditor since 2018. The Committee intends to comply fully with the FRC Guidance on Audit Committees and carry out an audit tender every ten years and mandatory rotation at least every 20 years.

The Committee regularly considers the independence and objectivity of the auditor, taking into consideration relevant UK professional and regulatory requirements.

The Committee reviews an annual statement from the auditor detailing its independence policies and safeguards and confirming its independence, taking into account the Group's non-audit services policy and relevant ethical guidance regarding the provision of non-audit services by the external auditor.

The Committee has considered and approved the terms of engagement and fees of the external auditor for the year ended 31 December 2019. Audit fees payable by the Group to KPMG LLP in 2019 totalled £0.5m (2018: £0.5m). There were no contingent fee arrangements. The Committee reviewed the level of non-audit services and fees provided by KPMG LLP; in respect of the year ended 31 December 2019, these were £0.1m (2018: £0.1m) and related to the 2019 Interim Review. The Committee determined that KPMG LLP were best placed to undertake this work in view of their deep knowledge of the Group's global operations. The ratio of non-audit fees to audit fees for the year was nil:1. The Committee has agreed that this does not pose a threat to the auditor's independence, taking into account the absolute level of fees incurred by the Company in relation to KPMG LLP's revenues as a whole.

The Committee is required to consider and review the effectiveness of the external audit on an annual basis and report its findings and recommendations to the Board. This review was undertaken by reviewing the external auditor's plan for the 2019 audit, discussing the results of the external auditor testing (including its views on material accounting issues and key judgements and estimates) and its Independent Auditor's Report.

Audit Committee Report continued

Internal audit

During the year the Group did not have an internal audit function as it had been agreed that the Group's size and activities were such that internal assurance was achievable through reports from and discussions with management. During the year the Committee considered, as it does annually, whether the Group had a need for an internal audit function. In view of efforts to strengthen internal controls around the Group's Chinese operations, the Committee recommended to the Board that an audit of the effectiveness of internal controls within the Group's Chinese operations be conducted locally by a third party during H1 2020. The Committee also recommended that an audit of the effectiveness of internal controls across the rest of the Group be carried out using internal resources. The Board accepted the Committee's recommendations. The Committee will consider the results of these reviews during 2020 and will continue to review on an ongoing basis whether a permanent internal audit function should be established and, if so, determine its remit and make a recommendation to the Board.

Annual evaluation of the Audit Committee

As part of the Evaluation of Board Effectiveness conducted during 2019, the Committee undertook an evaluation of its own effectiveness and concluded that it was operating effectively. The Board has satisfied itself that Caroline Brown, Will Hoy and Tim Surridge have recent and relevant financial experience and that the Committee as a whole has competence relevant to the sectors in which the Company operates.

Priorities for 2020

During the forthcoming year the Committee will continue to monitor the culture, processes, people and systems transformation within the finance function; assess the third-party audit of the effectiveness of internal controls in the Chinese operations; and oversee the work of embedding a system of robust internal controls throughout the business and assess its effectiveness.

Whilst noting the significant progress made to date by management in developing and implementing the Group's internal control framework, the Committee recognises that a great deal of work still lies ahead. We will continue to support and challenge management in this evolutionary process in view of the ever-changing needs of the business, regulators and wider stakeholders.

CAROLINE BROWN

Audit Committee Chair

23 April 2020

Remuneration Committee Report

> We are committed to operating a Remuneration Policy that recognises and rewards performance to support the Group achieve its strategic objectives and generate long-term value for stakeholders

TIM SURRIDGE
Remuneration Committee Chair

23 April 2020

Chair: Tim Surridge
Other members: John Barton and Caroline Brown

Dear Shareholder,

On behalf of the Board, I am pleased to present the Remuneration Committee's report on remuneration for the year ended 31 December 2019 and the 2020 Directors' Remuneration Policy ("Policy").

Directors' Remuneration Policy

Luceco last sought shareholder approval for its Directors' Remuneration Policy at the AGM in 2017 following its listing in late 2016 and therefore, in accordance with the remuneration reporting regulations, is required to seek shareholder approval for its Policy at the AGM in 2020. In light of this, the Committee undertook a review of the Policy during the year. The Committee concluded that the overall framework – based on an annual bonus plus a performance share plan – remains appropriate to continue to incentivise management to drive long-term sustainable performance for shareholders. The Committee has, however, made a number of changes to the operation of the framework to reflect the 2018 UK Corporate Governance Code as well as evolving shareholder expectations and market practice.

These changes are summarised below:

Pension

The maximum pension allowance under the Policy has been reduced from 8.5% of salary to 5% of salary to align with the pension provision available to the wider workforce in the UK. The pension allowance for the CFO is already in line with the UK workforce at 5% and the CEO does not currently receive a pension.

Bonus deferral

A provision has been introduced such that where an Executive Director has not met, or is not on course to meet, their shareholding guideline within a reasonable timeframe they will be expected to invest 50% of any post-tax annual bonus earned into Company shares.

Performance Share Plan ("PSP") holding period

From 2020 onwards, shares awarded under the PSP will be subject to a holding period for two years following the end of the performance period to reflect market practice and to comply with the UK Corporate Governance Code.

Remuneration Committee Report continued

Directors' Remuneration Policy
continued

Shareholding guideline

The in-employment shareholding guideline for Executive Directors has been increased from 100% of salary to 200% of salary to reflect best practice and shareholder expectations.

Post-employment shareholding guideline

A post-employment shareholding guideline has been introduced to comply with the UK Corporate Governance Code and to reflect best practice. After stepping down from the Board, Executive Directors will normally be expected to maintain a minimum shareholding of 200% of salary for the first 12 months following departure from the Board and 100% of salary for the subsequent 12 months.

Approach to remuneration for 2020

Executive Directors' remuneration for 2020 will be largely unchanged from prior years. Salaries have been increased by 3% from 1 January 2020 in line with the increases received for the wider workforce. The CEO's salary is therefore £360,500 and the CFO's salary is £309,000.

In light of the challenges presented by the coronavirus, all Board members have agreed to accept a temporary 25% reduction in salary from 1 April 2020. This agreement expires on 30 June 2020 at which point the Company may request an extension or salaries will revert to the figures above.

The maximum annual bonus opportunity will continue to be 100% of salary. Bonuses will be based 30% on Adjusted Profit Before Tax, 50% on Adjusted Free Cash Flow and 20% on individual strategic objectives.

It is intended that the PSP award will continue to be 100% of base salary. Vesting will be determined based 50% on TSR performance compared to the FTSE SmallCap index and 50% based on EPS performance for the financial year ended 31 December 2022. Due to the current market volatility following the COVID-19 outbreak the Committee has decided to delay the grant of awards and the setting of EPS targets until there is more certainty regarding future performance expectations. EPS targets will be disclosed in the RNS announcement at the time of grant. The Committee is mindful of shareholder guidance around award levels following a share price fall and will carefully consider this guidance when determining the number of shares to be awarded under the PSP in 2020.

Remuneration paid for 2019

Luceco has performed strongly during 2019. Our continued focus on improving operational performance has resulted in sustained profit growth and cash flow improvement across the Group despite market challenges and continued economic uncertainty.

The annual bonus for 2019 was based on Adjusted Profit Before Tax, Free Cash Flow and strategic objectives. Performance against financial targets significantly exceeded the maximum targets set. Adjusted Profit After Tax performance was £12.1m, which met the maximum target. Free Cash Flow (adjusted for the change in our approach to non-recourse debt factoring for 2019) was £18.9m, which exceeded the maximum target set. The CEO and CFO both delivered excellent performance against their individual strategic objectives (further details are set out on pages 82 and 83). The Committee therefore determined that it was appropriate to pay an annual bonus of 100% of maximum.

PSP awards granted in May 2017 to the CEO were based on TSR and EPS performance. These targets were not met and these awards will therefore lapse.

The Committee believes that the incentive outcomes are a fair reflection of our one year and three year performance and therefore the Committee has not exercised discretion in relation to incentive outcomes during the year.

I look forward to receiving your support for our Directors' Remuneration Policy and our Annual Remuneration Report at the AGM.

TIM SURRIDGE

Remuneration Committee Chair

23 April 2020

The Directors' Remuneration Report that follows has been prepared in accordance with the provisions of the 2018 UK Corporate Governance Code ("Code"), the Listing Rules, the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Companies Act 2006.

2020 Remuneration Policy

The following table sets out our Remuneration Policy for Directors ("Policy"). This Policy will be put forward to shareholders for their binding approval at the AGM on 4 June 2020 and will apply to payments made from this date.

Further details regarding the operation of the Policy for the 2020 financial year can be found on pages 80 to 81.

Policy table

Base salary

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
To ensure that the Company is able to attract and retain talented Executive Directors to deliver the strategy of the business.	The Committee sets base salary taking into account: • The individual's skills, experience and their performance • Salary levels at other companies of a similar size and complexity • Pay and conditions elsewhere in the Group Any salary increases are normally effective from 1 January.	Whilst there is no maximum salary, increases will normally be in line with the typical increases awarded to other employees in the Group. However, increases may be above this level in certain circumstances such as: • Where an Executive Director has been appointed to the Board at a lower than typical market salary to allow for growth in the role, larger increases may be awarded to move salary positioning closer to typical market level as the Executive Director gains experience • Where an Executive Director has been promoted or has had a change in responsibilities • Where there has been a significant change in market practice	n/a

Pension

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
To provide appropriate levels of retirement benefit for Executive Directors.	Executive Directors generally receive a contribution to a defined contribution pension scheme (or equivalent) or a cash allowance in lieu of a pension.	The maximum annual pension contribution or cash allowance is 5% of salary, which is in line with the rate received by the majority of the workforce in the UK.	n/a

Remuneration Committee Report continued

Policy table continued

Benefits

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
To ensure that the benefits offered by the Company remain competitive in the markets in which it operates and are in line with those provided to other Group employees in a position of management or responsibility.	Benefits include: a company car or car allowance (£9,000 p.a.), mobile phone, life insurance and private medical insurance. Executive Directors may participate in the Share Incentive Plan and any other all-employee plans on the same basis as other employees up to HMRC-approved limits. The Committee may introduce other benefits if it is considered appropriate to do so. Executive Directors shall be reimbursed for all reasonable expenses and the Company may settle any tax incurred. Where an Executive Director is required to relocate to perform their role, the appropriate one-off or ongoing expatriate benefits may be provided (e.g. housing, schooling etc).	There is no maximum level of benefit.	n/a

Annual bonus

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
The role of the annual performance bonus is to incentivise and reward Executive Directors for the delivery of the Group's strategy and objectives.	Bonuses are normally paid in cash following the year end. Where an Executive Director has not met the shareholding guideline set out they will normally be expected to invest 50% of their post-tax annual bonus into Company shares. The Committee may determine that this requirement shall not apply where it considers that the Executive Director is already on course to meet their shareholding guideline. Bonuses are not pensionable and are based on annual performance targets. Malus and clawback provisions apply, detailed on page 75. The Committee may, in its discretion, adjust annual bonus payments, if it considers that the outcome does not reflect the underlying financial or non-financial performance of the participant or the Group over the relevant period, or that such payout level is not appropriate in the context of circumstances that were unexpected or unforeseen when the targets were set. When making this judgement the Committee may take into account such factors as the Committee considers relevant.	Maximum annual bonus opportunity of 100% of base salary. Normally 50% of the bonus shall pay out for on-target levels of performance. The annual bonus normally starts to accrue for meeting threshold levels of performance.	The Committee shall determine performance measures for the bonus each year. These may include financial measures (for example, profitability and cash flow) and other metrics linked to the delivery of the business strategy. No less than 70% of the annual bonus will be based on financial measures. The Committee has the discretion in exceptional circumstances to adjust the performance targets/set different measures if events occur outside of management control or where the target no longer satisfies its original purpose to ensure that pay is aligned with performance.

PSP

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
The PSP aligns shareholder interests with the Executive Directors and participating employees, incentivising them to achieve specified performance measures over a three-year period. The PSP also acts as a retention tool.	Awards can be in the form of conditional shares or nil-cost options or in such other form that the Committee determines has the same economic effect. Where awards are in the form of nil-cost options, participants may have up to ten years from grant to exercise awards. Awards may also be granted in conjunction with a tax-advantaged Company Share Option Plan ("CSOP") up to the HMRC limits (currently £30,000) as an "Approved PSP Award". The vesting of an Approved PSP Award will be scaled back to take account of any gain made on exercise of the associated CSOP option. An Approved PSP Award will enable the Executive Director and the Company to benefit from tax-advantaged treatment on part of their PSP award without increasing the pre-tax value delivered to the Executive Director or cost to the Company. Awards normally vest based on performance assessed over a period not shorter than three years. Awards granted from 2020 onwards will normally be subject to a post-vesting holding period for two years following the end of the performance period. The Committee may, in its discretion, adjust PSP vesting levels, if it considers that the outcome does not reflect the underlying financial or non-financial performance of the participant or the Group over the relevant period or that such vesting level is not appropriate in the context of circumstances that were unexpected or unforeseen when the targets were set. When making this judgement the Committee may take into account such factors as the Committee considers relevant. Malus and clawback provisions apply, as detailed on page 75.	The maximum annual award in respect of a financial year is 150% of base salary. It is currently intended that awards to Executive Directors will not exceed 100% of base salary. Normally 25% of awards vest for threshold levels of performance.	Awards granted in 2020 will vest subject to a combination of Adjusted EPS and relative TSR. These measures will be equally weighted. The Committee may use different performance measures for future awards if it is deemed appropriate.

Remuneration Committee Report continued

Policy table continued

Company Share Option Plan

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
It is not intended that awards will be made to Executive Directors under this plan during the life of the policy. The CSOP aligns shareholder interests with participating employees, incentivising them to achieve specified performance measures over a three-year period. The CSOP also acts as a retention tool.	Awards can take the form of market value share options. Awards would be subject to performance assessed over a period of no less than three years. The Committee retains the discretion to adjust the final vesting level if it does not consider that it reflects the underlying performance of the Company. Awards may be exercised, once vested, for up to ten years following the date of grant. Options can be granted in the form of unapproved options or HMRC-approved options up to the HMRC limit at the date of grant. Malus and clawback provisions apply, as detailed on page 75.	The maximum annual award is 100% of salary. Normally 25% of awards vest for threshold levels of performance.	If this plan were operated, appropriate performance conditions would be determined by the Committee at the time of award and disclosed in the Remuneration Committee Report for that year.

Share ownership guidelines

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Align the interests of Executives and shareholders and encourage long-term shareholding and commitment to the Company both in and post employment.	Executive Directors are expected to build and maintain a holding of Luceco shares equal to at least 200% of base salary. Executive Directors are expected to retain 50% of any shares that vest under any share incentive plans until this shareholding is reached. The Committee also has a policy to promote interests in share awards following cessation of employment to enable former Executive Directors to remain aligned with the interests of shareholders for an extended period after leaving the Company. Following stepping down from the Board, Executive Directors will normally be expected to maintain a minimum shareholding of 200% of salary (or actual shareholding if lower) for the first 12 months following departure from the Board, and 100% of salary (or actual shareholding if lower) for the subsequent 12 months. The Committee retains discretion to waive this guideline it is not considered to be appropriate in the specific circumstance.	n/a	n/a

Information supporting the policy

Malus and clawback

Annual bonus payments may be clawed back for a period of three years from the date of payment. Malus and clawback provisions apply under the PSP and CSOP from award to the fifth anniversary of the grant date. The circumstances in which malus/clawback may apply are a material misstatement of financial results, an error in assessing performance or in the information/assumptions used, a material failure of risk management, serious reputational damage, serious misconduct by the participant, or any other similar circumstances.

Share plan operation

Awards under any of the Company's share plans may:

- Have any performance conditions applicable to them amended or substituted by the Committee in circumstances where the Committee determines an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy
- Incorporate the right to receive an amount equal to the value of dividends which would have been paid on the shares under an award that vest up to the time of vesting. This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis (this provision does not apply to the CSOP)
- Be settled in cash at the Committee's discretion. For Executive Directors, this provision will only be used in exceptional circumstances, such as where for regulatory reasons it is not possible to settle awards in shares.
- Be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may affect the Company's share price

Summary of decision making process and changes to policy

The previous Policy is considered to be fit for purpose and therefore no material changes are proposed. However, the Policy has been updated to reflect the new UK Corporate Governance Code as well as recent developments in best practice. In determining the new Remuneration Policy, the Committee followed a robust process which included discussions on the content of the Policy at Remuneration Committee meetings during the year. The Committee considered the input from management and our independent advisers, as well as considering best practice and shareholder guidance from major shareholders. A summary of the changes to the Policy compared to the 2016 policy is set out below:

- **Pension –** The maximum pension provision under the Policy has been reduced from 8.5% of salary to 5% of salary to reflect the current approach for the CFO and to align with the pension provision available to the wider workforce in the UK
- **Bonus deferral –** A provision has been introduced such that where an Executive Directors has not met, or is not on course to meet, their shareholding guideline they will be expected to invest 50% of any post-tax annual bonus earned into Company shares
- **Holding period –** From 2020 onwards, awards granted under the PSP will normally be subject to a post-vesting holding period for two years following the end of the performance period in respect of the post-tax amount
- **Shareholding guideline –** The in-employment shareholding guideline for Executive Directors has been increased from 100% of salary to 200% of salary to reflect best practice and shareholder expectations. A post-employment shareholding guideline has been introduced
- Other minor changes have been made to the wording of the Policy to aid operation and to increase clarity

Approved payments

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above, where the terms of the payment were agreed (i) before 25 May 2017; (ii) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company (or other persons to whom the Policy set out above applies) and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company or such other person. For these purposes, "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" no later than at the time the award is granted. This Policy applies equally to any individual who is required to be treated as a Director under the applicable regulations.

Remuneration Committee Report continued

Selection of performance measures

Annual bonus

The annual bonus performance measures are intended to incentivise Executive Directors to achieve the financial objectives of the Group and deliver the business strategy. The particular bonus metrics are selected by the Committee each year to ensure that Executive Directors are appropriately focused on the key objectives for the next 12 months.

Performance Share Plan

Our long-term strategic objective is to provide long-term sustainable returns for all of our shareholders. It is intended that awards made in 2020 will be based on relative TSR performance and Adjusted EPS growth. The Committee believes the measures are aligned with our strategy and will incentivise Executive Directors to deliver enhanced shareholder value.

Performance targets for both the annual bonus and PSP are set taking into account internal budget forecasts, external expectations and the need to ensure that targets remain motivational.

Remuneration arrangements throughout the Group

Remuneration arrangements are determined throughout the Group based on the same principle; that the remuneration policies and practices should be aligned to Company purpose and values and support the delivery of the strategy and promote long-term sustainable success.

The senior management team, managers and members of the sales teams are eligible to earn bonuses subject to delivering against specific performance measures. Employees have access to healthcare provision in proportion to their seniority; other benefits may be provided and are limited to the grade, seniority and role performed by the employee. The Company also contributes to employee pensions either through its defined contribution pension scheme or through The People's Pension, depending on the grade of the employee.

Remuneration outcomes in different performance scenarios

The charts below set out an illustration of the Policy for 2020. The charts provide an illustration of the proportion of total remuneration made up of each component of the Remuneration Policy and the value of each component.

Four performance scenarios have been illustrated for each Executive Director:

Below threshold performance

- Fixed remuneration
- No annual bonus payout
- No vesting under the PSP

Mid-range performance

- Fixed remuneration
- 50% annual bonus payout
- 25% vesting under the PSP

Maximum performance

- Fixed remuneration
- 100% annual bonus payout
- 100% vesting under the PSP

Maximum performance plus 50% share price growth

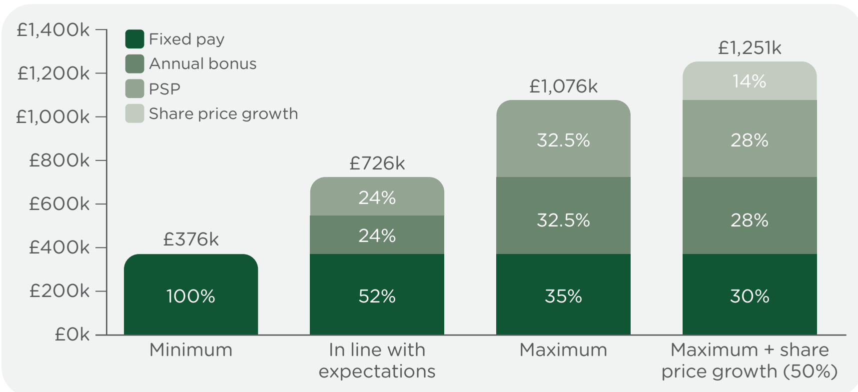
- Fixed remuneration
- 100% annual bonus payout
- 100% vesting under the PSP plus 50% share price growth

The charts have been prepared on the following basis:

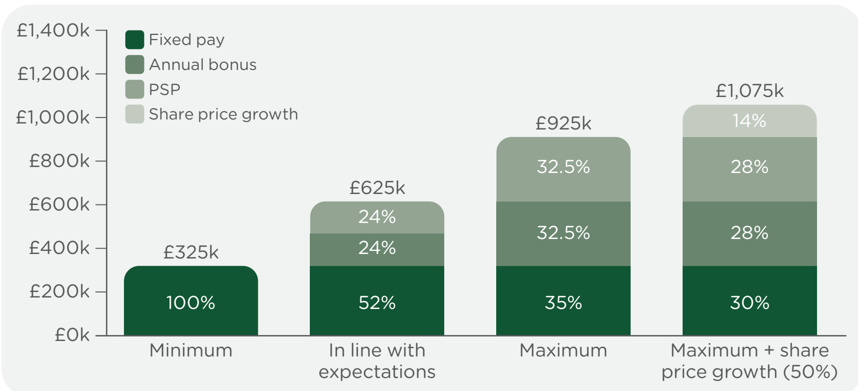
- **Base salary –** the base salary in place at 1 January 2020
- **Benefits –** based on the disclosed benefits value in the single figure for 2019
- **Pensions –** based on a contribution of 5% of base salary for the CFO. The CEO does not receive any pension benefit
- **Bonus –** based on the maximum award of 100% of base salary
- **PSP –** based on the maximum award of 100% of base salary

No payment of dividend equivalents has been assumed. Potential benefits under all-employee plans have not been included. No share price growth has been assumed other than where stated.

