BRINGING POWER TO LIFE

ANNUAL REPORT AND FINANCIAL STATEMENTS

2021

BRINGING POWER TO LIFE

Our purpose

To help people harness power sustainably in everyday life.

Our mission

To build a leading portfolio of thoughtfully designed and diligently made products that provide environmentally responsible electrical and lighting solutions to our customers.

To continually invest to sustain the competitive advantage provided by our people, culture and business model.

Our strategy

Grow – to maximise sales of both existing and new products to an increasing customer base

Innovate – we are led by our customers to innovate brilliant products in an agile and entrepreneurial manner

Sustain – to invest across our business from manufacturing and fulfilment to customer service, to sustain our competitive advantage and to contribute increasingly to society's sustainability goals

Find out more on pages 32 and 33

Our culture

Customer-driven – we understand what our customers want

Team-focused – our people are our key differentiator, they are agile, loyal and energetic

Bold and innovative – our rapid growth is due to bold implementation of innovative thinking

Principled – We do what is right and we hold ourselves to the highest ethical standards

Find out more on pages 28 and 29

Financial and ESG highlights

Revenue

£228.2m

2020: £176.2m

Gross profit

£84.7m

2020: £70.2m

Operating profit

£35.3m

2020: £29.6m

Adjusted[1] Operating Profit

£39.0m

2020: £30.0m

Earnings per share

17.6p

2020: 18.0p

Adjusted[1] Earnings Per Share

20.2p

2020: 15.5p

ESG – emissions

Carbon Neutral

operations in 2021

ESG – low carbon sales

25%

revenue from low carbon products in 2021

ESG – employee satisfaction[2]

90.5%

2020: 86.1%

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 118 and are used throughout this document. The measures provide additional information for users on the underlying performance of the business, enabling consistent year-on-year comparisons.
2. Percentage of UK employees fairly or very satisfied with their employer.

What's inside

Strategic Report

Directors' Report

Financial Statements

HOW WE BRING POWER TO LIFE

Design

We are the innovators within the product categories we serve. Innovation allows us to up-sell and improve profitability.

- We bring new ideas to market quickly
- Our designs offer great quality at a great price
- Our designs start with the customer in mind

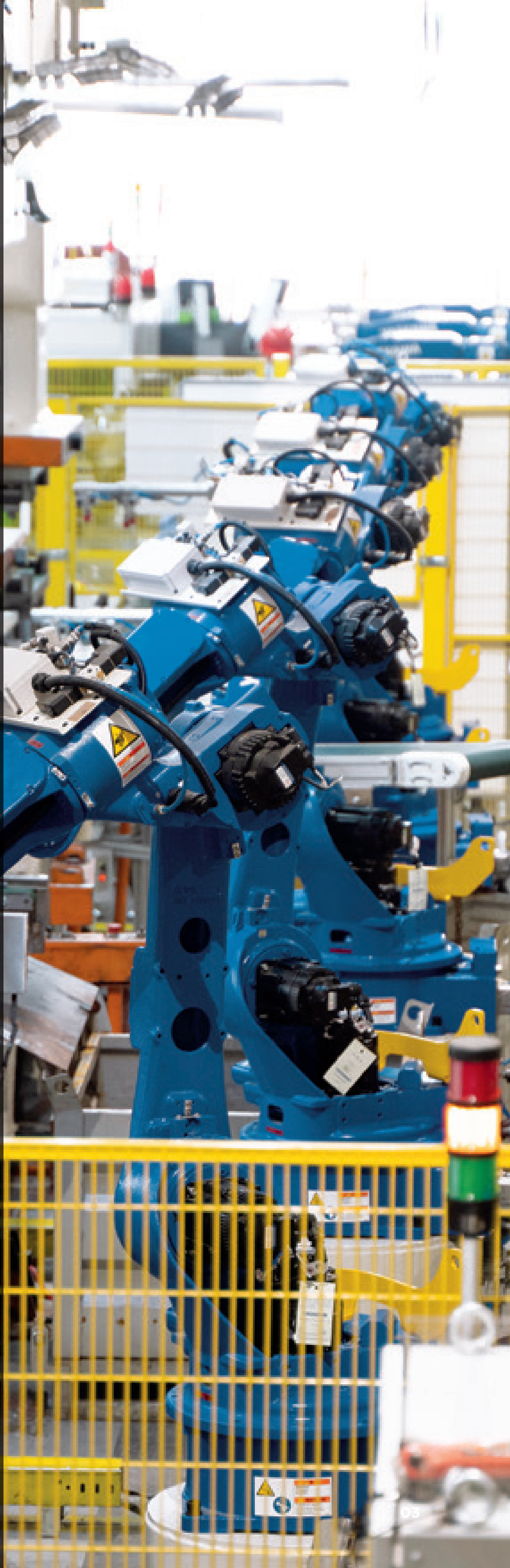
“We constantly strive to find new ways to further improve the performance of our products. Ultimately, our goal is to create cutting-edge designs, which result in happy customers with a lower carbon footprint too.”

SIMON SHENTON
HEAD OF LED DEVELOPMENT

HOW WE BRING POWER TO LIFE

Make

- We operate a vertically integrated manufacturing model
- Our production output is agile, particularly during COVID-19
- Our facilities are well invested, allowing us to make high quality, low cost products
- We have long-established OEM partners
- Our customers know where our products come from and the conditions in which they are made



"Our products are designed to maximise automation in our sites; we benefit from scale and our fully owned, well-invested manufacturing facility means we have visibility regarding supply and more control over cost."

RONNIE YU
ASIA MANAGING DIRECTOR

HOW WE BRING POWER TO LIFE

Market

- We have been serving our largest customers for many years
- We have a highly skilled and experienced sales team
- We operate in diverse but synergistic sales channels
- We invest in our digital presence and estate
- We invest in the next generation of electrical contractors

“”

We provide a bespoke service and remain true to our culture, doing what is right and never compromising on quality. As a result we have built strong and long-standing relationships, which our customers value.

RICHARD HORTON
NATIONAL SALES MANAGER

HOW WE BRING POWER TO LIFE

Fulfil

- Our supply chain:
  - Is flexible to customer needs
  - Offers high outbound service levels
  - Maintains a breadth of inventory close to the customer
  - Uses the best available technology
  - Offers products as part of a solution

“”

Last year we experienced multiple challenges including shipping delays and raw materials shortages, but our supply chain remained resilient. Strong relationships with our suppliers minimised issues and, where we needed alternatives, close internal team relationships with product managers meant there was minimal disruption to product availability.

ELIZABETH BEATTIE
SUPPLY CHAIN PLANNER

At a Glance

What we sell:

Wiring Accessories
46%
of Group revenue
#2 in UK

Our products
- Mains switches and sockets
- Circuit protection
- Junction boxes/cable management
- Commercial power

LED Lighting
28%
of Group revenue
Top 10 in UK

Our products
- Residential/commercial
- Interior/exterior
- Mains/solar
- Work & site lighting

Portable Power
26%
of Group revenue
#1 in UK

Our products
- Extension cables
- Cable reels
- EV chargers
- Adapters/accessories
- TV/AV

Who we sell it to:

Retail
35%
of Group revenue

Distributors serving consumers only, including DIY sheds, pure-play online retailers and grocers

Hybrid
25%
of Group revenue

Distributors serving a mixture of consumers and professionals, typically with multi-channel service options

Professional Wholesale
25%
of Group revenue

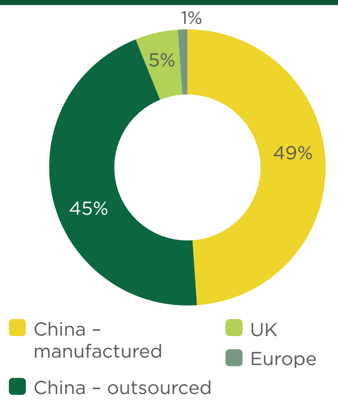
Distributors serving professionals only, largely via a branch network

Professional Projects
15%
of Group revenue

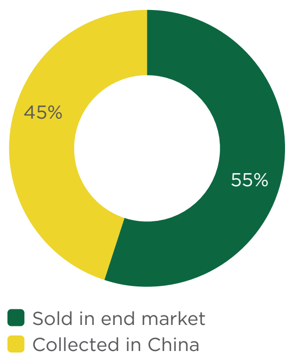
Sale agreed by Luceco direct with professionals, but fulfilled via Professional Wholesale

Where we operate:

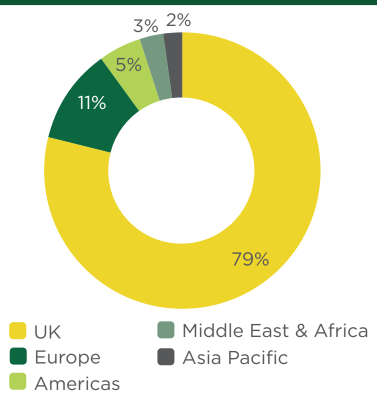
Revenue by product origin



Revenue by distribution type



Revenue by product destination



Three Reasons to Invest in Us

1:
We operate in attractive markets

- Serving construction RMI markets
  - Growing faster than GDP
  - Low cyclicality with sustainable growth
  - High margin
- Defendable from new entrants
- High brand loyalty
- Opportunities for expansion into adjacent products/customers

See pages 26 and 27

2:
We have an advantaged business model

- Market-leading product development
- High quality, agile, vertically integrated manufacturing
- Flexible fulfilment model
- Established and clear branding focused on quality, design and value
- Underpinned by our "can-do" culture

See pages 28 and 29

3:
We deliver compelling and consistent financial outcomes sustainably

Performance through the cycle:

Revenue growth	>5%
Adjusted Operating Margin	>15%
Adjusted Free Cash Flow Margin	>10%
ROCI	>30%
Covenant Net Debt leverage	1.0-2.0x
Dividend payout	40-60%

2021: Low carbon sales

25%

2021: UK employee satisfaction

90.5%

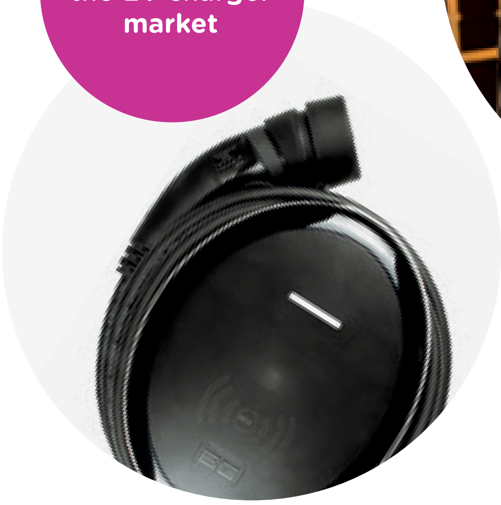
- Our financial targets demonstrate our commitment to strong and sustained financial performance
- Ambition demonstrated by upwards revision of targets in 2021
- ESG performance a central pillar of the Group's success

See pages 16 and 17

Review of the Year

Key business achievements:

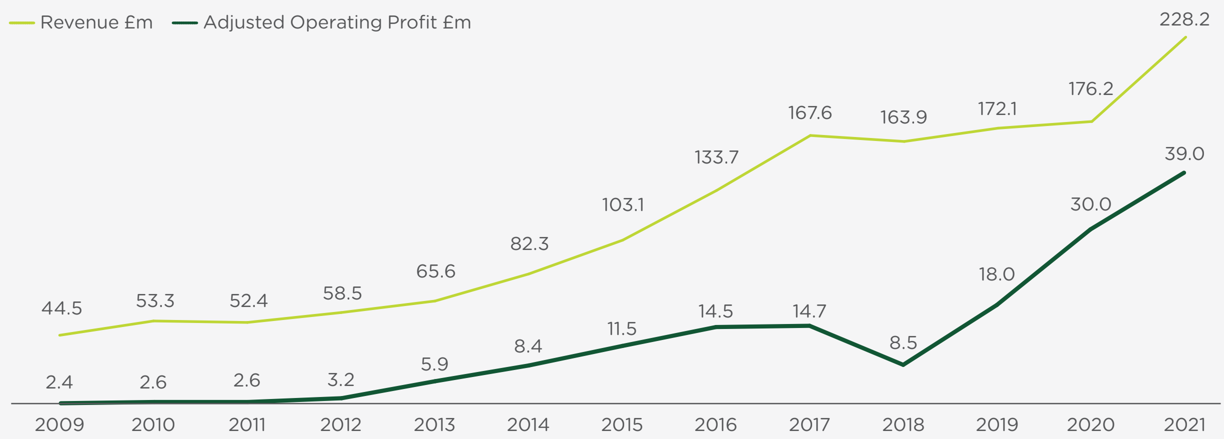
We acquired DW Windsor, increasing our share of the UK outdoor lighting market



We entered the EV charger market

We won £27.5m of new tendered business

Track record



Consistently delivering compelling financial outcomes year-on-year:

Revenue growth

29.5%

>5% Target

Adjusted Operating Margin

17.1%

>15% Target

Adjusted Free Cash Flow Margin

8.2%

>10% Target

ROCI

36.4%

>30% Target

Covenant Net Debt leverage

0.7x

1.0-2.0x Target

Dividend payout

40%

40-60% Target

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 118 and are used throughout this document. The measures provide additional information for users on the underlying performance of the business, enabling consistent year-on-year comparisons.

Chairman’s Statement

> The strengths of our business model and the efforts of our dedicated colleagues delivered another set of record results

GILES BRAND
Chairman

I am pleased to introduce the Company’s results for the year ended 31 December 2021, a year in which Luceco overcame continued challenges from COVID to deliver another year of record profits. Driven by its purpose to bring power into people’s lives sustainably, Luceco continued to outperform in 2021 and once again underlined its significant long-term potential.

Performance

The Group delivered significant progress for the second year in a row against a backdrop of continued challenge and uncertainty. Luceco has doubled its profit over the last two years, proving the success of its strategy, attractiveness of its products and the superiority of its customer service.

Together with strong financial performance, Luceco’s operational performance more than withstood a challenging year. Control of the supply chain from end to end, from design and manufacture, through to marketing and fulfilment, was particularly advantageous in an unusually disrupted environment. The Group was able to proactively adjust inventory, production levels and prices without detriment to demand, enabling profitable growth significantly above the market.

Whilst the Group continued to prioritise the health and wellbeing of its employees during another COVID-affected period, the Group was also the beneficiary of trends created and accelerated by COVID. Residential renovation activity was buoyed by people spending more time at home, and is likely to be further buoyed as employers permanently adopt hybrid working. We have also seen the electrical wholesale market shift toward multi-channel operators, a channel in which the Group has a significant share. Luceco operates in attractive markets with a comprehensive range of products, which will sustain the Group’s performance going forward.

These key advantages resulted in revenue growth in the year of 29.5%, outperforming the market, which converted into Adjusted Operating Profit growth of 30.0%. Adjusted Operating Profit for the year was £39.0m whilst operating profit was £35.3m.

People

I would like to thank the Group’s management team for their operational resilience throughout the pandemic and the wider workforce for their diligent application of our safeguarding arrangements.

In a period in which it has been necessary for us all to work remotely and flexibly, the Group has responded by investing significantly in ways to maximise employee engagement. I am delighted to report that these efforts have resulted in record scores from our annual employee satisfaction survey and I expect this improving trend to continue as team members safely return to the office.

In October, Caroline Brown stepped down as a member and Chair of the Group’s Audit Committee. I would like to thank Caroline for her diligent stewardship of the Audit Committee since IPO and am pleased that she remains a Non-Executive Director. Caroline was replaced as Chair by Will Hoy, a fellow Non-Executive Director. Pim Vervaat, the Senior Independent Director, also joined the Committee as a member. I would like to congratulate Will and I am pleased with the smooth transition he has overseen.

In December, we were saddened by the death of John Barton, Luceco’s Senior Independent Director until June 2020. We benefited greatly from his wise counsel and sense of humour. We will all miss him dearly.

Strategy

The Group's strategy can be described simply as to Grow, Innovate and Sustain.

Growth was invigorated this year by the acquisition of DW Windsor Group, the exterior lighting and networking specialist. The Group's balance sheet remains efficient and supportive of further growth through strategic acquisition.

The Group also won significant new business with strategic customers and in high margin product categories, which underlines the relative strength of its offering.

Innovation has seen the Group enter the commercial power and electric vehicle ("EV") charging sectors in 2021, both of which offer significant further growth potential.

Important investment in both supply chain and manufacturing infrastructure has provided the capacity and agility needed to both meet increased demand and sustain future growth. The Board is also pleased with the execution of the Group's sustainability strategy, which is a key part of our mission.

Environment, Social and Governance ("ESG")

The Group has made significant progress against the ambitious climate targets it set at the start of the year, as follows:

- The Group's operations were carbon neutral in 2021 thanks to the elimination or offset of all Scope 1 and 2 greenhouse gas ("GHG") emissions
- Scope 3 GHG emissions were quantified for the first time, with reduction targets to follow
- The Group commenced participation in the Carbon Disclosure Project
- The Group has prepared itself for participation in the Science-Based Target Initiative ("SBTi"), which is expected to commence in 2022

Luceco already contributes to carbon reduction through its low carbon products such as LED lighting and EV chargers. These constituted £56m of Group revenue in 2021. The Group is pleased to announce that it aims to increase this to £100m by 2025.

Dividend

The Group's policy is to pay dividends equal to 40-60% of Adjusted Profit After Tax. The Board is recommending a final dividend of 5.5p per share which, with the interim dividend of 2.6p, is consistent with a 40% payout, payable on 20 May 2022 to shareholders on the register on 8 April 2022. The final date for elections under the Company's dividend reinvestment plan will be 28 April 2022.

Conclusion

The Group's remarkable progress, particularly over the last two challenging years, highlights a compelling investment case continually strengthened by the diligent execution of a consistent strategy. Luceco continues to outperform the competition, grow profitably, generate cash and reinvest for a sustainable future, both for it's stakeholders and wider society.

So much of this progress is ultimately due to the fulsome commitment of the Group's employees, whom I would like to thank again for their outstanding work in another successful year.

GILES BRAND
Chairman
22 March 2022

Chief Executive Officer's Review

2021 has vindicated our long-term strategy, highlighted the success of our business model and proven the resilience of our people

JOHN HORNBY
Chief Executive Officer

Compelling financial outcomes

Luceco's performance throughout the COVID-19 pandemic has outperformed the industry in terms of revenue, market share and profitability. Whilst our pre-COVID financial momentum was strong, the results we have achieved over the last two years have been particularly compelling, highlighting the Group's operational agility and excellent customer service in uncertain times. I am proud that our strong culture of moving quickly and delivering what we promise has been strikingly clear in such a challenging environment.

Group revenue increased by 29.5% to £228.2m in 2021, with growth within each product group. Revenue from our largest segment, Wiring Accessories, grew 28.5% to £104.5m, supported by key business wins and increased demand, which we were able to meet given the control we have over our manufacturing and supply chain. Our sources of growth broadened beyond residential renovation activity as the year progressed, with increasing economic confidence resulting in increased demand for LED retrofits into non-residential settings. Our LED Lighting business generated revenue growth of 27.7% to £63.2m. In our Portable Power segment, we secured business wins in the UK and Europe which contributed to revenue growth of 33.3% to £60.5m for the year.

We also achieved healthy growth across each sales channel in the year. It was an exceptionally strong start to 2021 in our Retail, Hybrid and Professional Wholesale channels, all of which benefited from a rapid post-lockdown recovery in residential demand as consumers spent more money on their homes. In the second half of the year, we saw some natural normalisation in UK Residential repair, maintenance and improvement ("RMI") Construction markets, leading to a modest slowdown in growth within our Hybrid and Professional Wholesale channels. Growth accelerated during the year in our overseas businesses, and within the Professional Projects channel as confidence returned to UK Non-Residential RMI Construction markets, underlining the benefit of our sales channel diversity.

The rapid post-lockdown recovery, whilst very welcome, led to supply constraints in our industry. Increasing optimism and buoyant demand resulted in inflationary pressures and global supply chain disruption. We navigated these issues well, succeeding in maintaining our superior customer service levels by acting quickly to maintain product availability thanks to our vertically integrated model. Price increases were successfully implemented without impacting our competitiveness, demonstrating our competitive strength and the industry-wide impact of the associated inflation.

Supply chain challenges are still present. Recent COVID outbreaks in China have not impacted our business, but could conceivably result in some short term disruption, albeit tempered by the inventory we hold elsewhere in our supply chain. Recent devastating developments in Ukraine have triggered a further round of input cost inflation. We do not yet know the full impact, but our achievements this year highlight that we have the means to manage change well. While general inflation and tighter monetary policy may have an impact on discretionary construction, particularly in the residential sector, I have every confidence that we will continue to outperform in whatever market we are faced with.

Gross margins came under pressure for all manufacturers given inflation in raw materials and freight costs. Cost inflation increased progressively through the year, costing £13.6m in 2021 and expected to cost £25.0m on an annualised basis. We swiftly and successfully implemented selling price updates designed to offset the £25.0m annualised impact in full, albeit with an inevitable modest lag due to notice periods and order lead times.

Temporary gross margin compression from the implementation lag was mitigated by hedging arrangements, further manufacturing efficiency gains from automation and solid operating leverage on strong sales growth. The latter is illustrated by the fact that in the last two years the Group has added no additional overheads despite £52.5m of additional organic revenue. As a result of these measures, the Group's Adjusted Operating Margin for the year was 17.1%, marginally ahead of 2020 despite significant input cost inflation.

Growth in revenue and margins led to a 30.0% increase in Adjusted Operating Profit to £39.0m (2020: £30.0m) and operating profit increased 19.3% to £35.3m (2020: £29.6m). Strong cash generation, particularly in the second half, led to Covenant Net Debt of 0.7x Covenant EBITDA (2020: 0.4x), below our capital structure target of 1.0-2.0x. Our balance sheet remains strong and able to support continued investment in future growth, both organically and by acquisition. In 2021, we demonstrated our appetite for M&A through the acquisition of DW Windsor.

Strong operational performance – strength of business model

In my last review, I said that 2020 had been a year like no other. We saw further upheaval and volatility in 2021 and I must thank my colleagues for their continued dedication, resilience and adaptability in a challenging and ever-changing environment.

Our advantaged business model has helped us gain market share for an extended period, with market conditions in the last two years accentuating this growth. Our superior product availability has been evident throughout the COVID period and I am proud that we have remained so agile in such a challenging environment.

Our vertically integrated manufacturing and distribution model proved itself more than ever in a year defined by supply chain disruption. It enabled us to add capacity more quickly than those businesses reliant on outsourced models, further increasing our market share. Output from our manufacturing facility in China continued to increase, to record levels, aided by strong regional supplier relationships which we utilised to mitigate global shortages of key components such as integrated circuits.

We acted quickly to increase our inventory cover to help offset extended supplier lead times which have almost doubled in the last two years. Earlier in the year, we temporarily increased safety stocks in our sales organisation to ensure product availability and continuity of customer service in an unsettled supply chain. Also key to maximising service to our customers was the investment we made in our UK Distribution Centre to both improve capacity and order fill rates, as well as lowering operating costs.

With supply chain uncertainty continuing in 2022, the advantages of our business model position the Group comparatively well to respond rapidly to change.

Chief Executive Officer's Review continued

Strategic progress

Even with the presence of COVID-related challenges, we managed to progress our strategic priorities in the year and to redefine them under three simple headings: Grow, Innovate and Sustain.

Grow

Luceco has a proven track record of growth. Since 2000, we have grown our sales twice as fast as the UK market and supplemented that by launching our successful business model overseas. We now have leading positions of scale in our key UK end markets, and yet have £1.8bn of share still available to us in the markets we currently address. Our strategy is to seize this opportunity.

Given the white space around us, we prioritise our growth opportunities with care and then exploit them in full. Our focus over the last three years has been to maximise the potential of our most profitable source of growth, namely the sale of all existing products to all existing customers through our well-developed UK infrastructure, with a particular focus on growing our share of sales to professional installers. This has proved successful as customers have rewarded our structural ability to deliver, accentuated during the pandemic, with new business that has been very beneficial to profit.

We have used our balance sheet to accelerate share gains with professional installers with the acquisition of DW Windsor, which is highly complementary to our existing UK outdoor lighting offering. We have a decent pipeline of other M&A opportunities at various stages of progression.

Our continual re-appraisal of growth opportunities led us to invest to accelerate growth in our Southern European business in the year. This will be funded in part by our exit from Northern Europe in 2022, where regrettably the structure of the market has made progress harder and long-term prospects less attractive than other available opportunities.

Innovate

Luceco also has a proven track record of using innovation to grow. We use it to up-sell higher function, higher margin devices in existing product categories, and to enter new product categories that can be sold to existing customers. I am pleased to say we made progress on both fronts in 2021.

We expanded our range of USB wiring accessories by being the first in the UK market to integrate high power USB-C connectivity, which an increasing number of consumer electronic devices use, into mains sockets. We hope this will future-proof our USB wiring device offering, which has been a very successful product line for the Group.

We also expanded our range of consumer Smart Home devices, particularly in lighting. Both are now being sold successfully to our existing customer base.

Our push into new product categories, with a focus on those that are professionally installed, was accelerated by the recent launch of both private realm EV chargers and commercial power products. The market potential of both categories total £700m in the UK alone and we are very well positioned to take our share of this opportunity. Our lower power Mode 2 EV charger range launched mid-year, generating sales of £1m. Our higher power Mode 3 charger will launch in early Q2 2022 under our established British General brand and we expect keen interest from our loyal electrical contractor customers.

Sustain

The Group's investment in its infrastructure, to sustain the competitive advantage it has built, bore fruit in 2021. We implemented new software to manage our fulfilment operations, which improved order fill rate, logistics efficiency and delivery capacity. Investment in fulfilment capabilities in the UK has increased output by 40% in five years with no change in footprint. Similarly, in Southern Europe we moved our operations into a larger distribution centre that can support growth (which has averaged 42% per annum over the last five years).

Purpose and culture

Strategies only succeed if they are set within the context of a clear purpose and supportive culture: we have both at Luceco.

Our purpose as an organisation is to bring power into people's lives sustainably. I am proud to say that our products play an expanding role in everyday life and they are increasingly the choice of discerning professional installers who want to get the job done right. Our products support essential societal climate goals by offering a diminishing carbon footprint and by supporting the adoption of "green" substitution such as LED lighting and EV charging.

I am proud to announce that we are targeting annual revenue of £100m from such low carbon products by 2025, underlining both the size of the market opportunity presented to us by decarbonisation, as well as our desire to help society to achieve essential climate goals.

Our culture has come to the fore in the last two years. We have been bold, agile and innovative. Our teams have worked incredibly hard and closely together throughout the customer journey to deliver exceptional service in very trying circumstances. I am very proud of their achievements.

Attractive market backdrop

We estimate the total value of markets we address with our current product portfolio to be worth £2.0bn in the UK alone. Continued expansion into new product categories installed by professional electricians opens up a market worth up to £3.5bn in the UK alone. In short, our markets offer ample room for further growth.

They also exhibit healthy, long-term growth. We estimate that 80% of our business is driven by RMI construction activity, the majority of which is professionally installed. Since 2000, UK RMI construction has expanded by 16% more than UK GDP and has grown in 18 of the subsequent 21 years.

The events of the last two years have underlined the relative resilience of our markets, a period in which construction has rebounded faster than wider economic activity.

I am delighted that consistent growth faster than the competition, means we now have leading positions in such structurally attractive end markets.

Summary and outlook

Luceco has a long history of market outperformance. The accelerated progress we have made over the last two years, in which our profit has doubled, is the product of our market focus and business model. We favour RMI construction markets because of their resilience in uncertain times, and undoubtedly benefited from that focus in 2021. But it was our advantaged business model, with its inbuilt resilience and agility, combined with our "can-do" culture, that allowed us to prosper more than most. We moved quickly, won new business and saw growth opportunities across our diversified customer base.

Such strong progress in 2021 naturally creates a tough comparative, particularly in the first half when UK residential RMI activity was at a lockdown-driven peak. We therefore expect revenue in the first half of 2022 to be broadly in line with last year. We are mindful that recent geopolitical developments, and their associated impact on inflation, may make progress harder during the year.

We have strong positions in attractive markets with an advantaged business model and a clear strategy. We have a well-funded business with clear growth opportunities, particularly from our recent entry into the electrical vehicle charger market. We face the future better prepared than ever and I am confident we have what it takes to continue to outperform our market.

JOHN HORNBY

Chief Executive Officer

22 March 2022

Chief Financial Officer's Review

Consistently delivering compelling financial outcomes

MATT WEBB
Chief Financial Officer

Performance versus financial targets

In 2019, I reported that the deployment of our advantaged business model in our attractive and relatively stable end markets should lead to the consistent delivery of compelling Group financial performance. I supported this with the publication of detailed "through the economic cycle" financial targets to capture our ambition and aid investor decision-making.

Revenue

£228.2m

2020: £176.2m

Revenue Growth

29.5%

2020: 2.4%

Adjusted Operating Margin

17.1%

2020: 17.0%

Adjusted Operating Profit

£39.0m

2020: £30.0m

Adjusted Earnings Per Share

20.2p

2020: 15.5p

Covenant Net Debt Ratio

0.7x

2020: 0.4x

Both the original targets and the subsequent performance are summarised below, including 2021. The fact that we have largely achieved or exceeded the targets despite the unprecedented economic disruption of COVID underlines both our structural resilience, as well as our greater long-term potential.

Component	Metric	**Target[1]**	2019 results	2020 results	**2021 results**
Revenue	Total revenue growth	**5 to 10%**	5.0%	2.4%	**29.5%**
Profit	Adjusted Operating Margin %	**15 to 20%**	10.5%	17.0%	**17.1%**
Cash	Adjusted Operating Cash Conversion %	**>100%**	151.1%	113.7%	**89.7%**
	Adjusted Free Cash Flow Margin %	**10 to 15%**	11.0%	12.9%	**8.2%**
Dividends	Earnings payout ratio	**40 to 60%**	7.8%	40.0%	**40.0%**
Capex	Net capital expenditure as % revenue	**3 to 4%**	2.1%	2.5%	**2.8%**
Capital structure and returns	Return on Capital Invested %	**30 to 40%**	21.8%	35.7%	**36.4%**
	Covenant Net Debt[2] : Covenant EBITDA	**1.0 to 2.0x**	1.0x	0.4x	**0.7x**
	Adjusted Net Cash Flow as % revenue	**5.0%**	8.2%	8.6%	**2.8%**

1. Expected performance range through the economic cycle for the existing business excluding the impact of future acquisitions.
2. Net debt excludes IFRS 16 Finance Leases for bank purposes.

