Stelrad Group plc

Helping to heat homes sustainably

Stelrad Group plc
Annual Report 2021

Driven by our core purpose

Our purpose is helping to heat homes sustainably

Revenue
£272.3m
(2020: £196.6m)

Adjusted operating profit(1)
£33.2m
(2020: £15.6m)

Adjusted free cash flow(1)
£18.2m
(2020: £12.5m)

Adjusted EPS(1)
16.92p
(2020: 4.44p)

(1) Adjusted figures are stated before exceptional items, foreign exchange differences and tax thereon where applicable.

Highlights

- Adjusted operating profit rose by 112.3% to £33.2 million
- Good progress across all territories during 2021
  - UK & Ireland – 45.8% revenue growth, 150.5% growth in adjusted operating profit
  - Europe – 30.4% revenue growth, 31.6% growth in adjusted operating profit
  - Turkey & International – 43.7% revenue growth, 137.9% growth in adjusted operating profit
- Total sales volume increased by 20% versus 2020 and was 9% higher than in 2019, the last pre-pandemic year
- Profitability enhanced by further production transfers to low-cost Turkish facility and an improved mix of premium steel panel radiators where volumes rose by 15% versus 2020 and 23% relative to 2019
- Proactive price optimisation in light of substantial increases in steel prices
- Completed a six year, c£25 million programme of incremental investment into Stelrad's three main operational facilities
- Successful IPO on the London Stock Exchange's Main Market

stelradplc.com
Visit us online to see how we are innovating to drive sustainability

We are a leading radiator manufacturer and supplier, helping to heat homes sustainably

The Group's foundations are built on its four strong, well-established brands

Stelrad

Number 1 brand in the UK & Ireland
Originating in the UK and present across the world, Stelrad is our premier brand.

HENRAD

Number 1 brand in the Netherlands
Originating in Belgium, Henrad is a channel differentiated brand across European markets and was the fastest-growing steel panel radiator brand in the UK between 2016 and 2020.

termoteknik

Number 4 brand in Turkey
Our main brand in Turkey and across Eastern European markets, Termo Teknik is well regarded for its high quality relative to cost.

HUDEVAD RADIATOR DESIGN

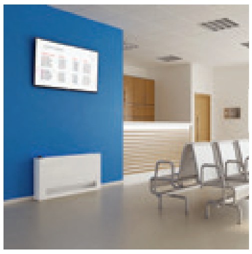
High end design radiator brand
Acquired by Stelrad Group in 2018, the Hudevad brand represents the best of Danish design, a favourite of architects, interior designers and commercial specifiers.

Our heat emitters transform people's experience of their worlds

Standard steel panel radiators

Premium steel panel radiators

Towel warmers



Low surface temperature radiators

Decorative steel tubular and column radiators

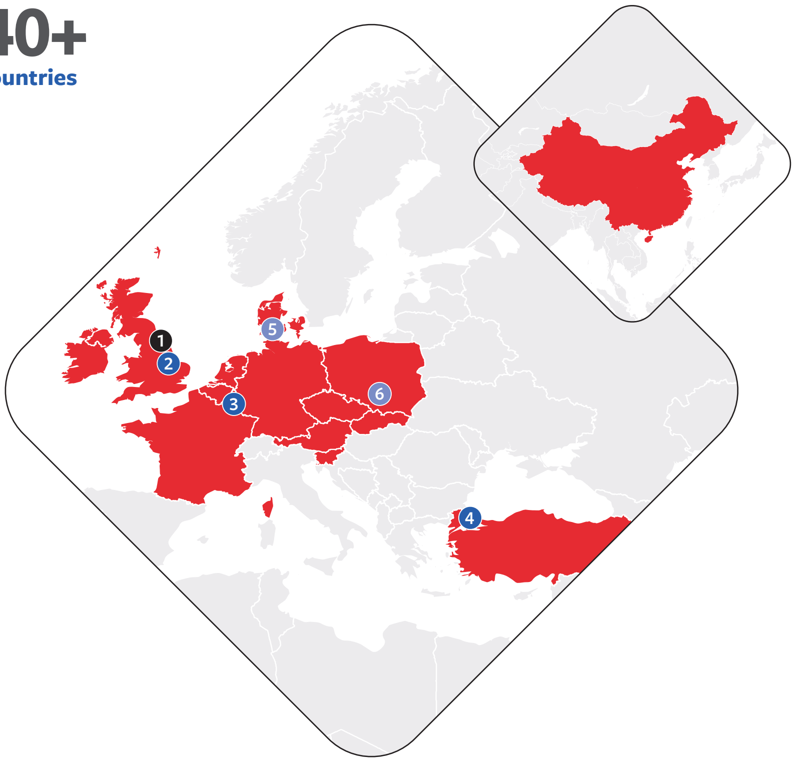
A significant long-term presence in the global radiator market

500+ customers

40+ countries

1. Head Office
   Newcastle upon Tyne, UK
2. UK Radiators
   Mexborough, UK
3. Continental Radiators
   Nuth, Netherlands
4. Termo Teknik
   Çorlu, Istanbul, Turkey
5. Hudevad
   Kolding, Denmark
6. Caradon Polska
   Kraków, Poland

- Head office
- Manufacturing, distribution and sales
- Distribution warehouse
- Sales presence



Our global presence is well established

Stelrad's three mature, well-invested, state of the art manufacturing facilities are supported by market leading distribution facilities designed to provide our customers across the world with high levels of product availability and service, backed up by an extensive sales operation in the UK & Ireland, Europe, Turkey and China.

UK & Ireland
£130.4m

Europe
£118.1m

Turkey & International
£23.8m

Developing an ESG strategy fit for the future is our commitment towards helping to heat homes sustainably

Supporting the future of home heating

We design home heating products which, as part of a well-designed system, help reduce carbon emissions from buildings and support an equitable net zero transition.

Minimising our environmental impacts

We reduce our own footprint by focusing on energy, waste and water in our operations and the resources needed to produce, package and transport our products.

Building an exceptional workplace

We empower our employees to be the best they can be, prioritising their safety, wellbeing and development, and promoting equality, diversity and inclusion.

Maintaining high business standards

We manage the Group for the benefit of all stakeholders through high ethical and corporate governance standards and a culture of accountability, integrity, transparency and responsibility.

▸ Read more on pages 20 to 35

Building on our business strengths

Our brand strength and well-established relationships with major distributors and specifiers, coupled with an extensive product portfolio and highly efficient operating infrastructure, mean we are well placed for growth – both organically and through strategic acquisition.

Trevor Harvey
Chief Executive Officer

Leading market position

A long-term player of scale in steel panel radiators

- Operating in a market with high barriers to entry
- Providing cost leadership and unrivalled production flexibility from a multisite manufacturing and logistics platform

No.1

market share position in the UK, Ireland, the Netherlands, Belgium and Denmark in 2020, with a top 3 market share position in eleven countries

▶ Read more about our markets on page 10

Robust business model

Attractive dynamics led by underlying replacement demand

- Proven resilience to external shocks through economic cycles, including 2008's global financial crisis and the Covid-19 pandemic
- Broad geographic spread and a growing mix of higher value design radiators, underpinned by focused cost management

180

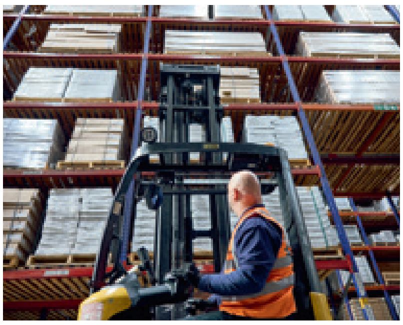
product ranges, with design and higher added value radiators representing 40% of total stock keeping units

▶ Read more about our business model on page 12

Experienced management and effective strategy

A customer-orientated leadership team with unparalleled sector experience

- Focus on quality, innovation and customer service
- Effective channel management driven by a multibrand strategy, active product repositioning and timely adaptation to continuously evolving routes to market



500+

customers in 40 countries

▶ Read more about our strategy on page 14

Strong financial position

A track record of consistent growth

- Sector leading margins with scope to improve through further operational leverage and product mix improvement
- Strong cash generation and return on capital employed

+9.9% CAGR

sales growth between 2018 and 2021

▶ Read more about our KPIs on page 16

Long-term focus on decarbonisation and ESG

Commitment to develop our ESG credentials continuously as the decarbonisation of residential home heating drives market transition over the coming decades

- Anticipated pan-European changes in environmental legislation relating to buildings are expected to present favourable near-term growth drivers for the radiator market as higher output heat emitters are required
- Stelrad and all its stakeholders will benefit from long-term sector transformation to a more sustainable heating model

99.97%

of waste recycled in 2021

▶ Read more about our ESG on page 20

Chair's statement

We are extremely grateful to our dedicated and loyal teams for their commitment

"Stelrad has continued to progress despite the disruption of the Covid-19 pandemic and this first Annual Report underlines the resilience of the business during challenging times.

Bob Ellis
Chair

Dear shareholder

It is a pleasure to be addressing you as Chair of Stelrad Group plc, following our successful flotation on the London Stock Exchange in November 2021. Despite the impact of the Covid-19 pandemic across the world, Stelrad's impressive progress continued in 2021 as we achieved a record financial performance.

This underlines the resilience of Stelrad's business model and the robustness of our strategy in the face of an unpredictable trading environment and volatility in commodity prices. I believe this resilience positions us well to capitalise on the opportunities of the future, as economies recover post-pandemic and decarbonisation initiatives increasingly influence the specification of tomorrow's heating systems.

Purpose

We define our purpose as **helping to heat homes sustainably**, recognising the valuable role that the Group has to play, both now and in the future, in the specification and supply of heating products that contribute effectively to environmental and social improvement.

People

Our main priority over the last two years has been the safety and wellbeing of our employees and their families. We are extremely grateful to our dedicated and loyal teams for their commitment during this unprecedented period of global disruption and for their outstanding contribution to ensuring a safe working environment whilst generating such exceptional business performance.

▶ **Read more on page 29**

Performance and results

Stelrad's strong set of results reflects the underlying resilience of the business despite the pandemic, with a 39% rise in Group revenue to £272.3 million alongside adjusted operating profit more than doubling to £33.2 million underlining the quality of our business.

The Group made good progress in all territories during 2021 with UK & Ireland, Europe and Turkey & International all delivering strong revenue and profit growth. This performance was aided by the supportive backdrop of the continued focus on decarbonisation and the move towards higher added value premium steel panel radiators. We completed our six-year programme of upgrading our three main facilities, which has seen a total of £25 million invested in our best-in-class manufacturing capabilities.

Dividends

The Group's strong financial results led the Board to recommend a final dividend of 0.96 pence per share, to be paid on a pro rata basis relating to the period between listing and 31 December 2021. Subject to approval by shareholders at the Annual General Meeting on 16 May 2022, the final dividend will be paid on 27 May 2022 to shareholders on the register on 29 April 2022.

Strategy

Our strong results in 2021 were driven by clear commercial and operational strategies developed, over many years, in pursuit of four key objectives: growing market share, improving product mix, optimising routes to market and positioning effectively for decarbonisation. We are confident the Group will have increased its overall market share in 2021, a year which saw us complete our significant programme of operational investment to provide the platform for future profitable growth.

2021 showed increasing contribution to performance from higher added value premium steel panel and design radiators. In addition, the Group continues to adapt quickly and effectively to evolving routes to market, with changes in distributor ownership and digital transformation set to affect the heating products supply chain over the longer term.

2021 was also notable for Stelrad's introduction of new products and expansion of product ranges particularly well adapted to lower temperature systems, in readiness for the transition to low and zero carbon heat sources anticipated over the coming years, as we strive to achieve our purpose of helping to heat homes sustainably.

▶ **Read more on page 14**

Environmental, social and governance ("ESG") objectives

Stelrad is committed to high standards of corporate responsibility, sustainability and employee engagement. We aim to consider fully the long-term impact of all our business operations. To that end, we have set up a task force, led by the Chief Executive Officer, to develop our ESG strategy more fully during the course of 2022, in line with our purpose of helping to heat homes sustainably.

To ensure sustainability remains at the heart of what we do, the task force will conduct a detailed review of the Group's activities in order to develop a comprehensive ESG strategy. This will build on our existing work to redefine our ambitions and targets and identify how we can better contribute to supporting wider international goals and will be fully aligned with our corporate aims, objectives and values.