John Hornby – CEO



Matt Webb – CFO



Remuneration Policy for newly appointed Executive Directors

When determining the remuneration package for a newly appointed Executive Director, the Committee would seek to apply the following principles:

- The package should be market competitive to facilitate the recruitment of individuals of sufficient calibre to lead the business. At the same time, the Committee would intend to pay no more than it believes is necessary to secure the required talent
- New Executive Directors will normally receive a base salary, benefits and pension contributions in line with the policy described on pages 71 to 75 and would also be eligible to join the bonus and share incentive plans up to the limits set out in the Policy
- In addition, the Committee has discretion to include any other remuneration component or award which it feels is appropriate taking into account the specific circumstances of the recruitment, subject to the limit on variable remuneration set out below. The key terms and rationale for any such component would be disclosed as appropriate in the Remuneration Report for the relevant year
- Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of appointment, the Committee may offer compensatory payments or awards, in such form as the Committee considers appropriate, taking into account all relevant factors including the form of awards, expected value and vesting timeframe of forfeited opportunities
- When determining any such "buyout", the guiding principle would be that awards would generally be on a "like-for-like" basis unless this is considered by the Committee not to be practical or appropriate
- The maximum level of variable remuneration which may be awarded (excluding any "buyout" awards referred to above) in respect of recruitment is 250% of salary, which is in line with the current maximum limit under the annual bonus and PSP
- Where an Executive Director is required to relocate from their home location to take up their role, the Committee may provide assistance with relocation (either via one-off or ongoing payments or benefits)
- In the event that an internal candidate is promoted to the Board, legacy terms and conditions would normally be honoured, including any accrued pension entitlements and any outstanding incentive awards

To facilitate any buyout awards outlined above, in the event of recruitment the Committee may grant awards to a new Executive Director relying on the exemption in the Listing Rules which allows for the grant of awards, to facilitate, in unusual circumstances, the recruitment of an Executive Director, without seeking prior shareholder approval or under any other appropriate Company incentive plan.

The remuneration package for a newly appointed Non-Executive Director would normally be in line with the structure set out in the policy table for Non-Executive Directors on page 78.

Executive Directors' service contracts and leaving policy

When determining leaving arrangements for an Executive Director, the Committee takes into account any contractual agreements including the provisions of any incentive arrangements, typical market practice and the performance and conduct of the individual.

The service contract of John Hornby is dated 14 October 2016. Matt Webb's service contract is dated 19 February 2018. These are rolling service contracts with no fixed expiry date. The service contract of the CEO is terminable on nine months' written notice by either party. The service contract of the CFO is terminable on six months' written notice by either party.

The service contracts are available for inspection at the AGM and at the Company's registered office. For new appointments, notice will normally be limited to nine months on either side.

In the event of early termination of the employment a payment in lieu of notice may be made based on base salary, pension and contractual benefits only for the outstanding notice period. Payments in lieu of notice will be paid at the Committee's discretion, either in monthly instalments or in a lump sum. Payments will normally be subject to mitigation by the Executive Director being required to take reasonable steps to find an alternative position.

The Committee may make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include, but are not limited to, paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with their cessation of office or employment.

The service contracts of the Executive Directors contain restrictive covenant clauses for a period of 12 months post-employment relating to non-competition, non-engagement and non-solicitation of the Group's customers, suppliers and employees and confidentiality undertakings. In addition, they provide for the Group to own any intellectual property rights created by the Directors in the course of their employment.

Annual bonus

The Committee may determine that an Executive Director may remain eligible to receive a pro-rata bonus for the financial year in respect of the period they remained in employment. The Committee will determine the level of bonus taking into account time in employment and performance.

Remuneration Committee Report continued

Share plan leaver rules

The treatment of leavers under the Company's long-term incentive plans is determined by the rules of the relevant plans.

Good leavers[1]	Leavers in other circumstances
Performance Share Plan If a participant dies, their PSP award will vest to the extent determined by the Committee, taking into account the extent to which the performance conditions have been met and, unless the Committee determines otherwise, the proportion of the performance period that has elapsed. If the participant ceases to be an officer or employee of the Group for any other "good leaver" reason, their award will vest on the original vesting date, or, if the Committee so determines, as soon as practicable after the date of cessation. The extent to which awards vest in these circumstances will be determined by the Committee, taking into account the extent to which the performance conditions have been satisfied, and, unless the Committee determines otherwise, the proportion of the performance period that has elapsed. Participants have six months to exercise awards (12 months in the case of death).	Awards lapse. Participants have six months to exercise vested options.
Company Share Option Plan A participant's CSOP award will vest to the extent determined by the Committee, taking into account the extent to which the performance conditions have been met and pro-rata to the proportion of the vesting period elapsed since grant, unless the Committee determines the performance conditions should be waived. Participants have six months to exercise their awards (12 months in the case of death) from the cessation of employment.	Awards lapse. Participants have six months to exercise vested options.
SIP Leaver provisions are determined in accordance with HMRC-approved provisions.	

1. Death, ill-health, injury, disability, retirement or the sale of their employing entity out of the Group, or for any other reason at the Committee's discretion, including redundancy and notice of termination by the Company.

Change of control

In the event of a takeover or winding up of the Company, share awards may vest early. The extent to which CSOP awards vest will be determined by the Committee by reference to, unless the Committee determines otherwise, the performance conditions and the proportion of the vesting period that has elapsed. The extent to which PSP awards vest will be determined by the Committee taking into account the extent to which the performance conditions have been satisfied and, unless the Committee determines otherwise, the proportion of the performance period that has elapsed.

In the case of a demerger, special dividend or similar circumstances, awards may, at the Committee's discretion, vest early on the same basis as for a takeover.

Remuneration Policy table for Non-Executive Directors

Purpose and link to strategy	Operation	Maximum value
Fees To enable the Company to attract and retain experienced, skilled Non-Executive Directors that are capable of advising and supporting the Executive Directors.	Paid in cash. Fees for the Chairman and Non-Executive Directors are set taking into account the time commitment required to fulfil the role and typical practice at other similar companies. Our Non-Executive Director fee policy is to pay a basic fee for membership of the Board, and additional fees for the SID and chairmanship of a Committee to take into account the additional responsibilities and time commitment of these roles. Additional fees may be paid to reflect additional Board or Committee responsibilities as appropriate.	Fees paid to Non-Executive Directors, including the Non-Executive Chairman, are subject to consideration and approval of the Committee. No maximum value is specified in the Company's Articles.
Benefits and expenses To provide suitable arrangements to allow Non-Executive Directors to discharge their duties effectively.	Reasonable costs in relation to travel and accommodation for business purposes are reimbursed to the Chairman and Non-Executive Directors. The Company may meet any tax liabilities that may arise on such expenses. The Chairman and Non-Executive Directors are not entitled to participate in any of the Group's incentive plans or pension plans. Additional non-significant benefits may be introduced if considered appropriate.	None.

Terms and conditions for the Chairman and Non-Executive Directors

The Chairman and Non-Executive Directors serve the Company on the basis of renewable letters of appointment which can be terminated by written notice by either party. The Chairman's appointment is subject to three month's notice and the other Non-Executive Directors are subject to one month's notice. No compensation is awarded on termination. Letters of appointment are available for inspection at the AGM and the Company's registered office.

Consideration of conditions elsewhere in the Company

The Committee does not consult with employees specifically on its Remuneration Policy for Executive Directors. However, the Committee is mindful of the salary increases and benefits applying across the whole business when considering the remuneration package of Executive Directors. The Company has an open and collaborative management structure which provides a number of channels for employees to raise their views, including via our employee representative Non-Executive Director.

Consideration of shareholder views

The Committee will consider shareholder views received throughout the year and at the AGM in shaping the Remuneration Policy and when it undertakes the annual remuneration review. It is the Committee's intention to consult with major shareholders in advance of making any material changes to remuneration arrangements.

Annual Remuneration Report

The Remuneration Report that follows has been prepared in accordance with the provisions of the 2018 UK Corporate Governance Code ("Code"), the Listing Rules, the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Companies Act 2006. It will be subject to an advisory shareholder vote at the 2020 AGM on 4 June 2020.

Review of Remuneration Policy

During the year, the Committee undertook a review of our Directors' Remuneration Policy and its implementation to ensure that the Policy supports the execution of strategy and the delivery of sustainable long-term shareholder value.

Throughout the review process, the Committee took into account the 2018 Corporate Governance Code, wider workforce remuneration and emerging best practice in relation to Executive Director remuneration.

The Committee believes that our Policy is clear and transparent and aligned with our culture. We operate a simple incentive framework of an annual bonus and a Performance Share Plan only. Award levels are capped with payout linked to performance against a limited number of measures which are well linked to our strategy. Stretching but fair targets are set. This ensures that potential reward outcomes are clear and aligned with performance achieved, with the Committee having the discretion to adjust payouts where this is not considered to be the case.

Pay levels are set taking into account external market levels as well as internal practice to ensure pay remains competitive while being equitable within the Company. Malus and clawback and discretion provisions, LTIP holding periods and shareholding guidelines, including post-employment, are in place to mitigate reputational and other risk.

Annual Remuneration Report

The following sets out the annual report on remuneration.

Remuneration Committee Report continued

Summary of the implementation of Remuneration Policy for 2020

The following provides a summary of how the Policy will be implemented during 2020 (subject to receiving shareholder approval at the 2020 AGM) and the key changes in the approach to implementation from 2019.

Element	Overview of implementation for 2020	Changes from 2019
Base salary	From 1 January 2020 salaries will be as follows: • CEO – £360,500 • CFO – £309,000	Salaries have been increased by 3% in line with the increases received for the wider workforce. The Directors have agreed to a temporary 25% reduction in salary from 1 April 2020 in response to the challenges faced by the coronavirus.
Pension	The CEO does not participate in any pension arrangement. The CFO receives a pension contribution of 5% of salary, in line with the pension opportunity for the UK workforce.	No change.
Benefits	Benefits currently include: car allowance (£9,000 p.a.) or a company car, mobile phone, life insurance and private medical insurance. Executive Directors may also participate in the all-employee Share Incentive Plan on the same terms as other employees.	No change.
Annual bonus	Maximum annual bonus opportunity of 100% of salary. Paid in cash. Where an executive has not met their shareholding guideline, or is not on course to meet the guideline, then it is expected that the executive invests at least 50% of the post-tax annual bonus into Company shares. For 2020, performance measures are as follows: • 30% on Adjusted Profit After Tax • 50% on Adjusted Free Cash Flow • 20% on individual strategic objectives The Committee believes the balance of these measures incentivises executives to continue to grow the business and improve profit performance, to focus on operational efficiencies and the generation of cash to fund growth, and to achieve specific operational and strategic objectives. The bonus starts accruing for threshold levels of performance, 50% of the bonus pays out for target performance with full payout for achieving stretching performance targets. Bonus targets are commercially sensitive and therefore have not been disclosed. It is intended that targets will be disclosed in full in the 2020 Directors' Remuneration Report.	For 2020, Adjusted Free Cash Flow will be used to assess performance to ensure that the bonus is based on measures which reflect the underlying operations of the business.
Performance Share Plan	It is intended that 2020 PSP awards for the CEO and CFO will be 100% of base salary. Awards vest will be based on performance over a three-year period and are subject to a post-vesting holding period for two years following the end of the performance period. For 2020, award performance measures are as follows: • 50% based on total shareholder return ("TSR") relative to the FTSE SmallCap index excluding investment trusts. 25% of this portion vests for median TSR with 100% vesting for upper quartile TSR • 50% based on adjusted earnings per share ("EPS") performance for the financial year ended 31 December 2022. 25% of this potion vests for threshold performance with 100% vesting for maximum performance. There will be straight-line vesting between each point The Committee believes these measures incentive executives to achieve excellent profit growth while generating above-market returns for shareholders compared to our peers. Due to the current market volatility following the COVID-19 outbreak, the Committee has decided to delay the grant of PSP awards and the setting of EPS targets until there is more certainty regarding future performance expectations. EPS targets will be disclosed in the RNS announcement at the time of grant. The Committee is mindful of shareholder guidance around award levels following a share price fall and will carefully consider this guidance when determining the number of shares to be awarded under the PSP in 2020.	PSP awards granted in 2020 onwards will be subject to a post-vesting holding period of two years following the end of the performance period.
Shareholding guideline	Executive Directors are expected to build and maintain a holding of Luceco shares equal to at least 200% of base salary. The Committee has also introduced a post-employment shareholding guideline. Following stepping down from the Board, Executive Directors will normally be expected to maintain a minimum shareholding of 200% of salary (or actual shareholding if lower) for the first 12 months following departure from the Board and 100% of salary (or actual shareholding if lower) for the subsequent 12 months. This guideline does not apply to any shares purchased by the Executive Director.	The in-employment shareholding guideline has been increased from 100% of salary to 200% of salary. Post-employment shareholding guidelines have been introduced.

Note – For 2020, the PSP awards will be granted in conjunction with a tax-advantaged Company Share Option Plan ("CSOP") up to the HMRC limits (currently £30,000) as an "Approved PSP Award". The vesting of an Approved PSP Award will be scaled back to take account of any gain made on exercise of the associated CSOP option. An Approved PSP Award will enable the Executive Director and the Group to benefit from tax-advantaged treatment on part of their PSP award without increasing the pre-tax value delivered to the Executive Director or cost to the Group.

Executive Directors' service contracts

The service contract of John Hornby is dated 14 October 2016. Matt Webb's service contract is dated 19 February 2018. These are rolling service contracts with no fixed expiry date. The service contract of the CEO is terminable on nine months' written notice by either party. The service contract of the CFO is terminable on six months' written notice by either party.

External appointments

Executive Directors are permitted to hold Non-Executive Director positions in other companies where it is considered appropriate and subject to approval by the Board. Disclosure of any such earnings is required to be made to the Board, to shareholders and in the Annual Report and Financial Statements. For the year ended 31 December 2019, neither Executive Director held any external directorship during the year.

Non-Executive Directors

Element	Overview of implementation for 2020	Changes from 2019
Fees	From 1 January 2020 the Chairman and Non-Executive Director fees are as follows: Chairman – £50,000 Non-Executive Director base fee – £41,200 SID, Audit and Remuneration Committee Chair fee – £10,300	Non-Executive Director fees were increased by 3% with effect from 1 January 2020 in line with the increases received for the wider workforce. The Directors have agreed to a temporary 25% reduction in salary from 1 April 2020 in response to the challenges faced by the coronavirus for an initial three month period.
Expenses	Reasonable costs in relation to travel and accommodation for business purposes are reimbursed. The Group may meet any tax liabilities that may arise on such expenses.	No changes.

Non-Executive Director terms of appointment

The dates of appointment for the Chairman and Non-Executive Directors are shown in the table below:

Non-Executive Director	Date of appointment
Giles Brand	1 May 2010
John Barton	27 September 2016
Caroline Brown	27 September 2016
Will Hoy	1 September 2019
Tim Surridge	27 September 2016

The Chairman and Non-Executive Directors serve the Group on the basis of renewable letters of appointment which can be terminated by written notice by either party. The Chairman's appointment is subject to three months' notice and the other Non-Executive Directors are subject to one month's notice. No compensation is awarded on termination. In accordance with the principles of the Code, the Chairman, the Non-Executive Directors and the Executive Directors are subject to voluntary re-election by shareholders. Their appointments may be terminated in the event of them not being re-elected by shareholders or otherwise in accordance with the Articles.

John Barton has indicated that he will not be seeking re-election to the Board at the 2020 AGM.

Remuneration Committee Report continued

Implementation of Remuneration Policy during 2019

Single figure of total remuneration (audited)

The table below sets out the single figure of total remuneration received by the Executive and Non-Executive Directors for the years ended 31 December 2019 and 2018.

Director (£'000)	Year	Basic salary/fees	Benefits	Pension	Annual bonus	Long-term incentives	Total
John Hornby	**2019**	**350**	**26**	**–**	**350**	**–**	**726**
	2018	325	16	–	163	–	504
Matt Webb[1]	**2019**	**300**	**11**	**16**	**300**	**–**	**627**
	2018	259	10	9	156	–	434
Giles Brand	**2019**	**50**	**–**	**–**	**–**	**–**	**50**
	2018	50	–	–	–	–	50
John Barton	**2019**	**50**	**–**	**–**	**–**	**–**	**50**
	2018	50	–	–	–	–	50
Caroline Brown	**2019**	**50**	**–**	**–**	**–**	**–**	**50**
	2018	50	–	–	–	–	50
Tim Surridge	**2019**	**50**	**–**	**–**	**–**	**–**	**50**
	2018	50	–	–	–	–	50
Will Hoy[2]	**2019**	**13**	**–**	**–**	**–**	**–**	**13**

1. Matt Webb was appointed to the Board on 19 February 2018 as Chief Financial Officer. Remuneration shown is from this date.
2. Will Hoy was appointed to the Board on 1 September 2019 as a Non-Executive Director. Fees shown are from this date.

Explaining the single figure

Salary

The CEO accepted a temporary £25,000 reduction in salary to £325,000 with effect from 1 January 2018 in response to the Group's performance at that time. Given the improvement in the Group's performance and the role the CEO played in this, the Committee determined that it was appropriate for his salary to revert to its previous level of £350,000 from 1 January 2019.

The CFO's salary was set at £300,000 per annum from 19 February 2018, the date of his appointment to the Board, and remained at this level throughout the year.

Benefits

Benefits for the year included private medical insurance, life insurance and a fully expensed car or cash equivalent.

Pension

The CFO received a pension contribution of 5% of base salary during the year. This is in line with the contribution levels available to other employees in the UK. The CEO does not receive a pension contribution from the Group.

Annual bonus

For the year ended 31 December 2019, the maximum annual performance bonus was 100% of base salary. The annual bonus was based on the following measures:

Measure	Rationale	Weighting
Adjusted Profit After Tax	To incentivise executives to continue to grow the business and improve profit performance	30%
Free Cash Flow	To continue to focus executives on operational efficiencies and the generation of cash to fund growth	50%
Individual strategic objectives	To incentivise executives to achieve specific operational and strategic business objectives	20%
Total		**100%**

Performance during 2019 against financial targets set was as follows:

Measure	Threshold 0% payout	Target 50% payout	Maximum 100% payout	Achievement for 2019	Percentage of bonus payable
Adjusted Profit After Tax (30% weighting)	£9.9m	£10.0m	£12.1m	£12.1m	100%
Free Cash Flow (50% weighting)	£11.3m	£12.5m	£13.8m	£18.9m[1]	100%

1. Adjusted Free Cash Flow as reported on page 110. In April 2019, the Group announced its plan to reduce its use of off-balance sheet non-recourse debt factoring in favour of bilateral bank lending in order to increase the stability and transparency of the Group's borrowing arrangements. This has increased on-balance sheet borrowing and therefore reduced reported Free Cash Flow in the year ended 31 December 2019. The Group has chosen to exclude this non-recurring impact from Adjusted Free Cash Flow in order to provide a clear view of underlying cash flow performance. The annual bonus targets shown above were set before the plan described above was approved. The Committee therefore considers it appropriate assess performance based on Adjusted Free Cash Flow to ensure a like-for-like comparison with the targets set.

Individual strategic objectives

	Overview of objectives and performance	Committee's assessment of performance
CEO	For 2019 the CEO's objectives were set around staff engagement, the customer experience, management of our China operations, maximisation of Group synergies following the Kingfisher Lighting acquisition and Group strategy development. The CEO has delivered very strong progress in each of these areas. Staff engagement has improved significantly following improved communication initiatives put in place. A new Managing Director has been appointed for the China operations, which has led to operational efficiencies and improved Group margin. The CEO has worked with Kingfisher Lighting to identify and implement a number of synergy opportunities. Performance at Kingfisher Lighting has improved significantly during the year. The CEO has been working with the Board to develop and implement the Group's growth strategy.	The Committee judged that overall the CEO's performance against agreed objectives had been very strong and that 100% of this element of the bonus should be paid.
CFO	For 2019 the CFO's objectives were set around the development of the finance team in the UK and China, implementation of finance systems, integration of the Kingfisher Lighting finance systems and improving management reporting to the Board. The CFO has delivered excellent progress in each of these areas. The CFO has built a new team in the finance function in both the UK and China to ensure that the function has sufficient strength and depth to support the Group in executing its strategy. He has also effectively integrated the Kingfisher Lighting finance systems into the Group. The CFO has implemented a number of new systems, enhanced control functions and significantly improved management reporting to the Board during the year.	The Committee judged that overall the CFO's performance against agreed objectives had been excellent and that 100% of this element of the bonus should be paid.

This performance against targets set therefore resulted in an overall bonus of 100% of maximum.