The table above highlights that 2021 was a truly outstanding year. We grew revenue by 29.5%. New business wins, favourable channel access and our ability to maintain excellent product availability when competitors were impacted by supply chain disruption allowed us to make the most of undoubtedly favourable market conditions. Expanding our Adjusted Operating Margin in a year in which annualised input cost inflation was greater in quantum than 2019's entire Adjusted Operating Profit illustrates quite how far we have come in maximising profit and managing risk. Cash conversion was understandably held back slightly by extra investment in inventory to minimise supply chain volatility. However, its impact on overall cash generation was limited by faster cash collection from customers, leaving the business with only slightly increased Covenant Net Debt leverage despite money spent on acquisitions.

The original financial targets were set as performance ranges to be maintained throughout the economic cycle. We do not want the upper limits of the range to inadvertently suggest a limit to our ambition, so the targets have been reset largely as minimum performance expectations to better capture our proven resilience in tough economic times and our unlimited long-term potential.

Component	Metric	Old target[1]	**New target[1]**
Revenue	Total revenue growth	5 to 10%	**>5%**
Profit	Adjusted Operating Margin %	15 to 20%	**>15%**
Cash	Adjusted Operating Cash Conversion %	>100%	**>100%**
	Adjusted Free Cash Flow Margin %	10 to 15%	**>10%**
Dividends	Earnings payout ratio	40 to 60%	**40 to 60%**
Capex	Net capital expenditure as % revenue	3 to 4%	**3 to 4%**
Capital structure and returns	Return on Capital Invested %	30 to 40%	**>30%**
	Covenant Net Debt[2] : Covenant EBITDA	1.0 to 2.0x	**1.0 to 2.0x**
	Adjusted Net Cash Flow as % revenue	5.0%	**>5.0%**

1. Minimum performance for the existing business excluding the impact of future acquisitions.
2. Covenant Net Debt excludes IFRS 16 Finance Leases for bank purposes.

Chief Financial Officer's Review continued

Summary of reported results

Reported profit for the year reduced by £0.8m to £27.1m. Whilst the Group delivered strong conversion of revenue growth into underlying profit growth, this progress was held back by restructuring costs incurred in Germany and France, as explained below, and changes in the fair value of our hedging portfolio. Weakening of the US dollar versus Chinese renminbi increased the value of our hedges in 2020, creating a one-off profit in that year, and this was not repeated in 2021.

Summary results (£m)	**Reported 2021**	Reported 2020
Revenue	**228.2**	176.2
Operating profit	**35.3**	29.6
Profit before tax	**33.3**	33.6
Taxation	**(6.2)**	(5.7)
Profit for the year	**27.1**	27.9

Adjusting items

Operating profit was £35.3m in 2021. Adjustments of £3.7m were excluded from Adjusted Operating Profit of £39.0m.

The Adjustments were as follows:

- Restructuring costs from the closure of operations in Germany and France: £2.3m, of which £0.5m will be paid in cash, delivering annual savings of £0.8m
- Amortisation of acquired intangibles and related acquisition costs: £1.4m, of which £0.7m was paid in cash

Income statement

Revenue

Revenue increased by £52.0m (29.5%) to £228.2m. The primary drivers are shown below:

Revenue bridge:	£m	Change %
2020 revenue	176.2	
Like-for-like increase[1]	56.9	32.3%
Acquisition	3.6	2.0%
2021 in Constant Currency[2]	**236.7**	**34.3%**
Currency movements	(8.5)	(3.6%)
2021 revenue	**228.2**	

1. Like-for-like revenue increase excludes the impact of currency movements and acquisitions, see footnote 2 for currency calculation.
2. 2021 revenue translated at 2020 exchange rates.

Like-for-like growth of 32.3% was significantly greater than that of the market. Our ability to continually deliver competitively priced, high quality products even amid COVID-driven disruption was rewarded with new tender wins with our most strategic customers and in our most profitable product categories. Our overweight positions with multi-channel capable distributors who themselves outperformed the market during COVID was also beneficial. The UK Residential RMI market, consisting of both consumer and professional renovation activity and into which approximately two-thirds of our sales are made, enjoyed a very strong start to the year as people continued with COVID-driven home improvement projects. Whilst this activity naturally moderated as the year progressed, it was compensated by increasing activity overseas and within the UK Non-Residential RMI market. Consequently, like-for-like growth of 36% versus a pre-COVID 2019 comparative was maintained throughout the year, highlighting the benefits of our increasingly diversified sources of growth.

We group our customers into the following sales channels:

- **Retail:** Distributors serving consumers only, including DIY sheds, pure-play online retailers and grocers
- **Hybrid:** Distributors serving both consumers and professionals, typically with multi-channel service options
- **Professional Wholesale:** Distributors serving professionals only, largely via a branch network
- **Professional Projects:** Sale agreed by Luceco direct with professionals, but fulfilled via Professional Wholesale

Performance by sales channel was as follows:

Revenue by sales channel:	**2021 £m**	% of total	Change v 2020 %	Change v 2019 %
Retail	**83.0**	35.1%	37.9%	38.2%
Hybrid	**59.8**	25.3%	39.4%	74.1%
Professional Wholesale	**59.3**	25.0%	24.7%	26.5%
Professional Projects	**34.6**	14.6%	34.2%	13.2%
Total in Constant Currency	**236.7**	100.0%	34.3%	37.7%
Currency impact	**(8.5)**			
Total revenue	**228.2**		29.5%	32.6%

Our growth in 2020, early in the pandemic, was heavily skewed towards the Hybrid channel, which consists of multi-channel capable distributors that remained open and gained share when traditional branch networks within the Professional Wholesale channel were forced to close.

It is notable that our growth in 2021 became more broadly based. Fewer COVID restrictions allowed Retail, Hybrid and Professional Wholesale customers to make the most of buoyant Residential RMI market conditions. We supplemented this with new business wins, particularly within the Wiring Accessories category, as competitors who lack our vertically integrated model struggled to meet healthy demand. We also benefited from our leadership of the DIY/small electrical contractor market, where market conditions were at their most buoyant.

2021 also saw the return to growth of our Professional Projects channel, largely consisting of LED projects sold into commercial and institutional settings, as fewer COVID restrictions encouraged business owners to spend discretionary capex. A sales decline of 6.3% versus a pre-COVID 2019 comparative in the first half was replaced by growth of 10.3% in the second half.

2021 also brought a broader base of growth overseas, particularly in the second half, as international markets increasingly benefited from their vaccine rollout programmes:

Revenue by geographical location of customer:	**2021 £m**	2020 £m	Change %
UK	**181.2**	140.3	29.2%
Europe	**24.0**	18.4	30.4%
Middle East and Africa	**7.6**	7.0	8.6%
Americas	**10.6**	6.7	58.2%
Asia Pacific	**4.8**	3.8	26.3%
Total revenue	**228.2**	176.2	29.5%

UK revenue grew by 29.2% in the period, which was broadly based by channel, as described above.

Chief Financial Officer's Review continued

Income statement continued

Revenue continued

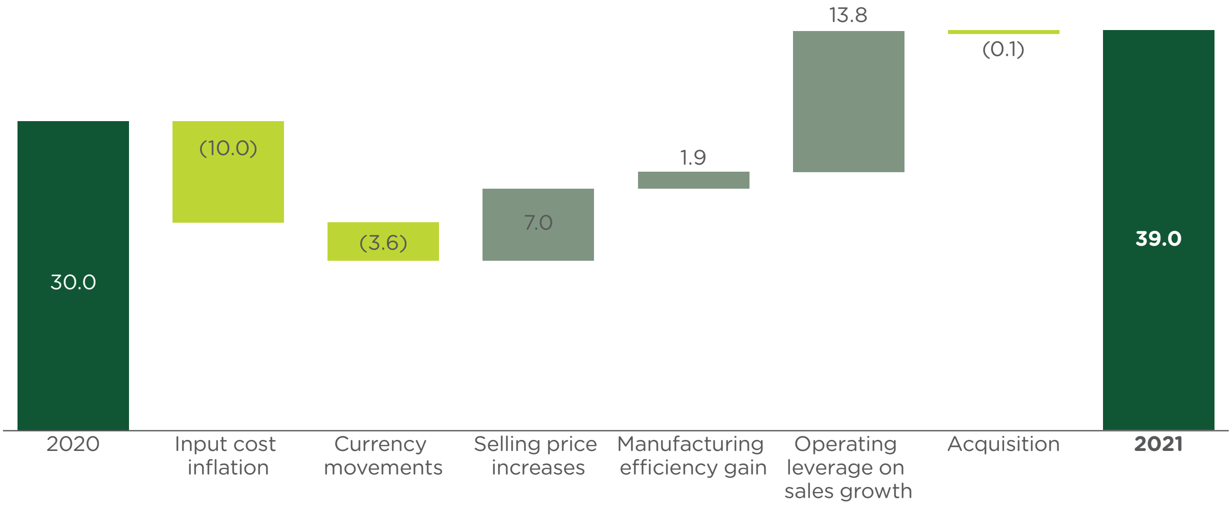
European growth emanated from our rapidly expanding Southern European business based in Barcelona, which moved into a new distribution facility in the year to sustain future growth. Our operations in France were subsumed therein to share resources and save cost. Our progress in Southern Europe contrasted with that of our Northern European business which incurred an Adjusted Operating Loss of £0.5m in the year. We announced the closure of this business towards the end of the year, with an associated one-off cost of £1.6m related to asset write-downs and stock provisions. We will cease operations there in the first half of 2022, allowing resources to be redeployed to better effect elsewhere.

Revenue in the Americas grew significantly in the period following strong growth in our Mexican business and increased sales of Portable Power products to US DIY chains. Sales in the Middle East and Africa recovered strongly from a disappointing start to the year as a more active global economy drove up energy prices and therefore appetite for regional construction projects in the Gulf states. Growth in Asia Pacific benefited from market share gains with retailers in Thailand and the Philippines.

Profitability

Adjusted Operating Profit grew by £9.0m to £39.0m. Adjusted Operating Margin increased by 0.1 percentage points to 17.1%. This was delivered by strong revenue growth, tight control of overheads and the close management of rapid input cost inflation, as follows:

Adjusted Operating Profit (£m)



Input cost inflation added £10.0m to the cost base in 2021, the majority of which arose from industry-wide increases in sea freight and copper prices. Strengthening of the Chinese renminbi, the currency in which the Group makes most of its purchases, increased our cost base in 2021 by a further £3.6m. Both factors therefore produced a cost headwind totalling £13.6m in the year and at current prices they would increase our annualised cost base by £25.0m, with the remaining £11.4m to flow through in later years as hedging arrangements and inventory cover unwinds.

We combated this input cost inflation with gradual selling price increases and manufacturing efficiency gains totalling £8.9m. Whilst this left a net profit headwind of £4.7m in 2021, we expect to close this gap in full as selling price updates already in place deliver their full annualised benefit in 2022 and beyond. We therefore expect our Adjusted Gross Margin from now on to exceed the 35.8% delivered in the second half of 2021 and for it to return to over 40% in time.

The net profit headwind from cost inflation and currency in 2021 was more than compensated by very fulsome conversion of rapid top line growth into bottom line profit. It is notable that the Group has added no additional overheads since 2019 to support £52.5m of additional organic sales. This reflects highly synergistic sources of growth and tight control of discretionary spending.

The net result was 30% growth in Adjusted Operating Profit and a 0.1 percentage point expansion in Adjusted Operating Margin to 17.1% in 2021 – an excellent outcome in a tumultuous year.

Inflationary trends stabilised in the final quarter of 2021 compared to the second and third quarters, but have resumed in the wake of recent tragic events in Ukraine. We are mindful of the impact that real wage deflation could have on consumer spending, including home improvement, and therefore remain vigilant.

The table below provides a more detailed view of the currency impact in the year:

	Adjusted 2021 actual[1]	Currency impact		Adjusted 2021 at Constant Currency[2]	Constant Currency variance to 2020		Adjusted 2020 actual
	£m	£m	%	£m	£m	%	£m
Revenue	228.2	(8.5)	(3.6%)	236.7	60.5	34.3%	176.2
Cost of sales	(143.5)	5.1	(3.4%)	(148.6)	(42.6)	40.2%	(106.0)
Gross profit	**84.7**	**(3.4)**	**(3.9%)**	**88.1**	**17.9**	**25.5%**	**70.2**
Gross margin %	37.1%		(0.1ppts)	37.2%		(2.6ppts)	39.8%
Operating costs	(45.7)	(0.2)	0.4%	(45.5)	(5.3)	13.2%	(40.2)
Operating profit	**39.0**	**(3.6)**	**(8.5%)**	**42.6**	**12.6**	**42.0%**	**30.0**
Operating margin %	17.1%		(0.9ppts)	18.0%		1.0ppts	17.0%

1. Year ended 31 December 2021 translated at 2021 average exchange rates.
2. Year ended 31 December 2021 translated at 2020 average exchange rates.

Operating costs

Adjusted Operating Costs increased by £5.5m to £45.7m. £1.7m of the increase relates to DW Windsor, acquired by the Group in October 2021. £0.8m relates to extra delivery costs from much increased sales. £0.8m relates to increased share-based payment charges and National Insurance payable on exercised options. The remaining £2.2m relates to a number of smaller increases within professional fees, travel and entertainment as well as strategic investment in IT and marketing.

2022 is likely to see a circa £2.0m increase in National Insurance costs as particularly valuable employee share options reach maturity. The final amount will depend upon to what extent, and at what price, option holders exercise their awards. Option costs will then reduce in subsequent years.

Net finance expense

Covenant Net Debt increased by £14.4m to £30.6m, largely reflecting the acquisition of DW Windsor for £16.3m in the year. Adjusted Net Finance Expense increased by £0.3m to £1.6m, reflecting the increased indebtedness and arrangement fees payable on our newly increased banking facilities which now provide access to up to £120m of borrowing capacity.

Another year of strong cash generation enabled the Group to maintain a strong balance sheet, with Covenant Net Debt leverage in the year at 0.7x Covenant EBITDA despite cash spent on acquisitions.

Taxation

The effective tax rate on Adjusted Profit Before Tax increased slightly by 0.2% to 16.6% in 2021.

The Group's mix of profits by country would indicate a typical effective tax rate of circa 19.5%. We outperformed this in 2021 because of work done over recent years to maximise tax incentives in China. As a result, it is reasonable to expect the Group to maintain an effective tax rate below 19% in 2022 until a higher UK corporation tax rate takes effect in 2023.

Chief Financial Officer's Review continued

Adjusted Free Cash Flow

Adjusted[1] Free Cash Flow (£m)	**Adjusted[1] 2021**	Adjusted[1] 2020
Operating profit	**39.0**	30.0
Depreciation and amortisation	**6.7**	6.1
EBITDA	**45.7**	36.1
Changes in working capital	**(12.6)**	(3.1)
Other items	**1.9**	1.1
Operating cash flow	**35.0**	34.1
Operating Cash Conversion[2]	**89.7%**	113.7%
Net capital expenditure	**(6.4)**	(4.4)
Interest paid	**(1.7)**	(1.3)
Tax paid	**(8.1)**	(5.7)
Free cash flow	**18.8**	22.7
Free cash flow as % revenue	**8.2%**	12.9%

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 Operating Profit.

The Group converted 89.7% of Adjusted Operating Profit into Adjusted Operating Cash Flow, slightly short of its target of >100%. This reflects prudent investment in additional inventory to maintain service and mitigate cost inflation. Delivery times from China increased by 38 days to 135 in 2021, necessitating a 27 day increase in inventory cover to 134 days. The resulting £14.6m organic increase in inventory was partly funded by collecting cash from customers on average 11 days quicker – a great performance in the circumstances. The Group expects healthy cash conversion in 2022 as supply chain stability allows stock to be gradually reduced.

The Group delivered strong Adjusted Free Cash Flow of £18.8m (2020: £22.7m). This represented 8.2% of revenue (2020: 12.9%), consisting of a disappointing margin of 4.6% in the first half and 11.5% in the second half as supply chains stabilised.

Capital expenditure

The Group's net capital expenditure consists of capitalised product development costs and the purchase of physical assets. It increased by £2.0m to £6.4m (2020: £4.4m) and equalled 2.8% of revenue (2020: 2.5%), marginally below our target range of 3-4%. We continue to see opportunities to invest in low risk, high return automation projects in our Chinese production facility which we intend to accelerate now that COVID-19 driven disruption appears to be reducing.

Capital structure and returns

Return on capital

Return on Capital Invested is broadly consistent with the prior year at 36.4% (2020: 35.7%) thanks to strong profitability and tight control of capital expenditure 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.

Acquisitions

DW Windsor Group was acquired for £16.3m in cash in October 2021 with no deferred or contingent consideration. Based in Hertfordshire, UK, it operates through two business units: DW Windsor and Urban Control.

DW Windsor is a leader in the design and UK-based manufacture of high quality outdoor and streetlighting equipment for the specification market, selling mainly to UK local authority end customers. It is highly complementary to the Group's Kingfisher Lighting business, which supplies non-public sector projects, and we are excited about the opportunity to offer the expanded product portfolio to both customer groups.

Urban Control provides network solutions for infrastructure assets facilitating data collection and control, including the monitoring and control of streetlights.

For the unaudited 12-month period ended 30 September 2021 (adjusted for non-underlying items) DW Windsor Group generated revenue of £23.9m, operating profit of £1.9m and EBITDA of £2.3m. It generated an Adjusted Operating Loss of £0.1m in the period from the date of acquisition to 31 December 2021 in what is a seasonally slow period for the business. The integration business is on track and we are beginning to exploit product development, sales and sourcing synergies.

Capital structure

Adjusted Free Cash Flow of £18.8m (2020: £22.7m) was used to fund the acquisition of DW Windsor Group outlined in the section above. The business continues to consistently generate ample funds to support a dividend at the 40% payout level and to fund M&A activity.

	2021	2020	Change
Reported net debt	**£38.1m**	£18.3m	108.2%
Less: IFRS 16 Finance Leases	**£(8.2)m**	£(2.8)m	192.9%
Finance leases – pre-IFRS 16	**£0.7m**	£0.7m	–
Covenant Net Debt	**£30.6m**	£16.2m	88.9%
Covenant Net Debt : Covenant EBITDA	**0.7**	0.4	0.3

At 31 December 2021, the Group's non-utilised facilities totalled £43.2m, with an option (subject to lender consent) to add a further £40.0m under the terms of its new syndicated bank facility signed in October 2021. The facility matures in September 2024 with two subsequent one-year renewal options. The Group therefore has significant capacity to fund future acquisitions.

The Company's covenant position and headroom at 31 December 2021 was as follows:

2021 full-year covenant	Covenant	Actual	Headroom
Covenant Net Debt : Covenant EBITDA	3.0 : 1	0.7 : 1	Covenant Net Debt headroom: £110.1m[1]
			Covenant EBITDA headroom: £36.7m
Covenant EBITDA : Adjusted Net Finance Expense	4.0 : 1	29.3 : 1	Covenant EBITDA headroom: £40.5m
			Net finance expense headroom: £10.1m

1. Headroom with increased facility. Current facility headroom is £43.2m.

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

	2021	2020
Adjusted[1] Earnings Per Share (pence)	**20.2**	15.5
Covenant Net Debt : Covenant EBITDA (times)	**0.7**	0.4
Adjusted[1] Free Cash Flow (£m)	**18.8**	22.7

1. Note 1 in the notes to the consolidated financial statements provides an explanation of the Group's alternative performance measures.

Capital structure and returns continued

Capital structure continued

The Group complied with its covenant requirements throughout the year with significant headroom on all metrics. The Group has conducted a full going concern review and this is outlined on page 117 of the Annual Report and Accounts. The Group has a very strong balance sheet and significant facility headroom under even a realistic severe but plausible downside scenario. No covenant breaches occur in any of our severe but plausible downside scenarios, all of which are before any mitigating actions, illustrating our financial resilience.

Dividends

The Board is recommending to pay dividends equal to 40% of earnings. It is therefore proposing a final dividend of 5.5p per share which, with the interim dividend of 2.6p per share, is a full-year dividend of 8.1p. The final dividend will be paid on 20 May 2022 to shareholders on the registrar on 8 April 2022.

Operating segment review

The revenue and profit generated by the Group's 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		
	2021	2020	Change	**2021**	2020	Change
Revenue	**£104.5m**	£81.3m	28.5%	**£104.5m**	£81.3m	28.5%
Contribution profit	**£36.3m**	£29.5m	23.1%	**£36.3m**	£29.5m	23.1%
Contribution margin %	**34.7%**	36.3%	(1.6ppts)	**34.7%**	36.3%	(1.6ppts)
Operating profit	**£29.2m**	£23.0m	27.0%	**£29.2m**	£23.0m	27.0%
Operating margin %	**27.9%**	28.3%	(0.4ppts)	**27.9%**	28.3%	(0.4ppts)

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, generating 46% of Group revenue, with a brand established over 80 years ago.

We continue to significantly outperform in this category, delivering segmental revenue growth of 28.5% since 2020 and 49.1% since 2019.

We have gained an increasing market share over an extended period thanks to our advantaged business model. However, the accelerated outperformance in the last two years has been driven by: business wins with strategic accounts, strong demand in the circuit protection category due to regulatory changes, and superior product availability, principally thanks to our vertical integration, in the second half's recovering market.

Despite increasing input prices and supply chain restraints, Adjusted Operating Margin reduced only marginally by 40 basis points.

LED Lighting

	Adjusted[1]			Reported		
	2021	2020	Change	**2021**	2020	Change
Revenue	**£63.2m**	£49.5m	27.7%	**£63.2m**	£49.5m	27.7%
Contribution profit	**£7.4m**	£5.7m	29.8%	**£4.1m**	£5.3m	(22.6%)
Contribution margin %	**11.7%**	11.5%	0.2ppts	**6.5%**	10.7%	(4.2ppts)
Operating profit	**£3.4m**	£2.8m	21.4%	**£0.1m**	£2.4m	(95.8%)
Operating margin %	**5.4%**	5.7%	(0.3ppts)	**0.2%**	4.8%	(4.6ppts)

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 and it represents 28% of Group revenue.

The Group has developed a wide range of products which it sold initially through UK channels and subsequently through its wider overseas network. It has built a circa £63m revenue business in seven years, largely organically but bolstered by the acquisition of Kingfisher Lighting in 2017 and DW Windsor in 2021.

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.

Segmental growth accelerated in the second half of the year with revenue of £36.3m versus £26.9m in the first half of 2021. This was due to an increase in LED retrofit activity as outlined in the sales channels commentary above.

Portable Power

	Adjusted[1]			Reported		
	2021	2020	Change	**2021**	2020	Change
Revenue	**£60.5m**	£45.4m	33.3%	**£60.5m**	£45.4m	33.3%
Contribution profit	**£10.3m**	£7.5m	37.3%	**£9.9m**	£7.5m	32.0%
Contribution margin %	**17.0%**	16.5%	0.5ppts	**16.4%**	16.5%	(0.1ppts)
Operating profit	**£6.4m**	£4.2m	52.4%	**£6.0m**	£4.2m	42.9%
Operating margin %	**10.6%**	9.3%	1.3ppts	**9.9%**	9.3%	0.6ppts

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 and this represents 26% of Group revenue.

Revenue in the period was 33.3% higher than the prior year and 26.6% higher than 2019 as the Group won new business with retailers in Europe and the USA. Our use of outsourced manufacturing and Free on Board ("FOB") delivery means low overhead costs, allowing good conversion of the sales growth into profit, offsetting input cost inflation. Adjusted Operating Margin improved from 9.3% in the prior year to 10.6% in the current year.

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 have 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 66 and 67 and the Group's Going Concern Statement can be found on page 117.

MATT WEBB

Chief Financial Officer

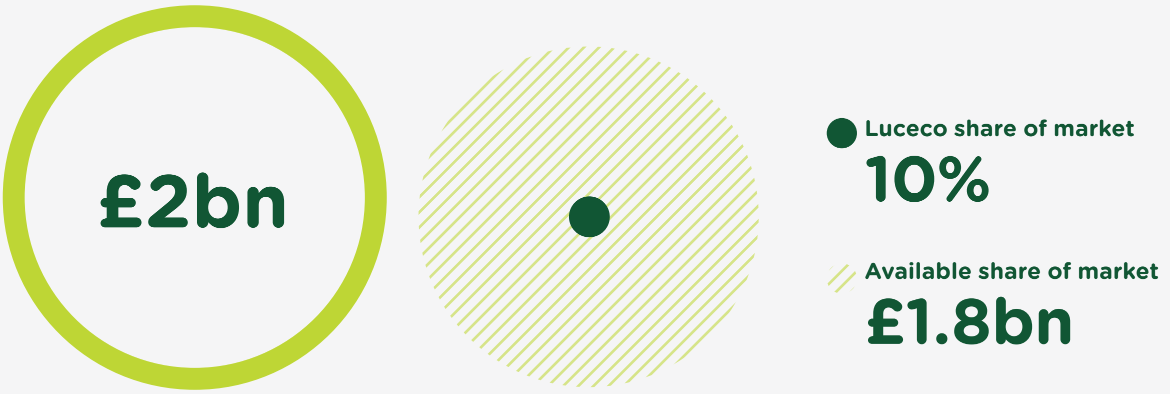
22 March 2022

Our Attractive Markets

We operate in attractive markets, with healthy and stable historic growth that is poised to benefit from future decarbonisation efforts.

Total addressable market

Within the Group's existing product segments, it has a 10% market share of its currently addressable market of £2bn in the UK, demonstrating its strong foothold but also highlighting significant headroom for growth. The total value of electrical products sold to UK professional installers is £3.5bn, demonstrating Luceco's opportunity to sustain growth through expansion of its product range.



Growing faster than GDP

There are a number of factors explaining why our markets are growing faster than GDP. In addition to our fast-growing markets, Luceco itself is outperforming, exhibiting stronger growth than the sector and its peers.

House prices and transactions

A limited stock of new homes, particularly in the UK, drives house price appreciation and existing home renovation, both of which sustain demand for our products within repair and remodel projects.

Hybrid working

Significant shift towards hybrid working post-COVID is driving increased residential renovation, as well as the reconfiguration of the commercial estate.

Increasing customer demands

Rising living standards and design requirements are resulting in demand for electrical products with greater form and function, adding to category value.

EV market opportunity

What's happening?

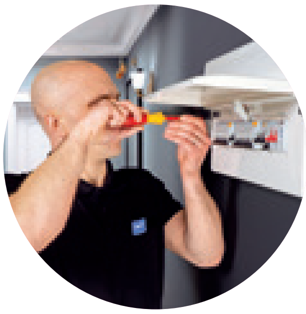
The decision by the UK Government to ban the sale of new petrol and diesel vehicles from 2030 is accelerating adoption of electric vehicles. We expect EV charging will occur at home or the workplace, creating a £500m market for private realm charging equipment in the UK by 2025. We expect most to be installed by qualified electricians, who already use our wider product range and frequent our sales channels.

Our response

We launched our range of lower-power "Mode 2" chargers in 2021, followed by higher-power "Mode 3" chargers in 2022. We are focused on establishing our share of the private realm EV charger OEM market.

Outlook

We are excited by the potential of this market, both in the UK and abroad. Growth in this category will enable us to achieve £100m of revenue from low carbon products by 2025.



Labour and skills shortage in the trade shifts value to the product

There is often a shortage of qualified electrical installers within the markets we operate in. This places an increasing premium on high quality, reliable and easy-to-install products, which we are well positioned to command.

Regulatory change

The electrical industry undergoes frequent regulatory changes. These are often designed to improve safety or product efficiency and result in both the renewal of installations and increases in value of the electrical products used within the installation.

Technology change

Smart home technology has increased rapidly with a growth in automation of monitoring and controlling of lighting, climate and appliances.

Consumers are increasingly demanding greater control over their wiring devices and lighting, increasing the value of both categories.

ESG

The electrification of household energy and transport is a key driver of future growth within the electrical products industry, supported by specific regulatory changes such as phasing out the sale of new gas boilers and internal combustion vehicles over the coming decade.

Our Advantaged Business Model

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

Competitive advantage

High quality, low cost, vertically integrated manufacturing:

Our advantaged business model has enabled us to achieve stronger-than-market growth. During the pandemic, the agility we have through our vertically integrated manufacturing model has proven its worth, allowing the Group to withstand supply chain disruption.

We had another year of record output from our manufacturing plant in China and ownership and responsiveness of this facility enabled sales growth in a challenged year.

Strong product development:

Despite the challenging market backdrop, we maintained our focus on innovative product development in 2021.

New product launches in the year included 30W Type-C USB sockets, providing our customers with the most powerful and fastest-charging USB wall sockets.

We also increased our presence in smart home systems, launching Luceco Smart!

We have a strong pipeline of product development and new launches in 2022.

Strong, well invested and expandable brands:

Our brands have a clear meaning within our loyal customer base. They stand for thoughtful design and high quality at a competitive price point. We use product development to extend our brand equity into adjacent product categories.

Entrepreneurial, can-do culture:

Our culture was critical to the success we achieved last year. Our "can-do", customer-centric culture allowed us to quickly adapt our manufacturing and inventory, fulfilment and prices, all of which enabled us to tackle global supply chain disruptions effectively.

How we add value

Design

- We are the innovators within the product categories we serve. Innovation allows us to up-sell and improve profitability
- We bring new ideas to market quickly
- Our designs offer great quality at a great price
- Our designs start with the customer in mind

Fulfil

- Our supply chain:
  - Is flexible to customer needs
  - Offers high outbound service levels
  - Maintains a breadth of inventory close to the customer
  - Uses the best available technology
  - Offers products as part of a solution

Underpinned by our culture

Our culture facilitates delivery of the above

Make

- We operate a vertically integrated manufacturing model
- Our production output is agile, particularly during COVID-19
- Our facilities are well invested, allowing us to make high quality, low cost products
- We have long-established OEM partners
- Our customers know where our products come from and the conditions in which they are made

Market

- We have been serving our largest customers for many years
- We have a highly skilled and experienced sales team
- We operate in diverse but synergistic sales channels
- We invest in our digital presence and estate
- We invest in the next generation of electrical contractors

Outcomes

People:

1,642
Number of employees

Customers:

1,907
Number of customers

Suppliers:

>1,000
Key suppliers

Shareholders:

40-60%
Annual dividend payout

Communities:

Actively supporting
training of electrical contractors

Environment:

25%
Revenue from low carbon products

Customer-driven
We design products with our customers in mind
We continually improve their experience

Team-focused
We provide talented people with great opportunities
We reward achievement

Bold and innovative
We think differently
We move quickly
We trust each other to deliver

Principled
We do what we say
We do what is right
We never compromise on safety

Business Model in Action

Our work for customers reflects every aspect of our integrated business model, adding value throughout the customer journey by providing clear quality and cost advantages for our customers and rewarding our people, partners and shareholders.

Our innovative and bespoke design work, utilising our superior products, is well illustrated through Luceco's lighting upgrade project at Trafford General Hospital in Greater Manchester in 2021.