▶ **Read more on page 20**

Board

I would like to take this opportunity to welcome our independent Non-Executive Directors Terry Miller, Nicola Bruce and Martin Payne to the Board and look forward to Stelrad benefiting from their experience and expertise over the coming years.

▶ **Read more on page 48**

Governance

The Group is committed to high levels of corporate governance, in line with its status as a company with a premium listing on the Main Market of the London Stock Exchange. Our compliance with the 2018 edition of the UK Corporate Governance Code is set out in the Governance Report on page 50.

Summary

Stelrad has continued to progress despite the disruption of the Covid-19 pandemic and our first Annual Report as a listed company underlines the strength of the business during challenging times. This strength is founded on a coherent and robust strategy for profitable long-term growth, substantial investment in our operational assets and the hard work and innovation of our experienced and dedicated people.

With the inevitable changes decarbonisation and digital transformation will bring, the Group is well positioned to maximise its opportunities as markets evolve, motivated by our core purpose to help to heat homes sustainably both now and in the future.

Bob Ellis
Chair
14 March 2022

We are conscious that how we perform as a business impacts our customers, our workforce and our world

"

As countries look to decarbonise homes and meet long-term net zero carbon commitments, we have a significant opportunity to help heat homes sustainably and, in so doing, build a stronger business for all Stelrad stakeholders.

Trevor Harvey
Chief Executive Officer

Overview

This financial year has been one of significant progress by the Stelrad Group, which culminated in November 2021 with our successful listing on the premium segment of the London Stock Exchange.

The Group delivered substantial organic revenue growth in 2021, increasing by 38.5% from £196.6 million in 2020 to £272.3 million, whilst adjusted operating profit rose by 112.3% to £33.2 million (2020: £15.6 million).

Satisfying performance against KPIs

In addition to revenue and profit growth, the Group also performed strongly against its other key metrics.

Sales volume increased by 20% versus 2020 and was 9% higher than in 2019, the last pre-pandemic year. This reflects Stelrad's progress in all of its key territories. The UK & Ireland delivered revenue growth of 45.8% and adjusted operating profit growth of 150.5% while, for Europe, revenue and adjusted operating profit growth were up 30.4% and 31.6% respectively. In our Turkey & International markets revenue grew by 43.7%, while adjusted operating profit rose by 137.9%.

Our growth in these metrics across all geographies was driven by volume recovery and timely, proactive price optimisation as steel prices rose substantially. Profitability was enhanced by further production transfers to our low-cost Turkish facility, and an improved mix of premium steel panel and design radiators.

As compared to 2020, Stelrad achieved very satisfying volume growth of 15% in higher added value premium steel panel radiators, representing an increase of 23% when compared to 2019. This is the outcome of our clear strategy to develop and grow this profitable segment, enabling us to fully capitalise on the Group's sustainable competitive advantage in this product category, notably in the UK, where total market volume is high, premium steel panel penetration is low and Stelrad has a strong leadership position.

Investment for the future

In 2021, Stelrad completed a six-year, c£25 million programme of incremental investment into its three main operational facilities. Our goals were to increase production flexibility, capacity and productivity, along with improving product quality. As a result, during 2021, we benefited from further transfers of production from our mainland European sites to the Group's lowest cost facility in Turkey.

The investment in our operational facilities is crucial to the Group improving the health, safety and wellbeing of our employees as demonstrated by our sites in the UK and Netherlands (as of January 2022) currently having both operated for over one full year without any lost time accidents. The Group is now focused on utilising the successes in the UK and Netherlands to further reduce the risk of lost time accidents in Turkey.

The transfer of production to Turkey combined with an improved premium steel panel product mix, drove a 4% increase in contribution per radiator versus 2020, an increase of 23% relative to 2019. Low-cost manufacturing remains an essential enabling strategy for market share growth and positions Stelrad as a natural consolidator of the radiator market over the longer term.

Following the creation of our European Distribution Centre in the Netherlands in 2019, we have also continued to pursue our strategy of making our products readily available for our customers, with 2021 investments in our warehousing facilities in Turkey and the UK. In the Danish market, where we gained market leadership in 2020, we established a new commercial and distribution hub to provide improved logistics for local customers.

Product range innovation

Stelrad has one of the radiator market's most comprehensive and innovative ranges of products. 2021 saw the addition of new electric and fan assisted radiators in the form of the Dahlia E and Vento ranges and further expansion of higher heat output vertical and triple panel, triple convector K3 steel panel ranges. These will form an increasingly important part of the Group's offer as we ensure we continue to provide heat emitters suitable for low and zero carbon heating systems, regardless of heat source. As countries look to decarbonise homes and meet long-term net zero carbon commitments, we have a significant opportunity to help heat homes sustainably and, in so doing, build a stronger business for all Stelrad stakeholders.

Embracing digital transformation

In the private residential RMI segment, routes to market are evolving and sustained progress is being made by multichannel players, which combine a network of physical retail outlets with a strong online presence. Stelrad is well positioned to benefit from the opportunities arising from digital transformation, both through supply to the leading players in the specialist online and multichannel segment and through a programme of increasing investment in its own digital presence in the business to consumer ("B2C") market.

The Group also continues to invest in Building Information Modelling to ensure specifiers in new build and commercial segments can easily incorporate Stelrad products into their building and heating system designs.

Outlook

Trading since the period end has remained broadly in line with management expectations with some reduction in overall volumes more than offset by increased revenues and improving margins.

The Group's market leading products and brands, coupled with unrivalled access to specifiers, mean that the Group remains very well positioned versus its competitors across all key geographies.

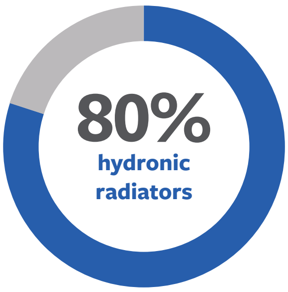
Notwithstanding supply chain challenges impacting the building products sector, including the situation in Ukraine, expectations for the year remain unchanged and the Group remains well placed to build on the strong momentum generated in 2021.

Trevor Harvey
Chief Executive Officer
14 March 2022

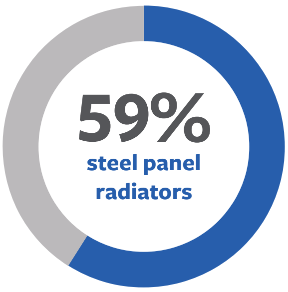
In a mature and competitive market, scale in steel panel radiators and a strategy of differentiation position Stelrad effectively for continued success

Hydronic systems dominate the heating market, with steel panel radiators by far the most popular heat emitter. Demand for radiators is driven substantially by the replacement market, which reduces exposure to economic cycles

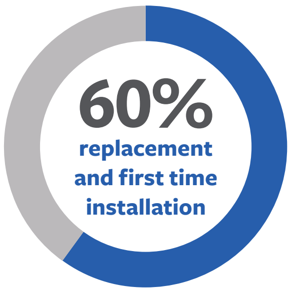
Residential heating systems by type



Hydronic heat emitters by type



Steel panel radiator demand drivers



The Group operates across three core geographies

UK & Ireland

50%

market share in 2020

Sales to the UK & Ireland represented 48% of Stelrad's 2021 turnover, with the Group holding a clear leadership position in both countries in 2020. Between 2018 and 2021, we recorded 12.9% compound annual sales growth in this geography, also benefiting significantly from competitor QRL's exit from the market after entering administration during 2019. Sales value in 2021 rose following post-Covid-19 volume growth and selling price increases.

Europe

9%

market share in 2020

Across Europe, which represented 43% of Stelrad's 2021 turnover, Stelrad held a further nine top 3 market positions in 2020. We led the market in our long-established core countries, Belgium and the Netherlands. In Denmark, we leveraged our 2018 acquisition of Hudevad to introduce local distribution capabilities for the Stelrad brand, launching into three of the top four distributors and gaining number one status in the process. We have continued to develop market share in France, holding a clear number three position in 2020 following 14.4% compound annual sales growth between 2018 and 2021. Overall growth has been driven by successful business development activity with several of Europe's leading building products distributors.

Turkey & International

6%

market share in 2020

Our third geography represented 9% of Stelrad's 2021 turnover. The Group held a number 4 market position in Turkey with 7.4% share in 2020, following our 2018 strategic decision to reduce risk exposure to this market and its currency. In China, 4.5% share in 2020 represented a number seven market position, as we positioned our brands as a premium European offer in this growing market.

Our strategy aligns with underlying market trends

Historical market stability

Link to strategy 1 Growing market share

Between 2009 and 2019, overall hydronic radiator market volumes were broadly flat with little evidence of cyclical demand drivers, as demonstrated by 0.2% CAGR for steel panel radiators over that period. Following the impact of Covid-19 during 2020, markets fundamentally recovered to pre-pandemic levels during the course of 2021.

Our opportunity

Leveraging Stelrad's scale, operational flexibility and low cost manufacturing derived from well-invested assets, in combination with a market leading logistics capability, provides the Group with a clear opportunity to gain share in strategic geographies and to continue to act as a proven natural consolidator as smaller competitors leave the radiator market.

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Replacement is the primary volume driver

Link to strategy 3 Optimising routes to market

For steel panel radiators, replacement and first time installation represents around 80% of UK market volume, 60% in mature Western European markets and around 50% in the developing markets of Turkey and Eastern Europe. New residential construction is the secondary driver, with strong demand for new homes in many geographies, including the UK.

Our opportunity

Stelrad has already adapted quickly to the evolution of routes to the replacement radiator market, continuing to supply its traditional distribution base whilst also expanding activities with retailers such as Kingfisher, which is increasingly targeting this segment with multichannel offers. Further digital transformation provides the Group with the opportunity to leverage its leading trade brands for future growth. In addition, our strong links to new build housing specifiers ensure we benefit from increased residential construction as the world builds back better post-Covid-19.

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Increasing adoption of premium design radiators

Link to strategy 2 Improving product mix

Notably in mature markets for central heating, consumer focus on home design is driving rising demand for premium steel panel and other design radiators. This trend may have been accelerated during the Covid-19 pandemic, due to extended periods of working from home, with people's inability to travel for holidays boosting home improvement spend.

Our opportunity

Stelrad has the most extensive range of premium steel panel radiator designs on the market, coupled with state of the art low cost manufacturing operations. Having developed strong sales in the design conscious markets of Belgium and the Netherlands, the Group now has a significant opportunity to leverage its market leading position to develop the large UK market, which currently has low levels of premium steel panel and design radiator penetration compared to mainland Western Europe.

► Read more on page 14

A positive outlook for radiators in decarbonised heating systems

Link to strategy 4 Positioning effectively for decarbonisation

Decarbonisation initiatives and low carbon homes are expected to drive the installation of larger, higher value radiators as low temperature heating systems replace fossil fuel sources and require a combination of increased insulation and larger heat emitters in order to maintain a comfortable home climate.

Our opportunity

Stelrad's position as a trusted adviser to specifiers, notably in the new residential housing market, provides us with the opportunity to develop sales from our earlier, proactive introduction of products compatible with low carbon, low temperature heating systems. In addition, our strong brands and market leading logistics capabilities provide a credible platform for the Group to introduce complementary products appropriate to the needs of low and zero carbon heating.

► Read more on page 15

Long-term sustainable value for key stakeholders results from our robust business model...

Our resources

People
Stelrad has a lean global team of 1,326 employees[1] and the most stable, experienced senior management team in the industry, with an average of 18 years' service.

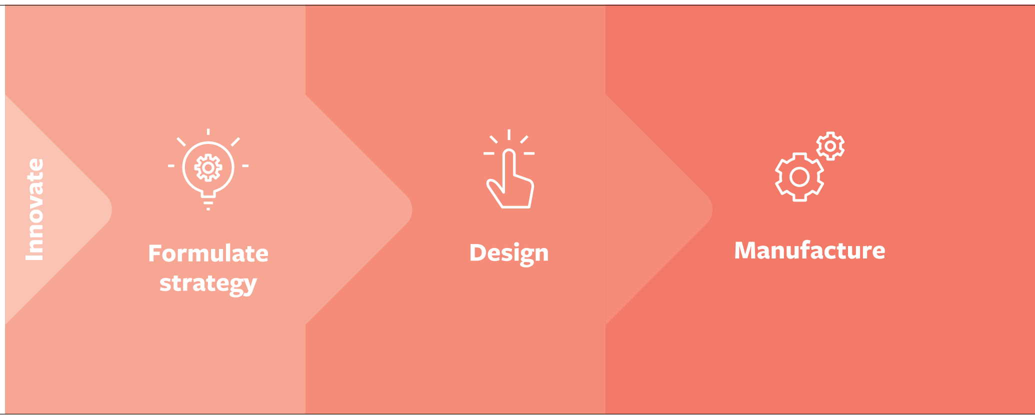
(1) Full-time employees ("FTEs").