Bonus payments are therefore as follows:

CEO	CFO
£350,000	£300,000

The Committee also considered the underlying financial performance of the Company during 2019, taking into account performance against key financial and strategic performance indicators as well as the experience of shareholders and other stakeholders during the period. The Committee also considered whether there had been a significant negative event (such as an ESG event) which would warrant an adjustment. The Committee concluded the proposed payout outcome of 100% of maximum to be appropriate.

Remuneration Committee Report continued

Long-term incentives

The PSP awards granted in May 2017 reached the end of their three-year performance period on 31 December 2019.

Measure	Weighting	Threshold	Maximum	Achievement	Percentage of element vesting
Annual compound growth in EPS	50%	15%	30%	10%	0%
TSR relative to the FTSE SmallCap excluding investment trusts	50%	Median	Upper quartile	Below median	0%

The performance targets for awards granted in May 2017 were not met and therefore the award granted to the CEO shall lapse.

Overall, the Committee considers that the Remuneration Policy has operated as it intended during 2019 and that the pay outcomes are aligned with the experience of shareholders and other stakeholders.

Payments to former Directors (audited)

There were no payments made to former Directors during the year.

Payments for loss of office (audited)

There were no payments made for loss of office during the year.

Share interests awarded during the year as long-term incentives (audited)

The following awards were granted under the PSP during the year.

Board Directors	Role	Form of award	Date of award	Number of shares awarded	Face value of award[1]	Percentage vesting for achieving minimum performance	Performance period
John Hornby	Chief Executive	Nil cost option over ordinary shares of 0.05p	10 April 2019	463,269	£350,000	25%	See below
Matt Webb	Chief Financial Officer		10 April 2019	397,088	£300,000	25%	See below

1. Calculated based on share price of £0.7555, being the average of the closing price for the three dealing dates preceding the date of award.

The awards will vest 50% subject to the Group's EPS and 50% subject to TSR performance relative to the FTSE SmallCap excluding investment trusts.

EPS performance condition

EPS for the year ending 31 December 2021	Extent to which the EPS performance condition has been satisfied
10.6p	100%
Between 8.6p and 10.6p	On a straight-line basis between 25% and 100%
8.6p	25%
Less than 8.6p	0%

TSR performance condition

Rank of the Group's TSR compared to the comparator group	Extent to which the TSR performance condition has been satisfied
Upper quartile or above	100%
Between median and upper quartile	Pro-rata between 25% and 100% on a ranking basis
Median	25%
Below median	0%

TSR performance will be assessed based on performance over a three-year period from the date of grant of awards. TSR is assessed based on the three-month average at each point.

Shareholding guidelines

The Group encourages its Directors and employees to hold shares in the Group to strengthen their commitment to the organisation in terms of delivering the strategic objectives. Executive Directors are expected to build and maintain a holding of Luceco shares equal to at least 200% of base salary (increased from 100% on 1 January 2020). Executive Directors are expected to retain 50% of any shares that vest under any share incentive plans until this shareholding is reached. Where a Director has not met, or is not on course to meet, their shareholding guideline they will also be expected to invest at least 50% of any post-tax annual bonus earned into Luceco shares.

Directors' shareholdings and share interests (audited)

The beneficial interests of the Directors in the ordinary shares of the Group are set out below. None of the Directors had any interest in the shares of any subsidiary company.

Executive Directors

Director	**Ordinary shares held at 14 April 2020**	**Ordinary shares held at 31 December 2019**	Ordinary shares held at 31 December 2018	Nil cost options subject to performance measures	Nil cost options not subject to performance measures	Market value options subject to performance measures	Shareholding requirement (% of salary)	Shareholding held at 31 December 2019[1]	Requirement met?
John Hornby	**30,383,964**	**30,383,964**	32,396,634	463,269	0	0	100%	11,914%	Yes
Matt Webb	**215,078**	**215,078**	75,166	1,524,367	0	72,904	100%	70%	No

1. Shareholding as a percentage of salary.

Shares beneficially held count towards Executive Directors' shareholding guidelines. Any unvested shares or unexercised nil cost options which are not subject to performance conditions may count towards the guideline on a net of tax basis. The value of Executive Directors' shareholding has been calculated using the share price on 31 December 2019 of 126.40p.

Non-Executive Directors

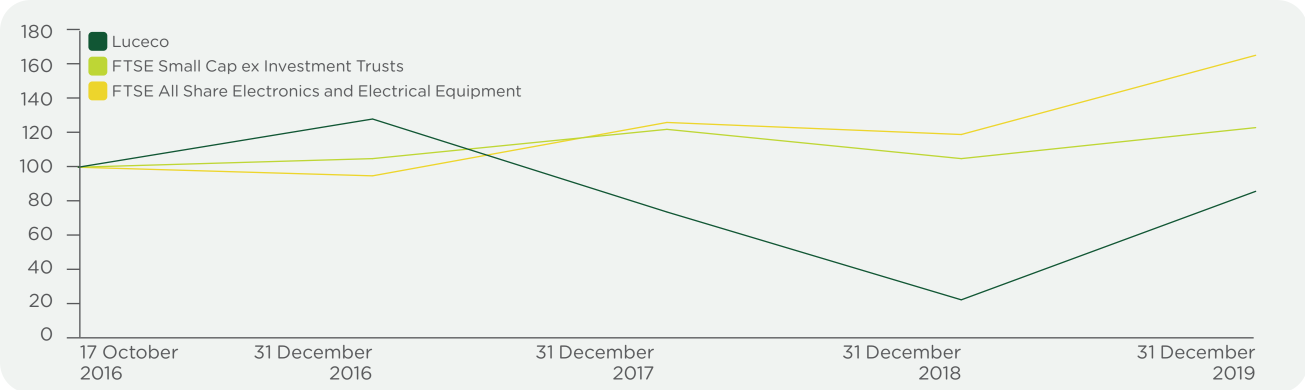
	Ordinary shares held at 14 April 2020	**Ordinary shares held at 31 December 2019**	Ordinary shares held at 31 December 2018
Giles Brand[1]	**9,466,919**	**9,466,919**	9,466,919
John Barton	**100,000**	**100,000**	100,000
Caroline Brown	**–**	**–**	–
Tim Surridge	**69,231**	**69,231**	69,231
Will Hoy[2]	**45,000**	**45,000**	–

1. Giles Brand is Managing Partner of EPIC Investments LLP, which owns 44,064,372 (2018: 44,064,372) shares in the Group.
2. Will Hoy was appointed to the Board on 1 September 2019.

Remuneration Committee Report continued

Review of past performance

The graph below shows the historical TSR of the Group and the FTSE SmallCap Index exclusive of investment trusts and the FTSE All-Share Electronics and Electrical Equipment Index for the period from IPO on 17 October 2016 to 31 December 2019. The Group has chosen these indices to reflect its size and the key sector within which it operates.



Performance graph and table

The table below shows the CEO's "single figure" remuneration for the eight years ended 31 December 2019. John Hornby was CEO for the full period.

£'000	2012	2013	2014	2015	2016	2017	2018	**2019**
Total remuneration	213	219	251	314	337	365	504	**726**
Annual bonus (% of max)					nil	nil	50%	**100%**
LTIP vesting[1] (% of max)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**0%**

1. No LTIPs were in place during the reporting periods 2012 to 2016. The first LTIP awards post IPO were granted in 2017, vesting based on performance to 31 December 2019.

The CEO received a reduced remuneration package during the period 2012 to 2014, reflective of the financial position of the Group, having undertaken extensive investment in its Chinese manufacturing operation and LED lighting operation. His salary changed in 2015 and 2016 to better reflect the market rate of remuneration of a CEO in a similarly sized operation. With effect from 1 January 2018, the CEO accepted a temporary reduction in salary in response to the Group's performance at that time. With effect from 1 January 2019, the CEO's salary reverted to £350,000.

Percentage change in the remuneration of the CEO

The following table sets out the change in remuneration paid to the CEO from 2018 to 2019 compared with the average percentage change for UK-based employees. The Committee considers this the most meaningful comparison as the Group does not have a harmonised salary and benefits structure across its global operations. Furthermore, the majority of its overseas employees are based in Asia, where the pay structure is significantly different to that of the CEO, which does not facilitate a like-for-like comparison.

	% change 2018-2019	
	Group CEO	UK employees
Salary	7.7	0.8
Bonus	n/a	30.7
Benefits	62.5	(3.9)

The CEO accepted a temporary reduction from £350,000 to £325,000 with effect from 1 January 2018 in response to the Group performance at the time. With effect from 1 January 2019, the CEO's salary reverted to £350,000.

The main benefits provided include a company car or cash equivalent, medical cover and life assurance. There has been no change in the level of benefits provided to Group employees. The reduction in employee benefits is due to the mix of employees, as vacant or newly arising positions have been satisfied by the recruitment of more junior employees who are entitled to a lower level of benefits.

Relative importance of spend on pay

The table below shows the total amount paid by the Group to its employees and distributions to shareholders for 2019 and 2018.

£m	**31 December 2019**	31 December 2018	% change
Overall spend on pay for employees including Executive Directors[1]	**33.0**	33.5	(1.5)
Distributions to shareholders	**1.9**	nil	n/a

1. Figures are taken from note 4 of the consolidated financial statements.

CEO pay ratio

For the year ended 31 December 2019, the Chief Executive's total remuneration as a ratio against the full-time equivalent remuneration of UK employees is detailed in the table below:

2019

Method	25th Percentile Pay Ratio	Median Pay Ratio	75th Percentile Pay Ratio
Option B	30 : 1	22 : 1	15 : 1

Supporting Information	25th Percentile Pay Ratio	Median Pay Ratio	75th Percentile Pay Ratio
Salary	£21,000	£28,080	£37,925
Total Pay	£24,150	£32,292	£49,302

The ratios have been calculated using Option B, as defined under the relevant regulations, as it is considered to be the most appropriate methodology for Luceco based on the availability of data at the time the annual report was published. This utilises data analysed within our Gender Pay Gap report, with employees at the three quartiles identified from this analysis based on the 2018-19 snap shot date. Their respective single figure values for 2019 have then been calculated. No estimates were required and no elements of pay were omitted in calculating the relevant single figures.

The single figure values for individuals immediately above and below the identified employee at each quartile within the Gender Pay Gap analysis were also reviewed. It was determined that the chosen individuals were representative of the 25th percentile, median and 75th percentile employees and therefore no adjustments were necessary.

The CEO pay ratio has been rounded to the nearest whole number.

The Board has confirmed that the ratio is consistent with the Company's wider policies on employee pay, reward and progression.

Remuneration Committee Report continued

Role of the Committee

The Committee assists the Board in determining its responsibilities in relation to the following aspects of remuneration:

- Setting the principles, parameters and governance framework to provide a transparent Remuneration Policy that aligns with the long-term strategy of the business
- Determining the individual remuneration and benefits package of each of the Executive Directors and the Company Secretary, considering the interests of relevant stakeholders
- Monitoring the level and structure of remuneration of senior management in conjunction with the Executive Directors
- Reviewing the implementation and operation of any Group share option schemes, bonus schemes and long-term incentive plans

The Committee is chaired by Tim Surridge. John Barton and Caroline Brown are also members of the Committee. There have been four meetings of the Committee during the year. The Committee has met twice since the year end and the date of issuing the Annual Report and Financial Statements to consider the Remuneration Policy and its implementation for 2020 and to agree performance targets for 2020.

The Group Chairman is invited to attend meetings. In addition, the CEO, the CFO and the HR Manager may attend meetings from time to time at the invitation of the Committee and provide information and support as requested. Directors are not present when their own remuneration is being discussed.

During the remainder of 2020, the Committee is scheduled to meet at least twice and the areas that the Committee intends to focus attention on are as follows:

- The implementation of the Remuneration Policy for 2020 as outlined in this report and feedback from the AGM on the Remuneration Policy
- Determining reward outcomes for 2020
- The implementation of a Performance Share Plan for executives
- Review of remuneration trends and governance developments

Remuneration Committee advisers

During the year to 31 December 2019, the Committee engaged the services of external advisers Deloitte LLP ("Deloitte") in relation to the Remuneration Policy and the drafting of this report.

Deloitte is a founding member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK. The Committee is satisfied that the Deloitte engagement partner and team, which provide remuneration advice to the Committee, do not have connections with Luceco plc or its Directors that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Deloitte's fees are charged on a time and materials basis. During the year Deloitte was paid £33,440 for advice provided to the Committee. Deloitte did not provide any additional services to the Group during the year.

Shareholder voting

Shareholder voting in relation to the resolution to approve the Directors' Remuneration Report (May 2019 AGM) and to approve the Remuneration Policy (May 2017 AGM) are as follows:

	Votes for	% for	Votes against	% against	Votes withheld
To approve the Directors' Remuneration Report	98,739,615	100.00%	2,000	0.00%	426,547
To approve the Remuneration Policy	103,327,591	99.77%	237,451	0.23%	0

TIM SURRIDGE

Remuneration Committee Chair

23 April 2020

Other Statutory Disclosures

This report contains the additional information the Directors are required to include in the Annual Report and Financial Statements in accordance with the Companies Act 2006 and the Listing Rules.

Disclosures required under Listing Rule 9.8.4R

The information required to be disclosed under Listing Rule 9.8.4R, where applicable to the Group, can be found in the Annual Report and Financial Statements at the references provided below:

Listing Rule requirement	Annual Report location
Interest capitalised	Not applicable
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	Page 84
Waiver of emoluments by a Director	Not applicable
Waiver of future emoluments by a Director	Not applicable
Non-pre-emptive issues of equity for cash	Not applicable
Non-pre-emptive issues of equity for cash by a major subsidiary	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	Not applicable
Provision of services by a controlling shareholder	Page 92
Dividend waivers	Page 92
Agreements with controlling shareholders	Page 92

Results and dividends

The Group's profit for the year ended 31 December 2019 was £13.1m (2018: £1.5m); details are shown in the Consolidated Income Statement on page 110. Given the uncertainty that has been presented by the coronavirus, the Board has taken the difficult decision not to recommended a final dividend payment. An interim dividend of 0.6p per share had been paid during the year. The Board remains confident in the Group's strategy and has the intention to return to the Group's progressive dividend policy as soon as it is practicable.

Directors

The Directors who held office during the year were:

John Hornby
Matt Webb
Giles Brand
John Barton
Caroline Brown
Tim Surridge
Will Hoy (appointed 1 September 2019)

Biographical details of the Directors appear on pages 56 and 57. Information on the Directors' remuneration, employee share schemes and service contracts is given in the Remuneration Committee Report on pages 69 to 88.

Appointment and replacement of Directors

The rules about the appointment and replacement of Directors are contained in the Company's Articles. They provide that the Directors may be appointed by ordinary resolution of the shareholders or by the Board. Directors appointed by the Board may only hold office until the next AGM of the Group and then shall be eligible for election. The Group may remove a Director by ordinary resolution where special notice has been given and the necessary statutory procedures are complied with. In line with best practice corporate governance, all Directors will seek re-election at the AGM on 4 June 2020, with the exception of John Barton who, as previously announced, will be retiring from the Board at the conclusion of the AGM.

Powers of Directors

The general powers of the Directors are set out in Article 22 of the Company's constitution. This Article provides that the business of the Group shall be managed by the Board, which may exercise all the powers of the Group, subject to any limitations imposed by applicable legislation, the Articles and any Directions given by special resolution of the shareholders of the Group.

Other Statutory Disclosures continued

Compensation for loss of office
The Company does not have arrangements with any Director that would provide compensation for loss of office or employment resulting from a takeover.

Future developments
In accordance with s414A of the Companies Act 2006, the Group has disclosed future developments within its Strategic Report in pages 01 to 53.

Corporate governance
A report on corporate governance and the Company's compliance with the UK Corporate Governance Code is set out on page 55 and forms part of this report by reference.

Post balance sheet events
The spread and impact of coronavirus was a post balance sheet event in respect of the year and its impact on the Company is discussed throughout the Strategic Report. This is a non-adjusting event and consequently there have been no changes made to the 2019 financial statements.

Research and development
The Directors consider that investment in R&D is critical to enable the Group to maintain its competitive advantage and continue to grow its market share. The Group has a substantial specialist R&D function in China which works alongside the UK R&D team. R&D expenditure in the year was £4.0m (2018: £4.6m), of which £1.6m (2018: £1.7m) was capitalised and amortised.

Asset values
Property, plant and equipment is disclosed in note 9 of the consolidated financial statements on page 118. The Directors do not believe there is any material difference between the carrying value and market value.

Financial instruments
An analysis of the Group's financial instruments, risk management objectives and its exposure to credit and liquidity risk are disclosed in note 19 of the consolidated financial statements.

The Group's exposure to fluctuations in foreign exchange rates and the steps it takes to mitigate them are detailed in the principal risks and uncertainties on pages 45 to 50, and the Chief Financial Officer's Review on pages 36 to 42.

Global operations
The Group's executive head office, accounting, domestic sales and support functions are based in the UK. The Group has three UK sites in London, Telford and Mansfield. The Group's London facility serves as the Group's head office, with the executive function and certain sales and support functions based there. The Mansfield location is the primary base for Kingfisher Lighting. The Telford facility serves as the UK assembly and distribution centre, accounting and support functions, and houses the remainder of the Group's UK sales, as well as a portion of the Group's R&D function.

The Group's manufacturing and product development functions are based in Jiaxing, China. The Group also has sales offices with some support functions in Germany, Spain, Dubai, Mexico, Hong Kong, Ireland and South Africa.

Going concern
The financial statements have been prepared on a going concern basis, as set out in the Statement of Directors' Responsibilities on page 93. Having considered the ability of the Company and the Group to operate within its existing facilities and meets its debt covenants, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

In determining whether the Group and Parent Company's financial statements can be prepared on a going concern basis, the Directors considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The review also included the financial position of the Group, its cash flows, and borrowing facilities.

The Board considered in detail the future impact on the Group of the coronavirus outbreak. Further details on how the virus is impacting the Group can be found in the Chief Executive Officer's Review on pages 32 and 33. The Board has considered a base case and plausible downside case, underpinned by assumptions described in detail it the Chief Financial Officer's review.

In both scenarios, the Group has adequate headroom in existing bank facilities to fund itself. In the plausible downside case only, the Group exceeds the quarterly financial covenants applicable to its existing bank facilities in Q4 2020 and Q1 2021.

We have therefore agreed with our relationship bank to reset the covenant limits applicable for the remainder of 2020. The new limits are set out in the Chief Financial Officer's Review. Whilst not contractually committed at present, we expect amended loan documentation to be signed in early May 2020. The covenant limit for Q1 2021 has not been reset. The Group plans to refinance in the ordinary course of business in H2 2020 and the Board has a reasonable expectation that, if needed, this remaining covenant will be reset at that point.

Other key factors considered by the Directors were:

- The implications of the current economic environment and future uncertainties around the Group's revenues and profits by undertaking forecasts and projections on a regular basis
- The impact of the competitive environment within which the Group's businesses operate
- The potential actions that could be taken in the event that revenues are worse than expected, to ensure that operating profit and cash flows are protected

Viability Statement
The Viability Statement can be found in the Strategic Report on pages 51 to 53.

Political donations

No political donations were made and no political expenditure was incurred during the year (2018: nil).

Employees

Information on how we promote employee involvement can be found on pages 21 and 29 and an interview with our appointed Non-Executive Director for workforce engagement is on page 59.

Details of the Group's employment policies and its approach to diversity and disability can be found in the Environment Social and Governance section on page 28.

Greenhouse gas emissions

Details of the Group's GHG emissions can be found in the carbon footprint section of the Environment, Social and Governance section on pages 26 to 27.

Directors' interests and share options

During the year ended 31 December 2019, no Director had an interest in any significant third-party contract between the Company or any of its subsidiaries.

Directors' shareholdings are disclosed in the Remuneration Committee Report on page 85. Details of Directors' share options are set out in note 21 of the consolidated financial statements.

Directors' conflicts of interest

In accordance with the Companies Act 2006 and its Articles, the Company has arrangements in place to consider and, where appropriate, authorise any Directors' direct or indirect interests which may conflict with those of the Group. Authorisation is only effective where the matter is put to a vote, excluding the Director who is subject to the conflict authorisation. If a Director becomes aware that they or a connected party have an interest in an existing or proposed transaction with the Group, they should notify the Company Secretary as soon as possible. Directors have a continuing obligation to update any changes to conflicts and the Board formally reviews any such conflicts periodically. A register of conflicts or potential conflicts is maintained and available at Board meetings.

Directors' liability and indemnity insurance

The Group maintains Directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. In addition, third-party qualifying indemnity provisions (as defined in s234 of the Act) for its Directors and officers were in force during the year ended 31 December 2019 and remain in force. There were no qualifying pension scheme indemnity provisions.

Articles of Association

A copy of the Articles of Association can be obtained from the Company's registered office. The Articles may only be amended by special resolution of the shareholders.

Share capital and waiver of pre-emption rights

The Group has one class of share in issue. The rights attached to each share are identical and each share carries equal rights to dividends, return of capital on the winding up of the Group and one vote at general meetings of the Group. There are no securities carrying special rights. There are no restrictions on the transfer of shares in the Group (other than following a service of notice under s793 of the Act) and there are no restrictions on any voting rights or deadlines, other than those prescribed by law. The Group is not aware of any arrangements between its shareholders which may result in the restriction on the transfer of shares or voting rights. Further details of the rights and obligations attached to the shares are set out in the Company's Articles.