NHS
Manchester University
NHS Foundation Trust

Project scope

Trafford General Hospital, an existing client, selected Luceco to work alongside its architect and contractor partners to update lighting across several wards in its busy NHS hospital. Our previous project had demonstrated the quality of our work, built a strong relationship with the customer, and led to this larger, more complex opportunity. The project required the complete redesign and installation of lighting across patient accommodation and clinical working areas, nurses' stations and rest areas.

Design challenges

Working in a high intensity, critical environment provides unique challenges for any design team. Patients have very particular needs, and the primarily elderly patients at Trafford, including patients with dementia, meant that patient and clinician welfare was a key priority for our design team.

Customer outcomes

Our culture and team ethos supported the delivery of an exceptional outcome for the hospital and its patients.

- Our team delivered a tangible improvement to patient safety, experience and wellbeing, resulting in fewer trip hazards, lower levels of confusion amongst the residents, lower incidents of disorientation and a more comfortable and effective working environment for clinical staff and carers
- We achieved significant energy and cost efficiencies. The switch from fluorescent to LED lighting almost halved the energy needed and the introduction of our wireless controls resulted in further efficiencies. Absence detection prevents the lights being on at all times, reducing usage

Design

Design at Luceco is customer led, and our project at Trafford had the unique opportunity of providing a safer and more comfortable environment for vulnerable and elderly dementia patients within a hard-working NHS hospital.

- Bespoke designs and shapes for all lighting created, to maximise the available working space
- Nurses' stations designed to provide both high and lower-level lighting for working
- Two-stage lighting fitted to patient beds, providing patients with reading and examination lights
- Wireless controls introduced to enable adjustments to lighting levels throughout the day and night, ensuring patients did not become disorientated
- Uniform lighting in rooms and corridors provided which is essential to reduce vestibular impairment, reducing patient dizziness and imbalance
- All regulations followed stringently during the design phase which included the Department of Health's guidance on lighting in hospitals, CIBSE guidance and the hospital's own criteria

Make

We operate a fully-owned, well-invested and virtually-integrated manufacturing facility which provides us with certainty over product supply and greater control over cost.

- We endeavour to support local economies which results in many benefits; it supports local jobs and communities and also reduces carbon emissions as products only need to be transported once
- The Trafford products were sourced directly from our distribution centre in Telford and the electrical contractor ordered additional products from a local wholesaler in Manchester, supporting our stockist route to market

Market

Our experienced team works hard to develop strong relationships with existing customers, mechanical and engineering contractors, electrical contractors and wholesalers. Maintaining these relationships is paramount to our business model; it means we win more business and it helps limit costs and protect margins.

- Our track record having already completed a successful installation at Trafford General Hospital meant that this project ensured consistency and continuity for the customer
- Luceco has since completed more projects in the same hospital, upgrading lighting in two operating theatres with a further two more future projects planned

Fulfil

Having control over our supply chain is the final critical piece of our model.

- By sourcing the products directly from our Telford distribution centre, we had access to stock with no delays from COVID-related supply chain issues
- Investment in smart technology at Trafford improved the experience for the end users. We trained hospital employees to use the tablet-controlled lighting systems and offered ongoing support with remote log ins
- Our centrally controlled software highlights inefficiencies in the lighting design giving us visibility to improve the design and implement energy-saving solutions at the hospital

Delivery facilitated by our 'can-do' culture and team:

Jay Taylor
Lighting Designer

Richard Horton
National Sales Manager

Elizabeth Beattie
Supply Chain Planner

Strategy

Our strategic priorities consist of three pillars: Grow, Innovate and Sustain.

Grow

Luceco has a proven track record of growth. Since 2000, we have grown our sales twice as fast as the UK market and supplemented this growth by launching our successful business model overseas. We have leading positions of scale in our key UK end markets, and yet have £1.8bn of share still to take in the markets we currently address. Our strategy is to seize this opportunity.

Our focus over the last three years has been to maximise our most profitable source of growth, namely the sale of all existing products to all existing customers through our well-developed UK infrastructure, with a particular focus on growing our share of sales to professional installers. This has proved successful as customers have rewarded our structural ability to deliver, accentuated during the pandemic, with new business wins that have been very beneficial to profit.

We have continually expanded our product range over recent years, increasing the size of our addressable market, with a focus on selling more products installed by electrical contractors. We estimate the total market for goods sold to electrical contractors in the UK totals £3.5bn, providing additional capacity for future growth.

We have used our balance sheet to accelerate share gains with professional installers with the acquisition of DW Windsor, which is highly complementary to our existing specified UK lighting offering.

Our continual re-appraisal of growth opportunities led us to invest to accelerate growth in our Southern European business in the year.

Innovate

We use market-leading innovation to seize our growth opportunities. We use it to up-sell higher function, higher margin devices in existing product categories, and to enter new product categories that can be sold to existing customers.

For instance, we were the first in the UK market to add USB functionality to mains sockets. Over the last seven years, we have added £16m to revenue by up-selling USB sockets to existing wiring device customers, in addition to selling to new customers. Likewise, we have added £26m to revenue over the same time period by entering the LED lighting market and cross-selling our range to wiring accessories customers.

Our push into new product categories, with a focus on those that are professionally installed, was accelerated in 2021 by the launch of both private realm EV chargers and commercial power products. The market potential of both products totals £700m in the UK alone and we are very well positioned to take our share of this opportunity.

Our Innovate strategy covers both the products that we design and the services that accompany them.

1. Product

We constantly innovate to meet customer needs. In recent years we have progressively added to our range of products with "smart home" capability. We have also introduced products with greater ESG credentials such as EV chargers. Our customer-driven, bold and innovative culture is embodied within the products we develop.

2. Service

We continually innovate the services that accompany our products to improve the customer experience and sell our products as part of a solution. We have well-developed lighting installation design teams to help specifiers turn their concept into a reality. We offer simple online lighting design tools for contractors. We offer comprehensive online training modules for installers via our recently launched Luceco Academy portal. We are renovating our digital estate to provide customers with online access to specification materials and to transact digitally.

Sustain

Our Sustain strategy has two objectives: 1) invest to sustain our competitive advantage; and 2) to make an increasing contribution to society's sustainability goals. Over recent years, we have stepped up investment in our business infrastructure to provide a platform for long-term growth.

We are focused on providing products to customers that meet their increasing environmental requirements.

We aim to sustain advantage through long-term investment in:

1. People

Our products are designed, made, distributed and installed by people. We invest to ensure our talented team have the skills they need to exceed customer expectations. We call them our Luceco Heroes. We also invest in training content to ensure our professional installers have the skills they need to do the job right.

2. Processes

We have invested in people, processes and equipment at our manufacturing facility in China to make it the best facility in the world for manufacturing British Standard wiring devices. We have invested in infrastructure, equipment and IT at our distribution centres to improve customer service levels and lower fulfilment cost.

3. Planet

We also aim to lead our industry by lowering our environmental footprint, and in doing so help our customers to achieve the sustainability targets they may have for their supply chain partners.

Strategy in action page 34

Strategy in action page 36

Strategy in action page 38

Grow

We maximise sales of both existing and new products to an increasing customer base as well as growing market share through M&A.

In addition to growing organically, last year we progressed our strategy to grow market share through M&A by acquiring DW Windsor Group ("DWWG"), a complementary exterior lighting and technology provider. DWWG is an established business with a recognised heritage, brand and loyal customers in the UK public realm lighting market, which we aim to expand as part of our growth strategy.

DWWG operates two businesses: DW Windsor and Urban Control.

DW Windsor is a leader in the design and manufacture of high quality outdoor and streetlighting equipment for the specification market, selling mainly to UK local authority end customers.

Urban Control provides network solutions for infrastructure assets facilitating data collection and control, including the monitoring and control of streetlights.

DW Windsor is one of the strongest brands in the UK's specification exterior lighting industry with a strong track record of delivery on public sector lighting projects and impressive network technology credentials.

It is highly complementary with the Group's Kingfisher Lighting business, which supplies non-public sector projects, and we are excited about the opportunity to offer the expanded product portfolio to both customer groups.

This acquisition is part of our strategy to use M&A to gain share in the market for electrical products installed by professional contractors.

Case study:

DW Windsor

DW Windsor is an established business with a recognised heritage, brand and loyal customer base

- Leader in the design and manufacture of high quality outdoor streetlighting
- Strong track record of delivery
- Highly complementary with the Group's Kingfisher Lighting business
- £16.3m investment in October 2021

Key stats

29.5%

2021 Group revenue growth

£18.4m

2021 M&A investment

Innovate

We have a strong track record in innovating to grow our business. We bring our innovations to market quickly and are often the architects of change in our industry.

We use simple but deceptively hard to replicate innovation to gain market share and grow the value of the products we sell.

An illustration of this is the double switched mains socket – the mainstay of our Wiring Accessories business.

The basic product has not changed in form or function in decades.

Our strategy over many years has been to use low cost, low risk, high return product development to complement the basic product with a comprehensive range with increasingly sophisticated design and technology.

The graphic below illustrates how this strategy converted the humble mains socket into a stylish household device that has an increasing impact on our customers' daily lives.

The market-leading integration of existing technology from outside our industry into our devices has allowed us to gain share and command a higher price and higher margin for the products we sell.

Year introduced:

1980s
Plastic socket
1x selling price

2004
Metal finish socket
2x selling price

2013
USB-A socket
6x selling price

2017
Wifi extender socket
7x selling price

2019
Smart socket
5x selling price

2021
USB-C socket
8x selling price

Case study:

Mains socket

We have complemented the basic socket with a comprehensive range of design and technology improvements

- The average person now owns 6.5 connected devices
- Our sockets with multiple functions are perfectly suited to the modern home
- Our most sophisticated sockets now deliver a 50% charge in just 30 minutes – 70% faster than standard 5W charging
- Our market-leading technology has allowed us to gain market share and command a higher price

Key stats

2.8%

2021 R&D expenditure

407

2021 New product SKUs

Sustain

We invest across our business to sustain our competitive advantage and to contribute to society's sustainability goals.

We see significant opportunity in the EV charging market, supported by government regulation and a shift in consumer preferences driven by environmental awareness.

Electric car sales are booming despite the pandemic impacting the number of new car sales. In 2021, new car registrations grew just 1%, and were almost 30% on pre-pandemic levels in 2019. However, EVs had their most successful year ever, with **new EV registrations 76.3% higher than the year before** or 190,727 new electric cars being sold. This represents an 12% share of all new cars sold. The significant growth in registrations yet relatively small share of sales highlights the huge opportunity in this space.

Following billions of pounds of investment into new technology by manufacturers, more than 40% of models are now available as plug-ins. Indeed, the shift in customer preference for these new technologies continues apace, with December seeing battery electric vehicles ("BEVs") take a record market share in a non-locked down trading month, accounting for 25.5% of all new registrations.

The UK Government has announced its intention to ban the sale of new internal combustion engine vehicles by 2030, which will lead to greater penetration of EVs. In turn, this increases demand for chargers or Electric Vehicle Supply Equipment ("EVSE") for installation in private residential and workplace parking, a key target market for Luceco.

Last year, we launched Mode 2 EV chargers and we will imminently be launching higher power and smart-technology enabled Mode 3 chargers which will become the mainstay of private realm vehicle charging in years to come. We have high hopes for the EV market opportunity and expect to gain good market share in the medium term.

Cleanest and greenest

As well as signifying future potential revenue growth for Luceco, the trend for increasing sales of EVs will also fulfil our mission – to build a leading portfolio of thoughtfully designed and diligently made products that provide environmentally responsible electrical and lighting solutions to our customers.

Case study:

People engagement

We invest to develop our own people and those who use our products

- Employee satisfaction in the UK increased 4.4% to 90.5% in 2021
- Rollout of new online training portal to sustain employee development during COVID
- Introduction of the Luceco Academy to support professional development within the electrical contractor community
- Headline sponsors of the new eFixx 30 under 30 awards, recognising up-and-coming talent in the electrical industry
- Hybrid working adopted post-lockdown to maintain productivity benefits we have seen from home working whilst ensuring employees remain connected

Key stats

90.5%

2021 UK employee satisfaction

Carbon neutral

2021 Operations

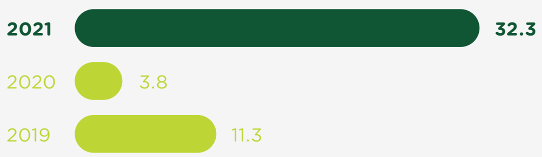
Key Performance Indicators

Grow:

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 the Professional Wholesale channel, e.g. LED Lighting, smart devices and EV charging
- Sell products as part of a solution

Growth percentage (%)



Link to strategy

1

Link to risk

1 2 4 6 7 9

Increase our sales of low carbon products

- Leverage the opportunity presented by electrification and therefore decarbonisation of energy and transportation
- Grow our sales of low carbon products to £100m by 2025

Revenue generated from low carbon products (£m)

Link to strategy

1

Link to risk

1 2 4 6 7 9

Innovate:

Number of new product SKUs

- Sell adjacent products through existing sales channels
- Sell international variants of existing UK products
- Enhance the value of existing categories through innovation and product value-add
- Leverage own manufacturing capabilities and relationships

Number of new product SKUs

Link to strategy

2

Link to risk

3 4 6 7 8

Key to strategy:

1 Grow 2 Innovate 3 Sustain

Research and development expenditure

- Continue to be at the forefront of innovation in our industry
- Progressively add greater technology, such as controls, smart functions and connectivity to the Group's products

Research and development expenditure (£m)

Link to strategy

2

Link to risk

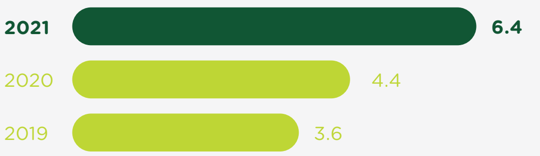
1 6 7

Sustain:

Capital expenditure

- Invest in the agility and efficiency of our vertically integrated manufacturing
- Invest in our fulfilment capabilities
- Invest in our e-commerce offering
- Invest in enabling technology

Capital expenditure (£m)



Link to strategy

3

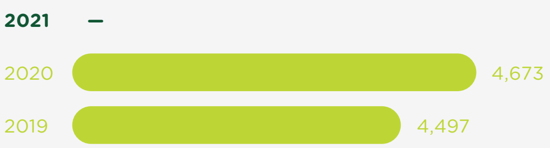
Link to risk

1 2 3 4 5 6 7 8 9

Carbon associated with our operations

- Eliminate or offset Scope 1 and 2 GHG
- Quantify then reduce our Scope 3 GHG
- Set science-based targets

Carbon emissions from operations net of carbon offsets (tCO_2e)



Link to strategy

3

Link to risk

4 8 9

Key to principal risks:

1. Impact of coronavirus
2. Operational concentration risk
3. Customers and products concentration risk
4. Macroeconomic, political and environmental
5. Loss of IT/data
6. Loss of key employees
7. Acquisitions
8. Legal and regulatory
9. Finance and treasury

Environment, Social and Governance

Operating sustainably is a key part of the Group's culture and is reflected within our Purpose, Mission and Strategy; where we have made sustainability a central pillar of the Group's success

JOHN HORNBY
Chief Executive Officer

Sustainability

As set out in the following pages, 2021 has been a further year of progression of our sustainability programme, even against a challenging backdrop resulting from COVID-19 and supply chain constraints. Our product portfolio, combined with our business model and experience, puts us in a strong position to capture future ESG opportunities; however, we recognise there is more to do and we look forward to continuing to progress our sustainability agenda moving forwards.

Leveraging our business model

The nature of the Group's Business Model means we are able to consider and minimise our impact on the environment right through from initial product designs, to how those designs are made, through to how our orders are fulfilled.

Design: Our efficient product designs not only help manage our costs but further enable our customers to enjoy our products knowing they have chosen a more sustainable option.

- As far as possible, we use recycled materials for packaging our products and we are further enhancing our products with increased use of recycled materials, particularly recycled plastics
- Our designers intensely focus on driving down the power consumption of our products using the most efficient designs and technologies

Make: The way we produce our products is a key component in our environmental considerations and will be a significant area of focus as we progress our environmental agenda.

- Emissions arising from production are controlled at source through lean and efficient manufacturing processes which minimise inefficient rework or quality issues
- We ensure wherever possible that the energy used to power our sites is sourced renewably
- We employ a solar PV array at our China manufacturing facility, which delivers 8% of our total electricity consumption
- We obtain high quality carbon offsets, to mitigate emissions we have not yet been able to completely mitigate

Market: The way we build relationships and understanding with our customers means we are not only well positioned to adapt to their changing needs, but also to advise them on their individual requirements.

- Our electric vehicle charging range is expanding and we are excited about the benefits this will have on our customers and society as a whole
- Our experienced project sales team work with the customer to bring ideas they may not have considered, such as absence detection, bringing an end to lights being left on when not required

Fulfil: It has been a challenging year for our teams focused on managing the delivery of our products given current global supply chain constraints, but we are proud to have progressed our environmental agenda even against this backdrop.

- We have invested in a new Warehouse Management System at our Telford site, designed to increase levels of automation as well as minimise waste and inefficiency. Better planning of stock availability has resulted in a significant reduction in the number of deliveries required to fulfil each customer order, lowering associated emissions
- We are reviewing the packaging dimension of all our product ranges not only to reduce packaging, but also to ensure maximum efficiency when shipping
- We continue to focus on Free on Board sales, which significantly reduce the miles over which our products travel to customers

Sustainability policies

Our approach to managing the Group's environmental responsibilities is set out in our Code of Conduct and more detail can be found in the Ethical business section on page 53.

Our Code 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.

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 impact on the environment
- Reduce our environmental impact

Environment, Social and Governance continued

Sustainability continued

Climate change

As one of the biggest challenges that the world currently faces, climate change represents both a significant risk and opportunity for our business. We have seen a growing mandate from our stakeholders demanding meaningful action to tackle our greenhouse gas emissions. Recognising this, climate change is now included as a principal business risk. The Group is well positioned to make an increasing contribution to society's climate objectives, which presents new business opportunities during the transition towards net zero.

The Group has been working with external consultants throughout 2021 to better understand our impact on climate change and develop a robust carbon management strategy. Our aim is to reduce our greenhouse gas emissions in line with the Paris Agreement and establish a science-based emission reduction target.

Task Force on Climate-related Financial Disclosures

We are pleased to confirm that we have included in our TCFD Report climate-related financial disclosures consistent with the four recommendations and the 11 recommended disclosures set, however as we try and align our approach to the updated TCFD additional guidance (Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures ("2021 TCFD Annex")) which was released in October 2021, there are some recommendations in the 2021 TCFD Annex: All Sector Guide that will require more time for us to fully consider. In line with the current Listing Rules requirements (as referred to in Listing Rule 9.8.6R(8)), the areas where we require more time to implement are:

- Categorisation of the climate-related risks and opportunities which are considered to be short, medium and long term time horizons: which need to be done at business group level
- Finalisation of the decarbonisation roadmap with interim milestones to be agreed

We will also be working to implement the rest of the 2021 TCFD Annex recommendations over the course of 2022 and intend to apply these more fully in our next TCFD report as required by the Listing Rules for the next financial year.

Governance

The Board has overall responsibility for the climate-related matters that affect the Group. The "Matters Reserved for the Board" has been updated to ensure there is clear oversight of Environmental, Social and Governance ("ESG") matters, including climate change.

The Board has delegated responsibility for climate-related matters to the Chief Financial Officer ("CFO"), approved a series of ESG objectives for 2021 (please refer to ESG Objectives on page 50) and linked executive compensation plans to the achievement of these objectives.

The CFO provides an update to the Board on climate-related matters biannually and as important matters arise.

A working group has been established to support the CFO in the development of our strategy. In order to effectively address our key emissions sources, the working group is comprised of representatives across all areas of the Group, including finance, operations, sales, product development and manufacturing. The working group is responsible for the assessment and management of climate-related risks and opportunities and ensuring that mitigation measures are adequate. The CFO then updates the Board on the outcome of this assessment.

During 2021, the working group has been involved in the development of our ESG strategy and attended a series of workshops to develop their knowledge and understanding of climate-related matters. Heading into 2022, the working group will meet on a more frequent, quarterly basis.

Risk management

The identification, assessment and management of climate-related risks has been fully integrated into our risk management framework and mirrors the approach detailed on pages 60 to 65.

During 2021, a climate risk appraisal session was facilitated with the CFO and Group Director of Finance and integrated with our macroeconomic, political and environmental risk. The risk assessment process considers a wide range of climate-related risks, including:

- Current and emerging regulations
- Legal
- Market
- Technology
- Customers
- Physical (acute and chronic)

When considering climate-related opportunities, the following categories were considered:

- Resource efficiency
- Energy source
- Products and services
- Market
- Resilience

There are three principal climate-related risks and two principal opportunities that impact the Group:

Climate-related risks

CR1 Changing customer behaviour

Risk owner: CFO

Risk and impact:
- Eight of our top ten customers have made a commitment to achieve net zero emissions or have established a science-based emission reduction target
- If we do not keep pace with our customers' changing expectations on climate action, this could lead to a loss of revenue

Mitigation:
- Management liaises closely with customers to understand their ambitions and requirements relating to climate change
- Development of climate change strategy with independent consultants and setting a science-based emission reduction target
- Responding to the Carbon Disclosure Project to increase transparency of our actions to address climate change
- Proactive approach to emissions reductions including investment into operational efficiency, sourcing renewable energy certificates and offsetting residual emissions across Scope 1 and 2

Link to strategy:
Products & Services, Supply Chain, Research & Development, and Operations

Time horizon:
Long term

Risk appetite:
Risk accepting

Net risk level:
Low **Medium** High

Change in year:
↑

CR2 Increased stakeholder concern or negative stakeholder feedback

Risk owner: CFO

Risk and impact:
- ESG issues, particularly climate change, are a large concern for our key stakeholders
- Damage to our reputation in relation to climate change could lead to a loss of revenue or negative impact on share prices

Mitigation:
- Management liaises closely with customers to understand their ambitions and requirements relating to climate change
- Development of climate change strategy with independent consultants and setting a science-based emission reduction target
- Responding to the Carbon Disclosure Project to increase transparency of our actions
- Proactive approach to emissions reductions, including investment into operational efficiency, sourcing renewable energy certificates and offsetting residual emissions across Scope 1 and 2

Link to strategy:
Products & Services, Supply Chain, Research & Development, and Operations

Time horizon:
Short to medium term

Risk appetite:
Risk adverse

Net risk level:
Low **Medium** High

Change in year:
↑

Sustainability continued

Risk management continued

Climate-related risks continued

CR3 Increased severity and frequency of extreme weather events

Risk owner: CFO

Risk and impact:
- Extreme weather events could become more prevalent as a result of climate change, causing disruption throughout our supply chain
- Severe disruption within the supply chain could result in loss of revenue

Mitigation:
- A buffer stock is held in our UK warehouses in the event of supply disruption in China
- All suppliers are provided with visibility of forward orders and supply issues are discussed upfront
- Our production facility in China is spread across multiple buildings on the same site to mitigate site disruptions
- The Group owns its product designs and production tooling, allowing manufacturing activities to be moved between suppliers more easily
- Business continuity plans have been developed and business interruption insurance put in place for our manufacturing facility, as well as key OEM suppliers

Link to strategy:
Operations and Supply Chain

Time horizon:
Long term

Risk appetite:
Risk accepting

Net risk level:
Low **Medium** High

Change in year:
↑

Climate-related opportunities

CO1 Shift in consumer preferences and access to new markets

Opportunity owner: CFO

Description:
- The transition to net zero and the electrification of energy presents a significant opportunity for the Group
- Demand for electric vehicles and associated home charging equipment is increasing
- We also anticipate an increase in demand for low carbon products and "green home tech" solutions such as plugs, extension leads and ultra-efficient LED lighting

Realising the opportunity:
- Investment in R&D will enable us to bring new and more efficient products to market to maintain competitive advantage and grow market share
- Launch of next generation high power EV charging products in 2022
- Opportunity to acquire businesses poised to benefit from the electrification of residential energy use
- Launch of next generation USB sockets with lower standby power in 2022
- Improvement in lumens per watt of next generation LED products

Link to strategy:
Products & Services, Supply Chain, and Research & Development

Time horizon:
Medium to long term

Net opportunity level:
Low **Medium** High

Change in year:
↑

CO2 Use of more efficient production and distribution processes

Opportunity owner: CFO

Description:
- Efforts to reduce our GHG emissions also provides efficiency savings across our operations and distribution processes
- We forecast that our manufacturing operations could become up to 10% more efficient than we are today, which will deliver cost, energy and emission reductions

Realising the opportunity:
- Investment in efficiency improvements at the manufacturing facility in China
- Focus on increased consolidation of deliveries and improved shipping container fill to reduce emissions from our distribution processes

Link to strategy:
Supply Chain and Operations

Time horizon:
Short term

Net opportunity level:
Low Medium **High**

Change in year:
↑

Strategy

Climate change has the potential to impact our business across the short, medium and long term. Our business strategy and financial planning processes provide mitigation against the risks and position us well to capitalise on the opportunities.

Time horizons

When considering climate-related risks and opportunities, the following time horizons are used:

- Short term: 0 to 1 year
- Medium term: 1 to 3 years
- Long term: 3 to 5+ years

Given the long-term nature of climate-related impacts, particularly relating to physical risk, a ten-year horizon was used when assessing these risk categories. As the physical impacts of climate change also vary by geographic location, our assessments have been initially focused on strategic locations for Group operations including Telford, UK and Jiaxing, China.

Adaptation and mitigation

There could be a long-term risk to our operations as a result of more extreme and frequent weather events. We will continue to monitor this risk and maintain a range of mitigation measures to limit any potential disruptions to our operations.

Financial planning

Climate-related matters influence various elements of our financial planning process. One significant area of both direct and indirect costs relates to the price of copper. The price of copper is in part driven by the electrification of energy and transportation. To protect against price volatility, the Group has increased forward purchases and hedging and started to opt for shorter-term fixed price agreements.

In 2021, we generated revenue of £56m from low carbon products. Our target is to increase this to £100m by 2025 as we leverage our position as the UK's leading provider of domestic electrical devices to seize opportunities presented by the electrification of residential energy and private transportation.

When evaluating risks and opportunities, the potential financial impact is also evaluated as part of the assessment process to understand the scale of the impact.

Carbon pricing mechanisms ("CPMs") are not currently used by the Group. The use of a CPM was considered to be burdensome at this stage, given the heavy involvement of the finance team in the management of climate-related matters.

Environment, Social and Governance continued

Sustainability continued

Climate-related scenario analysis

The Group recognises the important role scenario analysis plays in assessing the resilience of our business strategy into the future given the long-term nature of climate change-related issues.

Our first year of aligning with the TCFD recommendations has been focused on:

- Establishing a strong climate-related governance structure
- Embedding climate change into our overall business risk assessment process
- Quantifying our emissions to establish a baseline and more effectively track our progress

As we look to continually improve our management of climate-related matters, we plan to undertake scenario analysis during 2022 to test our business strategy across a range of timeframes and emission scenarios.

Products & Services

Our low carbon product ranges (LED lighting, EV chargers and smart standby products) help customers lower their GHG emissions and transition towards a low carbon future. We strive to develop more efficient products and better controls to improve energy efficiency.

Link to climate-related risks and opportunities: CR1 CR2 CO1

Supply Chain

One of our strengths is the strong relationships we have with our suppliers. We recognise that we must work together to make more sustainable choices across product design, material choices and the manufacturing processes.

Link to climate-related risks and opportunities: CR1 CR2 CR3 CO1 CO2

Research & Development

Our business is well placed to take advantage of the inevitable electrification of energy as we transition towards a low carbon economy. Opportunities for expansion into electric vehicle charging and other low carbon solutions.

Link to climate-related risks and opportunities: CR1 CR2 CO1

Operations

One of our first priorities is to reduce the emissions from our operations. By improving the efficiency of our operations, we can reduce energy use, raw material use, waste and water use to limit our GHG emissions.

Link to climate-related risks and opportunities: CR1 CR2 CR3 CO1 CO2

Achievements during 2021

Products & Services

- Estimated to have avoided 477,077 tCO_2e from LED lighting products sold during 2021
- 10x increase in revenue from EV charging products
- Acquisition of DW Windsor to expand low carbon product offering
- Launch of next generation high power EV charging products in H1 2022
- Launch of next generation USB sockets with lower standby power in 2022

Supply Chain

- Quantification of scope 3 emissions
- Piloting engagement with suppliers on GHG emissions with LED suppliers
- Investigating nearshore manufacturing options

Research & Development

- R&D critical to competitive advantage and growth
- Specialist R&D function in China and the UK
- 2021 R&D expenditure of £3.0m
- Improvement in lumens per watt of next generation LED products
- Redesign of products to reduce packaging requirements

Operations

- Sourced renewable electricity for UK and China-based operations
- Offset Scope 1 and remaining Scope 2 emissions
- Investment in efficiency improvements to the manufacturing facility in China
- Greater consolidation of deliveries to reduce logistics emissions

Metrics and targets

Streamlined Energy and Carbon Reporting

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 requires the Group to disclose its annual energy consumption and greenhouse gas emissions from Streamlined Energy and Carbon Reporting ("SECR") regulated sources. The Group's emissions have been independently calculated in accordance with the GHG Protocol, utilising emission factors published by the UK Government and the International Energy Agency ("IEA").

The table below shows our GHG emissions from global operations across Scope 1 and 2 for the year ending 31 December 2021, along with a comparison against last year. Our Scope 1 emissions include the use of natural gas for heating and manufacturing processes, refrigerant gases, propane used in forklift trucks and the operation of company vehicles.

Scope 2 emissions are associated with our electricity consumption. The market-based methodology ("MBM") for quantifying Scope 2 emissions has been adopted to reflect the energy generated on site via the solar PV array in China and the use of renewable energy certificates. Our location-based emissions ("LBM"), reflecting the grid average emissions intensity for each country of operation, were 5,189 tCO_2e in 2021 (4,141 tCO_2e for 2020).

GHG emissions (tCO_2e)	**2021**	2020	Change (%)
Scope 1	**960**	814	17.8%
Scope 2 (MBM)	**143**	3,857	(96.3%)
Total emissions	**1,103**[1]	4,673	(76.4%)
Emissions intensity ratio			
tCO_2e/£M turnover	**4.8**	26.5	(81.8%)

1. Operational carbon neutrality was achieved by retiring high quality carbon offsets against residual emissions.

Emissions have fallen significantly compared to last year as a result of our efforts to procure renewable energy certificates for our manufacturing operations and UK sites, excluding DW Windsor. Scope 1 emissions have risen, primarily through increased activity in company vehicles, as activity levels return back to pre-pandemic levels.

The table below shows our underlying energy usage across global operations, of which 30% is from UK-based operations. Energy usage has increased by over 21% compared to the previous year.