International network
With a manufacturing, distribution and sales presence across all key international radiator markets, Stelrad aims to provide exceptional technical, commercial and logistical support for specifiers and distributors throughout the world.

Brands
Stelrad, Henrad and Termo Teknik are leading, industry recognised steel panel radiator brands, with loyal, extensive and growing customer bases. The recently acquired Hudevad brand is an equally well-established high end designer radiator brand which gives the Group increased access to the profitable commercial market.

How we create value

Our proven process is fundamental to our ongoing success



What makes us different

Brand strength
Stelrad is the number one steel panel radiator brand across the UK, Europe and Turkey. The Group leverages a powerful multibrand strategy to manage evolving routes to market, maximising access to specifiers in all market segments and minimising conflict in distribution channels.

Product availability
Stelrad has the largest radiator distribution centres in the UK and mainland Western Europe, with respective capacities of 350k and 200k units, and these are further supported by regional distribution hubs. We place strong emphasis on providing best in class lead times to our customers.

Range innovation
Stelrad pioneered premium steel panel and vertical radiators, which offer a combination of design aesthetics, ease of installation and value for money. The Group has achieved significant market penetration with these products in Western Europe and has first mover advantage in the UK with an innovative upselling approach.

Shared value

Customers
Decarbonisation will drive significant change in the heating industry and our goal is to continue to provide trusted partnership to our loyal and longstanding customers as we jointly navigate the path to zero carbon heating systems.

People
Stelrad is a place where commitment is rewarded and where people are encouraged to fulfil their potential. Our objective is to develop a sustainable business, fit for the long term, which provides a desirable long-term career environment.

Investors
We aim to deliver sustainable, reliable returns for those who invest in the Group through developing long-term customer relationships and harnessing the commitment of our people to make Stelrad a better business year on year.

...and ensures ESG is integrated

Operational assets
Between 2015 and 2021, significant capital investment with a focus on automation has delivered upgrades to all sites, resulting in an efficient and low cost manufacturing platform supported by a market leading logistics infrastructure.

Maintaining high standards of business

All business activities are conducted to high ethical standards and we strive to ensure that all employees act in accordance with our Group values. In addition, we seek to develop long-term trading relationships with suppliers which share our standards and values. We will only work with organisations which formally commit to our ethical trading policy, and we conduct regular audits of our suppliers.

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Distribute

Innovate

Minimising our environmental impacts

We acknowledge the impact we have on the environment and actively work to reduce it. This helps to create shared value for our communities, both local and global. We focus strongly on energy and waste in our own operations and work with partners throughout the value chain to ensure that our products can be manufactured and used sustainably.

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Standardised core design
The Group's core heat emitter design is used in all standard and higher added value premium steel panel radiators. It is common to all three of our manufacturing facilities, ensuring high levels of quality at the lowest possible cost. The consistency of core design across Stelrad's facilities provides production flexibility, cost efficiency and mitigates risk.

Building an exceptional workplace

We work hard to keep our employees safe and invest in people development to help them to become the best that they can be. We actively work to promote equality and diversity and we foster strong relationships with labour representatives. All of this contributes to a happy and productive workforce being one of our most important resources.

► Read more on page 29

Suppliers
We aim to be a reliable, straightforward but challenging partner as we strive to deliver cost-effective and sustainable solutions for our customers and maximise long-term value for our shareholders.

Supporting the future of home heating

Stelrad is well positioned to support efforts to decarbonise the heating sector and to benefit from the transition to low and zero carbon heat sources. We design products that work effectively with a wide variety of heating systems and our strong market position ensures we are well placed to achieve our purpose of helping to heat homes sustainably.

► Read more on page 23

Stelrad's strategy is founded on four key objectives

1 Growing market share

Links to risks 1 2 3 4 5 6 7 8

Strive for cost leadership

Now Stelrad has invested for cost leadership, with a standardised core design and significant development and upgrading of our manufacturing facilities, including our low cost Turkish operation. In addition, we have the benefits of our scale as a leading radiator producer.

Future We will leverage the benefits of our multisite manufacturing platform, with our cost leadership allowing us to maximise profitable growth as smaller, higher cost competitors exit the market.

Provide market leading product availability

Now Standardised core design allows production planning flexibility across our three facilities. Our market leading UK and European distribution centres are supported by facilities with dedicated inventory in other key geographies, resulting in a best in class logistics offer.

Future The Group will maximise the benefits of the European Distribution Centre and will seek to increase availability for premium steel panel and other design radiators, with the objective of expanding the market for these higher value ranges.

Selectively target share growth in key geographic markets

Now Stelrad is market leader in five countries and holds a top 3 position in six more. In 2020/21, important market share gains were made in the French and Scandinavian markets.

Future We will continue to develop our mainland European relationship with Saint-Gobain and the long-established regional players in those territories, ensuring we continue to adapt to evolving routes to market.

Act as a market consolidator

Now As a player of scale, the Group benefited from the exit of key competitor QRL to increase share in the UK, Ireland, Belgium and France. Stelrad is perceived by distributors as a long-term scale player and is a proven organic consolidator both as competitors have left the market and through deploying a highly effective sales strategy.

Future Smaller competitors will increasingly come under increased pressure on profitability, providing opportunities to gain share organically through business gains or competitor exits. We will investigate acquisitions which extend the range of radiators available to our sales and distribution network, expand routes to market where Stelrad's presence is less strong, provide a strong brand in markets where Stelrad's share is low or increase manufacturing capacity at a lower cost than developing our existing lines.

2 Improving product mix

Links to risks 1 2 3 4 5 6

Accelerate upselling to premium steel panel and design products

Now The Group has achieved significant success in driving sales growth in the higher margin premium steel panel radiator segment, resulting in the Group's volume of premium steel panel sales increasing from 205k units in 2015 to 346k units in 2021, delivering a significant contribution benefit.

Future We will continue to focus on expanding the market for these products, particularly in key geographies with low premium steel panel and design radiator penetration, such as the UK, leveraging Stelrad's brand strength and leading market share position.

Pursue complementary acquisition opportunities

Now Stelrad acquired Hudevad Radiator Design in 2018, strengthening our presence in the Scandinavian radiator market and providing the Group with a truly high end design radiator brand. We have since re-engineered the entire range to use our standard core heat emitter design.

Future The Hudevad brand will now be developed across our core geographies and we will investigate further potential design radiator acquisitions with the aim of extending the range of radiators available to our international sales and distribution network.

Risk key

1 Business disruption
2 Reliance on key customers
3 Loss of competitive advantage
4 Supply chain risk
5 IT failure or cyber breach
6 People
7 Health and safety
8 Political environment and climate change

3 Optimising routes to market

Links to risks 1 2 3 4 5 6

Adapt quickly to channel evolution

Now Stelrad has successfully managed changes in channel mix to capitalise on recent opportunities, entering the UK retail channel by supplying Kingfisher's multichannel trade and retail brand, Screwfix. In mainland Europe, we benefited from a longstanding relationship with Saint-Gobain to develop materially our sales in France and Scandinavia. 2021 saw further growth with UK merchant buying group PHG, following our proactive development of the Henrad brand for the independent merchant channel.

Future We will maximise profitable growth with Saint-Gobain outside the UK and further develop our close relationship with existing customer UK Plumbing Supplies in the UK, following its acquisition of former Saint-Gobain brand Graham. We will continue to invest in all our brands, positioning them appropriately for changing market circumstances.

Embrace digital transformation

Now Across the Group, we have embraced Building Information Modelling ("BIM") to facilitate specification by architects and consultant engineers. In the UK private residential replacement market, Stelrad provides an online radiator purchasing facility including direct delivery to a customer's address.

Future We will continue to develop our digital capability and online presence to ensure the continuing strength of our brands with all specifier groups, regardless of channel to market.

4 Positioning effectively for decarbonisation

Links to risks 1 3 4 6 8

Maximise sales of current products compatible with low temperature systems

Now Long replacement cycles and the large installed radiator base mean that the full impact of decarbonisation will take decades to be felt. Legislation will primarily focus on heat source technologies, requiring heat emitters compatible with low temperature systems. We have continued to develop our portfolio of higher heat output radiators, expanding our vertical and multipanel, multiconvector steel panel radiator ranges. In 2021, we launched the fully programmable Dahlia electric towel warmer range and introduced Vento, a fan assisted steel panel radiator specifically designed to partner heat pump systems.

Future Stelrad's role as a trusted customer adviser now provides us with a unique opportunity to influence new residential build specification in a positive way, helping to heat homes sustainably through optimising radiator selection for low temperature, low carbon systems, irrespective of heat source.

Leverage our market position to unlock adjacent opportunities

Now Stelrad's brand strength, channel access and operational infrastructure position the Group to play a pivotal role in the development of European hydronic heating distribution channels as decarbonisation initiatives gain momentum over the coming decade.

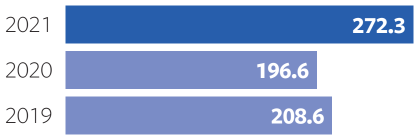
Future Our well-known and trusted brands, coupled with unrivalled access to distribution channels, will enable us to diversify into complementary heat emitter solutions and other product areas related to the zero carbon transformation of home heating.

Measuring and analysing the Group's performance

Management considers a variety of financial and non-financial measures and metrics when analysing the Group's performance, and the Directors believe that each of these measures provides useful information with respect to the Group's business and operations. With the exception of revenue, these are non-IFRS financial measures and metrics.

Revenue

£272.3m



Links to strategy 1 2 3 4

Description

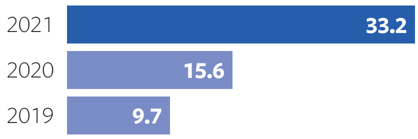
The Group generates revenue from three operating segments: the UK & Ireland, Europe, and Turkey & International. Revenue arises from the sale of products to consumers and represents the gross invoiced sales less credit notes and rebates.

Performance

Revenue grew by 39% driven by increased sales volumes, which were exceptionally low in Q2 2020 due to the Covid-19 pandemic, and selling price increases in 2021 recovering a significant rise in steel prices.

Adjusted operating profit

£33.2m



Links to strategy 1 2 3 4

Description

Adjusted operating profit is the Group's key profit measure to show performance from operations.

Performance

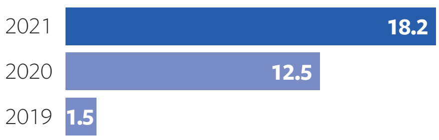
Adjusted operating profit grew by 112% driven by increased sales volumes, the transfer of production to lower cost facilities, a growth in premium panel sales volumes and the benefit of increased selling prices, partially offset by the impact of steel price rises.

Strategy key

1. Growing market share
2. Improving product mix
3. Optimising routes to market
4. Positioning effectively for decarbonisation

Adjusted free cash flow

£18.2m



Links to strategy 1 2 3 4

Description

Adjusted free cash flow shows the cash available to service debt and make distributions to shareholders.

Performance

Adjusted free cash flow grew by 46% with strong EBITDA growth partially offset by an investment in working capital.

Adjusted EPS

16.92p

Links to strategy 1 2 3 4

Description

Adjusted EPS is the adjusted profit after tax of the Group per share in issue.

Performance

Adjusted EPS grew significantly in the period supported by strong growth in adjusted operating profit.

Total radiator volumes sold

5,952k units

Links to strategy 1 3

Description
The sales volumes of radiators across all geographical segments in the reporting period.

Performance
Volumes increased 20% in the year, with volumes suppressed in Q2 2020 due to Covid-19 and 2021 volumes benefiting from high private repairs, maintenance and improvement activity.

Total premium panel radiator volumes sold

346k units

Links to strategy 2

Description
The sales volumes of premium panel radiators sold across all geographical segments in the reporting period. Premium panel radiators include vertical radiators and are differentiated from standard steel panel radiators by their design.

Performance
Premium panel volumes grew 15% underpinned by commercial initiatives put in place by the Group; 2020 volumes were only marginally impacted by Covid-19.