At the AGM on 24 May 2019, authority was given to the Directors to allot new ordinary shares up to a nominal value of £26,800, equivalent to 33.33% of the issued share capital of the Group. In addition, authority was given to the Directors to allot further new ordinary shares up to a nominal value of £53,600, equivalent to 66.67% of the authorised share capital of the Group. These authorities expire on the conclusion of the 2020 AGM. No shares have been allotted under these authorities as at the date of this report.

At 31 December 2019, the Group had 160,800,000 fully paid ordinary shares of 0.05p each in issue which are traded on the London Stock Exchange. Details of the share capital at 31 December 2019 are disclosed in note 22 on page 142.

Authority for the Group to purchase its own shares

A resolution will be proposed at the 2020 AGM that the Company be authorised to purchase up to approximately 10% of its ordinary shares at the Directors' discretion. If the resolution is passed, the new authority will lapse at the conclusion of the 2021 AGM or, if earlier, on 30 June 2021.

At the AGM held on 24 May 2019, authority was given for the Company to make market purchases of its ordinary shares provided that the maximum aggregate number of ordinary shares that may be purchased is limited to 16,080,000, with a minimum price of 0.05p per share. The maximum price (exclusive of expenses) which may be paid for each ordinary share shall be the higher of (i) an amount equal to 105% of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is purchased; and (ii) an amount equal to the higher of the price of the last independent trade of any ordinary share and the highest current independent bid for an ordinary share on the trading venue where the purchase is carried out. These authorities shall expire at the conclusion of the 2020 AGM.

Other Statutory Disclosures continued

Substantial shareholdings

The Company has been notified of the following disclosable interests in its issued share capital in accordance with DTR 5 as at 31 December 2019 and at 14 April 2020 (being the latest practicable date prior to the date of this report).

	At 14 April 2020		At 31 December 2019	
Shareholder	Number of shares held	% voting rights	Number of shares held	% voting rights
EPIC Investments LLP	44,064,372	27.40	44,064,372	27.40
John Hornby	22,195,949	13.80	30,383,964	18.90
Philippa Hornby	10,204,555	6.35	—	—
Giles Brand	9,466,919	5.89	9,466,919	5.89
Blackrock Inc	8,227,014	5.11	—	—

Provision of services by substantial shareholders

Giles Brand is Luceco plc's Chairman and Managing Partner of EPIC Private Equity LLP, which controls EPIC Investments LLP. Giles Brand and EPIC Investments LLP are therefore connected parties and significant shareholders of the Company. Giles Brand was paid a monthly fee of £4,167 (£50,000 per annum) in respect of his services as Chairman during 2019.

John Hornby has a service contract with the Group, as detailed on page 77, which is available for inspection at the AGM and at the Group's registered office. Further details of his remuneration can be found in the Remuneration Committee Report on pages 86 and 87.

Significant agreements

The Group has an agreement with its significant shareholders, EPIC Investments LLP and Giles Brand ("connected parties"), who collectively exercise or control 33.29% of the voting rights. With respect to this agreement, both the Group and EPIC have complied with the independence provisions and procurement obligation as required under the Listing Rules.

The agreement remains in place until the connected parties cease to exercise or control 10% or more in aggregate of the total voting rights or if neither connected party has exercised or controlled any voting rights for at least two years. The agreement would automatically terminate if the Group's shares ceased trading on the London Stock Exchange or if the Group were to appoint an administrative receiver.

Change of control

Change of control provisions are included in the Group's banking agreements with HSBC Bank plc. Should a change of control event occur, the Group's revolving credit facility of £30.0m would be subject to immediate cancellation and the Bank may call for immediate repayment of any balance outstanding. This would also trigger a Termination Event under the £20.0m invoice discounting facility which enables the bank to give six months' notice to cancel the facility and call for repayment of any amounts advanced.

Shareholder waiver of dividends

There is an evergreen dividend waiver in place in respect of the shares held in the Company's Employee Benefit Trust. No dividends were paid in respect of these shares during the year.

Directors' statement regarding disclosure of information to the auditor

The Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware. The Directors also confirm that they have taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Appointment of auditor

On the recommendation of the Audit Committee, resolutions will be proposed at the 2020 AGM to re-appoint KPMG LLP as auditor of the Group and to authorise the Audit Committee to set the auditor's remuneration.

Annual General Meeting

The Group's AGM will be held on 4 June 2020. Details of the resolutions to be proposed at the AGM are set out in the Notice of Meeting, which is provided to all shareholders.

The Directors' Report was approved by the Board of Directors and authorised for issue on 23 April 2020.

By Order of the Board

MATT WEBB
Chief Financial Officer

Company registered number: 05254883

Registered office:
Luceco plc
Building E Stafford Park 1
Stafford Park
Telford
Shropshire TF3 3BD

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable, relevant, and reliable
- State whether they have been prepared in accordance with IFRSs as adopted by the EU
- Assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations or have no realistic alternative but to do so

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole
- The Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation, taken as a whole, together with a description of the principal risks and uncertainties that they face

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

JOHN HORNBY
Chief Executive Officer

MATT WEBB
Chief Financial Officer

23 April 2020

Independent Auditor's Report
to the members of Luceco plc

1. Our opinion is unmodified

We have audited the financial statements of Luceco plc ("the Company") for the year ended 31 December 2019 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Balance Sheet, Company Statement of Changes in Equity and the related notes, including the accounting policies in Note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 4 December 2014. The period of total uninterrupted engagement is for the 6 financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: group financial statements as a whole	£0.6m (2018: £0.4m) 4.3% (2018: 4.7% of the normalised profit before tax)	
Coverage	90% (2018: 90%) of absolute group profit before tax[1]	
Key audit matters	**vs 2018**	
Recurring risks	Going concern	▲
	The impact of uncertainties due to the UK exiting the European Union, on our audit	◀▶
	Valuation of Inventory	◀▶
	Capitalisation of development costs	▼
	Parent Company: Recoverability of parent's debt due from group entities	◀▶

1. This is the profits and losses as a percentage of total profits and losses that made up the Group profit before tax.

2. Material uncertainty related to going concern

	The risk	Our response
Going concern We draw attention to note 1 to the financial statements which indicates that in the Group's severe but plausible downside case only, the Group exceeds it's quarterly financial covenants in Q4 2020 and Q1 2021. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.	**Disclosure quality** There is little judgement involved in the directors' conclusion that risks and circumstances described in note 1 to the financial statements represent a material uncertainty over the ability of the group and company to continue as a going concern for a period of at least a year from the date of approval of the financial statements. However, clear and full disclosure of the facts and the directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.	Our procedures included: **Assessing transparency:** Assessing the completeness and accuracy of the matters covered in the going concern disclosure by: • Evaluating the models used by management in it's assessment; • Evaluating whether the assumptions are realistic and achievable and consistent with the external and/or internal environment and other matters identified in the audit; • Evaluating management's assessment of the entity's compliance with debt covenants; and • Assessing the reasonableness of management's budgets/forecasts including comparisons to past performance and the evaluation of downside sensitivities. **Our results** • We found the disclosure of the material uncertainty to be acceptable

We are required to report to you if the directors' going concern statement under the Listing Rules set out on page 90 is materially inconsistent with our audit knowledge. We have nothing to report in this respect.

Independent Auditor's Report continued

to the members of Luceco plc

3. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Going concern is a significant key audit matter and is described in section 2 of our report. We summarise below the other key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union, on our audit Refer to page 49 (principal risks), page 53 (viability statement), and page 67 (Audit Committee Report).	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described the valuation of inventory key audit matter (referred to as "the key audit matter affected"), and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; • **Sensitivity analysis:** When addressing the key audit matter affected and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; and • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures the key audit matter affected, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** • As reported under the key audit matter affected, we found the resulting estimates and related disclosures of the key audit matter affected and disclosures in relation to going concern to be acceptable. • However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

	The risk	Our response
Valuation of Finished Goods (excluding Luceco Electrical (Jiaxing) Limited and Kingfisher Lighting Limited) Refer to page 67 (Audit Committee Report), page 126 (accounting policy) and page 126 (financial disclosures).	**Subjective estimate:** The Group operates in an evolving industry in terms of technology, legal standards and customer demand. These factors can lead to obsolete inventory that is un-sellable or only sellable at discounted prices. Inventories are carried at the lower of cost and net realisable value with the result that the directors apply judgment in estimating the appropriate provisions for inventory based upon analysis of inventory levels, discontinued inventory and sales margins. The subjectivity in these assessments by the directors means that there is a risk that the assessment of the level of these provisions is inappropriate. The effect of these matters is that, as part of our risk assessment, we determined that valuation of inventory has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 12) disclose the sensitivity estimated by the Group.	Our procedures included: • **Our sector experience:** Assessing and challenging the directors assumptions behind the provision's methodology against our own knowledge of the industry and factors specific to the Group; • **Tests of detail:** Recalculate the inventory provision using the Group's policy and calculating the inventory provision using alternative methods, comparing these results and investigating differences; and • **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision. **Our results** • As a result of our work, we consider the valuation of inventory to be acceptable (2018: acceptable).

	The risk	Our response
Capitalisation of development costs (£1.6 million; 2018: £1.7 million) Refer to page 67 (Audit Committee Report), page 121 (accounting policy) and page 122 (financial disclosures).	**Accounting treatment** The Group incurred significant research and development costs in the year, some of which were considered to meet the criteria for capitalisation as development costs. There is judgement involved in determining whether a particular project or activity has met these criteria and therefore must be capitalised. The complexity in this judgement means that there is a risk that capitalisation occurs on projects that do not meet these criteria.	Our procedures included: • **Accounting analysis:** Assessing the adequacy of the Group's capitalisation methodology based on our knowledge of the Group and applicable accounting standards; • **Tests of detail:** Obtaining the Directors' analysis of all costs incurred and those that had been capitalised; assessing the development activity on which costs had been incurred by reference to the criteria for capitalisation and considering plans to complete the development activity; • **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the judgements made in concluding that the capitalisation criteria had been met. **Our results** • As a result of our work, we consider the capitalisation of development costs to be acceptable (2018: acceptable).

Independent Auditor's Report continued

to the members of Luceco plc

3. Key audit matters: including our assessment of risks of material misstatement continued

	The risk	Our response
Parent company risk: Recoverability of parent's debt due from group entities (£37.9 million; 2018: £29.2 million) Refer to page 67 (Audit Committee Report), page 149 (accounting policy) and page 149 (financial disclosures).	**Low risk, high value:** The carrying amount of the intra-group debtor balance represents 98% of the parent company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: • **Test of details:** Assessing 100% of group debtors, to identify, with reference to the relevant debtors' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making; and • **Assessing subsidiary audits:** Assessing the work performed by the subsidiary audit team and considering the results of that work, on those net assets, including assessing the liquidity of the assets and ability of the subsidiary to obtain liquid funds and therefore the ability of the subsidiary to fund the repayment of the receivable. **Our results** • We found the Group's assessment of the recoverability of the group debtor balance to be acceptable (2018: acceptable)

4. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £618,000 (2018: £360,000), determined with reference to a benchmark of group profit before tax normalised to exclude £1.4m in respect of cost recoveries in China, VAT recoveries of £0.9m and the release of a provision in relation to the closure of US operations of £0.3m as disclosed in Note 1 (of which it represents 4.3%) (2018: 4.7% of Group profit before taxation, normalised to exclude £2.0m in respect of closure costs of US operations, £0.8m of restructuring costs, the loss before tax of the US operations of £1.0m and the increase in the Group's stock provision of £1.0m as disclosed in Note 1). Materiality for the parent company financial statements as a whole was set at £224,000 (2018: £246,000), determined with reference to a benchmark of company total assets, of which it represents 0.6% (2018: 1%).

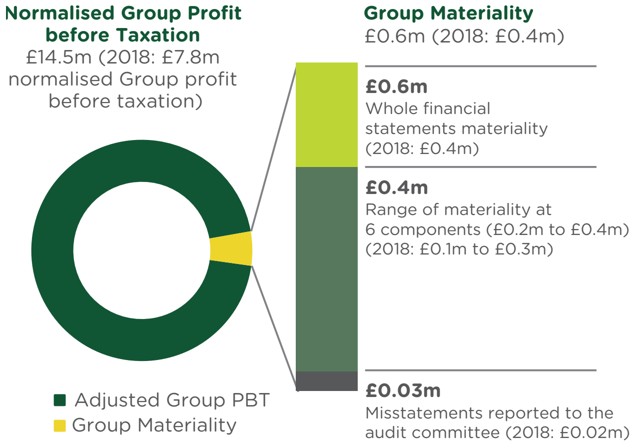
We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £30,000 (2018: £18,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

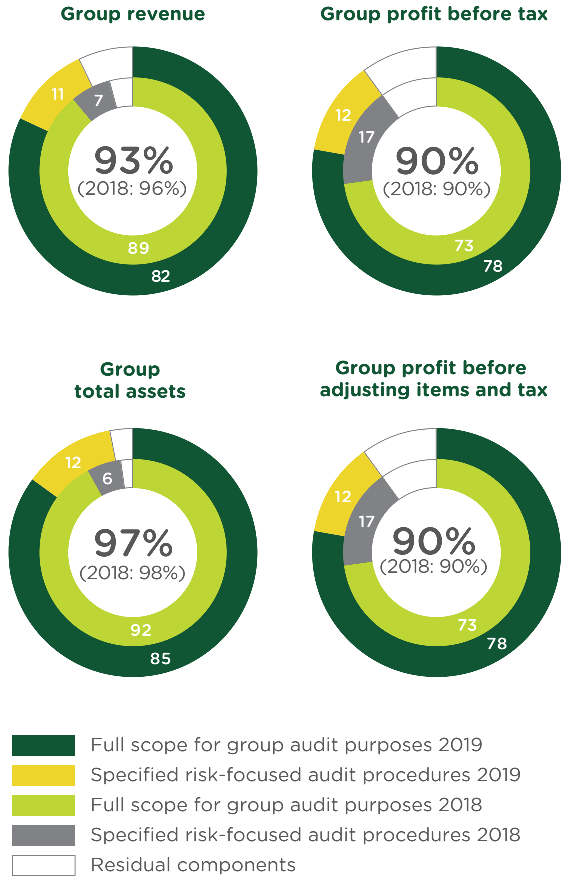
Of the Group's 21 (2018: 21) reporting components, we subjected 6 (2018: 6) to full scope audits for Group purposes and 4 (2018: 5) to specified risk-focused audit procedures. The components for which we performed work other than audits for group reporting purposes were not individually significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed. We subjected 4 (2018: 4) components to specified focused audit procedures over inventory and none (2018: 1) to risk-focus audit procedures over expenses.

The components within the scope of our work accounted for the percentages illustrated opposite. The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The remaining 7% of total group revenue, 10% of absolute group profit before tax and 3% of total group assets is represented by 11 reporting components, none of which individually represented more than 8% of any of, total group revenue, group profit before tax or total group assets. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team approved the component materialities which ranged from £165,000 to £400,000 (2018: £126,000 to £307,000), having regard to the mix of size and risk profile of the Group across components. The work on one of the components subject to full scope audit was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. For those items excluded from adjusted group profit before tax, the component teams performed procedures on items relating to their components. The group team performed procedures on the remaining excluded items.

The Group team visited 1 (2018: 1) full scope audit component location in China (2018: China) to assess the audit risk and strategy. Telephone conference meetings were also held with this component auditor (2018: Telephone conference meetings held). At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditors. The group team also routinely reviews the audit documentation of all component audits. This year for one component in China, the group team was able to perform some review of the component teams audit documentation, but this was less detailed than was originally planned because the coronavirus prevented entry to the country and remote access to audit documentation is prohibited. Instead of the planned level of review, the group team extended oversight of the Chinese component team through extended telephone discussions and expanded reporting.





Independent Auditor's Report continued

to the members of Luceco plc

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, other than the material uncertainty related to going concern referred to above, we have nothing further material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Statement on page 51 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 93, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, GDPR and employment law recognising the nature of the group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

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

MICHAEL FROOM
Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

23 April 2020

Consolidated Income Statement

for the year ended 31 December 2019

£m	Note	**Adjusted**	**Adjustments[1]**	**2019**	Adjusted	Adjustments[1]	2018
Revenue	1	**172.1**	**—**	**172.1**	163.9	—	163.9
Cost of sales		**(109.8)**	**2.3**	**(107.5)**	(113.3)	(1.0)	(114.3)
Gross profit		**62.3**	**2.3**	**64.6**	50.6	(1.0)	49.6
Distribution expenses		**(8.5)**	**—**	**(8.5)**	(9.4)	—	(9.4)
Administrative expenses		**(35.8)**	**(0.1)**	**(35.9)**	(32.7)	(2.6)	(35.3)
Operating profit	3	**18.0**	**2.2**	**20.2**	8.5	(3.6)	4.9
Finance income	5	**—**	**—**	**—**	—	0.3	0.3
Finance expense	5	**(2.2)**	**(0.9)**	**(3.1)**	(2.2)	—	(2.2)
Net finance expense		**(2.2)**	**(0.9)**	**(3.1)**	(2.2)	0.3	(1.9)
Profit before tax		**15.8**	**1.3**	**17.1**	6.3	(3.3)	3.0
Taxation	6	**(3.7)**	**(0.3)**	**(4.0)**	(1.7)	0.2	(1.5)
Profit for the year		**12.1**	**1.0**	**13.1**	4.6	(3.1)	1.5
Earnings per share (pence)							
Basic	7	**7.7p**	**0.6p**	**8.3p**	2.9p	(2.0)p	0.9p
Fully diluted	7	**7.7p**	**0.6p**	**8.3p**	2.9p	(2.0)p	0.9p

1. Definition of the adjustments made and reconciliations to the reported figures can be found in note 1 of the consolidated statements on page 108.

The accompanying notes on pages 106 to 143 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

£m	**2019**	2018
Profit for the year	**13.1**	1.5
Other comprehensive income – amounts that may be reclassified to profit or loss in the future:		
Foreign exchange translation differences – foreign operations	**(2.3)**	0.1
Total comprehensive income for the year	**10.8**	1.6

All results are from continuing operations.

The accompanying notes on pages 106 to 143 form an integral part of these financial statements.

Consolidated Balance Sheet

at 31 December 2019

£m	Note	2019	2018
Non-current assets			
Property, plant and equipment	9	**17.0**	21.5
Right-of-use asset	9	**3.0**	–
Intangible assets	10	**22.6**	23.3
		42.6	44.8
Current assets			
Inventories	12	**32.2**	32.8
Trade and other receivables	13	**43.6**	41.3
Financial assets held for trading		**–**	0.5
Cash and cash equivalents	14	**1.4**	4.2
		77.2	78.8
Total assets		**119.8**	123.6
Current liabilities			
Interest-bearing loans and borrowings	15	**–**	15.8
Trade and other payables	17	**39.0**	43.6
Current tax liabilities		**2.8**	1.5
Financial assets held for trading		**0.3**	–
Other financial liabilities	16	**1.1**	0.2
		43.2	61.1
Non-current liabilities			
Other interest-bearing loans and borrowings	15	**26.0**	20.0
Other financial liabilities	16	**1.7**	0.4
Deferred tax liability	11	**1.0**	0.9
Provisions		**0.8**	–
		29.5	21.3
Total liabilities		**72.7**	82.4
Net assets		**47.1**	41.2
Equity attributable to equity holders of the parent			
Share capital	22	**0.1**	0.1
Share premium	22	**24.8**	24.8
Translation reserve	22	**(0.9)**	1.4
Treasury reserve	22	**(4.1)**	(1.2)
Retained earnings		**27.2**	16.1
Total equity		**47.1**	41.2

The accompanying notes on pages 106 to 143 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 23 April 2020 and were signed on its behalf by:

JOHN HORNBY
Chief Executive Officer

MATT WEBB
Chief Financial Officer

Company registered number: 05254883

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

£m	Share capital	Share premium	Translation reserve	Retained earnings	Treasury reserve	Total equity
Balance at 1 January 2018	0.1	24.8	1.3	14.5	(1.2)	39.5
Total comprehensive income						
Profit for the year	–	–	–	1.5	–	1.5
Currency translation differences	–	–	0.1	–	–	0.1
Total comprehensive income for the year	–	–	0.1	1.5	–	1.6
Transactions with owners in their capacity as owners						
Share-based payments charge	–	–	–	0.1	–	0.1
Total transactions with owners in their capacity as owners	–	–	–	0.1	–	0.1
Balance at 31 December 2018	0.1	24.8	1.4	16.1	(1.2)	41.2
Adjustment on initial application of IFRS 16	–	–	–	(0.3)		(0.3)
Restated balance at 1 January 2019	0.1	24.8	1.4	15.8	(1.2)	40.9
Total comprehensive income						
Profit for the year	**–**	**–**	**–**	**13.1**	**–**	**13.1**
Foreign currency translation differences on investments in overseas entities	**–**	**–**	**(1.4)**	**–**	**–**	**(1.4)**
Currency translation differences	**–**	**–**	**(0.9)**	**–**	**–**	**(0.9)**
Total comprehensive income for the year	**–**	**–**	**(2.3)**	**13.1**	**–**	**10.8**
Transactions with owners in their capacity as owners						
Distributions paid	**–**	**–**	**–**	**(1.9)**	**–**	**(1.9)**
Purchase of own shares	**–**	**–**	**–**	**–**	**(2.9)**	**(2.9)**
Share-based payments charge	**–**	**–**	**–**	**0.2**	**–**	**0.2**
Total transactions with owners in their capacity as owners	**–**	**–**	**–**	**(1.7)**	**(2.9)**	**(4.6)**
Balance at 31 December 2019	**0.1**	**24.8**	**(0.9)**	**27.2**	**(4.1)**	**47.1**