Energy use (kWh)	**2021**	2020	Change (%)
Natural gas	**2,362,484**	2,241,266	5.4%
Propane	**27,636**	22,869	20.8%
Company vehicles	**1,909,176**	1,418,607	34.6%
Electricity	**9,341,349**	7,544,359	23.8%
Total	**13,640,645**	11,227,101	21.5%

Calculation methodology

Natural gas – Calculated using metered consumption from supplier invoices as kWh figure. Where actual consumption data was not available, consumption has been estimated based on floor areas and published benchmarks or heating degree day regression analysis.

HFCs – Refrigeration emissions have been calculated from service records where available. Where records were unavailable, HFC losses have been estimated using the screening methodology. Emissions from rented offices with shared air conditioning services have been excluded due to a lack of data, however emissions are considered to be immaterial.

Company-owned vehicles – Emissions have been calculated using fuel consumption data where available. Vehicle type and mileage has been used to calculate emissions where fuel data is not available. UK Government "SECR" kWh emission factors have been utilised to calculate the underlying energy use.

Electricity – Calculated primarily using metered consumption from supplier invoices and half-hourly consumption data. Where actual consumption data is not available, consumption has been estimated based on floor areas and published benchmarks.

Where supplier-specific emission factors were not available for the market-based calculation, the location-based emissions have been used as a proxy.

Noted changes in 2020 emissions

The 2020 GHG inventory has been updated to include emissions from the recently acquired DW Windsor. Electricity emissions have been updated to reflect changes in the emission factors published by the IEA. The emissions intensity ratio has been restated and calculated using the market-based methodology for Scope 2.

Environment, Social and Governance continued

Sustainability continued

ESG objectives

At the start of the year, the Board agreed the following ESG objectives for 2021:

1. Achieve operational carbon neutrality via the elimination or offset of Scope 1 and 2 GHG emissions by year end
2. Quantify Scope 3 GHG emissions
3. Commence participation in the Carbon Disclosure Project
4. Launch a comprehensive ESG strategy
5. Commit to set science-based emission reduction target

Elimination and offset of Scope 1 and 2 GHG

We are proud to report that we achieved operational carbon neutrality in 2021.

This means we have been successful in eliminating or offsetting the Scope 1 and 2 GHG emissions produced by our global operations, as planned.

This was achieved as follows.

Electricity is our largest emissions source where we have direct control. Renewable Energy Attribute Certificates[1] have been sourced to cover the electricity consumption of our distribution centre in Telford, Kingfisher Lighting, our London office and our manufacturing facility in China for 2021, accounting for 86% of our total energy consumption. There is also a solar PV array at our manufacturing facility in China, which represents 8% of our total electricity consumption. Overall, 94% of our total energy consumption during 2021 was from renewable and zero carbon sources.

For our smaller sales offices where energy usage is minimal, we have not been able to obtain renewable energy certificates due to small volume or limited control over the electricity supply arrangements. In 2022, we will look to expand our coverage to include the newly acquired DW Windsor in full.

The second approach was to obtain high quality Voluntary Emission Reduction ("VER") certificates to tackle our Scope 1 and residual Scope 2 emissions. The certificates have been sourced from the Weyerhaeuser Afforestation Project in Uruguay. The project covers over 18,800 hectares of degraded land which is expected to continue to degrade in the absence of this afforestation project. The certificates have been awarded by the Rainforest Alliance in accordance with the Verified Carbon Standard. A total of 1,104 certificates have been retired for 2021, resulting in us achieving operational carbon neutrality overall.

Scope 3 screening assessment

In addition to the mandatory Scope 1 and 2 emissions, we have quantified our Scope 3 emissions for the first time in 2021. A high-level screening assessment of our Scope 3 emissions has been conducted to identify key emission "hot spots" where we can focus our efforts. Our estimated Scope 3 emissions for 2021 are 360,291 tCO_2e.

Our key Scope 3 emission sources relate to the use of our sold products (211,016 tCO_2e, 58%) and purchased goods and services (125,106 tCO_2e, 35%). All other applicable Scope 3 emission sources account for 24,169 tCO_2e and 7% of our 2021 emissions.

Grid electricity

The use of sold products is our largest emission source, accounting for 58% of our greenhouse gas inventory. The main driver of these emissions is the carbon intensity of the electricity grids where our products are used. Whilst this is beyond our direct control, many countries have made commitments to decarbonise their electricity grids – for example, the UK Government has committed to delivering a net zero electricity grid by 2035. In conjunction with our efforts to innovate and improve the energy efficiency and control of our products, we forecast there will be significant emissions reductions in this area over the coming years.

Carbon Disclosure Project

We responded to the climate change module of the Carbon Disclosure Project ("CDP") for the first time in 2021. Our climate change submission contains further information on our climate governance and risk management processes, climate-related risks and opportunities, GHG emissions and business strategy.

We received an awareness level score (C) and look forward to updating the CDP on our efforts to integrate the management of climate-related matters further into our day-to-day operations.

ESG strategy

We have been working with external consultants to develop a comprehensive strategy and implement the TCFD recommendations.

Science-based target

We are committed to establishing a science-based emission reduction target and will seek validation through the Science Based Targets Initiative ("SBTi"). This will set us on an emissions reduction pathway that is aligned with the Paris Agreement and will aim to avoid the worst impacts of climate change. We aim to have our target validated during 2022.

Next steps and plan for 2022

Our ESG objectives for 2022 are as follows:

1. Make significant progress towards delivering £100m of revenue from low carbon products in 2025
2. Commit to the Science Based Target Initiative ("SBTi") and seek the validation of associated emission reduction targets
3. Ensure all products sold in the year use recyclable plastic packaging
4. Ensure 30% of plastic packaging used in the year is recycled

1. Renewable Energy Guarantee of Origin ("REGO") and International Renewable Energy Certificates ("I.REC").

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 based upon colour, culture, ethnicity, race, religion, disability, gender, sexuality or age 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. We have taken a number of steps in recent years to promote the retention of female talent, including improving maternity benefits and improving flexible working. In 2021, we introduced a stand-alone Flexible Working Policy and employees have a right to make an application from day one of their employment. We also endorsed hybrid working by introducing our very first Homeworking Policy and, where circumstances allow, there is a minimum requirement of 20% office attendance with the remaining 80% being home working.

	2021				2020			
	Male		**Female**		Male		Female	
Board	**6**	**86%**	**1**	**14%**	6	86%	1	14%
Senior management[1]	**11**	**85%**	**2**	**15%**	9	82%	2	18%
Direct reports[2]	**53**	**75%**	**18**	**25%**	33	70%	14	30%
Other employees	**822**	**53%**	**729**	**47%**	902	49%	934	51%
Total	**892**	**54%**	**750**	**46%**	950	50%	951	50%

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

2021 Group finance team

Environment, Social and Governance continued

People continued

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.

Employee engagement

An Employee Opinion Survey was undertaken in 2021. Employee satisfaction increased in 2021 compared with 2020, with 90.5% of UK employees in 2021 reporting they were either "fairly satisfied" or "very satisfied" with Luceco as an employer, up from 86.1% in 2020. In addition, 80.4% of employees said they would recommend Luceco as an employer to their friends and family, up from 75.3%.

We make sure that we listen to our employees and act upon their feedback. In recent years, our employees reported that they felt they received insufficient information regarding Group performance and strategy, so we implemented monthly team meetings, monthly CEO emails and relaunched our employee newsletter.

Greater sharing of information has made our employees feel more valued and part of a team, consequently increasing employee engagement.

In 2021, the most improved area in the survey was in Learning and Development, reflecting our investment here and the new platform described below. Our employees also reported increased satisfaction with their working environment, including working from home. However, as time progresses, we are aware that working from home can lower people's connection to employers. Greater communication and learning and development, as we have described, will ensure our employees remain connected. In addition, we are promoting hybrid working, helping our employees to collaborate, balanced with home working too.

Learning and Development

In 2021, Luceco invested heavily in learning and development ("L&D") and we introduced our first L&D platform.

We partnered with Hays Thrive/Go 1 in order to provide the business with this exciting platform which is available to all employees.

Since its introduction in April 2021, 5,280 learning modules have been completed by our employees, some of which has been compulsory learning such as "Anti-money Laundering" but the rest has been related more to personal development.

The L&D platform also covers learning regarding mental health and general wellbeing, which is something that we have sign-posted to our employees especially in light of the pandemic. Our employees' health, happiness and wellbeing is paramount to us and we are pleased that the introduction of this platform provides further support.

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 14 non-reportable accidents reported in our Telford facility (2020: 13) and in China, ten minor accidents were reported (2020: nine).

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 our 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.

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.

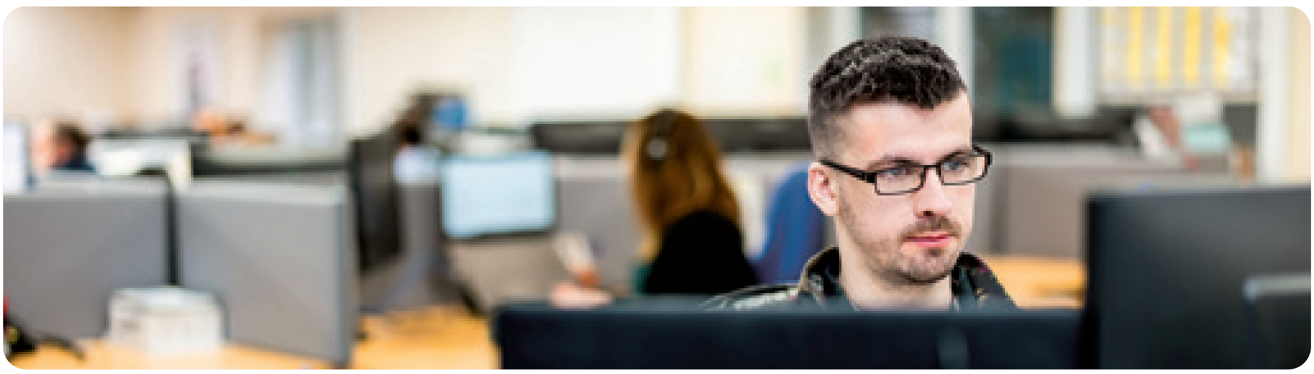
Whistleblowing contacts are initially received by an independent specialist company, then passed to a nominated Non-Executive Director, the Chief Financial Officer and the HR Manager for further investigation as necessary.

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.



Environment, Social and Governance continued

People continued

Human rights continued

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. Until the introduction of pandemic travel restrictions, the Directors regularly visited China and routinely invited customers to the facility, so they could 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, subject to COVID restrictions, 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	42 to 50
Employees	Environment, Social and Governance Statement – People policies, gender diversity, employee involvement, health and safety	51 and 52
	Chief Executive Officer's Review	12 to 15
	Principal Risks and Uncertainties – Team members	64
Human rights	Environment, Social and Governance Statement – Ethical business, supply chain, human rights	53 and 54
Social matters	Environment, Social and Governance Statement – Communities	54
Anti-bribery and corruption	Environment, Social and Governance Statement – Anti-bribery and Corruption Policy	53
Business model	Advantaged Business Model	28 and 29
Principal risks	Principal Risks and Uncertainties	60 to 65
Non-financial KPIs	Strategy and KPIs	32 to 41

The Strategic Report on pages 01 to 67 was approved by the Board of Directors on 22 March 2022.

JOHN HORNBY
Chief Executive Officer

MATT WEBB
Chief Financial Officer

Our Stakeholders

Strong relationships with all our stakeholders are vitally important for us to achieve long-term success and fulfil our purpose – to help people harness power sustainably in everyday life.

CUSTOMERS

Our customers are at the forefront of all business decisions, from product innovation and development to our superior customer service offering.

- Distributors to retail consumers
- Distributors to professional contractors
- Professional contractors
- Housebuilders
- 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 meet 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

2021 outcomes

- Like-for-like sales growth of 32.3%
- 407 new products launched
- Increasing the proportion of deliveries made on time and in full

Further information

- Strategy and KPIs section on pages 32 to 41

EMPLOYEES

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 paramount to us that we look after our colleagues and recently we have focused on mental wellbeing just as much as physical.

The Group employs 1,642 people worldwide, with the majority based in the UK and China.

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 Opinion Survey
- 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, subject to COVID restrictions, to consult with small groups of employees
- Creation of personal development plans for each employee
- Fair remuneration benchmarked against the external market
- Monthly employee newsletter
- Employee access to a whistleblowing helpline
- Monthly meetings with employee representatives to discuss health and safety matters

2021 outcomes

- Improved employee engagement measures with more employees likely to recommend Luceco to friends and family as an employer
- Introduced hybrid working, together with improved and more frequent communication with our employees
- Introduced our first Learning & Development platform, delivering 5,280 learning modules to our employees in the year

Further information

- People section of Environment, Social and Governance on pages 51 to 53
- Workforce engagement section in Corporate Governance Report on page 74

Our Stakeholders continued

SUPPLIERS

Strong supplier relationships are crucial in ensuring we can fulfil our customers' needs and provide a high level of customer service. In 2021, our deep supplier relationships helped us succeed despite wide-ranging disruption.

We have the following types of suppliers:

- Raw material/component suppliers
- Original equipment manufacturers ("OEMs")
- 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 OEMs and electrical component manufacturers, subject to COVID restrictions
- 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

2021 outcomes

- Adjusted Gross Margin of 37.1%
- Creditor days of 85

Further information

- Strategy and KPIs section on pages 32 to 41

SHAREHOLDERS

We favour a transparent and open conversation with our shareholders and we have maintained this dialogue virtually throughout the pandemic.

The Group's largest shareholders are listed on page 102.

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 strategy and performance
- Adequate return on investment
- Appropriate governance, including ESG matters

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

2021 outcomes

- Share price growth of 36% in 2021
- Strong shareholder engagement
- 46 investor meetings

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 syndicated bank debt.

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 refinancing
- Covenant compliance certification

2021 outcomes

- Covenant Net Debt to Covenant EBITDA ratio of 0.7 times in the period
- Bank facilities extended to at least September 2024

Further information

- Financial instruments disclosures on pages 141 to 147
- Capital management notes on page 148

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.

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

Their material issues

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

How we engage

- The enlistment of c.1,650 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"

2021 outcomes

- Tonnes of Scope 1 and 2 CO_2 per £m of revenue reduced by 82 over the period

Further information

- Environment, Social and Governance on pages 42 to 55

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 56 to 59 and those sections of the Annual Report incorporated by cross reference, describe 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 has 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 56 to 59, 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 56 to 59 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.

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 80 to 83. 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 61 to 65. 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 66 and 67 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.

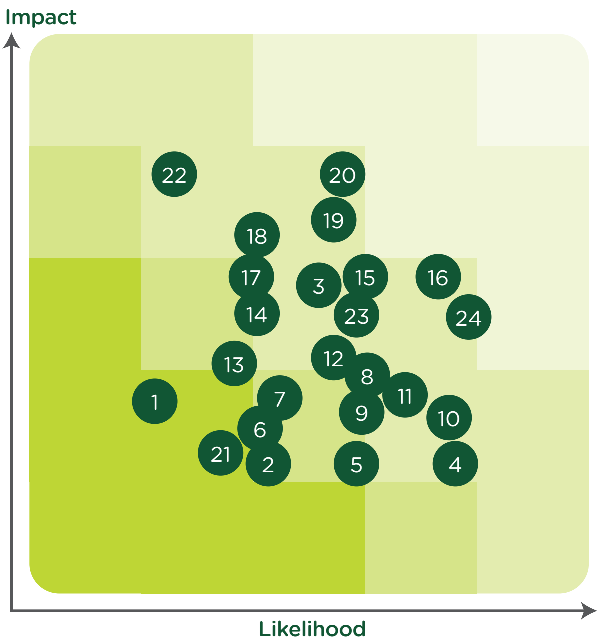
These risks are reviewed in conjunction with the Audit Committee's other responsibilities, including the internal control framework, external audit process and financial reporting.

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.

Independent assurance is provided through the annual statutory audit and the periodic internal control reviews and the monitoring of, and adherence to, policies and procedures by an external assurance provider.

Senior management	Executive Directors	Audit Committee	The Board	Independent assurance
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.	Periodic internal control reviews and monitoring of adherence to policies and procedures by an external audit and assurance provider. Statutory audit by a registered auditor.

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 challenge
8. Foreign exchange
9. Misappropriation of Group assets by employee
10. Impact of acquisition
11. Erosion of customer base
12. Increase in input costs
13. Accounting error – external or management reporting
14. Disruption to key supplier facility
15. Disruption to non-China facility
16. UK macroeconomy
17. Fail to innovate/market shift/Black Swan
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
24. Investor or customer pressure on ESG

Principal risks

Risks associated with the coronavirus:

Risk owner: CEO

Risk and impact:
- Operational disruption or enforced site closure limits the rate of product supply
- Risk of unexpected changes in product demand
- Communication and corporate alignment are compromised by remote working and/or inability to travel to international operating sites

Mitigation:
- Regular review of local virus case data to respond to emerging threats to global operations
- COVID-19-secure protocols are in place at relevant global sites
- Sales order book and access to customer sales data gives visibility of changing demand patterns
- Virtual communication tools ensure close collaboration
- Increased communication with team members during the pandemic

Risk appetite:
Risk accepting

Net risk level:
Low **Medium** High

Change in year:

Principal Risks and Uncertainties continued

Concentration risks associated with operations:

Risk owner: CEO

Risk and impact:

- The Group's products are overwhelmingly sourced from one country (China) and a large proportion are made in one location (Jiaxing)
- Disruption to our Jiaxing facility could compromise our ability to serve our customers. Including issues arising from a constrained global energy market.
- General disruption to trading between China and our selling markets (particularly the UK) could increase our costs or limit our ability to serve our markets
- China could be impacted by events in Ukraine/Russia, which impacts our ability to manufacture products

Mitigation:

- UK buffer stock is held in the event of supply disruption in China
- All suppliers are provided with visibility of forward orders and supply issues are discussed upfront
- Production facilities in China are spread across multiple buildings on the same site to mitigate risk
- The Group owns its product designs and production tooling, allowing manufacturing to be moved between suppliers more easily
- Business continuity plans are in place for the Jiaxing site
- Business interruption insurance is in place for the Jiaxing site and our OEM supplier of Portable Power products

Risk appetite:
Risk neutral

Net risk level:
Low **Medium** High

Change in year:
—

Concentration risks associated with customers and products:

Risk owner: CEO

Risk and impact:

- The Group has a number of key customers representing circa 50% of Group revenue. Loss of a key customer could result in reduced sales and profits
- The Group's committed order book extends two to three months forward. Orders thereafter are uncommitted
- Geopolitical instability creates price changes and shortages of materials and the impact of inflation on input costs from energy and material costs impacting product cost and profitability
- The Group has a material exposure to movements in the USD:RMB FX rate. An adverse move could reduce short-term profits and/or long-term competitiveness
- The Group has a material exposure to the purchase price of copper. An adverse move could reduce profits and/or price competitiveness

Mitigation:

- Key customers typically follow a tender process, providing visibility of business wins and losses
- Large customers typically take 6-12 months to implement a large range change throughout their networks, giving us time to react
- The cost of range changes for large customers is high, reducing the likelihood of occurrence
- Relationships with the Group's large customers are particularly established
- Capacity at our factory and at our OEM partners in China can be changed quickly and cost effectively
- The Group hedges its USD:RMB and copper exposures according to a Board-approved policy. The hedging matches the duration of any fixed selling price commitment offered to customers
- Application of the hedging policy is reviewed by the Board

Risk appetite:
Risk neutral

Net risk level:
Low **Medium** High

Change in year:
↑

Macroeconomic, political and environmental:

Risk owner: CEO

Risk and impact:

- A failure to respond to governmental, cultural, customer or investor requirements on ESG in the following areas: changing customer behaviour and demands (e.g. electric vehicle charging), increased stakeholder concern, negative feedback or non-compliance on ESG strategy, increased severity and frequency of extreme weather events accelerating ESG progress.
  All of which could result in reduced profits or a reduced share price
- The Group has a concentrated exposure to the UK market. UK economic headwinds from global input prices, higher living costs and geopolitical instability could reduce profits
- A deterioration in trade relations between the UK and China could disrupt product supply and/or increase costs

Mitigation:

- The Group has commenced participation in the Carbon Disclosure Project and prepared itself for participation in the Science-Based Target Initiative beginning in 2022.
- The Group is expanding and developing its product range of low carbon products (e.g. LED lighting and electric vehicle chargers)
- The Group is diversified by market segment within the UK, reducing risk
- The Group is largely exposed to the RMI cycle, which is less susceptible to macroeconomic forces
- The Group's overseas businesses are expected to grow faster than the UK, diluting the UK exposure
- UK buffer stock is held in the event of supply disruption in China
- Airfreight can be used to expedite deliveries if required
- Management liaises closely with investors and customers to understand their future ESG needs and responds accordingly

Risk appetite:
Risk accepting

Net risk level:
Low **Medium** High

Change in year:
↑

Loss of IT/data:

Risk owner: CFO

Risk and impact:

- Loss of IT functionality would compromise operations, leading to increased costs or lost sales
- Loss of sensitive data from our IT environment would expose the Group to regulatory, legal or reputational risk
- Increased cloud server usage increases risk of data loss or compromise and cyber risk is on a upward trend impacting operations and reputational risk

Mitigation:

- Market-leading cyber security tools are in place following engagement with cyber security consultants
- Market-leading data backup tools are in place
- IT disaster recovery plans are in place throughout the Group
- We conduct regular penetration testing
- IT incidents are reported to the Board

Risk appetite:
Risk averse

Net risk level:
Low **Medium** High

Change in year:
↑

Principal Risks and Uncertainties continued

Loss of key employees: **Risk owner:** CFO

Risk and impact:

- Loss of key employees could damage business relationships or result in a loss of knowledge
- Depending on the job role and team, COVID-19 has changed employees' and employers' work place expectations. A more fluid working environment in both the office and home is more common place. The risk of not adapting to this change in working practices could lead to loss of employees and an inability to attract talent

Mitigation:

- Key relationships are typically shared between more than one employee
- The Group's service offering is multi-faceted, reducing the risk that the loss of an employee would result in lost sales
- Retention of key employees is driven by long-term personal development and incentive plans. These plans are reviewed by the Nomination and Remuneration Committees
- Workforce engagement surveys ensure employee needs are identified and addressed, promoting retention
- Adoption of hybrid working practices within appropriate teams and locations

Risk appetite:
Risk neutral

Net risk level:
Low Medium High

Change in year:
↓

Acquisitions: **Risk owner:** CFO

Risk and impact:

- An ill-judged acquisition could destroy shareholder value
- Unable to grow or develop an acquired business in line with expectations leading to lower profits
- The Group's acquisition strategy could compromise/distract the execution of strategy in other areas

Mitigation:

- Our acquisition strategy is set by the Board
- Board members possess significant M&A experience
- The acquisition strategy is implemented by an experienced in-house team
- The Group's key markets are relatively stable, meaning acquisition targets typically have an established track record
- Individual acquisitions are typically small relative to the size of the Group, reducing the impact of each deal and reducing potential distraction
- The Group conducts extensive due diligence prior to acquisition
- All acquisitions are approved by the Board

Risk appetite:
Risk neutral

Net risk level:
Low Medium High

Change in year:
—

Legal and regulatory:

Risk owner: CFO

Risk and impact:
- The Group could infringe upon the IP of others, leading to legal claims
- The Group's products could fail to meet regulatory requirements or experience quality failures, resulting in legal claims and/or reputational damage
- The Group's businesses could fail to meet regulatory requirements in their countries of operation
- The Group could fail to comply with local tax laws, particularly regarding transfer pricing

Mitigation:
- The Group receives IP advice from external experts
- The Group's products are certified for use prior to launch by external experts
- The Group has extensive quality assurance resources in the UK and China
- Suppliers are required to adhere to a strict Code of Conduct
- Supplier compliance with the Code of Conduct is audited by our in-house teams
- Product liability claims are reported to the Board
- Product liability insurance is in place globally
- The Group's transfer pricing policies are reviewed regularly with the help of external experts

Risk appetite:
Risk averse

Net risk level:
Low Medium High

Change in year:

Finance and treasury:

Risk owner: CFO

Risk and impact:
- The Group could fail to provide sufficient funding liquidity for its operations
- The Group could fail to report its financial performance accurately, leading to inappropriate decision-making and regulatory breaches
- The Group could suffer fraud across its widespread operations

Mitigation:
- The Group has a clear Capital Structure Policy that is designed to provide sufficient liquidity
- The Capital Structure Policy is implemented by Treasury experts and monitored by the Board
- The Treasury team prepares regular cash flow forecasts
- The Group's financial statements require relatively few judgements or estimates, reducing the risk of misstatement
- The Group's accounting policies and internal accounting manual are approved by the Board
- The Group operates two main accounting centres in the UK and China, which are overseen closely by the Group Finance team
- The Group has invested in market-leading financial accounting and reporting software

Risk appetite:
Risk averse

Net risk level:
Low Medium High

Change in year:

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 high share of this market generates significant economies of scale
- The Group has successfully penetrated the 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 Covenant Net Debt between 1.0 and 2.0 times Covenant EBITDA to ensure the Group has sufficient cash to reinvest in growth and respond to changing circumstances

Strategy and business model

- Business Model:
  - Design: we are the innovators within the product categories we serve. Innovation allows us to up-sell and improve profitability. Our designs, starting with the customer in mind are brought to the market quickly
  - Make: we operate a vertically integrated business model with an agile production capability. We have invested in our facility to ensure we can make high quality low cost products
  - Market: we have been serving our largest customers for many years. We operate in diverse but synergistic sales channels. We are investing in our online marketing and academy for customers and contractors
  - Fulfil: we have a supply chain which is flexible to customer needs and offer high outbound service levels using the best available technology
- Strategy:
  - Grow: to maximise sales of both existing and new products to an increasing customer base
  - Innovate: we are led by our customers to innovate brilliant products in an agile and entrepreneurial manner
  - Sustain: we invest across our business from manufacturing to customer service, to sustain our competitive advantage and to contribute increasingly to society's sustainability goals

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

- **Macroeconomic, political and environmental** A UK macroeconomic downturn, due to higher living costs and global energy and material price increases could adversely affect the demand for and pricing of our products. The Group is facing a changing ESG environment which impacts a number of stakeholders from customers to investors that could lead to loss in revenue and profitability – although currently this exposure is low
- **Concentration risks associated with operations** due to an event such as a fire, flood, power outage, or IT failure in China. Shipping and transportation disruption between the Group's end markets and its sources of product supply which are overwhelmingly in China
- **Risks associated with the coronavirus** 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
- **Concentration risks associated with customers and products** The loss of a key customer would result in a short-term shortfall in profit and cash whilst sales were replaced by growth elsewhere

LUCECO PLC – VIABILITY STATEMENT APPROACH

Viability – assessing long-term prospects

- Current position
- Strategy and business model
- Principal risks

→

Viability – assessment analysis

- Scenario testing
- Mitigation
- Likely output

→

Underlying assumptions and assessment

↓

Viability Statement

Viability Statement – assessment analysis

Viability principal risk	Scenario test	Likely output
Macroeconomic, political and environmental	• Management have modelled the following two scenarios in UK macroeconomic downturn: 1. Reduction in UK revenue and gross profit for 18 months from April 2022 of 10%. Phased return by 2023 with 2023 10% down reflecting the impact of the year 1 recession assumption 2. Total loss of the Group's largest customer range from 2022 onwards	• Management have completed this scenario test and concluded this would not impact compliance with its financial covenants or viability
Concentration risks associated with operations	• 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 six months whilst alternative sourcing arrangements are made • Management have also modelled the impact of disruption to shipping and transport. This was modelled as a revenue reduction for three months relating to 50% of revenue (FOB revenue) with shipping costs up 20% for six months starting from Q2 2022	• Management have completed this scenario test and concluded this would not impact compliance with its financial covenants or viability
Risks associated with the coronavirus	• Management have modelled two scenarios: 1. Base case: a. Lockdown Q2 2022 which uses the experience of the lockdown in March 2020 resulting in a 16% reduction in revenue and gross profit b. Gradual recovery, with 15% increase in revenue and gross profit in the following quarter 2. Plausible downside case: a. Lockdown Q2 2022, with the same activity as the base case b. No recovery in the following quarter	• Management have completed this scenario test and concluded this would not impact compliance with its financial covenants or viability
Concentration risks associated with customers and products	• Management have modelled the following scenario: • Total loss of the Group's largest customers' range from 2022 onwards	• 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 2022 to 2024 approved by the Board in December 2021 with input from the Group's senior management team
- Progress against financial budgets and key objectives is 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 2024.

This assessment has 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 period, expiring on 30 September 2024 with the option to extend by two years

Chairman's Introduction

> The Group's corporate governance structure enabled the Board to execute the Group's strategy and navigate through the challenges of the coronavirus pandemic

GILES BRAND
Chairman

Dear Shareholder,

I am pleased to present the Corporate Governance Report for the year ended 31 December 2021 ("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 play 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 globally throughout 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 can 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 pages 72 and 73.

The Board's response to COVID-19

Although Board and Committee meetings continued to be held intermittently by video conference rather than in person during periods of COVID-19 restrictions, this proved no barrier to robust discussion and effective decision-making. Rather, it demonstrated the agility, commitment and effectiveness of our Board.

The Board continued to receive regular COVID-19 updates from management throughout the year and continually monitored the fast-changing situation surrounding the spread of the virus and resultant government-imposed lockdowns and changes to restrictions.
The monitoring took the form of additional Board and Committee meetings and Non-Executive Directors also made themselves available to scrutinise and challenge plans, outside of the boardroom.
The Directors monitored the Company's outlook as the situation progressed.

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 2021 Evaluation was undertaken internally by way of a questionnaire, a method I believe to be appropriate and proportionate to the Company, and which yields useful results. The 2021 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. We also considered lessons learnt from the COVID-19 pandemic and how these could be applied to the Company in the future. Results of the Evaluation 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 2022, being:

- Expansion of the business through organic growth and tactical acquisitions
- Senior management succession planning
- A focus on the Company's sourcing and manufacturing strategy

We also agreed our strategic priorities for 2022. These are set out in the Strategic Report on pages 01 to 67.

The year ahead

The Board has made good progress this year in enhancing its governance arrangements, 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, particularly with regard to enhanced diversity reporting and the governance framework around climate-related risks and opportunities.

GILES BRAND
Chairman

22 March 2022

Compliance with the 2018 UK Corporate Governance Code

The Company is required to report on its compliance with 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 2021, 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 28% of the Company's voting rights) is governed by a relationship agreement which serves to regulate the relationship and deliver effective independence.