Contribution per radiator

£13.74

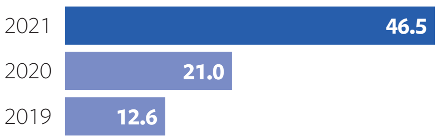
Links to strategy 2 4

Description
The value of contribution generated per radiator sold.

Performance
Contribution per radiator has increased 4%, benefiting from the transfer of production to lower cost facilities, a growth in premium panel sales volumes and increased selling prices, partially offset by the impact of steel price rises, with a large part of the volume recovery in 2021 being standard panel radiators.

Return on capital employed

46.5%



Links to strategy 1 2 3 4

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

Performance
Return on capital employed grew strongly in the period, primarily due to a 112% increase in adjusted operating profit.

Glossary of terms

Adjusted cash flow from operations: EBITDA, plus or minus movements in operating working capital, less share-based payment expense, less net investments in property, plant and equipment, less finance lease payments.

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

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

Adjusted free cash flow: adjusted cash flow from operations plus interest received less tax paid.

Adjusted operating profit: operating profit before exceptional items and foreign exchange differences.

Adjusted profit after tax: earnings before exceptional items, foreign exchange differences and tax on exceptional items and foreign exchange differences.

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

CAGR: compound annual growth rate.

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

EBITDA: profit before interest, taxation, depreciation, amortisation, exceptional items and foreign exchange differences.

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

RMI: repair, maintenance and improvement activities.

We are committed to engaging our stakeholders in all aspects of our strategic vision

Section 172 statement

The Board of Directors of Stelrad Group plc, both individually and together, consider that they have acted in a way that, in good faith, would be most likely to promote the long-term success of the Group and Company for the benefit of their members as a whole (having regard to the stakeholders and matters set out in section 172(1)(a–f) of the Act) in the decisions taken during the year ended 31 December 2021.

The Board considers its key stakeholders to be its employees, customers, suppliers and investors and the communities and environment in which the Group operates. The Board takes the views of these stakeholders seriously in setting and implementing the Group strategy and believes that good stakeholder engagement is key to the long-term success of Stelrad Group plc. Stakeholder considerations form part of any Board discussions which lead to decision making.

Each year the Group undertakes a detailed business planning process, during which the Group sets out its long-term plans and, as part of this process, carefully assesses any consequences of these plans. The Board will also, on an ad-hoc basis, ask the Group to explore other long-term options and their likely consequences. The main objective of the business planning process is to define a direction that will most likely promote the success of the Group for all stakeholders.

The remainder of this section of the Annual Report sets out how Stelrad Group plc and the Board have engaged with key stakeholders. In addition to the information provided here, the Group's business model on pages 12 and 13 and the Group's strategy on pages 14 and 15 outline how the Group engages with its stakeholders and how the business creates value for each of them. Furthermore, our ESG strategy and activity, which directly impact many of our stakeholders, are outlined in the Sustainability section on page 20.

As the Board of Directors, our intention is to behave responsibly towards our stakeholders and treat them fairly and equally, so that they all benefit from the successful delivery of our plan.

Employees

Why we engage

Our employees are fundamental to the delivery of our business plan and to the future performance of the Group. We aim to be a responsible employer in our approach to the pay and benefits our employees receive and through continuous investment in training for our employees. The health, safety and wellbeing of our employees is one of our primary considerations in the way we do business and is a critical part of our investment decision-making process. Engaging with our employees assists the maintenance of strong collaborative relationships with our trade unions and employee representatives.

How we engage

- Training and development
- Individual performance reviews
- Recognition and reward
- Apprenticeships
- Regular communications such as newsletters
- Annual Report and Accounts
- Commencement of employee engagement survey and Board member visits to sites during 2022

Outcomes

- Communication of relevant and timely information and sharing of knowledge
- Improved level of engagement and lower absence rates
- Regular access to training at all levels
- Improved awareness and support for health and wellbeing issues
- Processes improved, initiatives developed and management buy-in at different levels – facilitated by the Group's Code of Conduct

Customers

Why we engage

Trusted relationships with our customers and high standards of business conduct are critical to our Group's performance. Accordingly, we continuously seek to build and strengthen these key relationships and conduct business with integrity and in a professional manner.

How we engage

- Management of ongoing customer relationships
- Customer events and product launches
- Participation in industry forums, exhibitions and events
- Brand websites and social media
- Annual Report and Accounts

Outcomes

- Continued customer satisfaction and loyalty
- Establishment of long-term partnerships
- Successful and mutually beneficial results from the transition to zero carbon heating systems

Suppliers

Why we engage

Our suppliers are intrinsic to the performance of our business. Maintaining a fully integrated supply chain means that we can ensure security of supply and speed to market, in addition to achieving a high quality, competitive supply whilst gaining the support of our suppliers in sustainability initiatives that we undertake.

How we engage

- Ongoing supplier performance and relationship building meetings
- Supplier reviews and audits
- Partnering with key suppliers to develop initiatives for innovative solutions in a collaborative manner
- Collaboration as appropriate on product development
- Effective communication of quality, cost competitiveness and future order requirements
- Timely payment of suppliers

Outcomes

- Stable sourcing, product quality and competitive pricing
- Long-term partnering, reducing supply chain volatility
- Fair payment terms
- Support of our ESG initiatives

Investors

Why we engage

We consider that helping our investors to understand our business model, strategy and sustainability initiatives is key to ensuring that they are engaged in the business and motivated to support future investment opportunities that may arise. Continued investor engagement is also fundamental to addressing the regulatory requirements to provide fair, balanced and understandable information about the business to enable informed investment decisions to be made.

How we engage

- Annual Report and Accounts
- Annual General Meeting
- Corporate website including dedicated investor section
- Results presentations and post-results engagement with major shareholders
- Regular investor roadshows, comprising both one-to-one meetings with our largest institutional shareholders and investor group meetings to take place following results announcements
- Regular in-depth feedback on investor views provided by our corporate brokers

Outcomes

- Supported demand for the Group's shares
- Support for investment opportunities including potential acquisitions or capital investment programmes
- Acceptance of temporarily higher levels of debt in support of business strategies, in the event that this was desirable

Communities and the environment

Why we engage

The Group's ESG strategy is key to ensuring our ESG ambitions are realised and ESG has been a significant focus area for the Board this year and will remain so going forward. The Group has strong ESG initiatives in each of the main territories in which we operate, all of which strive to allow the Group to make a positive impact in the communities where we are based. The Group is also aware of the impact we have on the environment and this is a critical part of our investment decision-making and business planning process.

How we engage

- Community investment initiatives
- Sponsorship and employee volunteering
- Contributing to national initiatives in society
- Regular engagement with local authorities and businesses supporting the delivery of educational and vocational initiatives
- Participation in initiatives to help reduce the environmental impact of our business

Outcomes

- Support and development of local educational institutions
- Longstanding sponsorship of local sport clubs, regular charitable events and fundraising
- Cleaner and friendlier areas for the local communities

We have seen significant progress in our management of ESG priority areas

Introduction to ESG

As Chief Executive Officer, I am pleased to introduce our first Sustainability Report. This report allows us to discuss the progress we are making within environmental, social and governance ("ESG") areas at Stelrad. We also set out our current strategic thinking on ESG and our role in helping to heat homes sustainably. This strategic direction reflects our belief in a future where low and zero carbon domestic heating systems are widely available and provided in a way that benefits all our stakeholders.

Never has the need to support our stakeholders been more clearly demonstrated than during the last two years. The Covid-19 pandemic has had a dramatic impact on working practices and has been a dominant consideration for the Board. Throughout this, the safety and wellbeing of our workforce and contractors and the communities in which we operate has been our main concern. The response and determination shown by all involved reflect well on our Company culture and values and are a real source of pride for me.

Despite the challenges of 2021, we have seen significant progress in our management of ESG priority areas. We have taken action to broaden the skill set at all levels of the business, welcoming new Board members with strong ESG experience and forming a new international working group to oversee the development and implementation of our evolving ESG strategy. We have also taken action to improve our access to the detailed information necessary to make informed decisions, expanding our data collection and enabling the publication of Group-wide environmental performance metrics for the first time in this report. This focus on further understanding our Group impacts will continue as we aim to identify and measure our relevant Scope 3 emissions in the coming years and initiate lifecycle analysis to quantify the environmental impacts of our products throughout the value chain. All this work will help provide the necessary strong foundations to be able to target improvements and measure and demonstrate our performance over time.

This quantification work will form part of what promises to be an exciting period for ESG at Stelrad. During 2022, we will conduct a detailed review of our ESG activities, using the findings to develop a full ESG strategy that builds on the work presented here. By engaging with our stakeholders and employing a robust and wide-ranging materiality assessment, our new strategy will have the needs of our stakeholders embedded within it and will be fully aligned with our corporate aims, objectives and values. As part of this work, we will redefine our ESG ambitions and targets and identify where and how we can contribute to wider international goals.

I want to finish this introduction by focusing in on safety, which is a key priority for Stelrad. Our operations in the UK achieved the milestone of one year with zero lost time accidents. I am sure you will agree this is an outstanding achievement and reflects the positive safety culture that exists throughout the Company. This achievement only reinforces the need to continue our drive towards zero harm – we must build on this strong performance and continually look to improve.

I hope you find this report, and the information included within it, useful, and we very much welcome feedback on how we could enhance this in future years.

Trevor Harvey
Chief Executive Officer
14 March 2022

Introducing our strategic direction and our role in helping to heat homes sustainably

Climate change, resource scarcity, social inequality and corporate transparency are some of the defining issues of our time. Stakeholder interests are increasingly driven by ESG factors, and having a robust sustainability strategy at the heart of decision making is key for any business aiming for longevity and future growth. All businesses must play their part, developing solutions to the biggest challenges we face and transforming business models so that they are compatible with a low carbon, green and inclusive world.

The impact of heating on our environment and society is a significant and important one. Heating contributes to almost a quarter of all UK emissions and is the largest single energy user in Europe[1]. Globally, heat accounts for nearly half of all energy consumption and 40% of energy-related carbon dioxide emissions[2]. At the same time, households in almost every market are currently facing steep energy price rises as a result of accelerating global demand as the global economy recovers from the pandemic.

Our purpose is to help heat homes sustainably. We believe Stelrad has a key role to play in a future where low and zero carbon home heating is widely available – bringing intelligently and thoughtfully designed heat emitters to the market that work seamlessly in systems that are less reliant on fossil fuels. We have been proactive in developing products that are compatible with low carbon, low temperature systems such as heat pumps, and we have for a long time worked with housebuilders and installers to help design systems that support low and zero carbon in homes. Now with governments in nearly all our major markets accelerating net zero ambitions and outlining their detailed plans for decarbonising home heating, we are well placed to embrace the opportunity of greener markets.

Our ESG approach also means we are constantly examining every element of our business, from our care for our people and how we work with our suppliers and partners to our impact on the environment, ensuring that we are integrating high standards throughout our business and operating as efficiently as possible. In our first Annual Report we share Stelrad's new sustainability-orientated business purpose, our evolving strategic direction on ESG, and our commitment to further our ESG ambitions and credentials over the years to come. This year we have developed as an initial step a four-pillar ESG framework, representing a strategic direction that reflects our current priorities, including our key role in helping to heat homes sustainably. We look forward to a planned in-depth review of our ESG activities over the course of 2022, including a full-scale materiality assessment and an in-depth strategy development process, engaging our stakeholders throughout.

(1) The Oxford Institute for Energy Studies (2018). Decarbonisation of Heat in Europe: Implications for Natural Gas Demand. University of Oxford.

(2) Vivid Economics/Imperial College London (2017). International Comparisons of Heating, Cooling and Heat Decarbonisation Policies. BEIS.

Supporting the future of home heating

We design home heating products which help reduce carbon emissions from buildings and support an equitable net zero transition.

► Read more on page 23

Minimising our environmental impacts

We reduce our own footprint by focusing on energy, waste and water in our operations and the resources needed to produce, package and transport our products.

► Read more on page 25

Building an exceptional workplace

We empower our employees to be the best they can be, prioritising their safety, wellbeing and development, and promoting equality, diversity and inclusion.

► Read more on page 29

Maintaining high standards of business

We manage the Group for the benefit of all stakeholders through high ethical and corporate governance standards and a culture of accountability, integrity, transparency and responsibility.

► Read more on page 32

Introducing our strategic direction and our role in helping to heat homes sustainably continued

How does our work on ESG align with our business model?