The accompanying notes on pages 106 to 143 form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2019

£m	Note	**Adjusted**	**Adjustments[1]**	**2019**	Adjusted	Adjustments[1]	2018
Cash flows from operating activities							
Profit for the year		**12.1**	**1.0**	**13.1**	4.6	(3.1)	1.5
Adjustments for:							
Depreciation and amortisation	9,10	**7.9**	**0.4**	**8.3**	6.5	0.7	7.2
Financial income	5	**–**	**–**	**–**	–	(0.3)	(0.3)
Financial expense	5	**2.2**	**0.9**	**3.1**	2.2	–	2.2
Taxation	6	**3.7**	**0.3**	**4.0**	1.7	(0.2)	1.5
Impairment provision for credit losses		**–**	**–**	**–**	(0.5)	–	(0.5)
Loss on disposal of tangible assets		**0.1**	**–**	**0.1**	–	–	–
Share-based payments charge	21	**0.2**	**–**	**0.2**	0.1	–	0.1
Operating cash flow before movement in working capital		**26.2**	**2.6**	**28.8**	14.6	(2.9)	11.7
Decrease/(increase) in trade and other receivables		**4.7**	**(7.4)**	**(2.7)**	4.2	–	4.2
Decrease/(increase) in inventories		**–**	**–**	**–**	11.5	0.3	11.8
(Decrease)/increase in trade and other payables		**(3.7)**	**(1.1)**	**(4.8)**	(14.4)	0.3	(14.1)
Cash from operations		**27.2**	**(5.9)**	**21.3**	15.9	(2.3)	13.6
Tax paid		**(2.6)**	**–**	**(2.6)**	(1.3)	–	(1.3)
Net cash from operating activities		**24.6**	**(5.9)**	**18.7**	14.6	(2.3)	12.3
Cash flows from investing activities							
Acquisition of property, plant and equipment	9	**(2.0)**	**–**	**(2.0)**	(3.2)	–	(3.2)
Acquisition of other intangible assets	10	**(1.6)**	**–**	**(1.6)**	(1.7)	–	(1.7)
Disposal of tangible assets		**–**	**–**	**–**	0.2	–	0.2
Net cash used in investing activities		**(3.6)**	**–**	**(3.6)**	(4.7)	–	(4.7)
Cash flows from financing activities							
Proceeds from new loans		**5.0**	**–**	**5.0**	20.0	–	20.0
Repayment of borrowings		**(14.6)**	**–**	**(14.6)**	(25.9)	–	(25.9)
Interest paid		**(2.1)**	**–**	**(2.1)**	(2.2)	–	(2.2)
Dividends paid		**(1.9)**	**–**	**(1.9)**	–	–	–
Finance lease liabilities	16	**(1.3)**	**–**	**(1.3)**	0.1	–	0.1
Purchase of treasury shares	21	**(2.9)**	**–**	**(2.9)**	–	–	–
Net cash from financing activities		**(17.8)**	**–**	**(17.8)**	(8.0)	–	(8.0)
Net increase/(decrease) in cash and cash equivalents		**3.2**	**(5.9)**	**(2.7)**	1.9	(2.3)	(0.4)
Cash and cash equivalents at 1 January				**4.2**			5.6
Effect of exchange rate fluctuations on cash held				**(0.1)**			(1.0)
Cash and cash equivalents at 31 December	14			**1.4**			4.2

1. Definition of the adjustments made and reconciliations to the reported figures can be found in note 1 of the consolidated statements on page 108.

The Group has adjusted trade receivables by £7.4m reflecting the movement in non-recourse debt financing. The Board wishes to remove this facility by June 2020 and the cash flows have therefore been adjusted to represent the underlying cash generation of the business.

The accompanying notes on pages 106 to 143 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

1 Introduction, key judgements and estimates, APMs and adjustments

Overview

Luceco plc ("Company") is a company incorporated and domiciled in the UK under the Companies Act 2006. The Company's registered office is Building E Stafford Park 1, Stafford Park, Telford TF3 3BD. The Group is primarily involved in the manufacturing and distributing of wiring accessories and high quality and innovative LED lighting products to global markets.

Basis of accounting

The Group (Company and its subsidiaries) financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its Parent Company financial statements in accordance with FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland, and these are prepared on pages 144 to 149. On publishing the Parent Company financial statements here, together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

Basis of preparation

The financial statements are prepared on the historical cost basis except for derivative financial instruments and financial instruments that are reported at fair value. The consolidated financial statements include the accounts of the Company and all entities controlled by the Company (its subsidiaries) (together referred to as "the Group") from the date control commences until the date that control ceases. Control is achieved where the Company: has power over the investee, is exposed or has rights to a variable return from the involvement with the investee and/or has the ability to use its power to affect its returns. The purchase method is used to account for the acquisition of subsidiaries. These financial statements are presented in million pounds Sterling, which is the functional currency of the Group and Parent Company.

The principal accounting policies are set out in the notes to the consolidated financial statements and have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

Going concern

The Directors have concluded that it is reasonable to adopt a going concern basis in preparing the financial statements. This is based on an expectation that the Company and the Group have adequate resources to continue in operational existence for twelve months from the date of signing these accounts. The Group has reported a profit before tax of £17.1m for the year to 31 December 2019 (2018: £3.0m), has net current assets of £34.0m (2018: £17.7m) and net assets of £47.1m (2018: £41.2m).

The capital resources at the Group's disposal at 31 December 2019 and 31 March 2020 were as follows:

- A revolving credit facility of £30.0m, £24.8m drawn at 31 December 2019 and £25.0m drawn at 31 March 2020
- An invoice financing facility of £20.0m, £1.2m was drawn at 31 December 2019 and £0.6m drawn at 31 March 2020

Both bank facilities mature on 31 December 2021.

The revolving credit facility requires the Group to comply with the following quarterly financial covenants:

- Closing net debt of no more than 2.5 times Adjusted EBITDA for the preceding 12 month period
- Adjusted EBITDA of no less than 4.0 times Adjusted Net Finance Expense, both for the preceding 12 month period

In arriving at its conclusion on going concern, the Directors have given due consideration to whether the funding and liquidity resources above are sufficient to accommodate the principal risks and uncertainties faced by the Group.

The Directors have given particular consideration to the risk and uncertainty caused by the coronavirus outbreak as a potential material uncertainty. It has developed a base case and severe but plausible downside case to assess how the virus could impact the Group in future.

The base case assumes that Group revenue remains at circa 50% of normal levels until the end of June 2020, gradually recovering to 80% by August 2020, then 100% from January 2021. It also assumed that the mitigating actions described in the Chief Executive Officer's Review remain in place to an appropriate extent for the duration of the downturn.

The severe but plausible downside case assumes a second virus-driven lockdown from September to November 2020, which leaves Group revenue at 25% of normal levels for its duration, gradually recovering to 100% of normal levels by February 2021. All other assumptions remain the same as the base case, including the application of the same mitigating actions for the duration of the second downturn.

In both scenarios, the Group has sufficient liquidity and adequate headroom in the bank facilities above to fund itself. In the severe but plausible downside case only, the Group exceeds the quarterly financial covenants described above in Q4 2020 and Q1 2021. In this scenario, the revolving credit facility would become repayable on demand.

The Group has therefore agreed with its relationship bank to reset the covenant limits applicable for the remainder of 2020. The new limits are as follows:

Financial covenant	Existing limit	Reset limit
Net debt : Adjusted EBITDA:		
Q2 2020	<2.5	<2.5
Q3 2020	<2.5	<3.5
Q4 2020	<2.5	<5.5
Adjusted EBITDA : Net finance expense:		
Q2 2020	>4.0	>4.0
Q3 2020	>4.0	>3.7
Q4 2020	>4.0	>2.9

These changes have been approved by the lender's Credit Committee but not yet contractually committed. The Directors fully expect amended loan documentation to be signed by early May 2020. The covenant limit for Q1 2021 has not been reset. The Group plans to refinance in the ordinary course of business in H2 2020 and the Board has a reasonable expectation that, if needed, this remaining covenant will be reset at that point.

The absence of amended loan documentation as at the date of these accounts and the Group's ability to reset the remaining Q1 2021 covenant, whether through refinancing or otherwise, before its due date gives rise to a material uncertainty as defined in auditing and accounting standards, related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and in such circumstances, it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

Despite this, the Board is confident that the Company and the Group have adequate resources to continue in operational existence for 12 months from the date of signing these accounts. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Key judgements

The Group applies judgement in how it applies its accounting policies, which do not involve estimation, which could materially affect the numbers disclosed in these financial statements. The key judgements, without estimation, that could have the most significant effect on the amounts recognised in these financial statements are as follows:

Note	Description	Page
10	Development capitalisation	123

Significant estimates

The preparation of financial statements in conformity with adopted IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The Directors consider the following to be the key estimates applicable to the financial statements, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year or in the long term:

Note	Description	Page
12	Inventory valuation	126

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

1 Introduction, key judgements and estimates, APMs and adjustments continued

Statutory and non-statutory measures of performance

The financial statements contain all the information and disclosures required by the relevant accounting standards and regulatory obligations that apply to the Group.

The Group's performance is assessed using a number of financial measures which are not defined under IFRS (the financial reporting framework applied by the Group). Management uses the adjusted or alternative performance measures ("APMs") as part of their internal financial performance monitoring and when assessing the future impact of operating decisions. The APMs disclose the adjusted performance of the Group excluding specific items, although the IFRS defined measures should also be used when users of this document assess the Group's performance. The alternative performance measures allow a year-on-year comparison and identification of core business trends by removing the impact of items occurring either outside the normal course of operations or as a result of intermittent activities such as a corporate acquisition. The Group separately reports acquisition costs and other specific items in the income statement which, in the Directors' judgement, need to be disclosed separately by virtue of their nature, size and incidence in order for users of the financial statements to obtain a balanced view of the financial information and the underlying performance of the business.

In following the guidelines on alternative performance measures issued by the European Securities and Markets Authorities, the Group has included a Consolidated Income Statement and Consolidated Cash Flow Statement that have both statutory and adjusted performance measures.

The measures used in the Chief Financial Officer's Review are defined in the table below and the principles to identify adjusting items have been applied on a basis consistent with previous years.

<table>
<tr><th>Nature of measure</th><th>Related IFRS measure</th><th>Related IFRS source</th><th>Definition</th><th>Use/relevance</th></tr>
<tr><td>Adjusted Gross Profit Margin</td><td>• Gross profit margin</td><td>• Consolidated Income Statement</td><td rowspan="4">• Based on the related IFRS measure but excluding the adjusting items.
A breakdown of the adjusting items from 2019 and 2018, which reconciles the adjusted measures to statutory figures, can be found on page 110</td><td rowspan="4">• Allows management to assess the performance of the business after removing large/unusual items or transactions that are not reflective of the underlying business operations</td></tr>
<tr><td>Adjusted Operating Profit</td><td>• Operating profit</td><td>• Consolidated Income Statement</td></tr>
<tr><td>Adjusted Profit for the Year</td><td>• Profit for the year (profit after tax)</td><td>• Consolidated Income Statement</td></tr>
<tr><td>Adjusted Basic EPS</td><td>• Basic EPS</td><td>• Consolidated Income Statement</td></tr>
<tr><td>Constant Currency</td><td></td><td></td><td></td><td>• Allows management to identify the relative year-on-year performance of the business by removing the impact of currency movements which are outside of management's control</td></tr>
<tr><td>EBITDA</td><td>• Operating profit</td><td>• Consolidated Income Statement</td><td>• Consolidated earnings before interest, tax, depreciation and amortisation</td><td>• Provides management with an approximation of cash generation from the Group's operational activities</td></tr>
<tr><td>Adjusted EBITDA</td><td>• Operating profit</td><td>• Consolidated Income Statement</td><td>• Consolidated earnings before interest, tax, depreciation and amortisation and the adjusting items excluded from Adjusted Operating Profit aside from the amortisation of acquired intangibles</td><td>• Provides management with an approximation of cash generation from the Group's underlying operational activities</td></tr>
</table>

Nature of measure	Related IFRS measure	Related IFRS source	Definition	Use/relevance
Adjusted Operating Cash Flow	• Cash flow from operations	• Consolidated Cash Flow Statement	• Adjusted Operating Cash Flow is the cash from operations but excluding the cash impact of the adjusting items excluded from Adjusted Operating Profit	• Provides management with an indication of the amount of cash available for discretionary investment
Adjusted Free Cash Flow	• Net increase/ (decrease) in cash and cash equivalents	• Consolidated Cash Flow Statement	• Adjusted Free Cash Flow is calculated as Adjusted Operating Cash Flow adjusted for cash flows in respect of investing activities, interest and taxes paid	• Provides management with an indication of the free cash generated by the business for return to shareholders or reinvestment in M&A activity
Operating Cash Conversion	• None	• Consolidated Cash Flow Statement • Consolidated Income Statement	• Operating Cash Conversion is defined as Adjusted Operating Cash Flow divided by Adjusted EBITDA	• Allows management to monitor the conversion of operating profit into cash
Return on Capital Invested ("ROCI")	• None	• Operating profit • Net assets	• Adjusted Operating Profit divided into the sum of net assets, net debt and non-recourse debt factoring (average for the last two years) as a percentage	• To provide an assessment of how profitably capital is being deployed in the business

The following tables illustrate how alternative performance measures are calculated:

Adjusted EBITDA

£m	2019	2018
Adjusted Operating Profit	18.0	8.5
Adjusted Depreciation and Amortisation	7.9	6.5
Adjusted EBITDA	**25.9**	15.0

Operating Cash Conversion

£m	2019	2018
Cash from operations (from Consolidated Cash Flow Statement)	21.3	13.6
Adjustments to operating cash flow (from Consolidated Cash Flow Statement)	5.9	2.3
Adjusted Operating Cash Flow	**27.2**	15.9
Adjusted EBITDA (from above)	25.9	15.0
Operating Cash Conversion (Adjusted Operating Cash Flow/Adjusted EBITDA)	105.0%	106.0%

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

1 Introduction, key judgements and estimates, APMs and adjustments continued

Adjusted Free Cash Flow

£m	2019	2018
Adjusted Operating Cash Flow (see table above)	27.2	15.9
Net capital expenditure (from Consolidated Cash Flow Statement)	(3.6)	(4.7)
Interest paid (from Consolidated Cash Flow Statement)	(2.1)	(2.2)
Tax paid (from Consolidated Cash Flow Statement)	(2.6)	(1.3)
Adjusted Free Cash Flow	**18.9**	7.7

Return on Capital Investment

£m	2019	2018
Net assets	47.1	41.2
Net debt (see note 15)	27.4	32.2
Non-recourse debt factoring	5.0	12.4
Capital invested	**79.5**	85.8
Average capital invested (from last two years)	82.6	86.0
Adjusted Operating Profit (from above)	18.0	8.5
Return on Capital Invested (Adjusted Operating Profit/average capital invested)	21.8%	9.9%

Additional metrics

Inventory days – inventory days are calculated by reference to the closing stock versus the cost of sales over a three-month period.

Debtor days – the 'countback' method is used to calculate debtor days by reference to revenue over the prior period.

Creditor days – the 'countback' method is used to calculate creditor days by reference to purchases over the prior period.

The following table reconciles all adjustments from the reported to the adjusted figures in the income statement:

£m	2019	Closure of US operations[1]	Amortisation of acquired intangibles and related acquisition costs[2]	Re-measurement to fair value of hedging portfolio[3]	Cost recovery[4]	VAT repayment[5]	2019 Adjustments	2019 Adjusted
Revenue	172.1	–	–	–	–	–	–	172.1
Cost of sales	(107.5)	–	–	–	(1.4)	(0.9)	(2.3)	(109.8)
Gross profit	64.6	–	–	–	(1.4)	(0.9)	(2.3)	62.3
Distribution expenses	(8.5)	–	–	–	–	–	–	(8.5)
Administrative expenses	(35.9)	(0.3)	0.4	–	–	–	0.1	(35.8)
Operating profit	20.2	(0.3)	0.4	–	(1.4)	(0.9)	(2.2)	18.0
Finance income	–	–	–	–	–	–	–	–
Finance expense	(3.1)	–	–	0.9	–	–	0.9	(2.2)
Net finance expense	(3.1)	–	–	0.9	–	–	0.9	(2.2)
Profit before tax	17.1	(0.3)	0.4	0.9	(1.4)	(0.9)	(1.3)	15.8
Taxation	(4.0)	–	(0.1)	(0.2)	0.4	0.2	0.3	(3.7)
Profit for the year	13.1	(0.3)	0.3	0.7	(1.0)	(0.7)	(1.0)	12.1
Gross margin % (gross profit/revenue)	37.5%							36.2%

£m	2018	Closure of US operations[1]	Amortisation of acquired intangibles and related acquisition costs[2]	Re-measurement to fair value of hedging portfolio[3]	Restructuring costs[6]	2018 Adjustments	2018 Adjusted
Revenue	163.9	—	—	—	—	—	163.9
Cost of sales	(114.3)	1.0	—	—	—	1.0	(113.3)
Gross profit	49.6	1.0	—	—	—	1.0	50.6
Distribution expenses	(9.4)	—	—	—	—	—	(9.4)
Administrative expenses	(35.3)	1.0	0.8	—	0.8	2.6	(32.7)
Operating profit	4.9	2.0	0.8	—	0.8	3.6	8.5
Finance income	0.3	—	—	(0.3)	—	(0.3)	—
Finance expenses	(2.2)	—	—	—	—	—	(2.2)
Net finance expense	(1.9)	—	—	(0.3)	—	(0.3)	(2.2)
Profit before tax	3.0	2.0	0.8	(0.3)	0.8	3.3	6.3
Taxation	(1.5)	—	(0.1)	—	(0.1)	(0.2)	(1.7)
Profit for the year	1.5	2.0	0.7	(0.3)	0.7	3.1	4.6
Gross margin % (gross profit/revenue)	30.3%						30.9%

1. Costs of closing US operations comprising inventory provisions, severance costs, asset write-downs and onerous lease costs (partially released in 2019).
2. Relating to Kingfisher Lighting.
3. Relating to currency hedges.
4. The recovery of amounts owed to the Group's Chinese subsidiary by two former employees. These amounts relate to the historic overpayment of salary and under-recovery of asset sale proceeds from third parties.
5. HMRC VAT repayment of overpaid output tax arising from settlement discounts taken by customers.
6. 2018 costs relating to one-off restructuring costs and advisory fees relating to the finance function.

Standards and interpretations issued

Standards that are effective from 1 January 2019:

- IFRS 16 Leases – Endorsed (31 October 2017)
- Amendments to IFRS 9 Financial Instruments – Endorsed (22 March 2018)
- Amendments to IAS 28 Investments in Associates – Endorsed (11 February 2019)
- IFRIC 23 Uncertainty over Income Tax Treatments – Endorsed (23 October 2018)
- IAS 19 Employee Benefits – Endorsed (14 March 2019)
- Annual Improvements to IFRSs – 2015-2017 Cycle – Endorsed (14 March 2019)

Standards not yet effective:

- Amendments to References to the Conceptual Framework in IFRS Standards – Not yet endorsed
- Amendment to IFRS 3 Business Combinations – Not yet endorsed
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Endorsed 29 November 2019
- IFRS 17 Insurance Contracts – Not yet endorsed

Based on their initial assessments, the Directors anticipate that adoption of these standards and interpretations in future periods will not have a material impact of the financial statements of the Group.

The adoption of IFRS 16 Leases has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as leases under IAS 17 and IFRIC 4.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

1 Introduction, key judgements and estimates, APMs and adjustments continued

Standards and interpretations issued continued

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.5%.

The Group has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

2 Operating segments

Accounting policy

Revenue

Revenue is recognised when the Group has satisfied its performance obligations to the customer and the customer has obtained control of the goods and services being transferred.

The following table summarises the nature, amounts and timing and uncertainty of revenue which follows our segmental splits of revenue.

Segment	Nature of revenue	Amount (as percentage of total revenue)	Timing of satisfaction of performance obligations
Wiring Accessories	Revenue from the supply of goods in the form of wiring accessories to trade and specialists.	41%	Largely when delivered to the customer. Free on Board ("FOB") when legal title passes to the customer.
Portable Power	Revenue from the supply of goods in the form of portable power to retailers and wholesalers.	25%	Largely when delivered to the customer. FOB when legal title passes to the customer.
LED Lighting	Revenue from the supply of commercial and domestic lighting solutions.	31%	Largely when delivered to the customer. FOB when legal title passes to the customer.
Ross	Revenue from the supply of audio-visual products.	3%	Largely when delivered to the customer. FOB when legal title passes to the customer.

The Group also has some revenue which is service related. This is a small proportion of revenue today, around 6% and is recognised when the service is delivered to the customer.

Customer rebates

Where the Group has rebate agreements with its customers, the value of customer rebates paid or payable, calculated in accordance with the agreements in place based on the most likely outcome, is deducted from turnover in the year in which the rebate is earned.

The Group's principal activities are in the manufacturing and supply of wiring accessories, LED lighting, portable power equipment and Ross (home entertainment products). For the purposes of management reporting to the Chief Operating Decision-Maker (the Board), the Group consists of four operating segments which are the product categories that the Group manufactures and distributes. The Board does not review the Group's assets and liabilities on a segmental basis and, therefore, no segmental disclosure is included. Inter-segment sales are not material. Revenue and operating profit are reported under IFRS 8 Operating Segments.