Further information

Board leadership and company purpose
See pages 74 to 77

Division of Directors' responsibilities
See page 72

Composition, succession and evaluation
See page 79

Audit, risk and internal control
See pages 80 to 83

Remuneration
See pages 84 to 99

Board of Directors

The Board of Directors has overall responsibility for the Group. Its principal aim is to enhance the Company's long-term value for the benefit of shareholders.

GILES BRAND
Non-Executive Chairman

D N

Skills and experience
Giles is the founder and Managing Partner of EPIC Investment Partners LLP (formerly EPIC Private Equity LLP), an independent investment manager, advisory and placement agent and administrator. EPIC Investment Partners 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.

JOHN HORNBY
Chief Executive Officer

D

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 Investment Partners LLP (formerly 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.

MATT WEBB
Chief Financial Officer

D

Skills and experience
Matt was appointed Chief Financial Officer in 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 finance roles at Ferguson, including Group Financial Controller and Strategic Planning Manager, and at construction products manufacturer BPB plc. 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.

PIM VERVAAT
Senior Independent Non-Executive Director

A N R

Skills and experience
Pim joined the Board as Senior Independent Non-Executive Director in 2020 and became a member of the Audit Committee in October 2021, bringing extensive Board-level international manufacturing experience to the Group. Pim is Chief Executive Officer of the leading flexible packaging manufacturer Constantia Flexibles. Previously, he spent 12 years at RPC Group Plc, initially as Chief Financial Officer and then as Chief Executive Officer. Pim was also Chairman of the Audit Committee and Senior Independent Director of Avon Rubber plc from March 2015 to January 2021.

Other roles
Pim is Chief Executive Officer of Constantia Flexibles.

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

CAROLINE BROWN
Independent
Non-Executive Director

N R

Skills and experience
Caroline joined the Board as an independent Non-Executive Director and was Chair of the Audit Committee from October 2016 to October 2021. She has managed divisions of FTSE 100 groups and AIM businesses with international industrial and technology operations and has worked as a corporate finance adviser with various leading banks. She is a Fellow of the Chartered Institute of Management Accountants and has chaired audit committees of listed companies for the past 20 years. She holds a degree and PhD in Natural Sciences from the University of Cambridge and an MBA from the University of London.

Other roles
Caroline is currently a Non-Executive Director of four other listed companies: IP Group plc, WAG Payment Solutions plc, Rockley Photonics Holdings and Georgia Capital plc.

TIM SURRIDGE
Independent
Non-Executive Director

A R

Skills and experience
Tim joined the Group as an independent Non-Executive Director in 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.

WILL HOY
Independent
Non-Executive Director

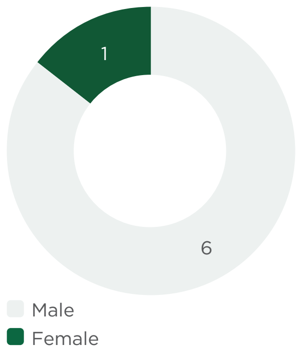
A

Skills and experience
Will joined the Group as a Non-Executive Director in 2019 and was appointed as Chair of the Audit Committee in October 2021. Will most recently held the position of Chief Financial Officer for GKN Aerospace, the UK-headquartered global aerospace technology leader.
He has held a number of senior finance roles in a career with GKN that spanned 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.

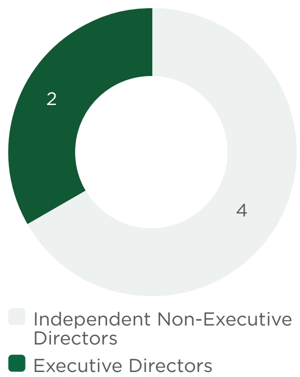
Other roles
Will holds no other listed or non-listed directorships.

Board balance

Gender diversity

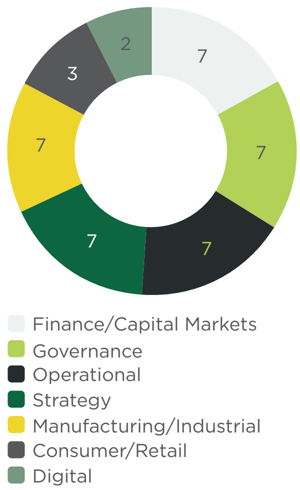


Independence[1]



1. Excluding the Chairman.

Sector experience



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")

Pim Vervaat

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, except for 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.

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.

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, ESG plans, 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 80 to 83
- Nomination Committee pages 78 and 79
- Remuneration Committee pages 84 to 99

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 and 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 seven 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.

Corporate Governance Report continued

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 the inside front cover, 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. People were once again a key focus of discussion during the year given concerns around the continued impact of the coronavirus pandemic on the workforce, both in terms of individual health and safety as well as the financial impact. The Board was updated throughout the year through reports from the Executive Directors on steps taken to mitigate against these. Additionally, at the Directors' request, the Asia Managing Director gave a detailed presentation to the Board on initiatives to further improve health and safety culture more broadly within the China factory.

More about the Company's approach to its people and culture can be found in the ESG section on pages 51 to 55.

Workforce engagement

In accordance with the Code, the Board has appointed Tim Surridge as the designated Non-Executive Director for workforce engagement. The Board believes that this, in conjunction with the annual employee engagement survey, is an effective mechanism for gathering the views of and engaging with the workforce. During the year, Tim held six virtual group sessions with employees from across the business, representing a variety of functions and geographical locations. The main themes which arose from these sessions remained positive across the UK workforce, with favourable comments regarding inter-team communication and workplace culture. Feedback from the team in China identified the potential for management to deliver further improvement in these areas as the business emerges from a particularly busy period of trading and this will be explored during 2022. The results of the annual employee engagement survey (discussed in the Environment, Social and Governance section on page 52 and the Remuneration Committee Report on page 85) were discussed by the Board, the findings of which were largely consistent with the feedback from Tim's sessions. In 2022, Tim will continue to engage with the workforce, through physical visits to both the UK and China operations if possible. The Board will continue to monitor the effectiveness of its methods of workforce engagement.

Further information on the Company's policies with regard to its people can be found within the People section of Environment, Social and Governance on page 51.

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 2021 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

The Company's key stakeholder groups are set out in the Strategic Report on pages 56 to 59. Further information is included in the Section 172(1) Statement in the Strategic Report on page 59. Stakeholder considerations in the context of COVID-19 are discussed in this Corporate Governance Report on page 77.

Sustainability

Full details of the Company's sustainability strategy and performance with regard to sustainability are provided within the Sustainability section of Environment, Social and Governance on pages 42 to 55.

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 101.

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	7/7	n/a	3/3	n/a
John Hornby[4]	7/7	n/a	n/a	n/a
Matt Webb[4]	7/7	n/a	n/a	n/a
Caroline Brown[1, 3]	7/7	2/2	3/3	2/2
Will Hoy	7/7	3/3	n/a	n/a
Tim Surridge	7/7	3/3	n/a	2/2
Pim Vervaat[2]	7/7	1/1	3/3	2/2

1. Caroline Brown attended the November Board meeting for a short period due to other pressing engagements.
2. Pim Vervaat became a member of the Audit Committee in October 2021.
3. Caroline Brown served as Chair of the Audit Committee from October 2016 to October 2021.
4. Matt Webb and John Hornby attended an additional Board meeting in September 2021 to approve the signing of a new revolving credit facility as approved by the Board at the previous Board meeting.

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 as follows:

Strategy

- Regularly considered the potential impact of COVID-19 on the Group's operations and actions taken and proposed by management in response
- 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 presentations on a number of projects and warehouses established in Southern Europe, North America and the Middle East, and considered its key strategies and deliverables for 2022
- Received and discussed a presentation from the Asia Managing Director on progress against plans to further improve the Group's Chinese factory and improve its working culture
- Considered the Group's IT information systems infrastructure and the importance of shifting towards a global IT team to allow for global metrics and knowledge sharing
- Approved the acquisition of DW Windsor Group Limited on 12 October 2021
- Continued to develop an Environment, Social and Governance strategy
- Reviewed the Group's climate strategy and TCFD Compliance Report and discussed the status of the 2021 ESG objectives and future objectives

Corporate Governance Report continued

Board activity continued

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
- Approved changes to the Company's hedging arrangements
- Oversaw the continued implementation and effectiveness of the Group's Finance Manual, including the approval of the Group's Inside Information Policy and revision of the Group's Dealing Code
- Discussed with the Asia Managing Director ongoing initiatives to improve health and safety at the Group's Chinese operations

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 performance through regular presentations from the CFO
- Approved the Annual Report, half-year and annual results announcements and analyst presentations
- Approved the signing of a new revolving credit facility
- Approved the delegation of a number of responsibilities to the Disclosure Committee such as the recommendation for an interim dividend of 2.6p per ordinary share
- Approved the Group's financing arrangements
- Approved the 2022 budget and three-year plan
- Reviewed and challenged management's going concern assessment

Culture, people and stakeholders

- Discussed the results of the 2021 annual employee engagement Survey carried out in the UK and progress made as a result of actions taken in response to the 2020 surveys
- Received an update on employee engagement meetings from the designated Non-Executive Director for workforce engagement; discussed findings in conjunction with survey results
- Reviewed and approved the Group's Whistleblowing ("Speak Up") Policy and oversaw its effectiveness

Corporate governance

- Discussed the outcome of the Evaluation of Board Effectiveness and agreed actions for 2022
- Considered feedback from brokers and analysts as relevant throughout the year
- Received regular updates on legal and governance developments affecting the Company
- Reviewed and approved the Company's Share Dealing Code
- Reviewed and approved the Company's Anti-bribery Policy and Anti-corruption Policy
- Reviewed and approved the Company's Related Party Transaction Policy
- Reviewed and approved the Company's Diversity & Inclusion Policy

COVID-19 and consideration of stakeholders

During 2021 the Board monitored the financial health of the Company and any ongoing impact on stakeholders as the coronavirus pandemic continued. The Board heard regular updates from Executive Directors and it was determined that no extraordinary measures were required during the year.

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 2021, major shareholders were offered the opportunity to meet the Chairman, CEO and CFO virtually 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.

Due to the UK Government's prohibition on non-essential travel and public gatherings, it was not possible for shareholders to attend the Company's 2021 AGM. Instead, it was formed with the minimum quorum of two Directors/ shareholders, with the other Directors attending by video conference. Broadcasting the AGM electronically provided the opportunity to open the proceedings to shareholders who wished to follow the meeting and ask questions. A number of shareholders also emailed their questions in advance, which were answered at the meeting and on the Company's website. As a result, the Directors were able to engage with more individual shareholders than at any previous AGM of the Company.

Annual General Meeting

The 2022 AGM will take place at 12.30 on Thursday 12 May 2022 at Numis Securities, 45 Gresham St, London EC2V 7BF. 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. Currently it is anticipated that the AGM will take place in person. However, should the UK Government impose any prohibition on non-essential travel and public gatherings at the time of the AGM, the Company will update shareholders through an announcement to the London Stock Exchange and on the Company's website and shareholders will be able to follow the meeting and put their questions to the Board via an online platform. Should this be the case, shareholders are strongly encouraged to register their proxy votes online. Shareholders may also wish to send their questions for the Board via email to luceco@linkgroup.co.uk 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.

GILES BRAND
Chairman

22 March 2022

Nomination Committee Report

Diversity and inclusion, particularly at Board and senior management level, is key to maintaining competitive advantage

GILES BRAND
Nomination Committee Chair

Chair: Giles Brand
Other members: Caroline Brown and Pim Vervaat

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
- Overseeing the development of a diverse pipeline for succession

The Committee's terms of reference are available on the Company's website. Committee meeting attendance is set out on page 75.

Dear Shareholder,

I am pleased to present the report of the Nomination Committee ("Committee") for the year ended 31 December 2021. During the year, the Committee consolidated the mix of skills and experience on the Board, having appointed Pim Vervaat as Senior Independent Director in September 2020.

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 51.

Resignations and appointments

Following several changes to the Board during 2020, 2021 saw a period of consolidation for the Board. The Committee continues to focus on strengthening the mix of skills, diversity and experience on the Board, particularly with a view to enhancing the Board's expertise in climate change, data science, digital marketing and sales channels, to meet the evolving needs of the business and to ensure that the Board is well equipped to meet the current and future needs of the Group. Consequently, the Committee is leading the search for an additional Non-Executive Director and has engaged Russell Reynolds Associates to lead the search. Russell Reynolds Associates has no other connection with the Company or with any individual Director. During the early part of 2022, the Committee will review a short list of candidates and further announcements on progress will be released at the appropriate time.

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 2021 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 51, 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 2021, the Committee undertook an evaluation of its own effectiveness and having considered the structure, size and composition of the Board and its Committees as well as reviewing its terms of reference, to which no changes were proposed, 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 69.

Directors' performance

The Directors' biographies are set out on pages 70 and 71.

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 2022

During the forthcoming year, the Committee will continue to focus on strengthening the mix of skills, diversity and experience on the Board, particularly with a view to enhancing the Board's diversity and expertise in climate change, data science, digital marketing and sales channels. The Committee will also undertake an in-depth review of the diversity, development and pipeline of the talent pool below Executive Director level to meet the evolving needs of the business.

GILES BRAND

Nomination Committee Chair

22 March 2022

Audit Committee Report

"

My appointment as Chair allows me to support the continued development of the Group's maturing financial governance arrangements

WILL HOY
Audit Committee Chair

Chair: Will Hoy

Other members: Tim Surridge and Pim Vervaat

Caroline Brown was a member and Chair of the Audit Committee until 13 October 2021[1].

Key responsibilities

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

- Recommending the half and full-year financial results to the Board
- Maintaining the integrity of all financial and non-financial reporting
- Monitoring the Group's internal financial controls and risk management systems
- 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 75.

Dear Shareholder,

I am pleased to present the report of the Audit Committee ("Committee") for the year ended 31 December 2021. During the year, the Committee continued to challenge and support management throughout its response to the coronavirus pandemic and closely monitored the Group's position and prospects in light of the situation. The Committee also continued to oversee and assess the enhancement of internal controls across the Group and the development of the Group's Finance Manual.

I would like to thank the finance team members and our external assurance providers for their dedication and work under difficult and challenging conditions during the last year and I would also like to take this opportunity, on behalf of the Committee, to thank Caroline Brown for her leadership, wisdom, contribution and support in the successful execution of the Committee's responsibilities.

The continued impact of the coronavirus pandemic saw much of the Committee's time taken up with discussing COVID-19 matters, including the impact of supply chain disruption on customer service and inventory lead times within the business. Notwithstanding COVID-19, we continue to make progress in strengthening the controls environment and the quality of our reporting.

Significant issues

The significant issues that were considered by the Committee in 2021 and early 2022 are set out below. These were addressed through reporting from, and discussion with, the Chief Executive Officer, Chief Financial Officer and the auditor, all 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 105 to 112.

COVID-19

The impact of the coronavirus pandemic on the Company and the Committee's activities continued throughout 2021. The Committee reviewed management's response to the coronavirus pandemic, including its impact on accounting judgements, financial reporting, controls and going concern.

1. Committee meetings are also routinely attended by the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, senior finance team members and the external auditor. The Committee met separately with the external auditor without management present.

Other matters

Other matters discussed by the Committee during the year included:

- Consideration of forecasts against available bank facilities as part of the viability and going concern reviews
- Consideration of new revolving credit facilities, providing the Group with borrowing of up to £120m
- Inventory valuation in terms of any obsolescence risk arising from increased stock levels, and the impact of rising input prices on stock cost
- Receivables valuation and customer creditworthiness
- The application of the Company's dividend policy
- The carrying value of intangible assets, including those arising on acquisition
- Deferred tax and transfer pricing
- The application of the Whistleblowing "Speak Up" Policy
- The treatment of restructuring costs associated with the closure of facilities in France and Germany
- The treatment of the Group's investment in acquisitions and associated undertakings
- The Group's use of alternative performance measures, which are included alongside IFRS measures to provide the users of the financial statements with a better-informed view of the Group's performance

Financial statements

The Committee considered in particular the following matters, as identified by the auditor, in relation to the Group's half-year and full-year financial statements:

- Inventory valuation
- Acquisition accounting
- Recoverability of intra-group debt
- Management override of controls

The Committee confirms that it is satisfied that the presentation of the financial statements for the year ended 31 December 2021 is appropriate and in accordance with the Group's accounting policies.

Going concern

In preparation for publication of the 2021 Annual Report, the Committee and Board conducted a comprehensive review of the Company's going concern position in March 2022. Management prepared a paper setting out the methodology behind the assessment of going concern, together with sensitivity analysis results covering the period December 2021 to December 2024. The full Board discussed the results in detail, including: practicalities of the sensitivity testing process; the rationale behind the choice of risks subject to sensitivity testing; the treatment of one-off versus recurring risks; and the impact of the coronavirus.

Internal controls

The Group conducts a rolling programme of internal control reviews across its worldwide operations. The scope of the programme is approved by the Committee each year. Following on from a detailed independent verification by PwC of controls effectiveness at the Group's Chinese operations conducted in 2020, the Committee considered management's assessment of the control environment and implementing PwC's recommendations, including translating the Code of Conduct into local languages and carrying out a business continuity exercise for Chinese operations. The Committee also assessed the findings of a review, undertaken internally, of internal controls across the Group, and agreed further reviews to be undertaken in 2022.

During the year, PwC conducted independent verification of the effectiveness of controls in the Group's operations in Mexico and Spain, benchmarking against control requirements laid out in the Group's Finance Manual. The Committee discussed in detail PwC's key findings. The management team held Finance Training Conferences in the year with the Group's worldwide finance team to ensure its central requirements were understood.

Governance

The Committee discussed the expected changes to the accounting and auditing environment as a result of the reporting requirements of the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations on corporate reporting and discussed with management preparation for the expected introduction of legislation by the UK Government's Corporate Governance and Audit Reform proposals.

The Committee oversaw the Group's participation in the UK Government's consultation on audit and corporate governance reform. It will closely consider and respond to the Government's final proposals once published.

Audit Committee Report continued

Internal financial controls and risk management systems

The Board is responsible for the Group's 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 60.

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
- Conducting root and branch reviews of internal control systems at companies targeted for acquisition as part of the due diligence process

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.

The Audit Committee agreed a programme for improving the Internal Control Questionnaire framework in 2020 and the Committee received progress updates during 2021.

Further progress made in 2021 included the rollout of a revised Luceco Finance Manual and the Code of Conduct translated into local languages for the overseas operations. A series of virtual Finance Training Conferences were held during the year to ensure that the Luceco Finance Manual was well embedded in the Group's operations, ensuring a strong control environment.

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.

Throughout the year the Committee ensured that the impact of COVID-19 was adequately explained in the Group's published financial statements.

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.

Principal risks and uncertainties

The Committee has considered the impact of the coronavirus, concentration risks, macroeconomic and political and environmental risks, the risk of the loss of key employees, acquisition risks (including business combinations), stock provision and increases in cyber and IT risks as part of the ongoing assessment of the business's principal risks and uncertainties. A new Cyber Security Policy was launched during the year and the Committee further noted investment in technology to prevent cyber security incidents. It should be noted that as part of their risk assessment in November 2021, KPMG confirmed to the Committee that due to ongoing travel restrictions, they would conduct some reviews of component auditors' audit documentation remotely. Kingfisher was no longer deemed to be a significant component and therefore is not subject to a full scope audit.

The principal risks and uncertainties of the Group and their mitigation are included on pages 60 to 65. The crystallisation of these risks has been considered in the Viability Statement on pages 66 and 67 and going concern assessment on page 117.

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, also taking into account the Group's External Auditor Independence Policy, which incorporates 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 2021. Audit fees payable by the Group to KPMG LLP in 2021 totalled £0.5m (2020: £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 2021, these were £0.1m (2020: £0.1m) and related to the 2021 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 (2020: 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 oversees the Group's relationship with its external auditor and makes recommendations to the Board concerning the appointment, re-appointment and remuneration of the auditor. The Committee reviewed the effectiveness and quality of the external audit process by reviewing the audit plan, including how the audit of the Chinese operations was to be performed given ongoing travel restrictions, monitoring changes in response to the new issues and changing circumstances, receiving reports on the results of the audit work performed and questioning the auditor about their findings.

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 other means. In addition to reports from and discussions with management, further assurance was provided during the year as described above under "Internal controls". The Committee considered, as it does annually, whether the Group had a need for an internal audit function. The Committee concluded that regular management reports and discussions, augmented by additional external and internal reviews, such as those undertaken during the year, as and when required, were an appropriate means of obtaining assurance as to the effectiveness of the Group's internal controls, given the size and complexity of the Group, and that a permanent internal audit function was therefore not required.

Climate-related financial disclosures

Throughout the year, the Committee discussed the implications of the TCFD recommendations on corporate reporting and supported the approach presented by management to develop a sustainability strategy. The Company's TCFD disclosures are set out on pages 44 to 49.

Annual evaluation of the Audit Committee

As part of the Evaluation of Board Effectiveness conducted during 2021, the Committee undertook an evaluation of its own effectiveness and concluded that it was operating effectively. The Board has satisfied itself that Will Hoy, Tim Surridge and Pim Vervaat 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 2022

During the forthcoming year, the Committee will continue to support and challenge management through the evolution of the Group's internal controls framework, including the integration of the DW Windsor finance team. The Committee will also continue to bring increased focus to the risks associated with climate change and the impact of such risks on the financial statements through the TCFD reporting requirements and consider the additional requirements expected from the BEIS Corporate Governance and Audit Reform proposals, including the introduction of an Audit and Assurance Policy.

WILL HOY

Audit Committee Chair

22 March 2022

Remuneration Committee Report

"The approach to remuneration in 2022 has been reviewed in the context of the sustained strong performance of the Company"

TIM SURRIDGE
Remuneration Committee Chair

Chair: Tim Surridge
Other members: Caroline Brown and Pim Vervaat

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 2021.

Luceco has delivered exceptionally strong financial performance, including another year of record profits, against a backdrop of continued uncertainty, with revenue growth of 29.5% and Adjusted Operating Profit growth of 30.0%. The management team have worked incredibly hard in light of an unusually disrupted supply chain environment, and have been successful in proactively adjusting inventory, production levels and prices without detriment to demand, thereby enabling profitable growth significantly above that of the market.

This year also saw the acquisition of DW Windsor Group, the exterior lighting and networking specialist. Our balance sheet remains strong and very supportive of continued investment in future growth, both organically and through M&A. Throughout the year, we have also won significant new business with strategic customers and in high margin product categories. Investment in both supply chain and manufacturing infrastructure has provided us with the ability to meet increased demand and sustain future growth.

Approach to remuneration for 2022

The approach to remuneration for 2022 has been reviewed in the context of the sustained strong performance and increase in size and complexity of the Company over the last few years, as set out above. The Committee is mindful that the scope of the role and responsibilities of the Executive Directors, particularly the CFO, has increased accordingly and therefore has adjusted remuneration arrangements to ensure that these remain appropriate.

Given the expansion of the Company, the Board has reviewed and increased the scope and responsibilities of the CFO role to include responsibility for ESG, M&A integration, IT and Group inventory management and has expanded the CFO's responsibility of banking relationships and investor relations. In light of the increased size and complexity of the organisation, his personal performance and contribution to the growth of the business, as well as the CFO's expanded role, the Committee determined that it was appropriate to increase his base salary from £316,750 to £375,000 (c.18% increase).

The CEO's base salary has also been increased from £369,500 to £400,000 (8% increase) to reflect the increased size and complexity of the organisation. This salary remains below lower quartile compared to other companies of a similar size and complexity, reflecting the CEO's position as a major shareholder in the business.

In addition, the maximum long-term incentive opportunity for 2022 for the Executive Directors will be set at 150% of salary. This is within the overall maximum approved by shareholders under the Remuneration Policy, albeit above the level previously operated (100% of salary). In line with previous years, vesting will be determined based 50% on TSR performance compared to the FTSE SmallCap index and 50% based on Adjusted EPS performance for the financial year ended 31 December 2024. Further detail is given below on the targets set for each component.

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, including measures linked to our ESG strategy.

Remuneration paid for 2021

Luceco has delivered another year of significant progress against a backdrop of continued challenge and uncertainty. The Group's performance has been maximised by a steady pipeline of new business wins, superior channel access and timely actions taken to achieve superior product availability amid widespread supply chain delays, enabling a further year of profitable growth.

The annual bonus targets for 2021 were based on Adjusted Profit After Tax, Adjusted Free Cash Flow and individual strategic objectives. Adjusted Profit After Tax performance was £31.2m, and Adjusted Free Cash Flow was £18.8m. Adjusted Profit After Tax exceeded the maximum target set. Adjusted Free Cash Flow was below the target set, due to higher working capital as a result of unforeseen high demand for the Group's products, and the unprecedented impact of COVID-19 on global supply chains. The CEO and CFO both delivered excellent performance against their individual strategic objectives (further details are set out on page 93). The Committee therefore determined that it was appropriate to pay an annual bonus of 50% of maximum.

Performance

- **Adjusted Profit After Tax £31.2m** (2020: £24.0m)
- **Adjusted Free Cash Flow £18.8m** (2020: £22.7m)
- **Adjusted EPS 3-year CAGR 91.0%** (2020: 33.6%)
- **TSR 3-year performance[1] 965%** (2020: 133%)

The Executive Directors were granted PSP awards in April 2019. These awards were based 50% on adjusted EPS performance for the year ended 31 December 2021 and 50% on TSR performance over a three-year period from the date of grant. The Adjusted EPS targets have been met in full. TSR performance will be assessed to the third anniversary of the date of award and we will confirm performance in next year's report. TSR performance is currently tracking such that this portion of the award would vest in full.

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. We pride ourselves in our enabling culture, which means that we reward achievement, a key pillar in our Remuneration Policy, and this supports our decision not to exercise any discretion.

Wider workforce engagement

As noted in the Corporate Governance Report, I am the designated Non-Executive Director for workforce engagement. During the year, I held six virtual one-to-one sessions with employees from across the business, representing a variety of functions and geographical locations. The main themes which arose from these sessions remained positive across the UK workforce, with favourable comments regarding inter-team communication and workplace culture. Feedback from the team in China identified the potential for management to deliver further improvement in these areas as the business emerges from a particularly busy period of trading and this will be explored during 2022.

In addition, we undertook an Employee Opinion Survey, the results of which were largely consistent with the feedback from my sessions. I will continue to engage with the workforce in 2022, through physical visits to both the UK and China operations if possible. Further detail can be found in the Corporate Governance Report on page 74.

Shareholder engagement

Following the year end I wrote to shareholders to engage on our approach to remuneration for 2022.

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

TIM SURRIDGE

Remuneration Committee Chair

22 March 2022

1. TSR performance for 2021 has been calculated over the three-year period between 1 January 2019 and 31 December 2021.

Remuneration Committee Report continued

Annual Remuneration Report

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.

Remuneration "at a glance"

How our policy was implemented in 2021

Key component	Summary	How we implemented in 2021	
Base salary	2.5% base salary increase awarded from 1 January 2021, in line with increases received by the wider workforce.	John Hornby – CEO £369,500	Matt Webb – CFO £316,750
Pension	The CEO does not receive a pension allowance. The CFO received a pension allowance of 5% of salary, in line with the wider UK workforce.	N/A	£15,837
Benefits	Benefits included car allowance/company car, mobile phone, life insurance and private medical insurance.	£19,839	£10,888
Annual bonus	Maximum opportunity of 100% of salary in 2021. Performance measures for the 2021 annual bonus were as follows: • 30% Adjusted Profit After Tax • 50% Adjusted Free Cash Flow • 20% individual strategic objectives	Outturn as a percentage of maximum: 50% £184,750	Outturn as a percentage of maximum: 50% £158,375
PSP	Awards of 100% of salary were made to the CEO and CFO respectively in 2019. Performance measures for the 2019 award were as follows: • 50% TSR relative to the FTSE SmallCap, excluding investment trusts, over three years from the date of grant • 50% Adjusted EPS for the year ended 31 December 2021	Percentage of award vesting: the Adjusted EPS target has been met in full. The TSR performance will be assessed to the third anniversary of the date of the awards and we will confirm performance in next year's report. TSR performance is currently tracking such that this portion of the award would vest in full. CEO: £1,673,029 CFO: £1,434,025	
Shareholding requirements	200% of salary	29,648%	906%

Alignment of our policy with the UK Corporate Governance Code

The Committee considers that the current Remuneration Policy and its implementation appropriately addresses the following principles, as set out in the UK Corporate Governance Code.

Principle	How the Committee has addressed this
Clarity	The Committee is committed to providing open and transparent disclosures with regard to executive remuneration arrangements. As part of the review of the Remuneration Policy undertaken in 2019, we consulted with shareholders in order to allow their feedback to be considered by the Committee. We also consulted with major shareholders regarding the changes to remuneration for 2022. In addition, Tim Surridge acts as the designated Non-Executive Director for workforce engagement and actively engages with employees on a range of issues as part of this role.
Simplicity	In determining the remuneration framework, the Committee was mindful of avoiding complexity and ensuring that arrangements are easy to understand. Our remuneration arrangements are simple in nature, comprising three main elements – fixed pay (comprising of base salary, pension and benefits), variable short-term incentives (annual bonus), and variable long-term incentives (PSP awards). This framework is well understood by both participants and shareholders.
Risk	The Committee believes that the structure of remuneration arrangements does not encourage excessive risk taking. The remuneration framework has a number of features which align remuneration outcomes with risk, including a two-year post-vesting holding period applied to any PSP awards granted from 2020 onwards, and personal shareholding guidelines applying both in-employment and post-employment. In addition, malus and clawback provisions apply to both the annual bonus and PSP awards.
Predictability	The Remuneration Policy outlines the threshold, target and maximum levels of pay that Executive Directors can earn in any given year over the three-year life of the approved Remuneration Policy. Actual incentive outcomes vary depending upon the level of performance against various measures, with performance against targets normally disclosed in the Annual Report on Remuneration each year.
Proportionality	The Committee is satisfied that the Remuneration Policy does not reward poor performance. Payment of the annual bonus and PSP is subject to the achievement of stretching performance targets, which are clearly linked to the Group's strategy. Both the Committee and Executive Directors are cognisant of the pay and conditions for the wider workforce, and this is taken into account when considering executive remuneration. Additionally, the Committee retains the discretion to adjust formulaic outcomes under the annual bonus and/or PSP should it consider that the outcome is not aligned to the underlying performance of the Company or individual.
Alignment to culture	The performance measures that are used for the annual bonus and PSP are clearly linked to delivery of the Group's KPIs. In addition, 20% of the annual bonus is based on achievement against non-financial strategic targets, which ensures both financial and non-financial strategic goals are considered. Non-financial goals reflect the Group's ESG objectives.

Remuneration Committee Report continued

Summary of Remuneration Policy and implementation for 2022

The Remuneration Policy for Directors ("Policy") was put to shareholders for approval at the AGM on 4 June 2020 and applies to payments made from this date. The following provides a summary of the Policy along with details of how the Policy will be implemented during 2022. For full details of the Policy approved by shareholders, please refer to the 2019 Annual Report and Accounts, which can be found at **www.lucecoplc.com/reports-and-information/reports-presentations**.