The ESG approach that we have organically evolved over the last decade is deeply linked to driving value for our business, whether that is opening up market opportunities, accelerating operational efficiencies, or building our resilience to external threats. In this way, it has underpinned our commercial aims. It also delivers value for our stakeholders by prioritising and responding to the needs of our customers, people, investors and suppliers, and the communities where we live and work. This is an approach that has developed without extensive structure, external review or guidance, but through our natural ways of working and our positive approach to doing business.

By undertaking a thorough review of our material ESG issues, and developing a well-rounded, long-term, targeted and effective strategy over the course of the next year, we are aiming for this positive organic approach to sustainability to be transformed into the basis of our strategic framework. Our aim is for ESG to be fully embedded in our business decision making, investments and governance in a manner which both reflects our historically positive ways of doing business and formalises our future commitments to sustainable value creation.

We have also started using the 17 United Nations Sustainable Development Goals ("SDGs") to inform our approach, so that we are contributing meaningfully to global priorities. The SDGs were published in 2015 and highlight the priorities negotiated by the international community as vital for economic growth and development towards the year 2030. In the section underneath, you can see how we believe Stelrad can best contribute to seven of the globally important SDGs.

Addressing priority issues through our new strategic direction

The four strategic pillars we have developed so far represent a starting point for our wider strategy development plans. In developing our strategic direction to this point, we have worked with external consultants to undertake a light touch internal audit of ESG issues that we believe are materially important to the business; spoken informally with customers, employees and suppliers; and cross-referenced existing internal documents – including business plans and risk registers – with recognised external standards and frameworks including the Global Reporting Initiative ("GRI"), the Sustainable Accounting Standards Board ("SASB") and the SDGs.

These four pillars set out our strategic direction and key priorities for the year, ahead of our commitment to undertake deeper strategy development moving forward:

1. **Supporting the future of home heating** focuses on the wider issues of climate change and energy equity and on how our products can help support an equitable transition to the low carbon economy.
2. **Minimising our environmental impacts** summarises the responsibilities we have to reduce our own greenhouse gas ("GHG") emissions, to manage energy, waste and water in our operations and to steward the resources used in producing, packaging and transporting our products.
3. **Building an exceptional workplace** describes our social responsibilities to our people and local communities, prioritising their health, safety, wellbeing and development and promoting equality, diversity and inclusion throughout our business.
4. **Maintaining high standards of business** highlights our governance responsibilities with a focus on embedding a strong, positive culture which promotes responsible and ethical behaviours across the Group and the suppliers we work with.

We have developed our first year of reporting to focus in on these four pillars and to chart the progress we have made over the last twelve months. Over the following pages we share metrics, case studies and future plans in line with the four pillars.

During 2022 we will be working with external consultants to carry out a detailed materiality assessment as part of our review, with the intention of verifying and testing our priority ESG topics and further developing our strategy. Whilst we do expect these four strategic direction pillars to evolve and change as a result of our deeper dive strategic work, we wanted to share where we are starting from with our key stakeholders. We see this as an opportunity to open a dialogue with all our stakeholders, and welcome early feedback and comments.

Supporting global priorities

We have used the UN SDGs to help identify areas where, through our actions, we can have the biggest economic, environmental, social and governance impact, and play our part in achieving a better and more sustainable future for all. The infographic below shows the findings from this initial assessment – the goals that we believe are most aligned to our business and why.

As part of the next phase of work, we plan to conduct a detailed assessment of the targets and indicators that sit underneath the goals, in order to identify those that Stelrad is best positioned to contribute to.

Stelrad prioritises the health of its people and promotes wider wellbeing through more accessible home heating solutions	**Stelrad pursues partnerships and promotes opportunities for women in STEM**	**Stelrad maintains high workplace standards, protects workers' rights and pursues responsible business growth**	**Stelrad innovates in products that support energy resilience in buildings**	**Stelrad designs products that help reduce energy usage in homes and work with lower temperature and low carbon systems**	**Stelrad manages its environmental impacts across the product lifecycle and aims to bring its products to market as efficiently as possible**	**Stelrad brings products to market that support the low carbon transition by helping to decarbonise home heating**

Supporting the future of home heating

We design home heating products which help reduce carbon emissions from buildings and support an equitable net zero transition.

Tackling climate change by reducing greenhouse gas emissions is now a global priority. Both UK and EU markets have set legally binding targets to reach net zero carbon emissions by 2050, with further ambitious interim reductions of 78% by 2035 and 55% by 2030 respectively from 1990 levels. The 26th Conference of Parties ("COP26") was held in Glasgow, UK, in 2021, and saw the development of further international net zero pledges, including from China and India.

In 2018, space heating in residential buildings accounted for 17% of total European energy consumption[1], so moving quickly to low and zero carbon heating systems is a critical element in achieving these ambitious commitments. To support this, legislation is being introduced across Europe to limit or prohibit fossil fuel heating systems in both commercial and domestic settings over the next five years and beyond, focusing in the initial phase on new construction activity. The UK Government, for example, has set out how it plans to stimulate the market for low carbon heat in its Heat and Buildings Strategy, published in October 2021, including an ambition to phase out the installation of natural gas boilers beyond 2035.

Of the existing 310 million centrally heated homes across the UK, Europe and Turkey, 80% feature hydronic systems. And while the need and size of the opportunity are clear, retrofitting this stock with low or zero carbon heating systems (such as those that use heat pumps, for example) remains challenging due to the likely combined need for higher levels of insulation and air management.

Despite the uncertainties and challenges of this evolving landscape, Stelrad is well placed to support this transition. We remain at the forefront of understanding and influencing evolving legislation in the heating market, as an active member of two influential trade associations consulted by the Government: the European Heating Industry ("EHI"), which recently brought together industry representatives and policymakers to identify barriers and solutions to bringing heat pumps to the mass market, and the UK Energy and Utilities Alliance ("EUA"), currently advising the Government on its proposed market-based mechanism for low carbon heat following publication of its Heat and Buildings Strategy in 2021.

While future heat sources are likely to see a combination of more heat pumps and alternative boiler technologies, we believe the vast majority of future heating systems will remain water-based, hydronic types, especially given the significant replacement market for heating systems within existing buildings. One thing does appear certain at this stage though – that space heating of the future will operate at lower system temperatures, requiring higher levels of building insulation combined with heat emitters that have a larger surface area.

For this reason, we have been proactive in both designing and promoting products that maximise heating performance and are entirely compatible with low carbon, low temperature heating sources such as heat pumps, as well as working with housebuilders, specifiers and installers to help ensure the right products are selected and installed. Stelrad is fully committed to providing a range of radiators and other heat emitters that will keep people warm in their homes with the minimum environmental impact as we undergo this important transition.

(1) Eurostat (2018). Energy, Transport and Environment Indicators. European Commission.

Our progress and key initiatives

Products fit for the future

With an average installed product lifecycle of around 30 years, Stelrad's existing radiators provide a cost-effective heat emitter solution for low temperature systems, designed from the outset to use recyclable steel and to strike the best compromise between material consumption and performance in terms of radiator heat output. We are continuing to develop our product portfolio to make sure Stelrad provides highly capable products for the heating systems of the future, whether in new construction or for replacement applications.

The latest additions to our heat pump compatible range include triple panel, triple convector K3 type 33 radiators, vertical radiators featuring vertical waterways designed to maximise heat output, and the Vento radiator with electrical fan convection. We have also recently launched fully electric towel warmer and vertical ranges, which, when coupled with a renewable source of electricity, can eliminate the need for fossil fuels during the lifetime of the product.

"We are continuing to develop our product portfolio to make sure Stelrad provides highly capable products for the heating systems of the future.

Supporting the future of home heating continued

Partnering with others to maximise heating performance

System performance is driven by good design, with radiators sized appropriately to allow the heat source to operate most effectively.

Stelrad has developed its own basic and advanced heat loss calculation programmes to support all specifiers in optimising radiator selection no matter what the building, the heat source, or the system temperature. This is easily accessible online and provided free of charge.

Consultants and architects can also benefit from Stelrad's Continuing Professional Development ("CPD") courses which provide training on making the most appropriate radiator selection for a given situation. We have also made a significant investment in our Building Information Modelling ("BIM"), allowing designers to incorporate our products into their building models during development.

We also work closely with leading housing developers and social housing providers, engaging with various stakeholders, including heating contractors and social housing residents. We aim to find the best possible solution when considering various factors such as budget, ease of installation and operation, and long-term heating system effectiveness. We provide radiator expertise, offering a full heating system design service with the intention of ensuring that future occupiers benefit from cost-effective performance that also reduces the impact on the environment.

Case study: Southway Housing Trust

Major apartment developments show the potential of pairing radiators with ground source heat pumps

Two major "extra care" apartment developments by Southway Housing Trust in Manchester are seeing radiators paired with ground source heat pumps, to provide heating for over 55s who are moving into brand new apartments which may be their homes for life.

Gorton Mill House in Gorton and Dahlia House in Burnage are rapidly taking shape on brownfield sites in Manchester with the aim of providing zero carbon sites. Southway Housing Trust has taken the decision that, wherever possible, none of its future new build properties will have gas as the source of heating and hot water and is 100% dedicated to renewable heating and hot water systems for its tenants in the years to come.

Paul Maidment from Southway Housing Trust says: "These developments are the results of a policy decision we have taken to utilise renewable heating and hot water systems in all our new build properties. But we are keen to provide equipment in our homes that is most suitable to the demographic of the likely householders who live in our properties, and we have thought this through very carefully. One major outcome of this was that we decided we wanted to utilise modern, efficient radiators to share the heat around our homes because nowadays radiators are aesthetically pleasing and can be part of the décor rather than simply heat sharing appliances. They are familiar to most of our tenants and moving into a new home with us they will feel immediately comforted by the fact that, even if the driver of the heating system is new, modern technology, it all looks and feels the same as the heating systems they have had in their homes before."

Case study: My Home Farm

My Home Farm renovation shows the power of choosing the right products

Kirsten and Mars left London to discover a new, slower-paced life in the countryside and now share renovation and lifestyle experiences with followers of their My Home Farm blog, YouTube and Instagram channels.

To be environmentally conscious and financially economical over the long term, they switched from oil central heating to an air source heat pump supported by solar PV. Radiator sizes originally chosen for some rooms were unsuitable, prompting Stelrad to suggest installing triple panel, triple convector K3 radiators.

"We could feel the difference from the moment we replaced the previous radiators with the K3s from Stelrad. Heating for us is all about comfort and sustainability, and if you have the heating on full and still need to wear two jumpers, it's just not working efficiently," says Kirsten. "It was so important to us to get expert advice and then get the right equipment fitted to ensure we were getting the maximum performance from our air source heat pump. Our garden room was really chilly even with the heating on and we avoided using it. Now we can feel the heat the K3s generate simply by walking into the room, giving us back a whole living space. We had no idea that a radiator would literally mean we could reclaim a big part of our house that we love and now can enjoy every day no matter what the weather is like outside."

Case study: Operational impacts

Reducing our reliance on gas

This year we completed a five-year £175k upgrade project to install 16 modern, fully modulating gas burners on the electrocoat ovens in our manufacturing site in Mexborough, UK. These ovens are used to cure the paint on our products and are an integral part of the manufacturing operation. The older burners were not only less energy efficient but difficult to maintain due to their age. We anticipate that the new equipment will result in gas savings of at least 10% compared to the older units and in 2022 we will investigate alternative heating systems in the factory offices to further reduce our gas reliance across the site.

Minimising our environmental impacts

We reduce our own carbon footprint by focusing on energy, waste and water in our operations and the resources needed to produce, package and transport our products.

At the same time as recognising the role we can play in the transition to low carbon heating, we are resolutely focused on our own operational environmental impacts and those of our products. Our aim is to drive ongoing efficiencies throughout our business and work with others to reduce our overall environmental footprint.

To date we have concentrated on energy and resource efficiency in our operations by embedding environmental and energy management systems at our major sites in the UK, the Netherlands and Turkey, and now we are working hard to better understand the indirect and lifecycle impacts of our operations and products so that we can work with our suppliers and customers to continually improve environmental performance across all our activities.

A key priority is understanding and reducing emissions of the greenhouse gases that contribute to climate change and aligning our ambitions with global efforts. To that aim, we are fully supportive of government targets to reach net zero, and the next step for us is scoping out our future contribution to these targets.