£m	Adjusted 2019	Adjustments	Reported 2019	Adjusted 2018	Adjustments	Reported 2018
Revenue						
Wiring Accessories	**70.1**	**–**	**70.1**	65.8	–	65.8
Portable Power	**42.6**	**–**	**42.6**	41.1	–	41.1
LED Lighting	**54.2**	**–**	**54.2**	51.8	–	51.8
Ross and other	**5.2**	**–**	**5.2**	5.2	–	5.2
	172.1	**–**	**172.1**	163.9	–	163.9
Operating profit						
Wiring Accessories	**12.7**	**1.6**	**14.3**	6.5	(0.3)	6.2
Portable Power	**4.1**	**–**	**4.1**	1.5	(1.2)	0.3
LED Lighting	**1.2**	**0.5**	**1.7**	0.5	(2.1)	(1.6)
Ross and other	**–**	**0.1**	**0.1**	–	–	–
	18.0	**2.2**	**20.2**	8.5	(3.6)	4.9

	2019					2018			
Analysis of adjustments (£m)	Total	Closure of US operations[1]	Amortisation of acquired intangibles and related costs[2]	Cost recovery[3]	VAT repayment[4]	Total	Closure of US operations[1]	Amortisation of acquired intangibles and related costs[2]	Restructuring costs[5]
Cost of sales									
Wiring Accessories	**1.6**	**–**	**–**	**1.0**	**0.6**	–	–	–	–
Portable Power	**–**	**–**	**–**	**–**	**–**	(0.5)	(0.5)	–	–
LED Lighting	**0.6**	**–**	**–**	**0.3**	**0.3**	(0.5)	(0.5)	–	–
Ross and other	**0.1**	**–**	**–**	**0.1**	**–**	–	–	–	–
Gross profit	**2.3**	**–**	**–**	**1.4**	**0.9**	(1.0)	(1.0)	–	–
Administrative expenses									
Wiring Accessories	**–**	**–**	**–**	**–**	**–**	(0.3)	–	–	(0.3)
Portable Power	**–**	**–**	**–**	**–**	**–**	(0.7)	(0.5)	–	(0.2)
LED Lighting	**(0.1)**	**0.3**	**(0.4)**	**–**	**–**	(1.6)	(0.5)	(0.8)	(0.3)
Ross and other	**–**	**–**	**–**	**–**	**–**	–	–	–	–
Total	**(0.1)**	**0.3**	**(0.4)**	**–**	**–**	(2.6)	(1.0)	(0.8)	(0.8)
Operating profit	**2.2**	**0.3**	**(0.4)**	**1.4**	**0.9**	(3.6)	(2.0)	(0.8)	(0.8)
Operating profit									
Wiring Accessories	**1.6**	**–**	**–**	**1.0**	**0.6**	(0.3)	–	–	(0.3)
Portable Power	**–**	**–**	**–**	**–**	**–**	(1.2)	(1.0)	–	(0.2)
LED Lighting	**0.5**	**0.3**	**(0.4)**	**0.3**	**0.3**	(2.1)	(1.0)	(0.8)	(0.3)
Ross and other	**0.1**	**–**	**–**	**0.1**	**–**	–	–	–	–
Operating profit	**2.2**	**0.3**	**(0.4)**	**1.4**	**0.9**	(3.6)	(2.0)	(0.8)	(0.8)

1. Costs of closing US operations comprising inventory provisions, severance costs, asset write-downs and onerous lease costs (partially released in 2019).
2. Relating to Kingfisher Lighting.
3. The recovery of amounts owed to the Group's Chinese subsidiary by two former employees. These amounts relate to the historic overpayment of salary and under-recovery of asset sale proceeds from third parties.
4. HMRC VAT repayment of overpaid output tax arising from settlement discounts taken by customers.
5. 2018 costs relating to one-off restructuring costs and advisory fees relating to the finance function.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

2 Operating segments continued

Revenue by location of customer

£m	2019	2018
UK	137.6	130.1
Europe	17.8	15.5
Middle East and Africa	9.0	9.1
Asia Pacific	4.2	5.3
Americas	3.5	3.9
Total revenue	**172.1**	163.9

Revenues exceeded 10% or more of total revenue for one customer. This customer's revenue represents 23% (2018: 26%) of total revenue and is across all operating segments.

Non-current assets by location

£m	2019	2018
UK	26.9	28.0
China	13.9	16.7
Other	1.8	0.1
Non-current assets	**42.6**	44.8

3 Expenses and auditor's remuneration

Included in the Consolidated Income Statement are the following:

£m	2019	2018
Research and development costs expensed as incurred	2.4	2.9
Depreciation of property, plant and equipment and right-of-use assets	6.0	5.1
Amortisation of intangible assets	2.3	2.1

Auditor's remuneration:

£m	2019	2018
Audit of these financial statements	0.3	0.4
Amounts receivable by the auditor and its associates in respect of:		
Additional amount in respect of 2018 audit of financial statements	0.1	–
Audit of financial statements of subsidiaries pursuant to legislation and interim review	0.1	0.1
Total	**0.5**	0.5

4 Staff numbers and costs

The average monthly number of employees, including the Directors, during the year was as follows:

	Number of employees	
	2019	2018
Administration and support	**431**	425
Production	**1,075**	1,162
	1,506	1,587

The aggregate remuneration:

£m	**2019**	2018
Wages and salaries	**29.8**	31.2
Social security costs	**2.1**	1.7
Other pension costs	**0.9**	0.5
Share-based payment expense (note 21)	**0.2**	0.1
Total staff costs	**33.0**	33.5

5 Net finance expense

Accounting policy

Finance income and expenses

The Group's finance income and finance expense include: interest income, interest expense, dividend income and the financial currency gain or loss on financial assets and financial liabilities.

Interest income or expense is recognised using the effective interest method.

£m	**2019**	2018
Finance income:		
Net gain on remeasurement to fair value of financial instruments	**–**	0.3
Finance expense:		
Net loss on remeasurement to fair value of financial instruments	**(0.9)**	–
Interest on finance leases (IFRS 16)	**(0.1)**	–
Interest on bank borrowings	**(2.1)**	(2.2)
Net finance expense	**(3.1)**	(1.9)

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

6 Taxation

Accounting policy

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items which are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. This is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax laws and rates that have been enacted or substantially enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

£m	2019	2018
Current tax expense		
Current year – UK	**2.8**	1.0
Current year – overseas	**1.6**	1.0
Adjustment in respect of prior years	**(0.5)**	(0.1)
Current tax expense	**3.9**	1.9
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	**(0.1)**	(0.1)
Adjustment in respect of prior years	**0.2**	(0.3)
Deferred tax expense/(credit)	**0.1**	(0.4)
Total tax expense	**4.0**	1.5

Reconciliation of effective tax rate

£m	2019	2018
Profit for the year	**13.1**	1.5
Total tax expense	**4.0**	1.5
Profit before taxation	**17.1**	3.0
Tax using the UK corporation tax rate of 19.00% (2018: 19.00%)	**3.2**	0.6
Effect of tax rates in foreign jurisdictions	**1.1**	(0.3)
Non-deductible expenses	**0.5**	0.2
Income not taxable	**(0.4)**	–
Adjustment in respect of previous periods	**(0.2)**	(0.4)
Recognition of previously not recognised deferred tax	**(0.2)**	1.4
Total tax expense	**4.0**	1.5

A tax reduction of £0.5m within UK tax occurred in the period due to the utilisation of brought forward UK trading losses previously not recognised as a deferred tax asset due to it being deemed unlikely they could be utilised.

Factors which may affect future current and total tax charges

The UK corporation tax rate in 2019 was 19.0%. In the budget on 11 March 2020 it was announced that the rate applicable from 1 April 2020 would remain at 19.0%. As the finance bill has yet to be passed, the previous substantively enacted rate of 17.0% for 2020 was used in calculating deferred tax at 31 December 2019. Had 19.0% been used in the calculation the impact on the deferred tax asset would have been to increase it by £0.1m.

7 Earnings per share

£m	2019	2018
Earnings for calculating basic earnings per share	**13.1**	1.5
Adjusted for:		
VAT repayment	**(0.9)**	—
Cost recovery in Chinese subsidiary	**(1.4)**	—
Restructuring costs	**—**	0.8
Closure of US operations	**(0.3)**	2.0
Amortisation of acquired intangibles and related acquisition costs	**0.4**	0.8
Remeasurement to fair value of hedging portfolio	**0.9**	(0.3)
Income tax on above items	**0.3**	(0.2)
Adjusted earnings for calculating Adjusted basic earnings per share	**12.1**	4.6

Number million	2019	2018
Weighted average number of ordinary shares		
Basic	**156.9**	160.3
Dilutive effect of share options on potential ordinary shares	**1.1**	0.5
Diluted	**158.0**	160.8

Pence	2019	2018
Basic earnings per share	**8.3**	0.9
Diluted earnings per share	**8.3**	0.9
Adjusted basic earnings per share	**7.7**	2.9
Adjusted diluted earnings per share	**7.7**	2.9

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

8 Dividends

Accounting policy

Dividends proposed by the Board of Directors and unpaid at the period end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting.

Amounts were recognised in the financial statements as distributions to equity shareholders as follows:

£m	2019	2018
Final dividend for the year ended 31 December 2018 of 0.6p (2017: nil pence) per ordinary share	**0.9**	–
Interim dividend for the year ended 31 December 2019 of 0.6p (2018: nil pence) per ordinary share	**1.0**	–
Total dividend recognised during the year	**1.9**	–

The Board is not proposing a final dividend for the year ended 31 December 2019, due to the economic uncertainty arising from the coronavirus, which is a nil cash payment (2018: £0.9m).

9 Property, plant and equipment

Accounting policy

Owned assets

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

Depreciation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings	over the lease term, to a maximum of 50 years
Plant and equipment	3 to 10 years
Fixtures and fittings	1 to 10 years
Motor vehicles	4 years
Tooling	2 to 5 years
Software	3 years

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

Leased assets

Applicable from 1 January 2019, IFRS 16 Leases establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

Identifying a lease: At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the Group has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use. For each lease or lease component, the Group follows the lease accounting model as per IFRS 16 Leases, unless the recognition exceptions can be used.

Recognition exceptions: The Group has elected to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following two types of leases:

i) leases with a lease term of 12 months or less and containing no purchase options – this election is made by class of underlying asset

ii) leases where the underlying asset has a low value when new – this election can be made on a lease-by-lease basis

Lessee accounting: Upon lease commencement the Group recognises a right-of-use asset and a lease liability.

Initial measurement: The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the Group uses the incremental borrowing rate. Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability and are initially measured using the index or rate as at the commencement date. Amounts expected to be payable by the lessee under residual value guarantees are also included. Variable lease payments that are not included in the measurement of the lease liability are recognised in profit or loss in the period in which the event or condition that triggers payment occurs, unless the costs are included in the carrying amount of another asset under another accounting standard.

Subsequent measurement: After lease commencement, the Group measures right-of-use assets using a cost model. Under the cost model a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment. The lease liability is subsequently remeasured to reflect changes in: the lease term (using a revised discount rate), the assessment of a purchase option (using a revised discount rate), the amounts expected to be payable under residual value guarantees (using an unchanged discount rate), future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate). The remeasurements are matched by adjustments to the right-of-use asset. Lease modifications may also prompt remeasurement of the lease liability unless they are determined to be separate leases. On the Statement of Financial Position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

Depreciation: The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

9 Property, plant and equipment continued

£m	Land and buildings	Plant and equipment	Fixtures and fittings	Motor vehicles	Tooling	Work in Progress	Total
Cost							
Balance at 1 January 2018	15.2	13.6	3.1	0.1	6.9	–	38.9
Additions	0.3	1.0	0.2	–	1.7	–	3.2
Disposals	–	(0.2)	(0.1)	(0.1)	(0.3)	–	(0.7)
Effect of movements in foreign exchange	0.1	–	–	–	–	–	0.1
Balance at 31 December 2018	15.6	14.4	3.2	–	8.3	–	41.5
Transfer to right of use assets	**–**	**(0.9)**	**–**	**–**	**1.3**	**–**	**(0.9)**
Reclassification	**–**	**(1.3)**	**–**	**–**	**1.3**	**–**	**–**
Additions	**–**	**0.9**	**–**	**–**	**0.5**	**0.6**	**2.0**
Disposals	**–**	**(1.8)**	**(1.0)**	**–**	**(0.3)**	**–**	**(3.1)**
Effect of movements in foreign exchange	**(0.7)**	**(0.3)**	**–**	**–**	**(0.2)**	**–**	**(1.2)**
Balance at 31 December 2019	**14.9**	**11.0**	**2.2**	**–**	**9.6**	**0.6**	**38.3**
Depreciation							
Balance at 1 January 2018	2.9	5.8	1.9	0.1	4.7	–	15.4
Depreciation charge for the year	0.7	1.8	0.5	–	2.1	–	5.1
Disposals	–	(0.1)	(0.1)	(0.1)	(0.2)	–	(0.5)
Balance at 31 December 2018	3.6	7.5	2.3	–	6.6	–	20.0
Transfer to right of use assets	**–**	**(0.3)**	**–**	**–**	**–**	**–**	**(0.3)**
Reclassification	**–**	**(1.3)**	**–**	**–**	**1.3**	**–**	**–**
Depreciation charge for the year	**0.7**	**1.8**	**0.3**	**–**	**2.3**	**–**	**5.1**
Disposals	**–**	**(0.4)**	**(0.8)**	**–**	**(1.8)**	**–**	**(3.0)**
Effect of movements in foreign exchange	**(0.1)**	**(0.2)**	**–**	**–**	**(0.2)**	**–**	**(0.5)**
Balance at 31 December 2019	**4.2**	**7.1**	**1.8**	**–**	**8.2**	**–**	**21.3**
Net book value							
At 1 January 2018	12.3	7.8	1.2	–	2.2	–	23.5
At 31 December 2018	12.0	6.9	0.9	–	1.7	–	21.5
At 31 December 2019	**10.7**	**3.9**	**0.4**	**–**	**1.4**	**0.6**	**17.0**

The carrying values of the following right-of-use assets:

£m	**Land and buildings**	**Plant and equipment**	**Motor vehicles**	**Total**
At 1 January 2019	**–**	**–**	**–**	**–**
Transfer cost of right of use assets	**–**	**0.9**	**–**	**0.9**
Transfer depreciation of right of use assets	**–**	**(0.3)**	**–**	**(0.3)**
Adoption of IFRS 16	**2.3**	**–**	**0.3**	**2.6**
Additions	**0.2**	**0.4**	**0.1**	**0.7**
Depreciation	**(0.8)**	**–**	**(0.1)**	**(0.9)**
At 31 December 2019	**1.7**	**1.0**	**0.3**	**3.0**

10 Intangible assets

Accounting policy

Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the share of the aggregate fair value of identifiable net assets (including intangible assets) of a business or a subsidiary at the date of acquisition. All material intangible fixed assets obtained on acquisition have been recognised separately in the financial statements. Goodwill is initially recognised as an asset and allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination and is then reviewed at least annually for impairment. Any impairment is recognised immediately in the income statement and is not reversed. Goodwill is accordingly stated in the balance sheet at cost less any provisions for impairment in value.

Development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's development of new and enhanced products is recognised only if all of the following conditions are met:

- An asset is created that can be identified (such as product designs and new processes)
- The costs of developing this asset can be measured reliably
- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete the intangible asset and use or sell it
- How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset

Where no internally generated intangible asset can be recognised, the expenditure is recognised as an expense in the period in which it is incurred. The Group has not included any borrowing costs within capitalised development costs.

Customer relationships and tradenames

A fair value exercise which was conducted following the acquisition of Kingfisher Lighting identified customer relationship and tradename intangible assets that met the criteria for separate recognition under IFRS.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the Consolidated Income Statement as an expense as incurred. Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to administrative expenses in the Consolidated Income Statement on a straight-line basis over the estimated useful lives of internally generated intangible assets. Other internally generated intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Patents and trademarks	10 years
Capitalised development costs	5 years
Customer relationships	10 to 12 years
Tradenames	15 years

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

10 Intangible assets continued

Accounting policy continued

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquisition. Acquisition costs incurred are expensed. The acquired identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the date of acquisition, except for non-current assets that are classified as held for resale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after the assessment, the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Consolidated Income Statement.

£m	Goodwill	Patents	Development costs	Customer relationships	Tradenames	Total
Cost						
Balance at 1 January 2018	13.2	0.6	7.3	4.1	1.2	26.4
Other acquisitions – internally developed	—	—	1.7	—	—	1.7
Balance at 31 December 2018	13.2	0.6	9.0	4.1	1.2	28.1
Other acquisitions – internally developed	**—**	**—**	**1.6**	**—**	**—**	**1.6**
Balance at 31 December 2019	**13.2**	**0.6**	**10.6**	**4.1**	**1.2**	**29.7**
Amortisation						
Balance at 1 January 2018	—	0.2	2.5	—	—	2.7
Amortisation for the year	—	0.1	1.3	0.6	0.1	2.1
Balance at 31 December 2018	—	0.3	3.8	0.6	0.1	4.8
Amortisation for the year	**—**	**—**	**1.9**	**0.2**	**0.2**	**2.3**
Balance at 31 December 2019	**—**	**0.3**	**5.7**	**0.8**	**0.3**	**7.1**
Net book value						
At 1 January 2018	13.2	0.4	4.8	4.1	1.2	23.7
At 31 December 2018	13.2	0.3	5.2	3.5	1.1	23.3
At 31 December 2019	**13.2**	**0.3**	**4.9**	**3.3**	**0.9**	**22.6**

Key judgement – development capitalisation

Detail of judgement	Effect on financial statements	Alternative accounting judgement that could have been applied	Effect of that alternative accounting judgement
The Group is determining what Research and Development ("R&D") activity can be capitalised. The Group has to make key judgements around various aspects of the accounting standard (IAS 38 Intangible Assets) in relation to each R&D project to determine if the R&D activity can be capitalised. Specific examples of the judgements that have to be made regarding R&D are: the technical feasibility and completion of R&D activity, determining if the R&D activity will generate probable future economic benefits and be used, the availability of resource (technical and otherwise) to complete the development and the ability to reliably measure the expenditure during the development phase.	The Group has capitalised £1.6m in the year ended 31 December 2019 relating to R&D. This asset is depreciated over the useful economic life of R&D which is five years. The depreciation charge relating to the R&D additions in the year was £0.1m.	The Group could have determined that capitalisation was not appropriate due to an alternative accounting judgement. If so, the Group would have expensed to the profit and loss account the R&D activity and therefore would have not capitalised or depreciated any activity in 2018.	If the Group did not capitalise £1.6m in the year then operating costs (excluding depreciation) would have increased by £1.6m and depreciation would have reduced by £0.1m, in the period.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

10 Intangible assets continued

Impairment testing for cash-generating units containing goodwill

In accordance with the requirements of IAS 36 Impairment of Assets, goodwill is allocated to the Group's CGUs which are identified by the way goodwill is monitored for impairment. The Group's total consolidated goodwill of £13.2m at 31 December 2019 is allocated as follows:

	Goodwill	
£m	**2019**	2018
Portable Power	**2.0**	2.0
Wiring Accessories	**4.0**	4.0
LED Lighting	**7.2**	7.2
	13.2	13.2

Goodwill has not been allocated to Ross as the CGU is not considered significant. Each CGU is assessed for impairment annually and whenever there is a specific indication of impairment.

As part of the annual impairment test review, the carrying value of goodwill has been assessed with reference to value in use over a projected period of five years together with a terminal value. This reflects the projected cash flows of each CGU based on the actual operating results, the most recent Board-approved budget, strategic plans and management projections.

The key assumptions on which value-in-use calculations are based relate to business performance over the next five years derived from the Group's Strategic Plan, long-term growth rates beyond 2024 and the discount rates applied. The key estimates are the level of revenue and operating margins anticipated and the proportion of operating profit converted into cash flow in each year. Forecasts are based on past experience and take into account current and future market conditions and opportunities.

Growth rates for the period beyond 2024 are assumed to be 2.0% (2018: 2.0%), which is considered to be a conservative assessment of long-term market trends for these CGUs.

The cash flow projections have been discounted to present value using the Group's weighted average cost of capital adjusted for economic and CGU-specific risk factors including markets and size of business. The pre-tax rates, reflecting factors such as different geographies, expected technological change and growth opportunity risk, have been used for each CGU as follows:

%	**2019**	2018
Portable Power	**9.4**	10.2
Wiring Accessories	**10.4**	11.3
LED Lighting	**10.6**	7.9

Sensitivity of results to changes in assumptions

Whilst management believe the assumptions are realistic, it is possible that further impairment would be identified if any of the above key assumptions were changed significantly. For instance, factors which could cause an impairment are:

- Significant underperformance relative to the forecast results
- Changes to the way the assets are used or changes to the strategy for the business
- A material and unexpected deterioration in the UK economy

The impairment review calculations are based upon anticipated discounted future cash flows. All CGUs have sufficient headroom and the Directors do not foresee that any reasonable or possible changes to the key operating assumptions are sufficient to generate a different outcome to the impairment calculations undertaken.