Base salary	Maximum opportunity	Performance measures	Implementation in 2022
Normally reviewed annually. Any salary increases are normally effective from 1 January.	No maximum but increases will normally be in line with the typical increases awarded to other employees in the Group other than in certain circumstances.	n/a	Given the expansion of the Company, the Board has reviewed and increased the scope and responsibilities of the CFO role to include responsibility for ESG, M&A integration, IT and Group inventory management and has expanded the CFO's responsibility of banking relationships and investor relations. In light of the increased size and complexity of the organisation, his personal performance and contribution to the growth of the business, as well as the CFO's expanded role, the Committee determined that it was appropriate to increase his base salary from £316,750 to £375,000 (c.18% increase). The CEO's base salary has also been increased from £369,500 to £400,000 (8% increase) to reflect the increased size and complexity of the organisation. This salary remains below lower quartile compared to other companies of a similar size and complexity, reflecting the CEO's position as a major shareholder in the business.

Pension	Maximum opportunity	Performance measures	Implementation in 2022
Executives generally receive a defined pension contribution or cash allowance in lieu of a pension.	Maximum contribution/ allowance is 5% of salary.	n/a	The CEO does not receive a pension allowance. The CFO will receive a pension allowance of 5% of salary, in line with the contribution offered to the wider UK workforce.

Benefits	Maximum opportunity	Performance measures	Implementation in 2022
Benefits currently include: a company car or car allowance (£9,000 p.a.), mobile phone, life insurance and private medical insurance. Executive Directors may also participate in all-employee share plans on the same basis as other employees.	No maximum level of benefit.	n/a	No change.

Annual bonus	Maximum opportunity	Performance measures	Implementation in 2022
Normally paid in cash following the year end. Where an Executive has not met the shareholding guideline they will normally be expected to invest 50% of their post-tax annual bonus into Company shares. The Committee may adjust the bonus award if it does not consider that it reflects the underlying performance of the Group. Malus and clawback provisions apply.	Maximum annual award of 100% of base salary. 50% of the bonus pays out for on-target performance.	The Committee determines performance measures for the bonus each year. No less than 70% of the annual bonus will be based on financial measures. Bonus targets are commercially sensitive and therefore have not been disclosed. It is intended that targets will be disclosed in full in the 2022 Directors' Remuneration Report.	Award of 100% of salary. For 2022, performance measures are as follows: • 30% on Adjusted Profit After Tax • 50% on Adjusted Free Cash Flow • 20% on individual strategic objectives, including ESG measures 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.

PSP	Maximum opportunity	Performance measures	Implementation in 2022
Awards of conditional shares or nil-cost options, based on performance over a three-year period. 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 granted from 2020 onwards are subject to a two-year post-vesting holding period. The Committee has the discretion to adjust PSP vesting levels, if it does not consider that it reflects the underlying performance of the Group. Malus and clawback provisions apply.	Maximum annual award of 150% of base salary. 25% of the award vests for threshold performance.	Awards are subject to performance measures determined by the Committee.	Award of 150% of salary. The PSP award has been increased from 100% of salary in the prior year to reflect the increase in the size and complexity of the organisation and to better reflect market practice at other FTSE SmallCap companies. For 2022, 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 the compound annual growth rate ("CAGR") of Adjusted Earnings Per Share ("EPS") in the three-year period ended 31 December 2024. 25% of this portion vests if the CAGR in this period is 5% and 100% vests if the CAGR is 15% The Committee believes these measures incentivise executives to achieve excellent profit growth while generating above-market returns for shareholders compared to our peers.

Remuneration Committee Report continued

Summary of Remuneration Policy and implementation for 2022 continued

Share ownership guidelines	Maximum opportunity	Performance measures	Implementation in 2022
Executives are expected to build and maintain a shareholding of at least 200% of base salary. Executives are expected to retain 50% of any shares that vest under any share incentive plans until this shareholding is reached. Following stepping down from the Board, Executives are expected to maintain a shareholding of 200% of salary for the first 12 months, and 100% of salary for the subsequent 12 months.	n/a	n/a	No change.

The Company also has a Company Share Option Plan in place. It is not intended that awards will be made to Executive Directors under this plan during the life of the Policy.

Malus and clawback provisions

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.

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 2021, neither Executive Director held any external directorship during the year.

Non-Executive Directors

Element	Overview of implementation for 2022	Changes from 2021
Fees	The Chair fee and the Non-Executive Director base fee were increased by 3% from 1 January 2022. Fees are as follows: Chairman – £105,575 Non-Executive Director base fee – £43,500 SID, Audit and Remuneration Committee Chair fee – £10,850	Increase consistent with the rate of salary increases given to the wider workforce.
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 change.

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
Caroline Brown	27 September 2016
Will Hoy	1 September 2019
Tim Surridge	27 September 2016
Pim Vervaat	1 September 2020

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.

Implementation of Remuneration Policy during 2021

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 2021 and 2020.

Director (£'000)	Year	Basic salary/fees	Benefits	Pension	Total fixed	Annual bonus	Long-term incentives	Total variable	Total
John Hornby	**2021**	**369**	**20**	**—**	**389**	**185**	**1,673**[1]	**1,858**	**2,247**
	2020	361	14	—	375	324	—[2]	324	699
Matt Webb	**2021**	**317**	**11**	**16**	**344**	**158**	**1,434**[1]	**1,592**	**1,936**
	2020	309	11	16	336	278	4,525[3]	4,803	5,139
Giles Brand	**2021**	**103**	**—**	**—**	**103**	**—**	**—**	**—**	**103**
	2020	100	—	—	100	—	—	—	100
Caroline Brown[4]	**2021**	**50**	**—**	**—**	**50**	**—**	**—**	**—**	**50**
	2020	54	—	—	54	—	—	—	54
Tim Surridge	**2021**	**53**	**—**	**—**	**53**	**—**	**—**	**—**	**53**
	2020	52	—	—	52	—	—	—	52
Will Hoy	**2021**	**45**	**—**	**—**	**45**	**—**	**—**	**—**	**45**
	2020	41	—	—	41	—	—	—	41
Pim Vervaat[5]	**2021**	**53**	**—**	**—**	**53**	**—**	**—**	**—**	**53**
	2020	17	—	—	17	—	—	—	17

1. The Executive Directors were granted PSP awards in April 2019. These awards were based 50% on adjusted EPS performance for the year ended 31 December 2021 and 50% on TSR performance over a three-year period from the date of grant. The Adjusted EPS targets have been met in full. TSR performance will be assessed to the third anniversary of the date of award and we will confirm performance in next year's report. TSR performance is currently tracking such that this portion of the award would vest in full. The value of the award disclosed in the single figure assumes 100% of each award vests and is based on the average share price over the last three months of the financial year ended 31 December 2021 of 345.64p. This amount includes the value of additional shares awarded in respect of dividend equivalents. Between grant and the share price used to value the award for single figure purposes, the share price had increased from 77p to 345.64p. The proportion of the value disclosed in the single figure attributable to share price growth is c.78%. The Remuneration Committee did not exercise discretion in respect of the share price appreciation.
2. In November 2018 John Hornby surrendered the PSP award granted to him on 27 July 2018. His action reflected the Group's performance at that time.
3. TSR performance for the 2018 PSP was assessed to the date of vesting. In the 2020 report, we estimated that vesting would be 100% based on performance to date. The three-year TSR performance to 26 July 2021 and 22 November 2021 was 565% and 770% respectively, which resulted in 100% of the TSR element of both awards vesting. The value of Matt Webb's 2018 PSP award has been restated to reflect the share price at vesting for each of the awards granted to him on 27 July 2018 and 23 November 2018 of 403p and 376p respectively. In line with the schedule 5 requirements there are no exercise gains in the period.
4. Includes fees payable in respect of Caroline Brown acting as Interim Senior Independent Director from 4 June to 1 September 2020.
5. Pim Vervaat was appointed to the Board on 1 September 2020 as a Non-Executive Director. Fees shown are from this date.

Remuneration Committee Report continued

Explaining the single figure

Salary

Executive Directors received a 2.5% base salary increase with effect from 1 January 2021, in line with the increase awarded to the wider workforce.

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 2021, 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%
Adjusted 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 2021 against financial targets set was as follows:

Measure	Threshold 0% payout	Target 50% payout	Maximum 100% payout	Achievement for 2021	Percentage of bonus payable
Adjusted Profit After Tax (30% weighting)	£23.6m	£26.2m	£28.8m	£31.2m	100%
Adjusted Free Cash Flow (50% weighting)	£25.7m	£28.5m	£31.4m	£18.8m	0%

Individual strategic objectives

The individual strategic objectives were set at the start of 2021 and are set out in the table below.

	Overview of objectives and performance	Committee's assessment of performance
CEO	For 2021 the CEO's objectives were set around the Customer Portal and new website; increasing factory capacity; managing supplier cost increases and ensuring selling price increases; developing an ESG strategy and setting measurable targets for its delivery; and mergers and acquisition strategy. The CEO has delivered strong performance against these objectives during the year. He has made progress in the delivery of the Customer Portal and new website, which is expected in H1 2022. The CEO has increased factory capacity to deliver a key new customer contract, respond to high H1 2021 demand, and clear order backlog from 2020. Price increases and cost inflation were well managed, with operating margin % protected. The CEO has developed a climate strategy, and also presented a diversity strategy to the Board. Progress against the M&A pipeline has also been strong, with the acquisition of DW Windsor Group.	The Committee judged that overall, the CEO's performance against agreed objectives had been excellent and that 100% of this element of the bonus should be paid.
CFO	For 2021, the CFO's objectives were set around developing contractor insight to better understand end user needs; defining and executing the mergers and acquisition strategy; negotiating and arranging additional funding to support the M&A strategy as required; developing reporting at below-Business Group level to increase visibility and prioritise allocation of resources; and supporting the CEO to develop an ESG strategy. The CFO has delivered excellent performance against these objectives during the year. He has successfully completed an exercise to better understand end user needs, and presented the findings to the Board. The CFO has defined and communicated the M&A strategy to the market, with progress against the M&A pipeline strong. He has also negotiated and arranged additional funding to support the M&A activity as necessary. The CFO has standardised reporting at below-Business Group level, with the same reporting dataset and definitions now used throughout the business. He has also supported the CEO to develop the ESG strategy, ensuring compliance with TCFD, measuring Scope 3 GHG emissions, and working with the CEO to set future GHG emission targets.	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 50% of maximum. Bonus payments are therefore as follows:

CEO **£184,750**

CFO **£158,375**

The Committee also considered the underlying financial performance of the Company during 2021, 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 50% of maximum to be appropriate.

Remuneration Committee Report continued

Long-term incentives

The Executive Directors were granted PSP awards in April 2019. These awards were based 50% on adjusted EPS performance for the year ended 31 December 2021 and 50% on TSR performance over a three-year period from the date of grant. Adjusted EPS for the year ended 31 December 2021 is 20.2p and therefore this portion of the award will vest in full. The TSR performance period is not yet completed and we will provide details of final vesting in the 2022 Annual Report. TSR is currently tracking to vest in full.

Measure	Weighting	Threshold	Maximum	Achievement	Element vesting
Adjusted EPS for the year ending 31 December 2021	50%	8.6p	10.6p	20.2p	100%
TSR relative to the FTSE SmallCap excluding investment trusts	50%	Median	Upper quartile	TSR to be measured to 9 April 2022	Currently tracking for full vesting

Therefore the vesting of the award shall be as follows:

Executive Director	Date of grant	Number of awards granted	Number of shares vesting based on estimated performance	Dividend equivalents (number of shares)	Total number of shares vesting	Total estimated value of award vesting[1]
John Hornby	10 April 2019	463,269	463,269	20,774	484,043	£1,673,029
Matt Webb	10 April 2019	397,088	397,088	17,806	414,894	£1,434,025

1. The value of the awards vesting is based on the average share price over the last three months of the financial year ended 31 December 2021 being 345.64p. The estimated value of the vesting awards has been included within the "single figure of total remuneration" table on page 91.

Overall, the Committee considers that the Remuneration Policy has operated as it intended during 2021 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 Officer	Nil cost option over ordinary shares of 0.05p	26 March 2021	135,347	£369,497	25%	See below
Matt Webb	Chief Financial Officer			116,025	£316,748	25%	See below

1. Calculated based on a share price of 273p, 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 Adjusted EPS and 50% subject to TSR performance relative to the FTSE SmallCap excluding investment trusts.

Performance condition

CAGR Adjusted EPS in the three-year period ending 31 December 2023	Rank of the Group's TSR compared to the comparator group	Extent to which the relevant portion of the award vests
15%	Upper quartile or above	100%
Between 5% and 15%	Between median and upper quartile	On a straight-line basis between 25% and 100%
5%	Median	25%
Less than 5%	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 11 March 2022**	**Ordinary shares held at 31 December 2021**	Ordinary shares held at 31 December 2020	Nil cost options subject to performance measures[1]	Nil cost options not subject to performance measures	Market value options subject to performance measures	Shareholding requirement (% of salary)	Shareholding held at 31 December 2021[2]	Requirement met?
John Hornby	**28,484,286**	**31,434,286**	31,549,975	963,111	—	27,440	200%	29,648%	Yes
Matt Webb	**215,078**	**215,078**	215,078	825,538	1,174,747	27,440	200%	906%	Yes

1. Includes shares accrued to date in respect of dividend equivalents on unvested LTIP awards.
2. 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 2021 of 348.50p.

Non-Executive Directors

	Ordinary shares held at 11 March 2022	**Ordinary shares held at 31 December 2021**	Ordinary shares held at 31 December 2020
Giles Brand[1]	**9,466,919**	**9,466,919**	9,466,919
Caroline Brown	**—**	**—**	—
Tim Surridge	**56,731**	**56,731**	69,231
Will Hoy	**45,000**	**45,000**	45,000
Pim Vervaat	**—**	**—**	—

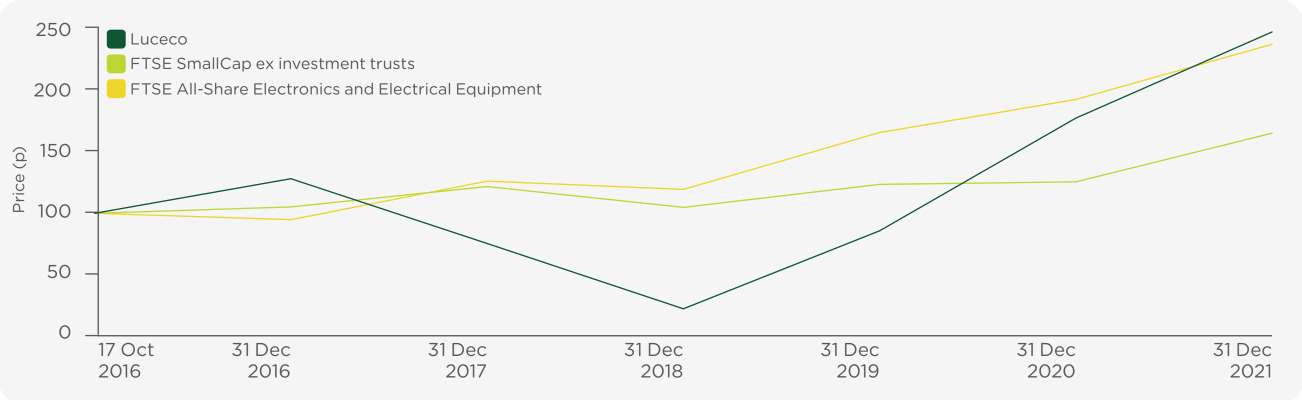
1. Giles Brand is Managing Partner of EPIC Investments LLP, which owns 35,564,260 (2020: 40,064,372) shares in the Group.

Remuneration Committee Report continued

Performance graph and table

Review of past performance

The graph below shows the historical TSR of the Group, 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 2021. The Group has chosen these indices to reflect its size and the key sector within which it operates.



The table below shows the CEO's "single figure" remuneration for the nine years ended 31 December 2021. John Hornby was CEO for the full period.

£'000	2013	2014	2015	2016	2017	2018	2019	2020	**2021**
Total remuneration	219	251	314	337	365	504	726	699	**2,247**
Annual bonus (% of max)				nil	nil	50%	100%	90%	**50%**
LTIP vesting[1] (% of max)	n/a	n/a	n/a	n/a	n/a	n/a	0%	n/a[2]	**100%[3]**

1. No LTIPs were in place during the reporting periods 2012 to 2016. The first LTIP awards post-IPO were granted in 2017, with vesting based on performance to 31 December 2019.
2. On 27 November 2018, John Hornby surrendered the 2018 PSP award granted to him on 27 July 2018. This award would have vested at 100% of maximum.
3. The PSP awards granted in 2019 are expected to vest at 100% of maximum.

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. Following salary increases in line with the increases offered to the wider workforce, with effect from 1 January 2021, the CEO's salary was £369,500.

Annual percentage change in remuneration of Directors and employees

The following table sets out the change in remuneration paid to the Directors who served on the Board from 2019 to 2021 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 Executive Directors, which does not facilitate a like-for-like comparison.

	Executive Directors		Non-Executive Directors					
	John Hornby	Matt Webb	Giles Brand	Caroline Brown[3]	Tim Surridge	Will Hoy[1,3]	Pim Vervaat[2]	UK employees
2021 vs. 2020								
Base salary/fees	**2.5%**	**2.5%**	**2.5%**	**(7.4)%**	**2.5%**	**8.9%**	**207.3%**	**2.5%**
Benefits	**41.7%**	**(0.9)%**	**—**	**—**	**—**	**—**	**—**	**—**
Bonus	**(43.1)%**	**(43.1)%**	**—**	**—**	**—**	**—**	**—**	**(4.5)%**
2020 vs. 2019								
Base salary/fees	3.0%	3.0%	100%	3.0%	3.0%	21.7%	n/a	3.0%
Benefits	(44.3)%	—	—	—	—	—	—	—
Bonus	(7.3)%	(7.3)%	—	—	—	—	—	(1.5)%

1. Will Hoy was appointed to the Board on 1 September 2019.
2. Pim Vervaat was appointed to the Board on 1 September 2020.
3. Will Hoy succeeded Caroline Brown as Chair of the Audit Committee in October 2021.

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.

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 2021 and 2020.

£m	**31 December 2021**	31 December 2020	% change
Overall spend on pay for employees including Executive Directors[1]	**36.4**	36.0	1.1%
Distributions to shareholders	**11.2**	4.9	128.6%

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

Remuneration Committee Report continued

CEO pay ratio

For the year ended 31 December 2021, the Chief Executive's total remuneration as a ratio against the full-time equivalent remuneration of UK employees is detailed in the table below:

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	**Option B**	**99 : 1**	**65 : 1**	**36 : 1**
2020	Option B	30 : 1	21 : 1	11 : 1
2019	Option B	30 : 1	22 : 1	15 : 1

Year		25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	**Salary**	**£20,258**	**£31,000**	**£51,250**
	Total pay	**£22,790**	**£34,725**	**£62,146**

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 2020-21 snap-shot date. Their respective single figure values for 2021 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 and represents an increase on the 2020 ratio. The main reason for the change in the ratio from last year is the increase in variable pay received by the CEO – the CEO's 2019 PSP award is expected to vest at 100% of maximum, whereas the CEO surrendered his 2018 PSP award (which would otherwise have vested in 2020). The Board has confirmed that the ratio is consistent with the Company's wider policies on employee pay, reward and progression. Pay for senior leaders within the Group has a much greater emphasis on performance-based pay through the annual bonus and the LTIP. The ratios are therefore likely to vary year-on-year depending on bonus and LTIP outcomes.

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. Pim Vervaat and Caroline Brown were also members of the Committee. There have been two meetings of the Committee during the year. The Committee has met once since the year end and the date of issuing the Annual Report and Financial Statements to consider the Remuneration Policy and its implementation for 2022 and to agree performance targets for 2022.

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 2022, 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 2022 as outlined in this report
- Determining reward outcomes for 2022
- Review of remuneration trends and governance developments

Remuneration Committee advisers

During the year to 31 December 2021, the Committee engaged the services of external advisers Deloitte LLP ("Deloitte").

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 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 £50,600 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 (June 2021 AGM) and to approve the Remuneration Policy (June 2020 AGM) are as follows:

	Votes for	% for	Votes against	% against	Votes withheld
To approve the Directors' Remuneration Report	129,980,603	99.7%	428,500	0.3%	506,949
To approve the Remuneration Policy	113,292,183	91.5%	10,509,986	8.5%	4,609

TIM SURRIDGE

Remuneration Committee Chair

22 March 2022

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 94
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 103
Dividend waivers	Page 103
Agreements with controlling shareholders	Page 103

Results and dividends

The Group's profit for the year ended 31 December 2021 was £27.1m (2020: £27.9m); details are shown in the Consolidated Income Statement on page 113. The Directors recommend the payment of a final dividend of 5.5p per ordinary share which, subject to the approval of shareholders at the AGM on 12 May 2022, will be paid on 20 May 2022 to ordinary shareholders registered as members of the Company at the close of business on 8 April 2022. The final date for elections under the Company's dividend reinvestment plan will be 28 April 2022. A dividend of 2.6p per share was paid during the year.

The Company's dividend policy is to pay out between 40% and 60% of Adjusted Earnings Per Share.

Directors

The Directors who held office during the year were:

- John Hornby
- Matt Webb
- Giles Brand
- Caroline Brown
- Will Hoy
- Tim Surridge
- Pim Vervaat

Biographical details of the Directors appear on pages 70 and 71. Information on the Directors' remuneration, employee share schemes and service contracts is given in the Remuneration Committee Report on pages 84 to 99.

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 12 May 2022.

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.

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 s414C(11) of the Companies Act 2006, the Group has disclosed future developments within its Strategic Report on pages 01 to 67.

Corporate governance

A report on corporate governance and the Company's compliance with the UK Corporate Governance Code is set out on page 69 and forms part of this report by reference.

Post balance sheet events

There were no post balance sheet events.

Research and development

The Directors consider that investment in research and development ("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 £3.0m (2020: £2.2m), of which £0.9m (2020: £1.1m) was capitalised and amortised.

Asset values

Property, plant and equipment is disclosed in note 9 of the consolidated financial statements on pages 129 to 132. 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 20 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 60 to 65, and the Chief Financial Officer's Review on pages 16 to 25.

Global operations

The Group's executive head office, accounting, domestic sales and support functions are based in the UK. The Group has four UK sites in London, Telford, Mansfield and Hoddesdon. 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 Hoddesdon location is the primary base for DW Windsor Group. 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 Spain, Dubai, Mexico, Ireland and South Africa.

Political donations

No political donations were made and no political expenditure was incurred during the year (2020: nil).

Employees

Information on how we promote employee involvement can be found on page 52. 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 51.

An explanation of the activities of the appointed Non-Executive Director for Workforce Engagement can be found on page 74.

UK employees are encouraged to participate in the Company's performance through our share incentive plan, discussed on pages 149 and 150.

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 49 and 50.

Directors' interests and share options

During the year ended 31 December 2021, no Director had an interest in any third-party contract between the Company or any of its subsidiaries.

Directors' shareholdings are disclosed in the Remuneration Committee Report on page 95. Details of Directors' share options are set out in note 22 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.

Other Statutory Disclosures continued

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 2021 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 13 May 2021, 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 2022 AGM. No shares have been allotted under these authorities as at the date of this report.

At 31 December 2021, 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 2021 are disclosed in note 23 on page 151.

Authority for the Group to purchase its own shares

A resolution will be proposed at the 2022 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 2023 AGM or, if earlier, on 30 June 2023.

At the AGM held on 13 May 2021, 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 2022 AGM.

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 2021 and at 11 March 2022 (being the latest practicable date prior to the date of this report). The shareholdings of John Hornby and Philippa Hornby also take account of known share movements that did not trigger notifications under DTR 5.

	At 11 March 2022		At 31 December 2021	
Shareholder	Number of shares held	% voting rights	Number of shares held	% voting rights
EPIC Investments LLP	35,564,260	22.11	35,564,260	22.11
Deanmor Investments[1]	16,000,000	9.95	16,000,000	9.95
John Hornby	9,153,134	5.69	12,103,134	7.53
Giles Brand	9,466,919	5.89	9,466,919	5.89
BlackRock Inc	9,130,728	5.68	9,779,946	6.08
Philippa Hornby	3,259,158	<3%	3,259,158	<3%

1. Deanmor Investments is an investment vehicle wholly owned by John and Philippa Hornby.

Provision of services by substantial shareholders

Giles Brand is Luceco plc's Chairman and Managing Partner of EPIC Investment Partners ("EPIC") LLP (formerly 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 £8,542 (£102,500 per annum) in respect of his services as Chairman during 2021.

John Hornby has a service contract with the Group, as detailed on page 90, 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 84 to 99.

Significant agreements

The Group has an agreement with its significant shareholders, EPIC Investments LLP and Giles Brand ("connected parties"), who collectively exercise or control 28.0% 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. Should a change of control event occur, the Group's revolving credit facility would be subject to immediate cancellation and the Bank may call for immediate repayment of any balance outstanding.

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 2022 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 12 May 2022. 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 22 March 2022.

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 UK-adopted international accounting standards and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards and applicable law, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 the Group's 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, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards;
- for the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- 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 complies 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 Company and the undertakings included in the consolidation taken as a whole; and
- 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

22 March 2022

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 2021 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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK- adopted international accounting standards;
- 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.

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 shareholders on 4 December 2014. The period of total uninterrupted engagement is for the 8 financial years ended 31 December 2021. 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	£1.7m (2020: £1.28m) 4.6% (2020: 4.5%) of the normalised profit before tax
Coverage	96% (2020: 84%) of group profit before tax[1]
Key audit matters	**vs 2020**
	Recoverability of finished goods ◀▶
	Parent Company: Recoverability of parent's debt due from group entities ◀▶

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

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, 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. We summarise below the key audit matters, in decreasing order of audit significance, 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
Recoverability of Finished Goods (excluding Luceco Electrical (Jiaxing) Limited, DW Windsor Group Limited and Kingfisher Lighting Limited) Refer to page 80 (Audit Committee Report), page 137 (accounting policy) and page 137 (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 judgement 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.	Our procedures included: • **Benchmarking assumptions:** Assessing the directors' assumptions behind the provision against finished goods against available data on selling price(s) of these goods; • **Tests of detail:** Understanding the Company's process in calculating the provision 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. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Our results** • As a result of our work, we consider the valuation of inventory to be acceptable (2020: acceptable).

	The risk	Our response
Parent company risk: Recoverability of parent's debt due from Group entities (£77.8 million; 2020: £50.3 million) Refer to page 80 (Audit Committee Report), page 159 (accounting policy) and page 159 (financial disclosures).	**Low risk, high value:** The carrying amount of the intra-Group debtor balance represents 88.3% (2019: 97%) 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:** Comparing the carrying amount of 100% of debt due from Group entities to the total balance with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. • **Assessing subsidiary audits:** Assessing the work performed by the subsidiary audit team i.e. KPMG China on the subsidiary and considering the results of that work, on the subsidiaries' profit and net assets. Audits of scoped in UK subsidiaries are performed by the Group audit team and the audit of one scoped in overseas subsidiary is performed by KPMG China. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Our results** • We found the Group's assessment of the recoverability of the parent's debt due from Group entities to be acceptable (2020: acceptable).

3. 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 £1.7m (2020: £1.28m), determined with reference to a benchmark of Group profit before tax, normalised to exclude restructuring expenses of £2.3m, DW Windsor acquisition costs of £0.7m and a loss on remeasurement of derivative instruments of £0.4m (2020: determined with reference to a benchmark of Group profit before tax, normalised to exclude a gain of £5.3m in respect of remeasurement of derivative instruments) of which it represents 4.6% (2020: 4.5%).

Materiality for the parent Company financial statements as a whole was set at £0.34m (2020: £0.27m), determined with reference to a benchmark of Company total assets, of which it represents 0.41% (2020: 0.85%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2020: 65%) of materiality for the financial statements as a whole, which equates to £1.27m (2020: £0.83m) for the Group and £0.25m (2020: £0.17m) for the parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

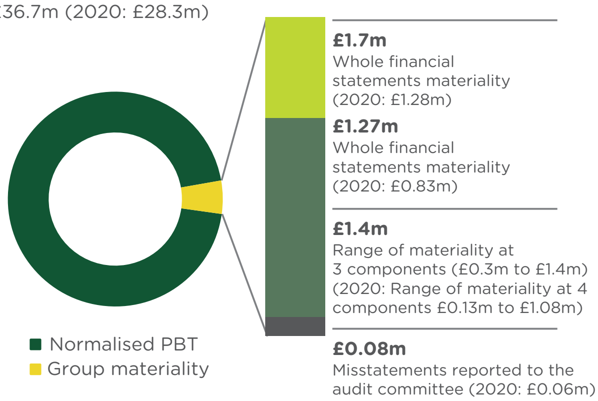
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £85,000 (2020: £64,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 22 (2020: 17) reporting components, we subjected 3 (2020: 4) to full scope audits for Group purposes and 9 (2020: 5) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages illustrated opposite.

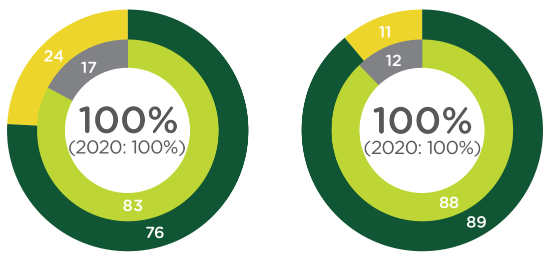
Normalised group profit before tax
£36.7m (2020: £28.3m)

Group materiality
£1.7m (2020: £1.28m)



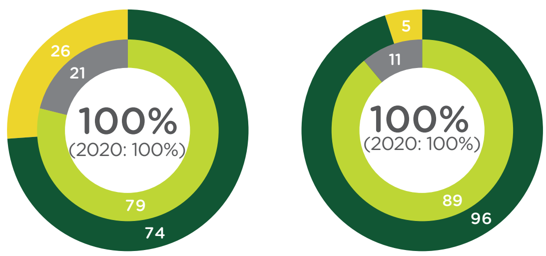
Group revenue

Group profit before exceptional and tax



Group total assets

Group profit after exceptional



- Full scope for group audit purposes 2021
- Specified risk-focused audit procedures 2021
- Full scope for group audit purposes 2020
- Specified risk-focused audit procedures 2020

The Group team instructed the component auditor as to the significant areas to be covered and the information to be reported back. The Group team approved the component materialities, which ranged from £0.3m to £1.4m (2020: £0.13m to £1.08m), having regard to the mix of size and risk profile of the Group across the components The work on 1 of the 3 components (2020: 1 of the 5 components) was performed by component auditors and the rest, including the audit of the parent Company, was performed by the Group team.