Our progress and key initiatives

Over the last twelve months, our focus has been on improving our understanding of our operational impacts, a significant step which will enable us to identify target areas and improve overall performance. Whilst we have previously reported Scope 1 and 2 carbon emissions for our UK operations in line with Streamlined Energy and Carbon Reporting ("SECR"), this has since been expanded to include data from around the Group. This enhanced data collection now includes energy, carbon, water and waste, contributing to the KPIs in this report and establishing our baselines in these important environmental impact areas.

This focus on a full understanding of our impacts will continue into 2022, with two projects designed to understand our impacts up and down our value chain. Firstly, we will begin recording relevant Scope 3 emissions which we will report in future. This will also enable us to identify priorities and set targets that map out our journey to net zero. Secondly, full lifecycle assessments will begin across our product ranges with a view to reducing impacts across the product lifecycle and determining a suite of Environmental Product Declarations.

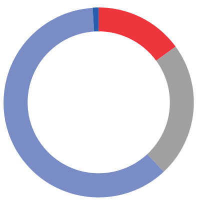
Total Group Scope 1 and 2 carbon emissions, 2021

25,441 tCO_2e

Total carbon intensity

0.17 tCO_2e **per tonne of product produced**

Emissions (tCO_2e) by operating division (%)



UK Radiators	15.2%
Continental Radiators	22.8%
Termo Teknik	61.8%
Hudevad	0.3%

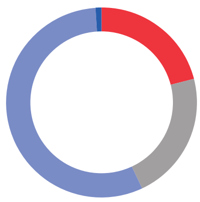
Total Group energy use, 2021

95,746 MWh

Total energy intensity

651 kWh **per tonne of product produced**

Energy split by operating division (%)



UK Radiators	20.4%
Continental Radiators	21.9%
Termo Teknik	57.3%
Hudevad	0.4%

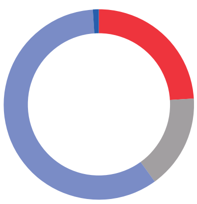
Total Group waste generated, 2021

7,911 tonnes

Total waste intensity

53.8 kg **per tonne of product produced**

Waste split by operating division (%)



UK Radiators	24.1%
Continental Radiators	16.0%
Termo Teknik	59.0%
Hudevad	0.9%

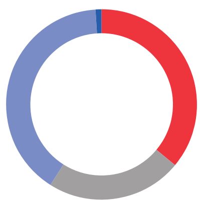
Total Group water usage, 2021

77,863 m^3

Total water intensity

530 litres **of water per tonne of product produced**

Water split by operating division (%)



UK Radiators	35.9%
Continental Radiators	23.5%
Termo Teknik	40.5%
Hudevad	0.1%

Minimising our environmental impacts continued

Energy in our operations

During 2021 we reported total global energy use of 95,746 MWh. This corresponded to total Group Scope 1 and 2 emissions of 25,441 tCO_2e or 0.17 tCo_2e per tonne of packed product. As this is the first year where this data has been collected for all sites, a Group comparison to previous years is not possible. However, the UK operation has seen total energy use increase slightly by 2.3% in 2021, reporting total energy use of 19,567 MWh in 2021 (2020: 19,129 MWh). However, when considered against increased output in 2021, as a consequence of increased demand following recovery after the initial impact of Covid-19, energy use per tonne of packed product reduced from 1.08 MWh per tonne in 2020 to 1.05 MWh per tonne in 2021.

In addition to ongoing energy efficiency upgrades and projects during the last year (see example case studies on pages 24 and 26) we recognise the important role that renewable energy sourcing plays in reducing our emissions. We made further progress during 2021, with all the electricity used in the UK coming from renewable sources and, by the middle of the year, our European warehouse in the Netherlands also switched to renewables. This means that energy from renewable sources now accounts for 9.25% of our Group supply.

Furthermore, we have undertaken a review of our company car policy with the aim of minimising fuel emissions. In the UK, all company cars are already sub-50g/km of CO_2 and in 2021, for the first time, all UK scheme members are now able to select an all-electric vehicle. Other countries will follow this lead and have, as an initial step, committed to ensuring all vehicles across the Group will emit less than 50g/km of CO_2 by 2025. We have also started offsetting carbon emissions that we cannot eliminate, as both the UK and Turkish operations participated in carbon offsetting projects, through which 600 trees were planted to offset 177 tonnes of carbon.

Water and waste in our operations

Our water usage in 2021 was 77,863m^3 of water which equates to 530 litres per tonne of packed product. Nearly all (99.97%) of the waste that we generate is processed through recycling plants. In 2021 that waste totalled 7,911 tonnes, which equates to 53.8kg of waste per tonne of packed product. Along with energy and emissions, both water usage and waste generation are areas that we are collecting standardised data on for the first time. This enhanced data will enable better sharing and more consistent practices across the Group as our manufacturing and distribution operations continuously look for opportunities to improve.

This work will continue in 2022 and beyond and will be further supported by our plans to understand the full lifecycle impacts of our products. Additionally, the achievement during 2022 of the ISO 50001 energy management standard in our Continental Radiators division is a key goal.

Managing impacts in our supply chain

Beyond our direct operations and while we work to quantify our impacts, we have identified packaging and the impacts associated with the steel used in our products as key supply chain issues.

Our steel suppliers currently use around 16% of recycled steel in their manufacturing processes and we are actively encouraging our suppliers to move towards the production of lower carbon steel. While many, especially those in Europe, are already advanced in their thinking here, others need more time to develop plans. We will continue to monitor this by engaging with our suppliers on the issue and looking for ways that we can contribute to this important transition. In the meantime, we are proactive in reducing our steel usage by building efficiency and substitution considerations into product design. The technical composition of steel is constantly evolving with Stelrad working in partnership with suppliers to reduce overall steel consumption through a combination of high strength steel ("HSS") and reduced steel gauge, both of which are achievable without any compromise on product quality or performance.

Another target area in our supply chain is packaging. A key plank of our packaging work next year will be to bring together a working group with representatives from across the business who will help to coordinate our approach as we look to reduce material inputs, increase the use of recycled material and improve recycling rates up and down the value chain. In 2021, the UK began trials with its suppliers to introduce alternative polythene wrapping with 30% recyclable content, which were successful, and have led to similar trials in other locations.

Case study: Energy management

Managing energy efficiencies in manufacturing

During 2021, our manufacturing site in Çorlu, Turkey, became the second site to achieve ISO 50001. As part of this achievement, we carried out an energy audit with an independent expert. This helped to map out a five-year energy savings plan targeting significant reductions in electricity and gas usage by focusing on shorter-term "quick wins" as well as identifying medium and longer-term actions that will maintain momentum in our drive for continuous improvement. Our Turkish team has already started putting the plan in place, completing a number of relatively straightforward actions that are already resulting in significant energy savings. These include reducing the timer on infra-red heaters, switching to LED lighting and reducing air leaks in the operation, which together are projected to save over 300 MWh per year.

Streamlined Energy and Carbon Reporting ("SECR")

This report summarises our energy usage, associated emissions, energy efficiency actions and energy performance for the global Group operations over the 2021 financial year.

It also summarises the methodologies utilised for all calculations related to the elements reported under Energy & Carbon.

As of November 2021, Stelrad Group plc is a quoted Company. The business is now mandated to include energy consumption, emissions, intensity metrics and all energy efficiency improvements implemented in our most recent financial year in Group accounts moving forwards. An organisational boundary has been applied for the purposes of the reporting.

We are proud to say we achieved 99.98% verifiable data coverage and 0.02% of consumption data used for this global reporting has been required to be estimated to achieve 100% data coverage.

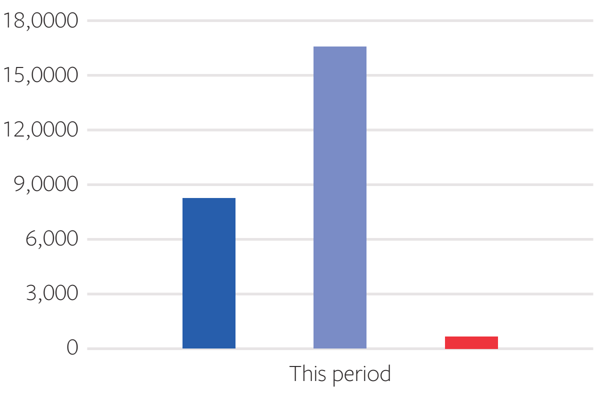
Year 1

Stelrad's Scope 1 direct emissions (combustion of natural gas and transportation fuels) for this year of reporting are 8,913.10 tCO_2e, resulting from the direct combustion of 47,826,563 kWh of fuel.

Scope 2 indirect emissions (purchased electricity) for this year of reporting are 16,527.63 tCO_2e, resulting from the consumption of 47,919,381 kWh of electricity purchased and consumed in day-to-day business operations.

Our global operations have an intensity metric of 0.17 tCO_2e per tonnes of product produced for this reporting year.

Scope 1 and 2 emissions (tCO_2e): this reporting period



Consumption (kWh) and Greenhouse Gas emissions (tCO2e) totals[1]

The following figures show the consumption and associated emissions for this reporting year for our global operations.

Scope 1 consumption and emissions relate to direct combustion of natural gas, and fuels utilised for transportation operations, such as company vehicle fleets, and on-site transport.

Scope 2 consumption and emissions relate to indirect emissions relating to the consumption of purchased electricity in day-to-day business operations.

Totals

The total consumption (kWh) figures for reportable energy supplies are as follows:

Utility and Scope	2021 Global consumption (kWh)
Grid-Supplied Electricity (Scope 2)	47,916,041
Gaseous and other fuels (Scope 1)	44,921,633
Transportation (Scope 1)	2,904,930
Transportation (Scope 2)	3,340
Total	**95,745,944**

The total emission (tCO_2e) figures for reportable energy supplies are as follows. Conversion factors utilised in these calculations are detailed in the reporting methodology.

The Group have elected to voluntarily dual report for 2021 also, utilising market-based emission factors to demonstrate the current carbon position of the business. As the business increases the amount of renewable energy used throughout global operations, this will demonstrate the impact on the overall global carbon footprint.

Utility and Scope	2021 Global consumption (tCO_2e) (location-based)	2021 Global consumption (tCO_2e) (market-based)
Grid-Supplied Electricity (Scope 2)	16,526.94	15,389.10
Gaseous and other fuels (Scope 1)	8,236.45	8,236.45
Transportation (Scope 1)	676.66	676.66
Transportation (Scope 2)	0.71	0.71
Total	**25,440.75**	**24,302.91**

(1) Greenhouse gas emissions in tCo_2e reporting includes carbon dioxide (CO_2), methane (CH_4), hydrofluorocarbons (HFCs), nitrous oxide (N_2O), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6).

Streamlined Energy and Carbon Reporting ("SECR") continued

Energy consumption and emissions by location

		UK Radiators	Total non-UK
Grid-Supplied Electricity (Scope 2)	Consumption (kWh)	8,646,009	**39,270,033**
Gaseous and other fuels (Scope 1)	Consumption (kWh)	10,262,848	**34,658,785**
Transportation (Scope 1)	Consumption (kWh)	654,981	**2,249,949**
Transportation (Scope 2)	Consumption (kWh)	3,340	**0**
Grid-Supplied Electricity (Scope 2)	tCO_2e (location-based)	1,835.80	**14,691.13**
Gaseous and other fuels (Scope 1)	tCO_2e (location-based)	1,879.74	**6,356.70**
Transportation (Scope 1)	tCO_2e (location-based)	147.05	**529.60**
Transportation (Scope 2)	tCO_2e (location-based)	0.71	**0.00**
Grid-Supplied Electricity (Scope 2)	tCO_2e (market-based)	0.00	**15,389.10**
Gaseous and other fuels (Scope 1)	tCO_2e (market-based)	1,879.74	**6,356.70**
Transportation (Scope 1)	tCO_2e (market-based)	147.05	**529.60**
Transportation (Scope 2)	tCO_2e (market-based)	0.71	**0.00**

Total	**Consumption (kWh)**	**19,567,177**	**76,178,767**
	tCO2e (location-based)	**3,863.30**	**21,577.43**
	tCO2e (market-based)	**2,027.51**	**22,275.41**

Intensity metric

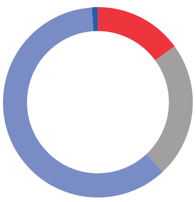
An intensity metric of tCO_2e per tonne of product produced has been applied for our annual total emissions. The methodology of the intensity metric calculations are detailed in the reporting methodology, and the results of this analysis are as follows:

Intensity metric	2021 Intensity metric (location-based)	2021 Intensity metric (market-based)
tCO_2e/tonne of product produced	0.17	0.17

Global operations

Stelrad Group plc operates on a global scale, and has four main operating divisions, encompassing seven business units. The emissions of each operating division is detailed below.