The following specific individual sensitivities of reasonable change have been considered for each CGU, resulting in the carrying amount not exceeding the recoverable amount for each CGU:

- A 10% increase in unlevered beta
- A 200 basis point increase in the discount factor
- A growth rate of 1% for the periods after 2024
- A 10% reduction in cash flows forecast over the next five years in the Group's Strategic Plan

11 Deferred tax assets and liabilities

Accounting policy

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

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

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
£m	**2019**	2018	**2019**	2018	**2019**	2018
Property, plant and equipment	**—**	(0.2)	**—**	—	**—**	(0.2)
Intangible assets	**—**	—	**1.6**	1.7	**1.6**	1.7
Losses	**(0.5)**	(0.5)	**—**	—	**(0.5)**	(0.5)
Financial assets and liabilities	**(0.1)**	(0.1)	**—**	—	**(0.1)**	(0.1)
Deferred tax liability/(asset)	**(0.6)**	(0.8)	**1.6**	1.7	**1.0**	0.9

A deferred tax asset of £0.5m has been recognised against previously carried forward non-trading tax losses of £3.0m (2018: £3.0m) during the period as it is expected that they can be offset against current year profits.

Movement in deferred tax liability/(asset) during the year

£m	1 January 2019	Recognised in income	**31 December 2019**
Property, plant and equipment	(0.2)	0.2	**—**
Intangible assets	1.7	(0.1)	**1.6**
Losses	(0.5)	—	**(0.5)**
Financial assets and liabilities	(0.1)	—	**(0.1)**
	0.9	0.1	**1.0**

A deferred tax liability has been recognised from intangible assets acquired when Kingfisher Lighting was acquired in 2017.

Movement in deferred tax (asset)/liability during the prior year

£m	1 January 2018	Recognised in income	Acquired in business combination	31 December 2018
Property, plant and equipment	0.4	(0.6)	—	(0.2)
Intangible assets	1.7	0.1	(0.1)	1.7
Losses	(0.7)	0.2	—	(0.5)
Financial assets and liabilities	(0.1)	—	—	(0.1)
	1.3	(0.3)	(0.1)	0.9

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

12 Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value. Cost includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories, cost includes an appropriate share of overheads based on normal operating capacity.

Provision is made for slow-moving and obsolete stock by comparing the stock holding against the product sales for the financial year and applying a provision which is based on an estimation of the likely sales price with reference to the stock category.

£m	2019	2018
Raw materials	**1.7**	2.8
Work in progress	**0.6**	2.3
Finished goods	**29.9**	27.7
	32.2	32.8

In 2019, inventories of £114.9m (2018: £125.7m) were recognised as an expense during the year and are included in "cost of sales".

Write-downs of inventories during the year were £0.5m (2018: £2.6m) and were recognised as an expense in the profit and loss account.

Write-downs and reversals are included in "cost of sales". No reversals of stock provision occurred in the current or prior year.

Key estimate – inventory valuation

Assumption	Sensitivity	Potential impact within the next financial year	Potential impact in the longer term
The Group's valuation of inventory is impacted by the inventory provision. The Group establishes its provision as a specific estimated percentage of inventory cost. Percentages are set taking into consideration inventory status (clearance, discontinued or slow-moving) and historic achieved margin for these inventory items. The stock provision is based on each stock item and status at each geographical location.	The Group has an inventory provision of £3.0m which could be impacted by a change in assumptions. If the net realisable value ("NRV") estimate for inventory was increased by 10 percentage points the provision would increase by £0.6m. The sensitivity of the stock provision is more prominent in the countries outside of the UK as a greater proportion of stock has a stock status subject to a stock provision. The provision is not significantly impacted by China as the entity predominately has raw materials. Kingfisher Lighting has a low stock holding due to the business model and is therefore not as sensitive to NRV changes. Rest of World entities typically have a more variable number of product lines as market opportunities and share are sought and therefore are more sensitive to NRV changes.	✔	✔

13 Trade and other receivables

Accounting policy
Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

£m	2019	2018
Trade receivables	42.8	39.5
Prepayments and other receivables	0.8	1.8
	43.6	41.3

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables as at 31 December 2019.

	31 December 2019			1 January 2019		
Age overdue (days)	Loss rate (%)	Gross debtor (£k)	Loss amount (£k)	Loss rate (%)	Gross debtor (£k)	Loss amount (£k)
Current	0.1%	32,984.4	34.2	0.2%	34,047.9	53.1
0-30	2.0%	6,893.8	135.1	3.8%	3,107.5	117.0
30-60	3.9%	2,101.6	83.0	7.3%	945.8	68.8
60-90	7.0%	820.6	57.5	10.8%	631.2	68.0
90-120	10.1%	208.9	21.2	14.3%	198.9	28.4
120+	72.2%	436.6	315.4	18.8%	521.9	98.0
Total	1.5%	43,445.9	646.4	1.1%	39,453.2	433.3

14 Cash and cash equivalents

£m	2019	2018
Cash and cash equivalents	1.4	4.2

15 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 19 of the consolidated financial statements.

£m	2019	2018
Non-current liabilities		
Revolving credit facility	24.8	20.0
Secured bank loans – invoice financing	1.2	—
	26.0	20.0
Current liabilities		
Secured bank loans – invoice financing	—	15.8
	—	15.8

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

15 Interest-bearing loans and borrowings continued

Terms and debt repayment schedule

£m	Currency	Nominal interest rate	Year of maturity	Face value[2] 2019	Carrying amount[2] 2019	Face value[2] 2018	Carrying amount[2] 2018
Revolving credit facility	GBP	1.75% + LIBOR	2021	**24.8**	**24.8**	20.0	20.0
Secured bank loan[1]	GBP	1.75% +base rate	2021	**0.8**	**0.8**	11.2	11.2
Secured bank loan[1]	USD	1.75% +base rate	2021	**0.4**	**0.4**	4.6	4.6
				26.0	**26.0**	35.8	35.8

1. The secured bank loan comprises the Group's invoice discounting facility which is given a maturity based on its availability being contingent on the Group holding qualifying receivables. The facility is committed until 31 December 2021.
2. For more information on fair value/carrying value assessment, see note 19 of the consolidated financial statements.

Bank loans are secured by a fixed and floating charge over the assets of the Group and include funds advanced under invoice discounting arrangements of £1.2m (2018: £15.8m), which are secured by legal charges over the Group's book debts.

At 31 December 2019 undrawn facilities were £25.4m (2018: £14.2m)

£m	2019	2018
Net debt as at 31 December represented by:		
Revolving credit facility	**24.8**	20.0
Secured bank loans – invoice financing	**1.2**	15.8
Cash and cash equivalents	**(1.4)**	(4.2)
Finance leases	**2.8**	0.6
	27.4	32.2

£m	2019	2018
Net debt movement:		
As at 1 January	**32.2**	37.2
Impact of IFRS 16 adoption	**3.1**	—
Decrease in bank loans	**(9.8)**	(6.2)
Decrease in shareholder loan	**—**	(0.3)
(Decrease)/increase in finance leases	**(0.9)**	0.1
Cash outflow	**2.7**	0.4
Effect of exchange rate fluctuations on cash held	**0.1**	1.0
As at 31 December	**27.4**	32.2

16 Other financial liabilities

Accounting policy

The Group has leases for the main warehouse and related facilities, an office and production building, plant and machinery, some IT equipment and some vehicles. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group sales) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see note 9). Leases of vehicles and IT equipment are generally limited to a lease term of 3 to 5 years. Leases of property generally have a lease term ranging from 3 years to 7 years. Lease payments are generally fixed other than for property leases where rentals are linked to annual changes in an index (either RPI or CPI).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings and factory premises the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

£m	2019	2018
Current liabilities		
Lease liabilities	1.1	0.2
Non-current liabilities		
Lease liabilities	1.7	0.4

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments		Interest		Present value of minimum lease payments	
£m	2019	2018	2019	2018	2019	2018
Less than one year	1.1	0.2	—	—	1.1	0.2
Between one and five years	1.9	0.5	(0.2)	(0.1)	1.7	0.4
	3.0	0.7	(0.2)	(0.1)	2.8	0.6

Reconciliation of interest payments from cash flow

£m	2019	2018
Interest paid from leases under IFRS 16	0.1	—
Interest paid excluding interest from leases under IFRS 16	2.0	2.2
Interest paid per cash flow	2.1	2.2

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

17 Trade and other payables

Accounting policy
Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs and are measured at amortised cost using the effective interest method. The Directors consider that the carrying amount of trade payables approximates to their fair value. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

£m	2019	2018
Current liabilities		
Trade payables	**22.1**	26.7
Other payables and accrued expenses	**16.9**	16.9
	39.0	43.6

18 Employee benefits

Defined contribution plans

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

The Group operates a number of defined contribution pension plans. UK-based employees of the Group have the option to be members of a defined contribution pension scheme managed by a third-party pension provider. For each employee who is a member of the scheme, the Company will contribute a fixed percentage of each employee's salary to the scheme. The only obligation of the Group with respect to this scheme is to make the specified contributions.

The total expense relating to these plans in the current year was £0.9m (2018: £0.5m).

19 Financial instruments

Accounting policy

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

a) They include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group)

b) Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

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

Where a financial instrument that contains both equity and financial liability components exists, these components are separated and accounted for individually under the above policy.

Derivative financial instruments and hedge accounting

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Consolidated Income Statement. Remeasurements to fair value recognised immediately in the Consolidated Income Statement are excluded from adjusted measurements as explained on page 110. However, where derivative transactions qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Non-derivative financial instruments

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

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

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

Investments in subsidiaries are carried at cost less impairment in the Parent Company financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses, so as to produce a constant rate of return over the period to the date of expected redemption. In instances where the Company has an early redemption option, the term over which financing costs are amortised is the period to the earliest date the option can be exercised, unless there is no genuine commercial possibility that the option will be exercised.

Intra-Group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Impairment excluding inventories and deferred tax assets

The Company recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

19 Financial instruments continued

Accounting policy continued

Impairment excluding inventories and deferred tax assets continued

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The financial asset is more than 120 days past due and if we believe that it will default

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

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

Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash-generating unit" or "CGU"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to groups of CGUs which are expected to benefit from the synergies of the combination. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the Consolidated Income Statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

Financial risk management

Overview

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the reporting date was as follows:

	Carrying amount	
£m	**2019**	2018
Trade receivables	**42.8**	39.5
Cash and cash equivalents	**1.4**	4.2
Financial assets held for trading	**—**	0.5
	44.2	44.2

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed regularly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

All significant Group customers have been transacting with the Group for over three years and, whilst this creates a concentration of credit risk, no impairment losses have been recognised against these customers. In monitoring customer credit risk, customers are grouped according to their characteristics, including whether they are an independent or major multi-national company, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties.

As at 31 December 2019, the Group had an allowance for impairment of £0.6m (2018: £1.2m).

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

19 Financial instruments continued

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was as follows:

	Carrying amount	
£m	**2019**	2018
Europe	**35.6**	32.2
North America	**0.2**	0.4
Rest of World	**7.0**	6.9
	42.8	39.5

Cash and cash equivalents

The Group held cash of £1.4m at 31 December 2019 (2018: £4.2m), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated "A" to "AA–" based on rating agency ratings.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, both under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. It has access to a number of sources of finance to manage its liquidity risk.

The following are the contractual maturities of financial liabilities excluding the impact of netting agreements.

31 December 2019 (£m)	**Carrying amount**	**Within 1 year**	**1-2 years**	**2-5 years**
Non-derivative financial liabilities:				
Secured bank loans – invoice financing	**1.2**	**1.2**	**—**	**—**
Revolving credit facility	**24.8**	**—**	**24.8**	**—**
Financial assets held for trading	**0.3**	**0.3**	**—**	**—**
Finance leases	**2.8**	**1.1**	**0.7**	**1.0**
Trade payables	**21.3**	**21.3**	**—**	**—**
	50.4	**23.9**	**25.5**	**1.0**

31 December 2018 (£m)	Carrying amount	Within 1 year	1-2 years	2-5 years
Non-derivative financial liabilities:				
Secured bank facilities – invoice financing	15.8	15.8	—	—
Revolving credit facility	20.0	—	—	20.0
Finance leases	0.6	0.2	0.1	0.3
Trade payables	26.7	26.7	—	—
	63.1	42.7	0.1	20.3

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group adopts a policy of monitoring its exposure to changes in interest rates on borrowings to ensure that likely changes do not constitute a material risk to the profitability of the Group.

At 31 December 2019, the Group did not have any interest rate swaps. Interest rate risk is not currently considered to be material given relative stable monetary policies in the jurisdictions in which the Group borrows and the Group's reduced indebtedness.

For the year ended 31 December 2019, a change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Fair value sensitivity analysis for variable rate instruments is shown in the table below:

	Profit or loss	
£m	100bps increase	100bps decrease
31 December 2019		
Variable rate instruments	**(0.3)**	**0.3**
Cash flow sensitivity (net)	**(0.3)**	**0.3**
31 December 2018		
Variable rate instruments	(0.4)	0.4
Cash flow sensitivity (net)	(0.4)	0.4

The Group's capital structure policy is to ensure net debt remains in a range of 1.0 to 2.0 times Adjusted EBITDA (the definition of the adjustments made and reconciliations to the reported figures can be found in note 1 of the consolidated statements on page 108).

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

19 Financial instruments continued

Currency risk

The Group is exposed to currency risk on the following transactions:

- Sales and purchases by a Group company in a currency other than its functional currency
- Flows arising from the servicing of the Group's debt under foreign currency

The Group is also exposed to fluctuations in exchange rates in the translation of net assets and profits earned by its subsidiaries overseas. These profits are translated at average exchange rates for the year, which is an approximation to the rates at the date of the transaction.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currency at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The table below shows the extent to which the Group had monetary assets and liabilities denominated in currencies other than the local currency of the company in which they are recorded:

	2019			2018		
£m	**RMB**	**USD**	**EUR**	RMB	USD	EUR
Trade receivables	**–**	**13.4**	**0.4**	0.9	12.2	2.2
Bank facilities	**–**	**1.2**	**0.1**	1.0	(3.3)	0.8
Trade payables	**(5.8)**	**(0.7)**	**–**	(9.2)	(2.9)	(0.5)
Net statement of financial position exposure	**(5.8)**	**13.9**	**0.5**	(7.3)	6.0	2.5

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2019	2018	**2019**	2018
USD	**1.28**	1.33	**1.32**	1.27
EUR	**1.14**	1.13	**1.18**	1.11
RMB	**8.80**	8.84	**9.19**	8.75

Sensitivity analysis

A strengthening/(weakening) of sterling, as indicated below, against the US dollar and RMB at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This quantifies the impact of a change in value of assets and liabilities denominated in a currency other than the functional currency of that business unit. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for 2018, as indicated below.

£m	Equity	Profit/(loss)
31 December 2019		
GBP strengthens against the USD by 10%	**(1.3)**	**(1.3)**
GBP strengthens against the EUR by 10%	**—**	**—**
GBP strengthens against the RMB by 10%	**0.5**	**0.5**
31 December 2018		
GBP strengthens against the USD by 10%	(0.3)	(1.6)
GBP strengthens against the EUR by 10%	(0.2)	(0.2)
GBP strengthens against the RMB by 10%	(1.5)	4.2

A weakening of sterling against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Accounting classifications and fair values

Fair values versus carrying amounts

The following assets' and liabilities' carrying values meet the definition of financial instruments and are classified according to the following categories:

£m	**2019**	2018
Assets carried at amortised cost:		
Trade receivables	**42.8**	39.5
Cash and cash equivalents	**1.4**	4.2
Financial assets held for trading	**—**	0.5
Financial assets	**44.2**	44.2
Liabilities carried at amortised cost:		
Secured bank loans - invoice financing	**1.2**	15.8
Revolving credit facility	**24.8**	20.0
Shareholder loan notes	**—**	0.6
Financial assets held for trading	**0.3**	—
Finance leases	**2.8**	0.6
Trade payables	**21.3**	26.7
Financial liabilities	**50.4**	63.7

The fair values of financial assets and liabilities are considered to be the same as the carrying amounts for the Group.

For trade and other receivables/payables with a remaining life of less than one year, the carrying amount is deemed to reflect the fair value. For cash and cash equivalents, the amount reported on the Consolidated Balance Sheet approximates to fair value. For borrowing at floating rates, the carrying value is deemed to reflect the fair value as it is considered to represent the price of the instrument in the marketplace. For borrowing at fixed rates, the fair values are considered to be the same as the carrying amount reported on the Consolidated Balance Sheet due to the frequent updating of these funding facilities in a competitive market.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

19 Financial instruments continued

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The only Level 2 instruments for 2019 are financial assets held for trading, which relate to forward exchange contracts. The fair value (asset)/liability is shown below:

£m	2019	2018
Financial assets held for trading	**0.3**	(0.5)

At 31 December 2019, undrawn facilities were £25.4m (2018: £14.2m).

20 Capital management

The Group's primary capital resources comprise share capital, bilateral bank facilities, invoice financing facilities and operating cash flow.

The core debt requirements of the Group are met via a £30m revolving credit facility and £20m invoicing financing facility. Day-to-day working capital requirements are funded primarily by the revolving credit facility.

The Board's policy is to maintain a strong capital base to maintain market confidence and sustain the development of the business, whilst maximising the return on capital to the Group's shareholders. The Group's strategy will be to maintain facilities appropriate to the working requirements of the Group, to grow organically and through acquisition and service its debt requirements through cash flow generation.

The Group has set the following capital structure policies:

- Maintain a net debt : Adjusted EBITDA ("Leverage Ratio") within a target range of 1.0 to 2.0:1, averaging 1.5 across each economic cycle
- Maintain Adjusted EBITDA : Net finance expense ("Interest Cover Ratio") of at least 4.0:1
- Apply a progressive dividend policy, with a payout rate of 20%-30% of Adjusted Profit After Tax
- Provided it is in compliance with its Leverage Ratio, Interest Cover Ratio and dividend policies, the Company will reinvest cash generated by the business in organic and acquisitive growth opportunities that it believes will generate long-term shareholder value. If insufficient opportunities are available to reinvest cash in this way, the Company will seek ways to return surplus cash to shareholders in order to maintain its Leverage Ratio policy

The Adjusted EBITDA to net debt ratio is calculated in accordance with the Group's loan agreements, as follows:

£m	2019	2018
Adjusted Operating Profit	**18.0**	8.5
Adjusted Depreciation	**6.0**	5.1
Adjusted Amortisation	**1.9**	1.4
Add back: US losses	**–**	1.5
Adjusted EBITDA excluding US losses	**25.9**	16.5
Net debt (see note 15)	**27.4**	32.2
Net debt : Adjusted EBITDA	**1.06**	1.95

The Adjusted EBITDA : Net finance expense ratio is calculated as follows:

£m	2019	2018
Adjusted Operating Profit	18.0	8.5
Adjusted Depreciation	6.0	5.1
Adjusted Amortisation	1.9	1.4
Add back: US losses	–	1.5
Adjusted EBITDA excluding US losses	**25.9**	16.5
Adjusted Net finance expense (see note 1)	**2.2**	2.2
Adjusted EBITDA : Adjusted Net finance expense	**11.77**	7.50

The Company's covenants and headroom are summarised as follows:

2019 year end covenant	Covenant	2019 actual	Headroom
Net debt : Adjusted EBITDA	2.50 : 1	1.06	Debt headroom: £37.4m Adjusted EBITDA headroom: £14.9m
Adjusted EBITDA : Adjusted Net finance expense	4.00 : 1	11.77	Adjusted EBITDA headroom: £17.1m Net finance expense headroom: £4.3m

The key measures which management use to evaluate the Group's use of its financial resources and capital management are set out below:

	2019	2018
Adjusted Earnings Per Share (pence)	7.7	2.9
Net debt : Adjusted EBITDA (times)	1.06	1.95
Adjusted Free Cash Flow (£m)	18.9	7.7

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

21 Share-based payments

Accounting policy

Incentives in the form of shares are provided to employees through the following schemes: Company Share Option Plan ("CSOP"), Share Incentive Plan ("SIP") and Long-Term Incentive Plan ("LTIP"). Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

The grant date fair value of an equity-settled payment under the SIP is measured as the face value of the award on the date of grant.

The grant date fair value of the awards under the Group's LTIP is measured by the use of the Monte Carlo simulation for any market-related performance conditions (given the increased uncertainty around the potential vesting of share options).

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Charges made to the income statement in respect of share-based payments are credited to the reserves.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market-based vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The Group operates an employee share benefit trust as part of its incentive plans for UK-based employees. All assets and liabilities of the trust are recorded in the balance sheet as assets and liabilities of the Company until such time as the assets are awarded to the beneficiaries. All income and expenditure of the trust is similarly brought into the results of the Company. The Company fulfils exercised options with Treasury shares the Company has purchased. The proceeds received, net of any directly attributable transaction costs, are credited to Treasury shares (nominal value) and share premium.

The share-based payments charge relates to option awards from the LTIP, CSOP and SIP schemes. Vesting periods for the plans range from one to three years and if the options remain unexercised after a period of ten years from the date of grant, the options expire. In addition, options are forfeited if the employee voluntarily leaves the Group before the options vest.

The Group recorded a share-based payment charge of £0.2m (2018: £0.1m) included in the Consolidated Income Statement within administrative expenses, which is attributable to the 2019 LTIP nominal cost options.

Share Incentive Plan

All UK-based employees are eligible to participate in the SIP. The scheme enables employees to buy shares in the Group out of their salary, before tax deductions, up to a limit of £1,800 per tax year. The shares acquired are called partnership shares and are held in trust, managed by a third party, on behalf of the employee.

For every partnership share bought by the employee, the Group can award:

a) Matching shares. One share at nil cost

b) Free shares. Up to two shares at nil cost, the number depending on service, subject to a maximum of £3,600 free shares per tax year

For the SIP conditions to be met, the employees must be continuously employed by the Group for a period of at least three years from the date of the award grant. If employees voluntarily leave the Group within the three-year period they must take their shares out of the plan and they will not be entitled to the matching and free shares.