The Group team performed procedures on the items excluded from normalised Group profit before tax.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

The Group team visited one component (2020: none) in China to assess the audit risk and strategy. Video and telephone conference meetings were also held with the component auditor. At these visits and 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 auditor.

4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period were:

- Concentration risks with associated operations;
- Macroeconomic, political and environmental risks.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources and covenants indicated by the Group's financial forecasts.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- the related statement under the Listing Rules set out on pages 117 and 118 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Our risk assessment procedures included:

- Enquiring of directors, the Audit Committee and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, audit, remuneration and nomination committee minutes.
- Considering remuneration incentive schemes and performance targets for directors including the EPS target for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to full-scope component audit teams of relevant fraud risks identified at the Group level and request to full- scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited perceived pressure and opportunity to inflate revenue as the Company has exceeded market expectations and revenue recognition does not involve complex judgement.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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 audit team to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the 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, anti-bribery, employment law, and certain aspects of company legislation recognising the financial 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 other management and inspection of regulatory and legal correspondence, if any.

Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit Committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non- compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. 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

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 67 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal risk disclosures describing these risks and how emerging risks are identified, 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.

We are also required to review the viability statement, set out on pages 66 and 67 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

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 judgements 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.

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

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- 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;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Report relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7. 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 104, 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 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 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**.

9. 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

22 March 2022

Consolidated Income Statement

for the year ended 31 December 2021

£m	Note	Adjusted	Adjustments[1]	2021	Adjusted	Adjustments[1]	2020
Revenue	2	**228.2**	**—**	**228.2**	176.2	—	176.2
Cost of sales		**(143.5)**	**—**	**(143.5)**	(106.0)	—	(106.0)
Gross profit		**84.7**	**—**	**84.7**	70.2	—	70.2
Distribution expenses		**(7.8)**	**—**	**(7.8)**	(8.6)	—	(8.6)
Administrative expenses		**(37.9)**	**(3.7)**	**(41.6)**	(31.6)	(0.4)	(32.0)
Operating profit	3	**39.0**	**(3.7)**	**35.3**	30.0	(0.4)	29.6
Finance income	5	**—**	**—**	**—**	—	5.3	5.3
Finance expense	5	**(1.6)**	**(0.4)**	**(2.0)**	(1.3)	—	(1.3)
Net finance income/(expense)		**(1.6)**	**(0.4)**	**(2.0)**	(1.3)	5.3	4.0
Profit before tax		**37.4**	**(4.1)**	**33.3**	28.7	4.9	33.6
Taxation	6	**(6.2)**	**—**	**(6.2)**	(4.7)	(1.0)	(5.7)
Profit for the year		**31.2**	**(4.1)**	**27.1**	24.0	3.9	27.9
Earnings Per Share (pence)							
Basic	7	**20.2p**	**(2.6p)**	**17.6p**	15.5p	2.5p	18.0p
Fully diluted	7	**19.8p**	**(2.6p)**	**17.2p**	15.2p	2.5p	17.7p

1. Definition of the adjustments made and reconciliations to the reported figures can be found in note 1 of the consolidated statements on page 118.

The accompanying notes on pages 117 to 153 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2021

£m	2021	2020
Profit for the year	**27.1**	27.9
Other comprehensive income – amounts that may be reclassified to profit or loss in the future:		
Foreign exchange translation differences – foreign operations	**0.3**	0.8
Total comprehensive income for the year	**27.4**	28.7

All results are from continuing operations.

The accompanying notes on pages 117 to 153 form an integral part of these financial statements.

Consolidated Balance Sheet
at 31 December 2021

£m	Note	**2021**	2020
Non-current assets			
Property, plant and equipment	9	**21.2**	17.8
Right-of-use assets	9	**7.8**	2.7
Intangible assets	10	**32.9**	21.5
Investment in associate	11	**2.1**	—
Financial assets held for trading	20	**4.3**	1.4
Deferred tax asset	12	**0.1**	0.5
		68.4	43.9
Current assets			
Inventories	13	**57.3**	37.2
Trade and other receivables	14	**69.7**	71.8
Financial assets held for trading	20	**0.4**	4.1
Cash and cash equivalents	15	**6.9**	6.7
		134.3	119.8
Total assets		**202.7**	163.7
Current liabilities			
Trade and other payables	18	**66.5**	63.6
Current tax liabilities		**1.8**	3.1
Financial assets held for trading	20	**0.1**	0.5
Other financial liabilities	17	**2.2**	1.2
		70.6	68.4
Non-current liabilities			
Interest-bearing loans and borrowings	16	**36.8**	22.2
Other financial liabilities	17	**6.0**	1.6
Provisions	17	**1.6**	1.1
		44.4	24.9
Total liabilities		**115.0**	93.3
Net assets		**87.7**	70.4
Equity attributable to equity holders of the parent			
Share capital	23	**0.1**	0.1
Share premium	23	**24.8**	24.8
Translation reserve	23	**0.2**	(0.1)
Treasury reserve	23	**(6.7)**	(6.8)
Retained earnings		**69.3**	52.4
Total equity		**87.7**	70.4

The accompanying notes on pages 117 to 153 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 22 March 2022 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 2021

£m	Share capital	Share premium	Translation reserve	Retained earnings	Treasury reserve	Total equity
Balance at 1 January 2020	0.1	24.8	(0.9)	27.2	(4.1)	47.1
Total comprehensive income						
Profit for the year	–	–	–	27.9	–	27.9
Foreign currency translation differences on investments in overseas entities	–	–	0.3	–	–	0.3
Currency translation differences	–	–	0.5	–	–	0.5
Total comprehensive income for the year	–	–	0.8	27.9	–	28.7
Transactions with owners in their capacity as owners						
Dividends	–	–	–	(4.9)	–	(4.9)
Purchase of own shares	–	–	–	–	(2.7)	(2.7)
Deferred tax on share-based payment transactions	–	–	–	1.2	–	1.2
Share-based payments charge	–	–	–	1.0	–	1.0
Total transactions with owners in their capacity as owners	–	–	–	(2.7)	(2.7)	(5.4)
Balance at 31 December 2020	0.1	24.8	(0.1)	52.4	(6.8)	70.4
Total comprehensive income						
Profit for the year	**–**	**–**	**–**	**27.1**	**–**	**27.1**
Foreign currency translation differences on investments in overseas entities	**–**	**–**	**(1.1)**	**–**	**–**	**(1.1)**
Currency translation differences	**–**	**–**	**1.4**	**–**	**–**	**1.4**
Total comprehensive income for the year	**–**	**–**	**0.3**	**27.1**	**–**	**27.4**
Transactions with owners in their capacity as owners						
Dividends	**–**	**–**	**–**	**(11.2)**	**–**	**(11.2)**
Purchase of own shares	**–**	**–**	**–**	**–**	**(1.3)**	**(1.3)**
Disposal of own shares	**–**	**–**	**–**	**(1.3)**	**1.4**	**0.1**
Deferred tax on share-based payment transactions	**–**	**–**	**–**	**0.7**	**–**	**0.7**
Share-based payments charge	**–**	**–**	**–**	**1.6**	**–**	**1.6**
Total transactions with owners in their capacity as owners	**–**	**–**	**–**	**(10.2)**	**0.1**	**(10.1)**
Balance at 31 December 2021	**0.1**	**24.8**	**0.2**	**69.3**	**(6.7)**	**87.7**

The accompanying notes on pages 117 to 153 form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2021

£m	Note	**Adjusted**	**Adjustments[1]**	**2021**	Adjusted	Adjustments[1]	2020
Cash flows from operating activities							
Profit for the year		**31.2**	**(4.1)**	**27.1**	24.0	3.9	27.9
Adjustments for:							
Depreciation and amortisation	9,10	**6.7**	**1.0**	**7.7**	6.1	0.4	6.5
Financial income	5	**–**	**–**	**–**	–	(5.3)	(5.3)
Financial expense	5	**1.6**	**0.4**	**2.0**	1.3	–	1.3
Taxation	6	**6.2**	**–**	**6.2**	4.7	1.0	5.7
Loss on disposal of tangible assets		**–**	**–**	**–**	0.1	–	0.1
Increase in provisions		**0.2**	**–**	**0.2**	–	–	–
Share-based payments charge	22	**1.7**	**–**	**1.7**	1.0	–	1.0
Operating cash flow before movement in working capital		**47.6**	**(2.7)**	**44.9**	37.2	–	37.2
Decrease/(increase) in trade and other receivables		**6.2**	**–**	**6.2**	(23.5)	(5.0)	(28.5)
(Increase) in inventories		**(14.6)**	**1.5**	**(13.1)**	(4.8)	–	(4.8)
(Decrease)/increase in trade and other payables		**(4.2)**	**0.4**	**(3.8)**	25.2	–	25.2
Cash from operations		**35.0**	**(0.8)**	**34.2**	34.1	(5.0)	29.1
Tax paid		**(8.1)**	**–**	**(8.1)**	(5.7)	–	(5.7)
Net cash from operating activities		**26.9**	**(0.8)**	**26.1**	28.4	(5.0)	23.4
Cash flows from investing activities							
Acquisition of property, plant and equipment		**(5.7)**	**–**	**(5.7)**	(3.3)	–	(3.3)
Acquisition of other intangible assets		**(0.9)**	**–**	**(0.9)**	(1.1)	–	(1.1)
Disposal of tangible assets		**0.2**	**–**	**0.2**	–	–	–
Acquisition of subsidiary	26	**(16.3)**	**–**	**(16.3)**	–	–	–
Investment in associate	11	**(2.1)**	**–**	**(2.1)**	–	–	–
Net cash used in investing activities		**(24.8)**	**–**	**(24.8)**	(4.4)	–	(4.4)
Cash flows from financing activities							
Origination/(repayment) of borrowings		**14.5**	**–**	**14.5**	(3.8)	–	(3.8)
Interest paid		**(1.7)**	**–**	**(1.7)**	(1.3)	–	(1.3)
Dividends paid		**(11.2)**	**–**	**(11.2)**	(4.9)	–	(4.9)
Finance lease liabilities	17	**(1.4)**	**–**	**(1.4)**	(1.1)	–	(1.1)
Purchase of own shares	23	**(1.3)**	**–**	**(1.3)**	(2.7)	–	(2.7)
Net cash used in financing activities		**(1.1)**	**–**	**(1.1)**	(13.8)	–	(13.8)
Net increase in cash and cash equivalents		**1.0**	**(0.8)**	**0.2**	10.2	(5.0)	5.2
Cash and cash equivalents at 1 January				**6.7**			1.4
Effect of exchange rate fluctuations on cash held				**–**			0.1
Cash and cash equivalents at 31 December	15			**6.9**			6.7

1. Definition of the adjustments made and reconciliations to the reported figures can be found in note 1 of the consolidated statements on page 118.

The Group has adjusted the cash flow in respect of trade receivables by £nil (2020: £5.0m) reflecting the repayment of non-recourse debt factoring. There was no non-recourse debt factoring at either 31 December 2020 or 31 December 2021. The accompanying notes on pages 117 to 153 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2021

1 Introduction, other 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 distribution of wiring accessories, LED Lighting and Portable Power products to global markets.

Basis of accounting

The Group financial statements have been prepared and approved by the Directors in accordance with international accounting standards in accordance with UK-adopted international accounting standards ("UK-adopted IFRS"). The Company has elected to prepare its Parent Company financial statements in accordance with FRS 102; these are presented on pages 154 to 159. 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.

Accounting policy

Non-statutory measures of performance

The Group will review the financial statements to identify if there are any large/unusual items or transactions that are required to be removed to reflect the underlying business operations and these are applied consistently over time. These large/unusual items that have been identified are referred to as "Adjustments" and are detailed on pages 118 to 123.

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 at least 12 months from the date of signing these accounts. The Group has reported a profit before tax of £33.3m for the year to 31 December 2021 (2020: £33.6m), has net current assets of £63.7m (2020: £51.4m) and net assets of £87.7m (2020: £70.4m), net debt of £38.1m (2020: £18.3m) and cash generated from operations of £26.1m (2020: £23.4m). The bank facilities mature on 30 September 2024 as detailed below:

The capital resources at the Group's disposal at 31 December 2021 and 28 February 2022 were as follows:

- A revolving credit facility of £80.0m, £36.8m drawn at 31 December 2021 and £36.8m drawn at 28 February 2022

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

- Closing Covenant Net Debt of no more than 3.0 times Covenant EBITDA for the preceding 12-month period
- Covenant EBITDA of no less than 4.0 times Covenant Net Finance Expense for the preceding 12-month period

1 Introduction, other judgements and estimates, APMs and adjustments continued

Going concern continued

The Directors ran scenario tests on the severe but plausible downside case. The assumptions in this scenario were as follows: concentration risks with associated operations (25% reduction in revenue for three months followed by 50% reduction for three months and 20% increase in shipping costs during the period) and macroeconomic, political and environmental risks (18-month recession with a 10% reduction in revenue and gross profit). These severe but plausible downside scenarios do not lead to any breach in covenants nor any breach in facility. All modelling has been conducted without any mitigation activity. There have been no changes to post balance sheet liquidity positions.

The Directors are confident that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Estimates and judgements

The Directors do not consider there to be any key estimates or key judgements in preparing these financial statements.

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 following table and the principles to identify adjusting items have been applied on a basis consistent with previous years.

Nature of measure	Related IFRS measure	Related IFRS source	Definition	Use/relevance
Adjusted Gross Profit Margin	• Gross profit margin	• Consolidated Income Statement	• Based on the related IFRS measure but excluding the adjusting items. A breakdown of the adjusting items from 2021 and 2020, which reconciles the adjusted measures to statutory figures, can be found on pages 122 and 123	• 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
Adjusted Operating Costs	• Operating gross profit less operating profit	• Consolidated Income Statement		
Adjusted Operating Profit	• Operating profit	• Consolidated Income Statement		
Adjusted Profit for the Year	• Profit for the year (profit after tax)	• Consolidated Income Statement		
Adjusted Basic EPS	• Basic EPS	• Consolidated Income Statement		
Constant Currency			• Current period reviewed translated at the average exchange rate of the prior year	• Allows management to identify the relative year-on-year performance of the business by removing the impact of currency movements that are outside of management's control
EBITDA	• Operating profit	• Consolidated Income Statement	• Consolidated earnings before interest, tax, depreciation and amortisation	• Provides management with an approximation of cash generation from the Group's operational activities
Adjusted EBITDA	• Operating profit	• Consolidated Income Statement	• Consolidated earnings before interest, tax, depreciation and amortisation and the adjusting items excluded from Adjusted Operating Profit aside from any amortisation or depreciation "contained therein"	• Provides management with an approximation of cash generation from the Group's underlying operational activities
Covenant EBITDA	• Operating profit	• Consolidated Income Statement	• As above definition of "Adjusted EBITDA" but including EBITDA generated from acquisitions between 1 January and the date of acquisition	• Aligns with the definition of EBITDA used for bank covenant testing
Contribution profit	• Operating profit and operating costs	• Consolidated Income Statement	• Contribution profit is after allocation of directly attributable adjusted operating expenses for each operating segment	• Provides management with an assessment of profitability by operating segment
Contribution margin	• Operating profit and operating costs	• Consolidated Income Statement	• Contribution margin is contribution profit, as above, divided by revenue for each operating segment	• Provides management with an assessment of margin by operating segment

1 Introduction, other judgements and estimates, APMs and adjustments continued

Statutory and non-statutory measures of performance continued

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 less 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
Adjusted Operating Cash Conversion	• None	• Consolidated Cash Flow Statement • Consolidated Income Statement	• Operating Cash Conversion is defined as Adjusted Operating Cash Flow divided by Adjusted Operating Profit	• 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) expressed 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	2021	2020
Adjusted Operating Profit	39.0	30.0
Adjusted Depreciation and Amortisation	6.7	6.1
Adjusted EBITDA	**45.7**	36.1

Covenant EBITDA

£m	2021	2020
Adjusted EBITDA	45.7	36.1
EBITDA from acquisitions from 1 January 2021 to the date of acquisition	1.2	—
Covenant EBITDA	**46.9**	36.1

Adjusted Operating Cash Conversion

£m	2021	2020
Cash from operations (from Consolidated Cash Flow Statement)	34.2	29.1
Adjustments to cash from operations (from Consolidated Cash Flow Statement)	0.8	5.0
Adjusted Operating Cash Flow	**35.0**	34.1
Adjusted Operating Profit	39.0	30.0
Adjusted Operating Cash Conversion	89.7%	113.7%

Adjusted Net Cash Flow as % of revenue

	2021	2020
Adjusted Free Cash Flow (see below)	**18.8**	22.7
EBT Purchases	**(1.3)**	(2.7)
Dividends	**(11.2)**	(4.9)
Adjusted Net Cash Flow	**6.3**	15.1
Revenue	**228.2**	176.2
Adjusted Net Cash Flow as % of revenue	**2.8%**	8.6%

Adjusted Free Cash Flow

£m	2021	2020
Adjusted Operating Cash Flow (see table on previous page)	**35.0**	34.1
Net cash used in investing activities excluding acquisitions (from Consolidated Cash Flow Statement)	**(6.4)**	(4.4)
Interest paid (from Consolidated Cash Flow Statement)	**(1.7)**	(1.3)
Tax paid (from Consolidated Cash Flow Statement)	**(8.1)**	(5.7)
Adjusted Free Cash Flow	**18.8**	22.7
Revenue	**228.2**	176.2
Adjusted Free Cash Flow as % revenue	**8.2%**	12.9%

Return on Capital Investment

£m	2021	2020
Net assets	**87.7**	70.4
Net debt (see note 16)	**38.1**	18.3
Capital invested	**125.8**	88.7
Average capital invested (from last two years)	**107.3**	84.1
Adjusted Operating Profit (from above)	**39.0**	30.0
Return on Capital Invested (Adjusted Operating Profit/average capital invested)	**36.4%**	35.7%

1 Introduction, other judgements and estimates, APMs and adjustments continued

Statutory and non-statutory measures of performance continued

Additional metrics

Inventory days – 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. Organic revenue growth is calculated per the reconciliation on page 22 of the Chief Financial Officer's Review.

The following table reconciles all adjustments from the reported to the adjusted figures in the income statement:

£m	2021	Amortisation of acquired intangibles and related acquisition costs[1]	Re-measurement to fair value of hedging portfolio[2]	Restructuring[3]	2021 Adjustments	2021 Adjusted
Revenue	228.2	–	–	–	–	228.2
Cost of sales	(143.5)	–	–	–	–	(143.5)
Gross profit	84.7	–	–	–	–	84.7
Distribution expenses	(7.8)	–	–	–	–	(7.8)
Administrative expenses	(41.6)	1.4	–	2.3	3.7	(37.9)
Operating profit	35.3	1.4	–	2.3	3.7	39.0
Finance income	–	–	–	–	–	–
Finance expense	(2.0)	–	0.4	–	0.4	(1.6)
Net finance (expense)/income	(2.0)	–	0.4	–	0.4	(1.6)
Profit before tax	33.3	1.4	0.4	2.3	4.1	37.4
Taxation	(6.2)	0.1	(0.1)	–	–	(6.2)
Profit for the year	27.1	1.5	0.3	2.3	4.1	31.2
Gross margin % (gross profit/revenue)	37.1%					37.1%

1. Relating to Kingfisher Lighting and DW Windsor.
2. Relating to currency hedges.
3. Relating to the closure of Germany and France operations.

£m	2020	Amortisation of acquired intangibles and related acquisition costs[1]	Re-measurement to fair value of hedging portfolio[2]	2020 Adjustments	2020 Adjusted
Revenue	176.2	—	—	—	176.2
Cost of sales	(106.0)	—	—	—	(106.0)
Gross profit	70.2	—	—	—	70.2
Distribution expenses	(8.6)	—	—	—	(8.6)
Administrative expenses	(32.0)	0.4	—	0.4	(31.6)
Operating profit	29.6	0.4	—	0.4	30.0
Finance income	5.3	—	(5.3)	(5.3)	—
Finance expense	(1.3)	—	—	—	(1.3)
Net finance (expense)/income	4.0	—	(5.3)	(5.3)	(1.3)
Profit before tax	33.6	0.4	(5.3)	(4.9)	28.7
Taxation	(5.7)	—	1.0	1.0	(4.7)
Profit for the year	27.9	0.4	(4.3)	(3.9)	24.0
Gross margin % (gross profit/revenue)	39.8%				39.8%

1. Relating to Kingfisher Lighting.
2. Relating to currency hedges.

Standards and interpretations issued

The following UK adopted IFRS have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements, unless otherwise indicated, from 1 January 2021:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
- Amendments to References to the Conceptual Framework in IFRS 3
- Amendments to IAS 16: Property, Plant and Equipment – Proceeds before Intended Use
- Annual Improvements to IFRS Standards 2018-2020
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to introduce a new definition for accounting estimates
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statements 2 Making Materiality Judgements
- Amendments to IAS 12 Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

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 a 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.	46%	Largely when delivered to the customer. Free on Board ("FOB") when legal title passes to the customer (when the goods are on the ship).
LED Lighting	Revenue from the supply of commercial and domestic lighting solutions.	28%	Largely when delivered to the customer. FOB when legal title passes to the customer (when the goods are on the ship).
Portable Power	Revenue from the supply of goods in the form of Portable Power to retailers and wholesalers. Revenue from the supply of Ross-branded audio-visual products.	26%	Largely when delivered to the customer. FOB when legal title passes to the customer (when the goods are on the ship).

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 and Portable Power equipment. For the purposes of management reporting to the Chief Operating Decision-Maker (the Board), the Group consists of three 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 2021	Adjustments	Reported 2021	Adjusted 2020	Adjustments	Reported 2020
Revenue						
Wiring Accessories	**104.5**	**–**	**104.5**	81.3	–	81.3
LED Lighting	**63.2**	**–**	**63.2**	49.5	–	49.5
Portable Power	**60.5**	**–**	**60.5**	45.4	–	45.4
	228.2	**–**	**228.2**	176.2	–	176.2
Operating profit						
Wiring Accessories	**29.2**	**–**	**29.2**	23.0	–	23.0
LED Lighting	**3.4**	**(3.3)**	**0.1**	2.8	(0.4)	2.4
Portable Power	**6.4**	**(0.4)**	**6.0**	4.2	–	4.2
	39.0	**(3.7)**	**35.3**	30.0	(0.4)	29.6

The following table provides an analysis of adjustments made to each segment.

£m	2021 Total	2021 Amortisation of acquired intangibles and related costs[1]	2021 Restructuring[2]	2020 Total	2020 Amortisation of acquired intangibles and related costs[1]
Cost of sales					
Wiring Accessories	–	–	–	–	–
LED Lighting	–	–	–	–	–
Portable Power	–	–	–	–	–
Gross profit	–	–	–	–	–
Administrative expenses					
Wiring Accessories	–	–	–	–	–
LED Lighting	(3.3)	(1.4)	(1.9)	(0.4)	(0.4)
Portable Power	(0.4)	–	(0.4)	–	–
Total	(3.7)	(1.4)	(2.3)	(0.4)	(0.4)
Operating profit	(3.7)	(1.4)	(2.3)	(0.4)	(0.4)
Operating profit					
Wiring Accessories	–	–	–	–	–
LED Lighting	(3.3)	(1.4)	(1.9)	(0.4)	(0.4)
Portable Power	(0.4)	–	(0.4)	–	–
Operating profit	(3.7)	(1.4)	(2.3)	(0.4)	(0.4)

1. Relating to Kingfisher Lighting in 2020 and Kingfisher Lighting and DW Windsor in 2021.
2. Restructuring costs relating to the closure of Germany and France operations in 2021.

Revenue by location of customer

£m	2021	2020
UK	181.2	140.3
Europe	24.0	18.4
Middle East and Africa	7.6	7.0
Americas	10.6	6.7
Asia Pacific	4.8	3.8
Total revenue	228.2	176.2

Revenues exceeded 10% or more of total revenue for one customer. This customer's revenue represents 30% (2020: 31%) of total revenue and is across all operating segments.

Non-current assets by location

£m	2021	2020
UK	51.1	29.2
China	16.3	14.1
Other	1.0	0.6
Non-current assets	68.4	43.9

3 Expenses and auditor's remuneration

Included in the Consolidated Income Statement are the following:

£m	2021	2020
Research and development costs expensed as incurred	**3.0**	2.2
Depreciation of property, plant and equipment and right-of-use assets	**5.3**	4.3
Amortisation of intangible assets	**2.4**	2.2

Auditor's remuneration:

£m	2021	2020
Audit of these financial statements	**0.3**	0.3
Amounts receivable by the auditor and its associates in respect of:		
Additional amounts in respect of the audit of prior year's financial statements	**0.1**	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	
£m	2021	2020
Administration and support	**473**	433
Production	**1,343**	1,218
	1,816	1,651

The aggregate remuneration:

£m	2021	2020
Wages and salaries	**29.7**	32.1
Social security costs	**4.2**	2.2
Other pension costs	**0.8**	0.7
Share-based payment expense (note 22)	**1.7**	1.0
Total staff costs	**36.4**	36.0

5 Net finance (expense)/income

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	2021	2020
Finance income:		
Net gain on remeasurement to fair value of financial instruments	**–**	5.3
Finance expense:		
Net loss on remeasurement to fair value of financial instruments	**(0.4)**	–
Interest on finance leases	**(0.1)**	–
Interest on bank borrowings	**(1.5)**	(1.3)
Net finance (expense)/income	**(2.0)**	4.0

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	2021	2020
Current tax expense		
Current year – UK	**5.4**	5.4
Current year – overseas	**0.6**	1.0
Adjustment in respect of prior years	**0.6**	(0.4)
Current tax expense	**6.6**	6.0
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	**(0.6)**	(0.1)
Adjustment in respect of prior years	**0.2**	(0.2)
Deferred tax (credit)/expense	**(0.4)**	(0.3)
Total tax expense	**6.2**	5.7

Reconciliation of effective tax rate

£m	2021	2020
Profit for the year	**27.1**	27.9
Total tax expense	**6.2**	5.7
Profit before taxation	**33.3**	33.6
Tax using the UK corporation tax rate of 19.0% (2020: 19.0%)	**6.3**	6.4
Effect of tax rates in overseas jurisdictions	**—**	0.1
Tax credits	**(0.4)**	—
Non-deductible expenses	**0.1**	0.3
Adjustment in respect of previous periods	**0.5**	(0.6)
Effect of rate change in calculation of deferred tax	**0.2**	—
Deferred tax on share-based payments	**(0.3)**	(0.3)
Utilisation of unrecognised overseas brought forward tax losses	**(0.2)**	(0.2)
Total tax expense	**6.2**	5.7

6 Taxation continued

Reconciliation of effective tax rate continued

A tax reduction of £0.2m within overseas tax occurred in the period due to the utilisation of brought forward overseas trading losses previously not recognised as a deferred tax asset due to it being deemed unlikely that they could be utilised. The adjustment in respect of previous periods of £0.5m relates to differences between the Group's tax provisions at the date of the accounts being signed and the completion of the final Group's tax returns.

Factors which may affect future current and total tax charges

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Company's future current tax charge accordingly. The deferred tax liability at 31 December 2021 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary/timing differences (2020: 19%).

7 Earnings Per Share

£m	2021	2020
Earnings for calculating basic Earnings Per Share	27.1	27.9
Adjusted for:		
Restructuring of European operations	2.3	–
Amortisation of acquired intangibles and related acquisition costs	1.4	0.4
Remeasurement to fair value of hedging portfolio	0.4	(5.3)
Income tax on above items	–	1.0
Adjusted earnings for calculating Adjusted Basic Earnings Per Share	**31.2**	24.0

Number million	2021	2020
Weighted average number of ordinary shares		
Basic	154.1	154.7
Dilutive effect of share options on potential ordinary shares	3.8	2.7
Diluted	**157.9**	157.4

Pence	2021	2020
Basic Earnings Per Share	17.6	18.0
Diluted Earnings Per Share	17.2	17.7
Adjusted Basic Earnings Per Share	**20.2**	15.5
Adjusted Diluted Earnings Per Share	**19.8**	15.2

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	2021	2020
Final dividend for the year ended 31 December 2020 of 4.7p (2019: 1.7p) per ordinary share	7.2	2.6
Interim dividend for the year ended 31 December 2021 of 2.6p (2020: 1.5p) per ordinary share	4.0	2.3
Total dividend recognised during the year	**11.2**	4.9

The Board is proposing a final dividend for the year ended 31 December 2021 of 5.5p which is an £8.5m cash payment (2020: £7.2m).

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	three to ten years
Fixtures and fittings	one to ten years
Motor vehicles	four years
Tooling	two to five years
Work in progress	no depreciation until the asset comes into economic use

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Leased assets

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 exemptions can be used.

Recognition exemptions: 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

The value of leases less than 12 months or low value was £0.1m (2020: £0.1m).

9 Property, plant and equipment continued

Lessee accounting: For leases acquired in a business combination, the Company measures the acquired lease liability at the present value of the remaining lease payments, as if the acquired lease were a new lease at the acquisition date. The right-of-use asset is measured at acquisition at the same amount as the lease liability, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms. 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.

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.