Emissions (tCO_2e) by operating division (%)



Reporting methodology

Scope 1 and 2 consumption and CO_2e emission data has been calculated in line with the 2019 UK Government environmental reporting guidance. The following Emission Factor Databases consistent with the 2019 UK Government environmental reporting guidance have been used, utilising the current published kWh gross calorific value ("CV") and $kgCO_2e$ emissions factors relevant for reporting year 01/01/2021 – 31/12/2021:

Database 2021, Version 1.0.

Where available, country specific emissions factors have been utilised for the global operational emissions of Stelrad Group plc. Residual emissions factors have also been used for non-renewable energy reported under market-based calculations, and where possible these have been sourced for the countries of operation for Stelrad Group plc.

Estimations undertaken to cover missing billing periods for properties directly invoiced to Stelrad Group plc were calculated on a kWh/day pro-rata basis at meter level. These estimations equated to 0.02% of reported consumption.

Intensity metrics have been calculated utilising the 2021 reportable figures for the following metrics, and tCO_2e for both individual sources and total emissions were then divided by this figure to determine the tCO_2e per metric:

- UK Radiators tonnage of product produced 2021 18,672
- Termo Teknik tonnage of product produced 2021 101,633
- Continental Radiators tonnage of product produced 2021 26,733

Building an exceptional workforce

We empower our employees to be the best they can be, prioritising their safety, wellbeing and development, and promoting equality, diversity and inclusion.

Stelrad's people are the lifeblood of our organisation. As such, our success or failure as a business is intrinsically linked to our ability to attract, nurture and retain a happy and talented team. This is something that we can directly influence by maintaining high labour standards and respecting rights, prioritising safety and wellbeing, promoting equality, diversity and inclusion, and empowering our employees to be the best they can be.

Achieving this ambition has never been more important than during the last two years. The ongoing pandemic has presented an unprecedented challenge that has required increased flexibility and exceptional communication with all employees. During this time, our number one priority has been to protect the health and wellbeing of our staff and contractors and the communities in which we operate. However, the pandemic has also had some positive outcomes. For example, it has accelerated our understanding of the benefits of flexible working, and we are now committed to embedding flexible working arrangements into our "business as usual" to support our broader diversity and inclusion aims. We recognise we can build further upon this strong base and in 2022 we plan to develop our health and wellbeing and employee engagement programmes.

We are really proud of the talented, dedicated and stable teams we have built. Our low labour turnover rates are testament to our belief in paying competitive salaries, providing good working conditions, and investing in training and development. All of this is underpinned by strong and collaborative industrial relations, where employees at our three major sites are represented by trade unions.

Safety and wellbeing is also a cornerstone of our business. In 2022, we intend to double down on our goal of zero harm and build on this by cultivating a wellbeing culture in the business that promotes both physical and mental health. This will support our aim of strengthening employee engagement, which we will also do by establishing more structured mechanisms to listen to employees and act on their feedback.

Case study: Ongoing development

Using internships to benefit our business

We use internships extensively across our business to foster links to local education and provide a steady flow of talented individuals from different backgrounds to our business. In 2013, Martyn Slaghuis completed an internship in our European technical department at our Nuth manufacturing facility in the Netherlands as part of his mechanical engineering studies. Under the guidance of experienced colleagues, he developed into a fully fledged mechanic, working full time in the department. Martyn displayed significant potential and in 2017 began a university-level engineering qualification which we helped to facilitate. On successful completion of his course, and following further coaching, we were delighted to promote Martyn to the position of Maintenance Manager this year and look forward to developing his career even further with Stelrad. As Martyn says in respect of opportunities at Stelrad: "If you want it badly enough there are no limits to what you can achieve."

Primary measures

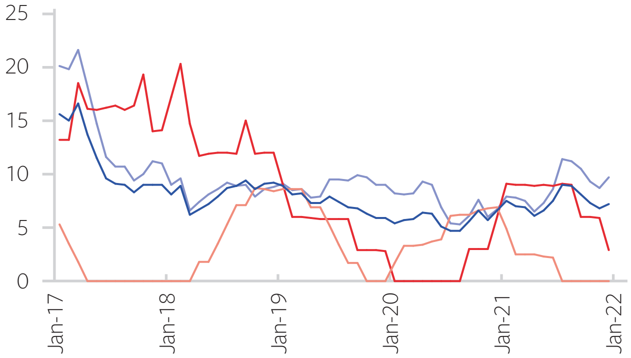
Our primary measures related to our accident performance are the lost time frequency rate ("LTFR") and the lost time severity rate ("LTSR"). Any accident resulting in an employee not being able to attend work the following day is regarded as a lost time accident.

People metrics	**2021 %**	2020 %	National average
Absence			
– UK	**2.76**	2.36	1.80% (2020)
– Netherlands	**8.42**	5.60	6.00% (2020)
– Turkey	**6.53**	14.12	—
Labour turnover			
– UK	**9.18**	5.58	17.00% (2021) / 8.10% (2020)
– Netherlands	**4.10**	3.06	—
– Turkey	**6.25**	2.60	—
Training days per person (days)			Target
– UK	**4.34**	0.97	3 days
– Netherlands	**3.25**	4.30	3 days
– Turkey	**1.45**	1.36	2 days

Building an exceptional workforce continued

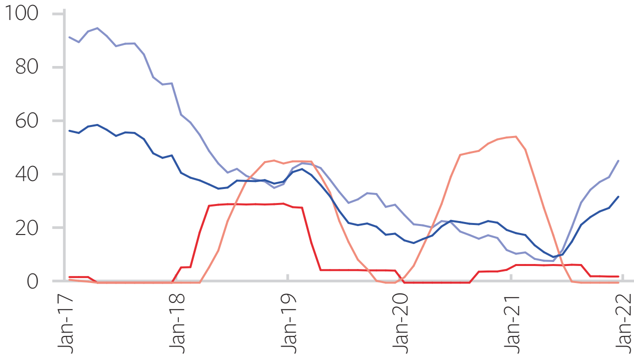
Lost time frequency rate – five years

LTFR calculation: Lost time accidents in a rolling twelve-month period x 1,000,000/hours worked in that period.



Lost time severity rate – five years

LTSR calculation: Working days lost in a rolling twelve-month period x 200,000/hours worked in that period.



Termo Teknik Continental UK Stelrad Group

Our progress and key initiatives

Health, safety and wellbeing

There is nothing more important than ensuring our people come to no harm. As a manufacturing business there will always be risks, but our actions can minimise those risks. Our approach to safety is driven by the Board and firmly embedded within our business culture. This culture promotes continuous improvement, exemplified this year by the upgrade of guarding standards (detailed in the safety case study on page 31).

In July, our UK operations successfully transitioned from BS 18001 to ISO 45001. This resulted in a wider range of people becoming engaged in the management of safety and contributed to the achievement of one full year with zero lost time accidents. This confirms that our goal of zero harm is achievable. Across the Group, both our UK and Continental divisions significantly reduced their lost time frequency rate ("LTFR"), offsetting an increase in Turkey, and resulting in overall Group performance falling back from 6.61 (2020) to 7.19 per million hours worked. Frequency and severity rates in our Turkish operations were impacted by several lost time accidents in May, September and December. Our review identified the problem as a rapid increase of production to satisfy customer demand, requiring a significant increase in headcount. The immediate focus in 2022 is to continue the long-term downward trend in both lost time accident frequency and the lost time severity rate.

Over the coming year, our commitment to safety will continue, and we will increase our focus on employee wellbeing by training and embedding mental health champions, rolling out Group-wide mental health awareness training, and enhancing our employee assistance programmes. The Covid-19 pandemic has shone a light on the importance of mental wellbeing and resilience in the workplace, and we are looking forward to developing further support mechanisms for our colleagues in these areas.

Employee engagement

Building relationships based on trust, integrity and two-way communication is integral to our employee engagement approach. All three of our major sites have established strong positive relationships with trade union partners for collective bargaining purposes and we actively encourage employee representation. We also recognise the importance of exposing Board members to the concerns and ideas of the workforce. We will address this in 2022 by having all Non-Executive Board members visit our factories and spend time with local management and employees.

We also invest heavily in our people. In the UK and the Netherlands, we pay above national minimum rates for all roles, and we regularly benchmark our rates to ensure they are correctly positioned. In Turkey, all established employees are paid in excess of the national minimum rate, while new entrants are placed at the minimum rate for a short period whilst training before moving up our pay scales. We encourage and support employees to constantly develop and improve and are determined to promote career progression success stories (as shown in the case study on ongoing development). While we have seen a notable decrease in training days per person over the last two years, this is attributed to the restrictions imposed by Covid-19, and we are planning to recover this in the short term.

Our commitment to employee engagement and development is reflected in our performance, which, although impacted by Covid-19 in 2020 and 2021, still compares favourably with peers. Absence rates in the UK and Continental units were not substantially increased and remain in line with expected national averages, and in Turkey absence rates reduced in 2021 from a significant Covid-19 related spike in 2020. Whilst all three sites showed increases in labour turnover in 2021, the UK is significantly below the 2021 national average figure, whilst the increase in Turkey represents a return to long-term averages after an unusual year. In 2022 we intend to build on the existing employee engagement practices; we will conduct our first UK employee survey and will implement an employee engagement briefing at Board level. These two initiatives will ensure that everyone has a chance to provide feedback and highlight any key areas for improvement and will ensure that workforce wellbeing is monitored by the Board.

Diversity and inclusivity

Over the last twelve months, we have made some good progress in pursuit of our ambition to promote equality, diversity and inclusion throughout our business.

At Board level
Notable progress was made during the year on addressing female representation at the highest level, with two of our three new independent Non-Executive Directors being women. As outlined in our Nomination Committee Report on page 58 we prioritised diversity as an essential consideration when undertaking the search for the new Non-Executive Directors. The Company sees great value in having a diverse and inclusive Board, enabling us to draw on different perspectives and backgrounds as part of our decision-making processes. We have committed to considering diversity and inclusion in all forward-looking Board membership processes, including skills, experience, gender, ethnicity, age, sexuality, disability, education and background. This is important as the Board is committed to maintaining a culture where all our team members feel supported, included, valued and recognised as Stelrad employees and as individuals. Our Board, Nomination Committee and Human Resources team work together to set diversity objectives and strategies, monitor their progress, and set the tone of Group culture from the top of the organisation.

Opening up opportunities
Highlights of the year include our involvement in the UK Government's Kickstart Scheme. Through this programme, we have created five six-month work placements for young people who are at risk of long-term unemployment. Opening up opportunities for young people from different backgrounds benefits our business, as diversity is an ingredient for financial success, as well as allowing us to contribute to reducing inequality in wider society. Two of the four young people recruited to date are female and have commenced work in our warehouse in what was previously an entirely male environment. We have also signed up with the UK Government as a Disability Confident employer, demonstrating our commitment to taking action to improve how we recruit, retain and develop disabled people.

Promoting diversity in our industry
When it comes to gender equality, we, like the wider engineering sector, face considerable challenges in attracting women into technical roles. We remain proactive in addressing the challenges we face through our work on STEM initiatives with local schools, colleges and training bodies. In August 2021 our UK business hosted a STEM event in conjunction with local schools, aimed specifically at encouraging more females into STEM careers. Outside the UK we are equally committed to our diversity and inclusion ambitions. In the Netherlands we hosted events aimed at identifying work opportunities for young people with disabilities and we have hosted factory tours aimed specifically at attracting refugees into our industry. In Turkey we have strong links with the local technical college and have hosted several factory tours and career Q&A events. We aim to build on these initiatives and relationships as we continue to look at how we can attract more diverse talent into our business and support the wider sector to do similar.