	Number of free shares		Number of partnership and matching shares	
	2019	2018	**2019**	2018
Outstanding at 1 January	**67,204**	72,962	**335,250**	44,294
Granted during the year	**—**	—	**331,996**	310,640
Forfeited during the year	**(700)**	(3,374)	**(10,821)**	(6,926)
Released during the year	**(1,838)**	(2,384)	**(37,723)**	(12,758)
Outstanding at 31 December	**64,666**	67,204	**618,702**	335,250

For the purposes of IFRS 2, the fair value of these matching shares and free shares is determined as the market value of the shares at the date of grant. No valuation model is required to calculate the fair value of awards under the SIP. The fair value of an equity-based payment under the SIP is the face value of the award on the date of grant because the participants are entitled to receive the full value of the shares and there are no market-based performance conditions attached to the awards.

The Group recognised a total expense of £0.1m (2018: £0.2m) in the year relating to matching and free share awards.

Company Share Option Plan ("CSOP")

At the time the free shares were awarded, all eligible employees of the Group were also granted CSOP options. The CSOP options had an exercise price equal to the market value of the share at the date of grant. The ordinary free shares award is subject to condition that it will be automatically exercised at the time the CSOP option is exercised. The options can only be exercisable after the performance period determined by the Board, being three years. CSOP options will normally be exercisable from release until the tenth anniversary of the grant date.

Long-Term Incentive Plan

Awards have been granted to the Chief Executive Officer and the Chief Financial Officer, and other key management personnel within the Group, under the Luceco 2017 Performance Share Plan ("PSP"), which was approved by shareholders at the Company's AGM held on 25 May 2017.

The following awards have been granted in the form of nominal cost options over the number of ordinary shares of 0.05p in the Company under the terms of the PSP, as set out on page 73:

Executive Directors	Role	Number of shares awarded
John Hornby	Chief Executive Officer	463,269
Matt Webb	Chief Financial Officer	397,088

The performance targets for the PSP awards made in 2017 were not met and therefore the awards granted shall lapse.

The awards made to the Chief Financial Officer in 2018 have a linked tax-qualifying option over 72,904 shares at an exercise price of 45.15p. On exercise, the number of shares under the nominal cost option will be reduced proportionally to take account of the exercise of the tax-qualifying option such that the individual will not receive a greater number of shares than is subject to the nominal cost option.

Measurement of fair values

The 2019 LTIP awards will vest subject to the satisfaction of performance conditions measuring the Company's earnings per share ("EPS") and total shareholder return ("TSR") performance. The extent to which awards will vest will depend on the extent to which the performance conditions are satisfied over the performance period. For the EPS condition, this runs from 1 January 2019 to 31 December 2021. For the TSR condition, this runs for three years from 10 April 2019 and also 1 July 2019, the dates of the grants. No consideration was paid for any of the awards.

As the options under the 2019 award include a TSR performance condition, given the increased uncertainty around potential vesting, they have been valued using the Monte Carlo model with the following assumptions:

Directors' and employee share options LTIP award 2019	**2019**	2018
Three-day average share price before options were issued (pence)[1]	**75.55**	37.70 – 41.15
Fair value of share options	**66.9p**	8.9p
Average expected volatility	**36%**	33%
Expected life	**3 years**	3 years
Risk-free rate	**0.69%**	0.83%

1. Three sets of LTIP awards were made during 2018 and the three-day average share prices for each award were in the range 37.70p to 41.15p.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

21 Share-based payments continued

The share-based payments charge of £0.2m (2018: £0.1m) included in the Consolidated Income Statement within administrative expenses is attributable to the LTIP nominal cost options.

In usual circumstances, expected volatility would be based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term. As there was insufficient share price data after the Group's IPO in October 2016 to be able to evaluate the Group's expected volatility, we have used comparison company share prices to determine the volatility. The expected term of the instruments has been based on historical experience and general option holder behaviour.

A summary of the number and weighted-average exercise prices of share options under the share option programmes were as follows:

	2019		2018	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding at 1 January	**3,543,928**	**0.05p**	517,142	0.05p
Granted during the year	**1,603,461**	**0.05p**	3,525,050	0.05p
Surrendered during the year	**—**	**—**	(431,415)	0.05p
Lapsed during the year	**(357,096)**	**0.05p**	(66,849)	0.05p
Outstanding at 31 December	**4,790,293**	**0.05p**	3,543,928	0.05p

As at 31 December 2019, a total of 4,790,293 options were outstanding which had an average exercise price of 0.05p, and a weighted average remaining contractual life to vesting of 9.1 years.

During the year nil tax-qualifying share options were granted to employees (2018: 151,816) at an average price of nil (2018: 39.5p)

During the year the fair value of options granted was £0.4m (2018: £0.3m).

The Group has previously purchased its own shares on the basis that they will be used to fulfil the LTIP and the number of share options granted when they come to be exercised. The purchased shares are held in a Trust which is managed by a third party. At 31 December 2019, the Trust had 4,749,530 shares held at a cost of £4.1m (31 December 2018: 454,000 shares at cost of £1.2m). These shares are held within the treasury reserve and are shown in the Consolidated Statement of Changes in Equity.

22 Share capital

	Allotted, called up and fully paid		Number of shares in issue (thousands)	
	2019 £	2018 £	**2019 Number**	2018 Number
At 1 January	**80,400**	80,400	**160,800**	160,800
At 31 December	**80,400**	80,400	**160,800**	160,800

Aside from the shares held in Treasury, each ordinary share carries one vote, participates equally with the other ordinary shares in distribution of dividends and capital (including on a winding up) and is not redeemable.

A description of the nature and purpose of each reserve is given below:

- The share premium represents the excess of share value paid for shares
- The treasury reserve represents shares held to satisfy the Group's share options schemes
- The translation reserve represents the impact of translating non-monetary assets and liabilities at the current balance sheet data as opposed to the historical rate

23 Related parties

Key personnel include executive and non-executive Board members and the senior management team.

The Group has a related party relationship with its subsidiaries and its Directors. Transactions between Group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed below. In addition, the remuneration of the Directors, and the details of their interests in the share capital of the Company, are provided in the audited part of the Remuneration Committee Report.

During the second half of the year the Group commenced a legal claim for the recovery of amounts owed by the General Manager and Financial Controller of the Group's Chinese subsidiary. These amounts relate to the historic overpayment of salary and under-recovery of asset sale proceeds from third parties. This action generated pre-tax income of £1.4m and has been recorded as an adjustment owing to its unusual size and nature and therefore excluded from full-year operating profit.

Transactions with key personnel

Key management personnel are defined as Executive and Non-Executive Directors and the senior management team. The compensation of key management personnel is as follows:

£m	**2019**	2018
Remuneration (including benefits in kind)	**3.6**	2.6
Element of share-based payments expense	**0.2**	0.2
	3.8	2.8

The aggregate remuneration paid or receivable by Executive and Non-Executive Directors and the value of contributions to money purchase pension schemes in respect of qualifying services are disclosed on page 80. No gains were exercised on share options made on the exercise of share options by Executive or Non-Executive Directors in respect of 2019 (2018: nil).

The amount of money paid to or receivable by Executive and Non-Executive Directors under long-term incentive schemes in respect of qualifying services was nil (2018: nil).

Defined contribution pension scheme retirement benefits are accruing to one Director at the year end (2018: one).

24 Ultimate Parent Company, controlling party and changes in significant accounting policies

There is no controlling party.

IFRS 16 Leases

Details of the impact from adopting IFRS 16 can be found in note 9.

Company Balance Sheet
at 31 December 2019

£m	Note	2019	2018
Non-current assets			
Investments	26	**0.7**	0.5
Current assets			
Debtors	27	**37.9**	29.2
Net assets		**38.6**	29.7
Capital and reserves			
Called-up share capital	28	**0.1**	0.1
Share premium account		**24.8**	24.8
Treasury reserve		**(4.1)**	(1.2)
Profit and loss account		**17.8**	6.0
Equity		**38.6**	29.7

The accompanying notes on pages 146 to 149 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 23 April 2020 and were signed on its behalf by:

JOHN HORNBY
Chief Executive Officer

MATT WEBB
Chief Financial Officer

Company registered number: 05254883

Company Statement of Changes in Equity
for the year ended 31 December 2019

£m	Share capital	Share premium	Retained earnings	Treasury reserve	Total equity
Balance at 1 January 2018	0.1	24.8	0.9	(1.2)	24.6
Total comprehensive income					
Profit for the year	—	—	5.0	—	5.0
Total comprehensive income for the year	—	—	5.0	—	5.0
Transactions with owners in their capacity as owners:					
Share-based payments charge	—	—	0.1	—	0.1
Total transactions with owners in their capacity as owners	—	—	0.1	—	0.1
Balance at 31 December 2018	0.1	24.8	6.0	(1.2)	29.7
Total comprehensive income					
Profit for the year	**—**	**—**	**13.5**	**—**	**13.5**
Total comprehensive income for the year	**—**	**—**	**13.5**	**—**	**13.5**
Transactions with owners in their capacity as owners:					
Distributions	**—**	**—**	**(1.9)**	**—**	**(1.9)**
Purchase of own shares	**—**	**—**	**—**	**(2.9)**	**(2.9)**
Share-based payments charge	**—**	**—**	**0.2**	**—**	**0.2**
Total transactions with owners in their capacity as owners	**—**	**—**	**(1.7)**	**(2.9)**	**(4.6)**
Balance at 31 December 2019	**0.1**	**24.8**	**17.8**	**(4.1)**	**38.6**

The accompanying notes on pages 146 to 149 form an integral part of these financial statements.

Notes to the Company Financial Statements

for the year ended 31 December 2019

25 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014.
The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £0.1m. The financial statements are prepared on the historical cost basis.

Under s408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account. The Company did not trade during the year.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to the end of the period
- Cash flow statement and related notes
- Key management personnel compensation

As the consolidated financial statements of the Company include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

Going concern

As highlighted in note 1 to the consolidated financial statements, the Group meets its day-to-day working capital requirements through its cash reserves and a number of funding facilities.

The Group's forecasts and projections show that the Group should be able to operate within the level of funding available.

After making enquiries, the Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Taxation

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Basic financial instruments

Trade and other debtors/creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

26 Fixed asset investments

Accounting policy – investments
These are the separate financial statements of the Company. Investments in subsidiaries are carried at cost less impairment.

Accounting policy – share-based payments
Incentives in the form of shares are provided to employees through the Company's Share Incentive Plan ("SIP") and Long-Term Incentive Plan ("LTIP") schemes. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

The grant date fair value of an equity-settled payment under the SIP is measured as the face value of the award on the date of grant.

The grant date fair value of the awards under the Group's LTIP is measured by the use of the Monte Carlo simulation for any market-related performance conditions (given the increased uncertainty around the potential vesting of share options).

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Charges made to the income statement in respect of share-based payments are credited to reserves.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market-based vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The Company fulfils exercised options with treasury shares the Company has purchased. The proceeds received net of any directly attributable transaction costs are credited to Treasury shares (nominal value) and share premium.

The Group operates an employee share benefit trust as part of its incentive plans for UK-based employees.

All assets and liabilities of the trust are recorded in the balance sheet as assets and liabilities of the Company until such time as the assets are awarded to the beneficiaries. All income and expenditure of the trust is similarly brought into the results of the Company.

Where the Company grants options over its own shares to the employees of its subsidiaries, it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements, with the corresponding credit being recognised directly to equity.

Luceco Holdings Limited is the only company which is owned directly. All other companies are owned and controlled by virtue of the Company's holding in Luceco Holdings Limited.

£m	**2019**	2018
Balance at 1 January	**0.5**	0.4
Share-based payment charge relating to subsidiaries	**0.2**	0.1
Balance at 31 December	**0.7**	0.5

Notes to the Company Financial Statements continued

for the year ended 31 December 2019

26 Fixed asset investments continued

The Company holds 100% of the share capital of the following companies, whose principal activities were as follows:

Company	Registered office	Principal activity	% of shares held
Luceco Holdings Limited	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Intermediate holding company	100
Luceco UK Limited Formerly Nexus Industries Limited (Name change 23 December 2019)	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Electrical accessories importer and distributor	100
BG Electrical Limited	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Electrical accessories importer and distributor	100
Luceco Electrical (Jiaxing) Limited	1,438 Jiachung Road, Xiuzhou Industrial Park, Jiaxing, Zhejiang 314000, China	Manufacturing company	100
Masterplug International Trading (Shanghai) Co Limited	Room 101D, 1st Floor Market Business Building No. 2001 North Yangao Road Waigaoqiao Free Trade Zone, Shanghai, China	Dormant	100
Masterplug Limited	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Dormant – Struck-off 12 January 2020	100
BG Electrical Holdings Limited	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Dormant – Struck-off 12 January 2020	100
Masterplug Holdings Limited	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Dormant – Struck-off 12 January 2020	100
Nexus Industries (Hong Kong) Limited	Unit D, 15th Floor MG Tower, 133 Hoi Bun Road, Kwun Tong, Hong Kong	Sales office	100
Luceco Inc	Batallon de San Patricio 109 Sur, Col. Valle Oriente San Pedro Garza Garcia, Mexico	Administrative and development office	100
Luceco SAS	3 Rue de Courtalin, 77700 Magny Le Hongre, France	Administrative and development office	100
Nexus Industries GmbH	Holstenplatz 20b, 22765 Hamburg, Germany	Administrative and development office	100
Luceco Lighting Limited	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Dormant – Struck-off 12 January 2020	100
Luceco Mexico	Batallon de San Patricio 109 Sur, Col. Valle Oriente San Pedro Garza Garcia, Mexico	Administrative and development office	100
BG Electrical SDN	No. 2 Jalan SS 24/17, 47301 Petaling Jaya, Selangor, Malaysia	Administrative and development office	100
Nexus Industries PTE Limited	3,791 Jalan Bukit Merah #09-25 (E-center@redhill), Singapore, 159471	Administrative and development office	100
Nexus Industries Design Limited	1,438 Jiachung Road, Xiuzhou Industrial Park Jiaxing, Zhejiang 314000, China	Administrative and development office	100
Luceco Southern Europe SL	CL Bobinadora 1-5, Local 7, 08302 Mataro Barcelona, Spain	Administrative and development office	100
Luceco Middle East FLE	Building 5EB, Office 342, DAFZA PO Box 371128, Dubai	Administrative and development office	100
Kingfisher Lighting Limited	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Electrical accessories importer and distributor	100

27 Debtors

£m	2019	2018
Amounts owed by Group undertakings	**37.9**	29.2

Amounts owed by the Group's subsidiaries are repayable on demand and are non-interest bearing.

28 Capital and reserves

Accounting policy
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a reduction from equity, net of any tax effects.

	Allotted, called up and fully paid		Number of shares in issue (thousands)	
	2019 £	2018 £	**2019 Number**	2018 Number
At 1 January	**80,400**	80,400	**160,800**	160,800
At 31 December	**80,400**	80,400	**160,800**	160,800

Each ordinary share carries one vote, participates equally with the other ordinary shares in distribution of dividends and capital (including on a winding up) and is not redeemable.

29 Ultimate parent and controlling party

There is no controlling party.

Company Information

Financial calendar

Annual General Meeting	4 June 2020
Half-year end	30 June 2020
Half-year end trading update	28 July 2020
Half-year interim management statement	8 September 2020
Year end	31 December 2020
Full-year preliminary statement	March 2021

Share price history

The following table sets out the reported high, low, average and financial year end (31 December or immediately preceding business day) closing middle market quotations of Luceco's ordinary shares on the London Stock Exchange for the period 1 January 2019 to 31 December 2019.

Share price (pence)	High	Low	Average	Financial year end[1]
2019	**130.0**	**33.0**	**87.9**	**126.4**
2018	120.0	33.6	57.2	34.5

1. Last trading day at the London Stock Exchange, 31 December 2019.

Shareholder queries

Shareholders who change address, lose their share certificates, wish to amalgamate multiple shareholdings or have payments paid directly into their bank account, or otherwise have a query or require information relating to their shareholding, should contact the Company's registrar.

This can be done by writing to **Link Asset Services, The Registry, 34 Beckenham Road, Beckenham BR3 4TU**. Alternatively, shareholders can contact **Link Asset Services** on **+44 (0)871 664 0300** (calls cost 12p per minute plus network extras; lines are open 9.00am to 5.30pm Monday to Friday), or on **+44 (0)371 644 0300** if calling from overseas, or email their enquiry to **enquiries@linkgroup.co.uk**, indicating they are a Luceco shareholder.

Shareholders are also able to access and amend details of their shareholding, via the registrar's website at **www.signalshares.com**. If you have not previously registered to use this facility you will need your investor code, which can be found on your proxy card or on any share certificate issued by Link Asset Services.

You can access the service via the investor relations section of Luceco's website at **www.lucecoplc.com**.

Online shareholder services

Luceco provides a number of services online in the investor relations section of its website at **www.lucecoplc.com**, where shareholders and other interested parties may:

- View and/or download annual and half-year reports
- Check and/or download current or historic share prices
- Check the amounts and dates of historic payments to shareholders
- Use interactive tools to calculate the value of shareholdings
- Chart Luceco ordinary share price changes against indices
- Register to receive email alerts regarding press releases, including regulatory news announcements, Annual Reports and Company presentations

ShareGift

Luceco supports ShareGift, the share donation charity (registered charity number 1052686). ShareGift was set up so that shareholders who have only a very small number of shares which might be considered uneconomic to sell are able to dispose of them by donating them for the benefit of UK charities. Donated shares are aggregated and sold by ShareGift, the proceeds being passed on to a wide range of UK charities. Donating shares to charity gives rise neither to a gain nor a loss for UK capital gains purposes and UK taxpayers may also be able to claim income tax relief on the value of the donation.

Further information about donating shares to ShareGift is available either from its website at **www.sharegift.org**, by writing to **ShareGift** at **17 Carlton House Terrace, London SW1Y 5AH** or by contacting them on **+44 (0)20 7930 3737**.

Even if the share certificate has been lost or destroyed, the gift can be completed. The service is generally free; however, there may be an indemnity charge for a lost or destroyed share certificate where the value of the shares exceeds £100.

Unsolicited mail

The Company is obliged by law to make its share register publicly available should a request be received. As a consequence, shareholders may receive unsolicited mail from organisations that use it as a mailing list. Shareholders wishing to limit the amount of such mail should either write to **Mailing Preference Service, DMA House, 70 Margaret Street, London W1W 8SS**, register online at **www.mpsonline.org.uk** or call the Mailing Preference Service ("MPS") on **+44 (0)845 703 4599**. MPS is an independent organisation which offers a free service to the public.

Warning to shareholders – boiler room scams

Each year in the UK, £1.2bn is lost to investment fraud, with the average victim losing around £20,000. What is more, it is estimated that only 10% of the people that become victims of investment fraud actually report it.

Investment scams are becoming ever-more sophisticated – designed to look like genuine investments, they are increasingly difficult to spot. They are targeted at those most at risk, typically people in retirement who are actively seeking an investment opportunity.

Protect yourself

1. Reject cold calls

   If you have been cold called with an offer to buy or sell shares, it is likely to be a high-risk investment or scam. You should treat the call with extreme caution. The safest thing to do is hang up.

   If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free; company or research reports, you should get the name of the person and organisation contacting you and take these steps before handing over any money.

2. Check the firm on the Financial Services Register at www.fca.org.uk/register

   The Financial Services Register is a public record of all the firms and individuals in the financial services industry that are regulated by the FCA.

   Use the details on the Financial Services Register to contact the firm.

3. Get impartial advice

   Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

   REMEMBER, if it sounds too good to be true, it probably is!

   If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme if things go wrong.

Report a scam

If you suspect you have been approached by fraudsters, please tell the FCA using the share fraud reporting form at **www.fca.org.uk/scams**, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on **+44 (0)800 111 6768**.

If you have lost money to investment fraud, you should report it to Action Fraud on **+44 (0)300 123 2040** or online **at www.actionfraud.police.uk**.

Find out more at **www.fca.org.uk/scamsmart**.

Advisers

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info@luceco.com

Independent auditor
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Statutory Auditor
Chartered Accountants
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Snow Hill Queensway
Birmingham B4 6GH

Financial advisers and brokers
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The London Stock Exchange
Building
10 Paternoster Square
London EC4M 7LT

Liberum
Ropemaker Place
Level 12
25 Ropemaker Street
London EC2Y 9LY

Principal bankers
HSBC Bank plc
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Registrars
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The Registry
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Beckenham
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Investor relations
MHP Communications
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London WC2N 4HN

Cautionary statement

This Annual Report and Financial Statements has been prepared for the shareholders of Luceco plc, as a body, and no other persons. Its purpose is to assist shareholders of the Company to assess the strategies adopted by the Group, the potential for those strategies to succeed and for no other purpose. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

This Annual Report and Financial Statements contains certain forward-looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

No assurances can be given that the forward-looking statements in this Strategic Report will be realised.

The forward-looking statements reflect the knowledge and information available at the date of preparation of this Strategic Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report and Financial Statements should be constituted as a profit forecast.

Strategic and Directors' Reports

The Strategic Report, the Corporate Governance Report and Financial Statements form a Directors' Report. Both the Directors' Report and Strategic Report have been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with those reports shall be subject to the limitations and restrictions provided by such law. In particular, the Directors would be liable to the Company (but not to any third party) if the Strategic Report and/or Directors' Report contain errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

The Strategic Report forms part of the Annual Report and Financial Statements, full copies of which can be obtained free of charge from the Group's website at **www.lucecoplc.com** or from the Company's registered office.

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