£m	Land and buildings	Plant and equipment	Fixtures and fittings	Motor vehicles	Tooling	Work in progress	Total
Cost							
Balance at 1 January 2020	14.9	11.0	2.2	—	9.6	0.6	38.3
Reclassification	(0.5)	0.4	—	0.2	—	—	0.1
Additions	—	1.3	—	—	1.2	0.8	3.3
Disposals	—	(0.2)	(0.1)	—	(0.5)	—	(0.8)
Effect of movements in foreign exchange	0.4	0.1	—	—	0.2	—	0.7
Balance at 31 December 2020	14.8	12.6	2.1	0.2	10.5	1.4	41.6
Reclassification	**—**	**(0.1)**	**—**	**—**	**0.1**	**—**	**—**
Acquisitions through business combinations (note 26)	**—**	**0.1**	**—**	**—**	**0.8**	**—**	**0.9**
Additions	**0.4**	**2.9**	**0.2**	**—**	**1.5**	**0.7**	**5.7**
Disposals	**—**	**(0.6)**	**(0.1)**	**—**	**(0.4)**	**—**	**(1.1)**
Effect of movements in foreign exchange	**0.4**	**0.2**	**0.1**	**—**	**0.2**	**0.1**	**1.0**
Balance at 31 December 2021	**15.6**	**15.1**	**2.3**	**0.2**	**12.7**	**2.2**	**48.1**
Depreciation							
Balance at 1 January 2020	4.2	7.1	1.8	—	8.2	—	21.3
Transfers	(0.3)	(0.2)	—	0.2	0.1	—	(0.2)
Depreciation charge for the year	0.5	1.5	0.2	—	0.9	—	3.1
Disposals	—	(0.2)	(0.1)	—	(0.4)	—	(0.7)
Effect of movements in foreign exchange	0.1	0.1	—	—	0.1	—	0.3
Balance at 31 December 2020	4.5	8.3	1.9	0.2	8.9	—	23.8
Transfers	**—**	**(0.1)**	**—**	**—**	**0.1**	**—**	**—**
Depreciation charge for the year	**0.6**	**1.8**	**0.1**	**—**	**1.0**	**—**	**3.5**
Disposals	**—**	**(0.5)**	**(0.1)**	**—**	**(0.3)**	**—**	**(0.9)**
Effect of movements in foreign exchange	**0.1**	**0.1**	**0.1**	**—**	**0.2**	**—**	**0.5**
Balance at 31 December 2021	**5.2**	**9.6**	**2.0**	**0.2**	**9.9**	**—**	**26.9**
Net book value							
At 1 January 2020	10.7	3.9	0.4	—	1.4	0.6	17.0
At 31 December 2020	10.3	4.3	0.2	—	1.6	1.4	17.8
At 31 December 2021	**10.4**	**5.5**	**0.3**	**—**	**2.8**	**2.2**	**21.2**

9 Property, plant and equipment continued

The carrying values of the following right-of-use assets:

£m	Land and buildings	Plant and equipment	Motor vehicles	Total
Cost				
Balance at 1 January 2020	2.5	1.3	0.4	4.2
Reclassification	—	(0.1)	—	(0.1)
Additions	0.9	0.1	0.2	1.2
Disposals	(0.2)	—	—	(0.2)
Balance at 31 December 2020	3.2	1.3	0.6	5.1
Acquisitions through business combinations (note 26)	**3.5**	**—**	**0.1**	**3.6**
Additions	**3.0**	**0.2**	**0.2**	**3.4**
Disposals	**(0.9)**	**—**	**—**	**(0.9)**
Effect of movements in foreign exchange	**(0.1)**	**—**	**—**	**(0.1)**
Balance at 31 December 2021	**8.7**	**1.5**	**0.9**	**11.1**
Depreciation				
Balance at 1 January 2020	0.8	0.3	0.1	1.2
Reclassification	—	0.2	—	0.2
Depreciation charge for the year	0.8	0.2	0.2	1.2
Disposals	(0.2)	—	—	(0.2)
Balance at 31 December 2020	1.4	0.7	0.3	2.4
Depreciation charge for the year	**1.3**	**0.3**	**0.2**	**1.8**
Disposals	**(0.9)**	**—**	**—**	**(0.9)**
Balance at 31 December 2021	**1.8**	**1.0**	**0.5**	**3.3**
Net book value				
At 1 January 2020	1.7	1.0	0.3	3.0
At 31 December 2020	1.8	0.6	0.3	2.7
At 31 December 2021	**6.9**	**0.5**	**0.4**	**7.8**

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 and brands

A fair value exercise which was conducted following the acquisition of Kingfisher Lighting and DW Windsor 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.

10 Intangible assets continued

Accounting policy continued

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	ten years
Capitalised development costs	five years
Customer relationships	two to 12 years
Tradenames and brands	five to 15 years

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 and brands	Total
Cost						
Balance at 1 January 2020	13.2	0.6	10.6	4.1	1.2	29.7
Other acquisitions – internally developed	—	—	1.1	—	—	1.1
Disposals	—	—	(4.5)	—	—	(4.5)
Balance at 31 December 2020	13.2	0.6	7.2	4.1	1.2	26.3
Acquisitions through business combinations (note 26)	**5.4**	**—**	**2.5**	**3.2**	**1.8**	**12.9**
Other acquisitions – internally developed	**—**	**—**	**0.9**	**—**	**—**	**0.9**
Balance at 31 December 2021	**18.6**	**0.6**	**10.6**	**7.3**	**3.0**	**40.1**
Amortisation						
Balance at 1 January 2020	—	0.3	5.7	0.8	0.3	7.1
Amortisation for the year	—	—	1.8	0.3	0.1	2.2
Disposals	—	—	(4.5)	—	—	(4.5)
Balance at 31 December 2020	—	0.3	3.0	1.1	0.4	4.8
Amortisation for the year	**—**	**0.1**	**1.8**	**0.5**	**—**	**2.4**
Balance at 31 December 2021	**—**	**0.4**	**4.8**	**1.6**	**0.4**	**7.2**
Net book value						
At 1 January 2020	13.2	0.3	4.9	3.3	0.9	22.6
At 31 December 2020	13.2	0.3	4.2	3.0	0.8	21.5
At 31 December 2021	**18.6**	**0.2**	**5.8**	**5.7**	**2.6**	**32.9**

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 £18.6m at 31 December 2021 is allocated as follows:

	Goodwill	
£m	**2021**	2020
Portable Power	**2.0**	2.0
Wiring Accessories	**4.0**	4.0
LED Lighting	**12.6**	7.2
	18.6	13.2

Each CGU is assessed for impairment annually and whenever there is a specific indication of impairment. There have been no impairment indicators in the year.

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 2025 are assumed to be 2.0% (2020: 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:

%	**2021**	2020
Portable Power	**9.2**	7.9
Wiring Accessories	**10.2**	8.8
LED Lighting	**11.3**	9.7

Sensitivity of results to changes in assumptions

Whilst management believe the assumptions are realistic, it is possible that 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 2025
- A 10% reduction in cash flows forecast over the next five years in the Group's Strategic Plan

11 Investment in associate

Accounting policy

The Group equity accounts for its investment in associate at cost less impairment in accordance with IFRS 9. The investment in associate was with EV Charge Points UK T/A EVCP Limited for £2.1m from August 2021, based in Crawley, England. The business manufactures electrical equipment for the electric vehicle charging sector. The investment represents 20% of the business. On 21 March 2022, the remaining 80% of the business was acquired by the Group at a cash and debt free enterprise value of £8.0m.

	£m
Carrying value	
At 1 January 2021	—
Additions	**2.1**
Share of profit of associate	**—**
At 31 December 2021	**2.1**

Summary financial information on associate – 100%

£m	**2021**
Current assets	**1.7**
Current liabilities	**(0.9)**
Net assets	**0.8**
Revenue	**2.9**
Profit for the year	**0.3**

12 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	**2021**	2020	**2021**	2020	**2021**	2020
Property, plant and equipment	**(0.1)**	—	**0.8**	0.2	**0.7**	0.2
Intangible assets	**—**	—	**2.5**	1.4	**2.5**	1.4
Losses	**(0.6)**	(0.4)	**—**	—	**(0.6)**	(0.4)
Share-based payments	**(2.6)**	(1.5)	**—**	—	**(2.6)**	(1.5)
Financial assets and liabilities	**(0.1)**	(0.3)	**—**	0.1	**(0.1)**	(0.2)
Deferred tax liability/(asset)	**(3.4)**	(2.2)	**3.3**	1.7	**(0.1)**	(0.5)

A deferred tax asset of £0.6m has been recognised against carried forward non-trading tax losses of £2.5m (2020: £2.2m) during the period as it is expected that they can be offset against current year profits.

Movement in deferred tax (asset)/liability during the year

£m	1 January 2021	Acquisition	Recognised in income	Recognised in equity	**31 December 2021**
Property, plant and equipment	0.2	—	0.6	—	**0.8**
Intangible assets	1.4	1.5	(0.5)	—	**2.4**
Losses	(0.4)	—	(0.2)	—	**(0.6)**
Share-based payments	(1.5)	—	(0.4)	(0.7)	**(2.6)**
Financial assets and liabilities	(0.2)	—	0.1	—	**(0.1)**
	(0.5)	1.5	(0.4)	(0.7)	**(0.1)**

A deferred tax liability had been recognised from intangible assets acquired when Kingfisher Lighting was acquired in 2017. A further deferred tax liability of £1.5m has been recognised in respect of intangible assets acquired as part of the acquisition of the DW Windsor Group in 2021.

Movement in deferred tax (asset)/liability during the prior year

£m	1 January 2020	Recognised in income	Recognised in equity	31 December 2020
Property, plant and equipment	—	0.2	—	0.2
Intangible assets	1.6	(0.2)	—	1.4
Losses	(0.5)	0.1	—	(0.4)
Share-based payments	—	(0.3)	(1.2)	(1.5)
Financial assets and liabilities	(0.1)	(0.1)	—	(0.2)
	1.0	(0.3)	(1.2)	(0.5)

13 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	**2021**	2020
Raw materials	**9.7**	5.0
Work in progress	**2.7**	1.0
Finished goods	**44.9**	31.2
	57.3	37.2

In 2021, inventories of £123.4m (2020: £104.0m) were recognised as an expense during the year and are included in “cost of sales”.

The inventory charge for write-downs was £3.8m (2020: £0.1m) in the period, of which £1.5m relates to the restructuring provision as detailed in note 1.

Write-downs and reversals are included in “cost of sales”. No reversals of stock provision occurred in the current or prior year.

14 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	**2021**	2020
Trade receivables	**67.9**	70.1
Prepayments and other receivables	**1.8**	1.7
	69.7	71.8

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables as at 31 December 2021. The loss amount has increased year-on-year due to an increase in the overall loss rate and a greater proportion of overdue receivables in the higher ageing category.

	31 December 2021			1 January 2021		
Age overdue (days)	**Loss rate (%)**	**Gross debtor (£k)**	**Loss amount (£k)**	Loss rate (%)	Gross debtor (£k)	Loss amount (£k)
Current	**0.59%**	**61,021.9**	**358.6**	0.75%	63,468.4	476.0
0-30	**0.64%**	**3,651.4**	**23.4**	0.79%	4,984.7	39.4
30-60	**1.24%**	**3,319.6**	**41.0**	0.81%	2,209.5	17.9
60-90	**3.97%**	**631.9**	**25.1**	2.38%	260.8	6.2
90-120	**1.23%**	**682.9**	**8.4**	1.19%	517.9	6.2
120+	**47.57%**	**1,173.7**	**558.3**	34.69%	355.0	123.1
Total	**1.44%**	**70,481.4**	**1,014.8**	0.37%	71,796.3	668.8

15 Cash and cash equivalents

£m	**2021**	2020
Current cash balances	**6.9**	6.7

16 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 20 of the consolidated financial statements.

£m	**2021**	2020
Non-current liabilities		
Revolving credit facility	**36.8**	13.6
Secured bank loans – invoice financing	**—**	8.6
	36.8	22.2

Terms and debt repayment schedule

£m	Currency	Nominal interest rate	Year of maturity	**Face value[1] 2021**	**Carrying amount[1] 2021**	Face value[1] 2020	Carrying amount[1] 2020
Revolving credit facility	GBP	1.75% + SONIA	2024	**36.8**	**36.8**	13.6	13.6
Secured bank loan	GBP	1.75% + base rate	Replaced with RCF as above	**—**	**—**	8.6	8.6
				36.8	**36.8**	22.2	22.2

1. For more information on fair value/carrying value assessment, see note 20 of the consolidated financial statements.

Bank loans are secured by a fixed and floating charge over the assets of the Group.

At 31 December 2021, undrawn facilities were £43.2m (2020: £27.8m).

£m	2021	2020
Net debt as at 31 December represented by:		
Revolving credit facility	**36.8**	13.6
Secured bank loans – invoice financing	**—**	8.6
Cash and cash equivalents	**(6.9)**	(6.7)
Finance leases – pre-IFRS 16	**0.7**	0.7
Covenant Net Debt	**30.6**	16.2
Finance leases – post-IFRS 16	**7.5**	2.1
Net debt	**38.1**	18.3

£m	Cash	Borrowings	Finance leases	Total
Net debt movement:				
As at 1 January 2021	(6.7)	22.2	2.8	**18.3**
Cash (in)/outflow	(0.2)	14.5	(1.4)	**12.9**
Additions to finance leases	—	—	6.8	**6.8**
Effect of exchange rate fluctuations on cash held	—	0.1	—	**0.1**
As at 31 December 2021	(6.9)	36.8	8.2	**38.1**

17 Other financial liabilities and provisions

Accounting policy

The Group has leases for the main warehouse and related facilities, offices 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 three to five years. Leases of property generally have a lease term ranging from three years to seven 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.

Provisions

£m	2021	2020
Non-current liabilities		
Dilapidations provisions	**1.1**	1.1
Warranty provisions	**0.2**	—
Warranty provision acquired on acquisition	**0.3**	—
	1.6	1.1

17 Other financial liabilities and provisions continued

Finance lease

£m	2021	2020
Current liabilities		
Lease liabilities	**2.2**	1.2
Non-current liabilities		
Lease liabilities	**6.0**	1.6

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments		Interest		Present value of minimum lease payments	
£m	**2021**	2020	**2021**	2020	**2021**	2020
Less than one year	**2.2**	1.2	**–**	–	**2.2**	1.2
Between one and five years	**6.5**	1.9	**(0.5)**	(0.3)	**6.0**	1.6
	8.7	3.1	**(0.5)**	(0.3)	**8.2**	2.8

Reconciliation of interest payments from cash flow

£m	2021	2020
Interest paid from leases under IFRS 16	**0.1**	0.1
Interest paid excluding interest from leases under IFRS 16	**1.6**	1.2
Interest paid per cash flow	**1.7**	1.3

18 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	2021	2020
Current liabilities		
Trade payables	**38.8**	39.7
Other payables and accrued expenses	**27.7**	23.9
Trade and other payables	**66.5**	63.6

19 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 was £0.8m (2020: £0.7m).

20 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 pages 122 and 123. 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.

20 Financial instruments continued

Accounting policy continued

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.

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	**2021**	2020
Trade receivables	**67.9**	70.1
Cash and cash equivalents	**6.9**	6.7
Financial assets held for trading	**4.7**	5.5
	79.5	82.3

20 Financial instruments continued

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's credit risk is significantly reduced as the Group utilises Letters of Credit for its largest customer.

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 2021, the Group had an allowance for impairment of £1.0m (2020: £0.6m). The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was as follows:

	Carrying amount	
£m	**2021**	2020
Europe	**57.4**	65.9
North America	**0.1**	0.2
Rest of World	**10.4**	4.0
	67.9	70.1

Of this total balance, £16.1m is with our largest customer.

Cash and cash equivalents

The Group held cash of £6.9m at 31 December 2021 (2020: £6.7m), which represents its maximum credit exposure on these assets. There are no cash equivalents in the year. 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 2021 (£m)	Carrying amount	Within 1 year	1-2 years	2-5 years
Non-derivative financial liabilities:				
Secured bank loans – invoice financing	**–**	**–**	**–**	**–**
Revolving credit facility	**36.8**	**–**	**–**	**36.8**
Financial assets held for trading	**0.1**	**0.1**	**–**	**–**
Finance leases	**8.2**	**2.2**	**1.9**	**4.1**
Trade payables	**38.8**	**38.8**	**–**	**–**
	83.9	**41.1**	**1.9**	**40.9**

31 December 2020 (£m)	Carrying amount	Within 1 year	1-2 years	2-5 years
Non-derivative financial liabilities:				
Secured bank loans – invoice financing	8.6	—	—	8.6
Revolving credit facility	13.6	—	—	13.6
Financial assets held for trading	0.5	0.5	—	—
Finance leases	2.8	1.2	0.7	0.9
Trade payables	39.7	39.7	—	—
	65.2	41.4	0.7	23.1

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 2021, 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 2021, a change of 100 basis points in interest rates 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.

	Profit or loss	
£m	100bps increase	100bps decrease
31 December 2021		
Variable rate instruments	**(0.3)**	**0.3**
Cash flow sensitivity (net)	**(0.3)**	**0.3**
31 December 2020		
Variable rate instruments	(0.2)	0.2
Cash flow sensitivity (net)	(0.2)	0.2

The Group's capital structure policy is to ensure Covenant Net Debt remains in a range of 1.0 to 2.0 times Covenant EBITDA (the definition of the adjustments made and reconciliations to the reported figures can be found in note 1 of the consolidated statements on pages 117 to 123).

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 forward.

20 Financial instruments continued

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:

	2021			2020		
£m	RMB	USD	EUR	RMB	USD	EUR
Trade receivables	–	27.3	0.5	–	33.8	0.6
Bank facilities	–	(14.6)	0.2	0.3	(26.6)	0.3
Trade payables	(10.2)	(1.7)	(0.2)	(8.2)	(1.7)	(0.2)
Net statement of financial position exposure	**(10.2)**	**11.0**	**0.5**	(7.9)	5.5	0.7

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
£m	2021	2020	2021	2020
USD	1.38	1.28	1.35	1.36
EUR	1.16	1.12	1.19	1.11
RMB	8.87	8.92	8.59	8.91

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 2020, as indicated below.

£m	Equity	Profit/(loss)
31 December 2021		
GBP strengthens against the USD by 10%	**(1.0)**	**(1.0)**
GBP strengthens against the EUR by 10%	**–**	**–**
GBP strengthens against the RMB by 10%	**0.9**	**0.9**
31 December 2020		
GBP strengthens against the USD by 10%	(0.5)	(0.5)
GBP strengthens against the EUR by 10%	(0.1)	(0.1)
GBP strengthens against the RMB by 10%	0.7	0.7

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.

The Group holds financial derivative instruments to manage the currency risks on USD and RMB used to transact the current and future settlement of monetary assets and liabilities.

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	2021	2020
Assets carried at amortised cost:		
Trade receivables	**67.9**	70.1
Cash and cash equivalents	**6.9**	6.7
Assets carried at fair value:		
Financial assets held for trading	**4.7**	5.5
Financial assets	**79.5**	82.3
Liabilities carried at amortised cost:		
Secured bank loans – invoice financing	**–**	8.6
Revolving credit facility	**36.8**	13.6
Finance leases	**8.2**	2.8
Trade payables	**38.8**	39.7
Liabilities carried at fair value		
Financial assets held for trading	**0.1**	0.5
Financial liabilities	**83.9**	65.2

The fair value of financial assets and liabilities that are held at amortised cost 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.

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 2021 are financial assets held for trading, which relate to forward exchange contracts. The fair value asset/(liability) is shown below:

£m	2021	2020
Financial asset/(liability) held for trading	**4.6**	5.0

At 31 December 2021, undrawn facilities were £43.2m (2020: £27.8m).

21 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 £80m 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 Covenant Net Debt : Covenant EBITDA ("Leverage Ratio") within a target range of 1.0 to 2.0 : 1, averaging 1.5 across each economic cycle
- Maintain Covenant EBITDA : Adjusted Net finance expense ("Interest Cover Ratio") of at least 4.0 : 1
- Apply a progressive dividend policy, with a payout rate of 40%-60% of adjusted earnings
- 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 Covenant Net Debt to Covenant EBITDA ratio is calculated in accordance with the Group's loan agreements, as follows:

£m	2021	2020
Covenant EBITDA (see note 1)	**46.9**	36.1
Covenant Net Debt (see note 16)	**30.6**	16.2
Covenant Net Debt : Covenant EBITDA	**0.7**	0.4

The Covenant EBITDA : Net finance expense ratio is calculated as follows:

£m	2021	2020
Covenant EBITDA (see note 1)	**46.9**	36.1
Adjusted Net finance expense (see note 1)	**1.6**	1.3
Covenant EBITDA : Adjusted Net finance expense	**29.3**	27.8

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

2021 year-end covenant	Covenant	2021 actual	Headroom
Covenant Net Debt : Covenant EBITDA	3.0 : 1	0.7 : 1	Covenant Net Debt headroom: £110.1m[1] Adjusted EBITDA headroom: £36.7m
Covenant EBITDA : Adjusted Net finance expense	4.0 : 1	29.3 : 1	Adjusted EBITDA headroom: £40.5m Adjusted Net finance expense headroom: £10.1m

1. Headroom with increased facility. Current facility headroom is £43.2m.

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

	2021	2020
Adjusted Earnings Per Share (pence)	**20.2**	15.5
Covenant Net Debt : Covenant EBITDA (times)	**0.7**	0.4
Adjusted Free Cash Flow (£m)	**18.8**	22.7

22 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 £1.7m (2020: £1.0m) included in the Consolidated Income Statement within administrative expenses.

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	
	2021	2020	**2021**	2020
Outstanding at 1 January	**45,915**	64,666	**791,324**	618,702
Granted during the year	**—**	—	**80,900**	211,566
Forfeited during the year	**—**	(4,042)	**(18,686)**	(12,711)
Released during the year	**(9,449)**	(14,709)	**(54,952)**	(26,233)
Outstanding at 31 December	**36,466**	45,915	**798,586**	791,324

22 Share-based payments continued

Share Incentive Plan continued

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 (2020: £0.1m) 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 94:

Executive Directors	Role	Number of shares awarded
John Hornby	Chief Executive Officer	135,347
Matt Webb	Chief Financial Officer	116,025

Measurement of fair values

The 2021 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 2021 to 31 December 2023. For the TSR condition, this runs for three years from the three-month average TSR to 26 March 2021, the date of the grant, to the three-month average TSR to 25 March 2024. No consideration was paid for any of the awards.

As the options under the 2021 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 2021	2021	2020
Three-day average share price before options were issued (pence)	**273.00**	109.33
Fair value of share options	**231.2p**	92.2p
Average expected volatility	**70%**	85%
Expected life	**3 years**	3 years
Risk-free rate	**0.10%**	-0.11%

The share-based payments charge of £1.7m (2020: £1.0m) included in the Consolidated Income Statement within administrative expenses is attributable to the LTIP nominal cost options.

A summary of the number and weighted-average exercise prices of share options under the share option programmes were as follows:

	2021		2020	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding at 1 January	**6,166,222**	**0.05p**	4,790,293	0.05p
Granted during the year	**904,591**	**0.05p**	1,516,782	0.05p
Forfeited during the year	**—**	**0.05p**	(140,853)	0.05p
Exercised during the year	**(1,194,174)**	**0.05p**	—	0.05p
Lapsed during the year	**—**	**0.05p**	—	0.05p
Outstanding at 31 December	**5,876,639**	**0.05p**	6,166,222	0.05p

As at 31 December 2021, a total of 5,876,639 options were outstanding which had an average exercise price of 0.05p, and a weighted average remaining contractual life to vesting of 13 months.

During the year, 415,323 tax-qualifying share options were granted to employees (2020: 413,615) at an average price of nil (2020: nil). During the year the fair value of options granted was £1.5m (2020: £1.5m).

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 2021, the Trust had 5,982,189 shares held at a cost of £6.7m (31 December 2020: 6,676,363 shares at a cost of £6.8m). These shares are held within the treasury reserve and are shown in the Consolidated Statement of Changes in Equity.

23 Capital and reserves

Share capital

	Allotted, called up and fully paid		Number of shares in issue (thousands)	
	2021 £	2020 £	**2021 Number**	2020 Number
At 1 January	**80,400**	80,400	**160,800**	160,800
At 31 December	**80,400**	80,400	**160,800**	160,800

All ordinary shares, except for those shares held by the Employee Benefit Trust ("EBT"), carry one vote per share at general meetings of the Company, participate equally with the distribution of dividends and capital (including on a winding up) and are not redeemable.

Reserves

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 arose when the Group bought back equity share capital and this is held in trust by the Trustee of the Group's EBT to satisfy the Group's share option schemes. Treasury shares cease to be accounted for as such when the interest is transferred in full to the participant pursuant to the terms of the relevant plan. At 31 December 2021, the EBT held 5,982,189 of the Company's shares (2020: 6,676,363 shares)
- The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the foreign currency translation differences on investments in overseas entities

24 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.

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	2021	2020
Remuneration (including benefits in kind)	**6.9**	7.2
Element of share-based payments expense	**1.7**	1.0
	8.6	8.2

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 91. The remuneration figure reflects £3.3m in respect of the Chief Financial Officer's and Chief Operating Officer's 2018 Performance Share Plan. There were no other gains exercised on share options or under long-term incentive schemes in respect of qualifying services made by any other Executive or Non-Executive Directors in respect of 2021 (2020: nil).

Defined contribution pension scheme retirement benefits are accruing to one Director at the year end (2020: one).

25 Ultimate Parent Company, controlling party and changes in significant accounting policies

There is no controlling party.

26 Acquisitions

Current year acquisition

On 12 October 2021, the Group completed the acquisition of DW Windsor Group Limited. The fair value of the consideration paid and the consolidated net assets acquired, together with the goodwill arising in respect of this acquisition, was as follows:

£m	Fair value on acquisition
Intangible assets	**7.5**
Property, plant and equipment	**4.5**
Inventories	**5.3**
Trade and other receivables	**4.2**
Cash	**2.5**
Interest-bearing loans and borrowings	**(3.5)**
Deferred tax assets/(liabilities)	**(1.5)**
Trade and other payables	**(5.2)**
Provisions	**(0.4)**
Total	**13.4**
Consideration – cash	**18.8**
Goodwill arising	**5.4**

The fair value adjustments primarily comprised adjustments to:

- Recognise £3.2m of acquired customer-related intangible assets
- Recognise £2.5m of acquired technology intangible assets
- Recognise £1.8m of acquired brand intangible assets
- Recognise deferred tax balances

Impact of current year acquisition

Income statement

During the year, this acquisition contributed revenues of £3.6m and operating loss of £0.1m to the Group. If the acquisition had occurred on 1 January 2021, the results of the Group would have shown revenue of £19.4m and operating profit of £1.7m.

Cash flow

The cash flow impact of the acquisition in the year can be summarised as follows:

	£m
Consideration paid for the current year acquisition	18.8
Cash acquired	(2.5)
Total	**16.3**

Acquisition costs

The Group incurred acquisition-related costs of £0.7m in relation to the acquisition of DW Windsor Group Limited. These have been included as adjustments to administrative costs, as outlined in note 1.

27 Post Balance Sheet Events

On 21 March 2022 the Group purchased the remaining 80% share of EV Charge Points UK T/A EVCP Limited following the 20% acquisition of the business in August 2021. A description of this business is found in note 11.

Company Balance Sheet
at 31 December 2021

£m	Note	2021	2020
Non-current assets			
Investments	29	**3.3**	1.7
Debtors	30	**77.8**	50.3
Net assets		**81.1**	52.0
Capital and reserves			
Called-up share capital	31	**0.1**	0.1
Share premium account		**24.8**	24.8
Treasury reserve		**(6.7)**	(6.8)
Profit and loss account		**62.9**	33.9
Equity		**81.1**	52.0

The accompanying notes on pages 156 to 159 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 22 March 2022 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 2021

£m	Share capital	Share premium	Retained earnings	Treasury reserve	Total equity
Balance at 1 January 2020	0.1	24.8	17.8	(4.1)	38.6
Total comprehensive income					
Profit for the year	–	–	20.0	–	20.0
Total comprehensive income for the year	–	–	20.0	–	20.0
Transactions with owners in their capacity as owners:					
Dividends	–	–	(4.9)	–	(4.9)
Purchase of own shares	–	–	–	(2.7)	(2.7)
Share-based payments charge	–	–	1.0	–	1.0
Total transactions with owners in their capacity as owners	–	–	(3.9)	(2.7)	(6.6)
Balance at 31 December 2020	0.1	24.8	33.9	(6.8)	52.0
Total comprehensive income					
Profit for the year	**–**	**–**	**40.0**	**–**	**40.0**
Total comprehensive income for the year	**–**	**–**	**40.0**	**–**	**40.0**
Transactions with owners in their capacity as owners:					
Dividends	**–**	**–**	**(11.2)**	**–**	**(11.2)**
Purchase of own shares	**–**	**–**	**–**	**(1.3)**	**(1.3)**
Disposal of own shares	**–**	**–**	**(1.4)**	**1.4**	**–**
Share-based payments charge	**–**	**–**	**1.6**	**–**	**1.6**
Total transactions with owners in their capacity as owners	**–**	**–**	**(11.0)**	**0.1**	**(10.9)**
Balance at 31 December 2021	**0.1**	**24.8**	**62.9**	**(6.7)**	**81.1**

The accompanying notes on pages 156 to 159 form an integral part of these financial statements.

28 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. Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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.

29 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 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	**2021**	2020
Balance at 1 January	**1.7**	0.7
Share-based payment charge relating to subsidiaries	**1.6**	1.0
Balance at 31 December	**3.3**	1.7

29 Fixed asset investments continued

The Company holds 100% of the share capital of the following companies (with only Luceco Holdings Limited being a direct investment) 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*	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
Luceco (Hong Kong) Limited	Room 2401, 24th Floor, CC Wu Building, 302-308 Hennessy Road, Wanchai, Hong Kong	Registered 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
Luceco GmbH	Holstenplatz 20b, 22765 Hamburg, Germany	Administrative and development office	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 FZCO	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, installer and distributor	100
DW Windsor Group Limited*	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Intermediate holding company	100
D.W. Windsor Limited*	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Manufacture of electric lighting equipment	100
Pulsar Lighting Solutions Limited*	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Manufacture of electric lighting equipment	100
Urban Control Limited*	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Manufacture of electric lighting equipment	100
Fusion Lighting Limited*	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Dormant	100
Street Lighting Limited*	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Dormant	100
EV Charge Points UK T/A EVCP Limited	Burlands Charlwood Road, Ifield, Crawley, England RH11 0JZ	Manufacture of electric vehicle chargers	100

* All UK registered subsidiaries are exempt from audit, which is set out within Section 479A of the Companies Act 2006 for the year ended 31 December 2021. The Company will guarantee the debts and liabilities of each of the UK subsidiary undertakings at the balance sheet date in accordance with Section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

30 Debtors

£m	**2021**	2020
Amounts owed by Group undertakings	**77.8**	50.3

Amounts owed by the Group's subsidiaries are repayable at the Company's discretion and attract no interest.

31 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)	
	2021 £	2020 £	**2021 Number**	2020 Number
At 1 January 2021	**80,400**	80,400	**160,800**	160,800
At 31 December 2021	**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.

32 Ultimate parent and controlling party

There is no controlling party.

Company Information

Financial calendar

Dividend record date	8 April 2022
Dividend reinvestment plan final date for election	28 April 2022
Annual General Meeting	12 May 2022
Dividend paid	20 May 2022
Half-year end	30 June 2022
Half-year end trading update	19 July 2022
Half-year interim management statement	6 September 2022
Year end	31 December 2022
Full-year results	March 2023

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 2021 to 31 December 2021.

Share price (pence)	High	Low	Average	Financial year end[1]
2021	**497.0**	**231.0**	**336.9**	**348.5**
2020	267.0	44.0	151.0	253.0

1. Last trading day at the London Stock Exchange, 30 December 2021.

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 Group, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL**. Alternatively, shareholders can contact **Link Group** on **+44 (0)371 664 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 **shareholderenquiries@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 **4th Floor Rear, 67/68 Jermyn Street, London SW1Y 6NY** 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) 207 291 3310**. 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 https://www.fca.org.uk/consumers/report-scam-us#Report 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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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.

Notes

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