Gender pay gap
In respect of gender pay gap reporting in the UK, our main UK employer, Stelrad Limited, with a headcount of 188 employees, was below the mandatory reporting threshold of 250 employees on the snapshot date of 5 April 2021. However, we recognise the importance of gender pay gap data in our pursuit of equality, diversity and inclusion, and therefore we report the gender pay gap statistics of Stelrad Limited on a voluntary basis in order to monitor progress. For the purpose of evaluation, we have compared our 2021 data with that from 2019, as the 2020 data is unrepresentative due to a significant number of employees being on furlough at that time. In 2021, the mean gender pay gap improved to -1.8%, meaning that the mean hourly rate for women was higher than that of men, from 10.9% in 2019. The median pay gap reduced to 2.8% from 14.5% in 2019.

These figures exclude our other UK employer, Stelrad Management Limited, which had 15 employees as of 5 April 2021. For future snapshot dates, commencing 5 April 2022, we intend to publish a single gender pay gap report on our website that includes all employees of our UK entities. Whilst we have made good progress in improving our gender pay data, we recognise that we still have much to do. As of 31 December 2021, we had 217 employees on our UK payrolls. 81% of these were male and 19% were female. However, there is stronger representation in sales, general and administrative positions, where 41% of the workforce are female. 95 of our 217 employees work in these positions.

Community investment
An important part of the culture at Stelrad is making a positive contribution to the neighbourhoods and communities we operate in. To support community relations, the business allocates an annual Community Investment Fund, which is then managed by local teams. For example, in the UK, this is managed by the Social, Charity and Community Forum, a group of employee volunteers from all areas of the business. This fund is used for charitable sponsorships, social enterprises and education, including supporting individual causes raised by employees, such as providing financial assistance to a colleague whose home was one of 2,300 damaged during the flooding in Valkenburg.

Case study: Safety

Improving safety through upgrades and process automation
A key focus this year has been on updating machine guarding, in order to improve safety and introduce additional process automation. A set of Group Machine Safety Standards has been created and externally audited by guarding specialists, and this has prompted upgrades at all three manufacturing sites. This work will continue throughout 2022 and beyond.

The work includes eliminating possible reach points where employees could come into contact with equipment; upgrading guarding switches to modern "dual channel" specification; reconfiguring perimeter guarding to allow better employee access; and improving visibility of the machinery from a safe distance. All three manufacturing sites carried out upgrade projects including: work in the UK to complete one of its production lines, and the first half of a second line; Continental work on production line robot cells, packaging line robot cells and shrink-wrap ovens; and work in Turkey to complete the guarding replacement on one of its lines, as well as two robot cells.

Maintaining high standards of business

We manage the Group for the benefit of all stakeholders through high ethical and corporate governance standards and a culture of accountability, integrity, transparency and responsibility.

We uphold high ethical and corporate governance standards by establishing and embedding a culture of accountability, integrity, transparency and responsibility that ensures the Group is managed for the long-term benefit of all stakeholders.

Good governance is integral to ensuring the long-term sustainability of the Group, and the CEO takes ultimate responsibility for our sustainability strategy. He is supported in this by the other members of the Board, local management and a dedicated ESG working group. Details of the Board and the work of the established Committees are shown on pages 50 to 53.

UK Net Promoter Score, 2021

32.3%

(UK all sector average: 21.2%)

Our progress and key initiatives

Our business and employee activities are governed by our revised Group Code of Conduct which will be reinforced during 2022 to all parts of the business and supported by training to embed it into our culture. The Code of Conduct sets out our policies and procedures and helps to ensure that all employees can act according to Stelrad's values. The Code of Conduct is supported by several policy documents, and the case study below highlights work undertaken to review these documents during 2021. Each of our policies are supported by training programmes. The policies in operation include:

- the whistleblowing policy;
- the conflicts of interest policy;
- the anti-bribery and corruption policy;
- the modern slavery statement;
- the health and safety policy;
- the environmental policy; and
- the accounting and tax policy.

The processes and values within these policies are then embedded within our management systems. Where possible, we engage with accreditation bodies to certify that our systems are in line with recognised best practice, which has led to most areas of the business holding ISO 9001, 14001, 45001 and 50001. During 2021, Termo Teknik in Turkey became the latest site to achieve an ISO 50001 certification, with the Continental Radiators division also aiming to achieve this in 2022. The certifications held by each site are subject to external audit verification, with any areas of non-compliance actively addressed ensuring our processes are kept up to date.

Case study: ESG performance

Working with our customers to raise standards

We are working with our customers on a range of initiatives to benchmark our ESG performance, leading to the identification of priorities for the future. An example is that, in 2021, our three main manufacturing sites each completed an EcoVadis sustainability assessment for the first time. We are pleased to note that both the UK and Continental sites achieved silver awards, indicating that our historical approach has provided a good foundation for future development.

ESG governance

During 2021, several actions were taken to further improve our management of sustainability matters throughout all layers of the business. Firstly, a consideration in the recent appointments to the Board was experience in sustainability. This strengthened the knowledge and skill set of top-level management in this area. In addition, an international ESG working group was formed, which will focus on the development and implementation of our ESG strategy in all business units, reporting on progress to the Board.

This working group is formed of representatives from our three main divisions, and from across the Operations and HR functions. These representatives are key to ensuring all aspects of our business are considered in the strategy development process, and in working with local management to implement change in pursuit of our sustainability aims.

Case study: Strengthening a Group-wide culture

Achieving consistent standards

Our historical approach to policy setting has been to blend centralised direction with local knowledge and expertise. This has allowed us to address the local needs of stakeholders more directly, with a mix of a top down and bottom up approach that encourages stakeholder engagement and input. During 2021, we undertook a review of our existing policies with the recognition that greater consistency was needed between sites to promote our culture more effectively. This has resulted in the updating or creation of several Group-wide documents that have been rolled out across our site teams to support existing processes and encourage a consistent standard for all employees.

Climate-related financial disclosures: TCFD statement

In line with our pillars focusing on minimising our environmental impact, as well as maintaining high standards of business by constantly assessing future risks, we acknowledge and support the requirement for UK companies with a premium listing to make disclosures consistent with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"). Stelrad supports the transition to a zero carbon global economy, and we are aware of the need to reduce our exposure to climate-related risks. Whilst we are still in the early days of embedding the TCFD recommendations, we are committed to using this framework as part of our strategy to mitigate risks and adapt to opportunities.

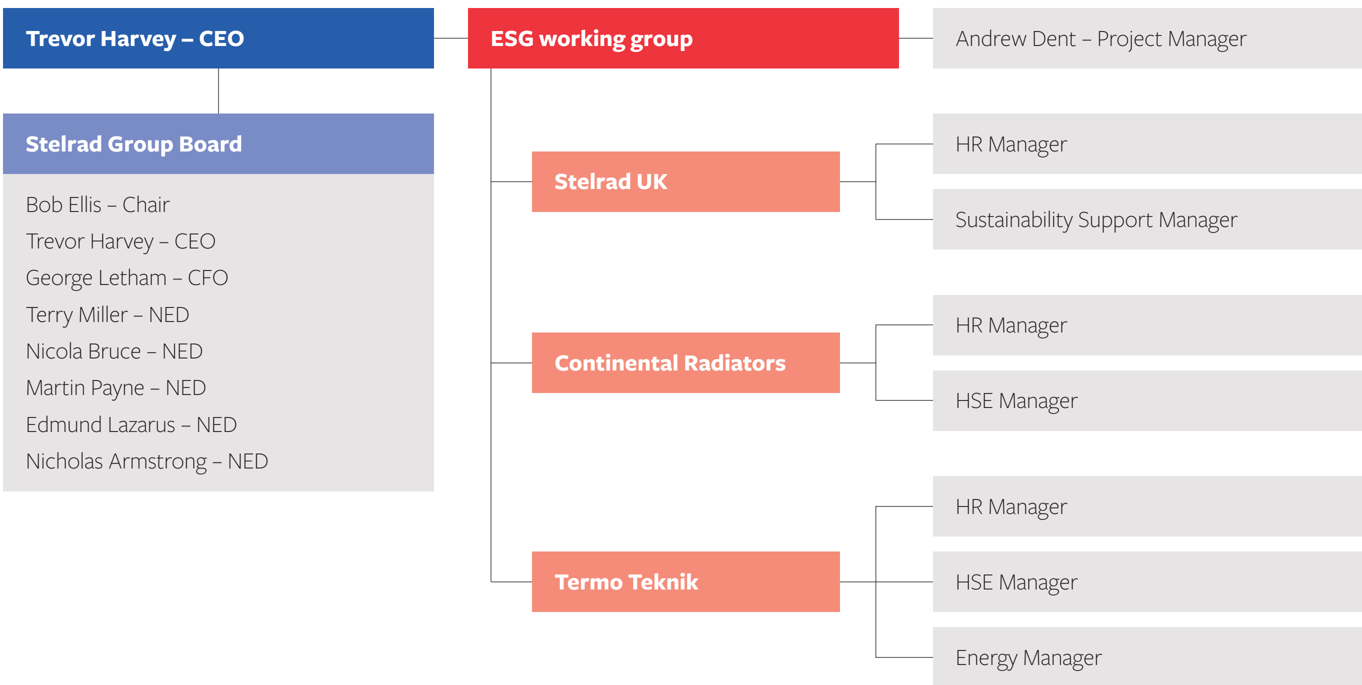
This section responds to our regulatory obligation to make disclosures aligned with the recommendations of the TCFD. We share disclosures according to the four overarching pillars set out by the TCFD, and where we have encountered technical or transitional challenges in addressing the eleven underlying recommendations, we have provided commentary on our workstreams to achieve full alignment.

We share disclosures against all four thematic areas below, and already share commentary on existing workstreams that align with several of the eleven underpinning recommendations. We intend to deepen our integration across the four areas and eleven recommendations of the TCFD over the next financial year, as we increase our reporting as a newly listed company from November 2021. Through this process we have identified multiple climate-related risks, including the impacts on manufacturing facilities of floods or other natural disasters, and the legislative changes being implemented in support of the decarbonisation of the economy.

Governance

Stelrad is aware of the need to oversee and govern climate-related risks and opportunities. Climate change and climate-related risks and opportunities are governed as part of the wider ESG strategy, as well as through our approach to risk management more widely. The CEO has overall responsibility to lead the development and implementation of the Group's ESG strategy and policies, including successful response to identified risks and opportunities. The Board has oversight of the risk process, and updates or changes to significant risks, including climate risks, are included as a standing agenda item in scheduled Board meetings. The Audit & Risk Committee assists the Board in the oversight of the risk process. Operational management assists in the identification of emerging risks and implements any agreed mitigating actions.

Our Commercial Project Manager is responsible for producing a monthly ESG Highlights Report, which incorporates our projects relating to climate change, climate risk, and mitigation and adaptation, and which is reviewed by the Board, with specific project updates presented in person on a quarterly basis. The Board and our Project Management function are exploring new opportunities for cross-functional roles and tasks to strengthen our approach to climate mitigation and climate risk-related projects, and our reporting, across the spectrum from climate change training to data management.



Climate-related financial disclosures: TCFD statement continued

Strategy

Our overall strategy is outlined on pages 14 to 15, and our support for the future of home heating on pages 23 to 24. The Board is committed to the need to evaluate climate-related risk and opportunity in the ongoing development and delivery of our strategy. We have identified areas of opportunity related directly to the mitigation of climate change, through our role in supporting the low carbon economy. These sections reflect the business opportunity related to the transition to low carbon heating, which represents a direction of growth for us. The drivers for these market conditions are becoming embedded in international climate policy, including the European Green Deal and the UK Net Zero Strategy, suggesting that they will persist and support our chosen strategy over the medium to long term. This situation is constantly monitored to ensure our strategy remains relevant.

Moving our business strategy in a low carbon direction is a response to the clear opportunity raised by international policy and consumer response to the climate crisis. It also offers a risk mitigation mechanism for the business as we can diversify our income dependencies towards a wider range of markets.

Risk management

The TCFD separates physical risks – those related to the impact of climate change such as disruption to manufacturing or supply chains due to extreme weather – and transition risks – those caused by regulatory changes. There is the potential for both types of risks to impact on Stelrad, but the probability of regulatory changes in our sectors is high, and the likelihood of these changes ensures that transition risks are seen as more significant to Stelrad.

The identification, assessment, management and mitigation of climate-related risks fall within our wider Enterprise Risk Management ("ERM") process, more details of which can be found on pages 40 to 44. Our ERM approach captures some of the potential physical and transition risks and opportunities related to climate, including risks to assets, markets and reputation.

The process for managing these climate risks and opportunities is fully integrated into our wider risk management approach, which is described on pages 40 to 44. There are two principal risks, related to "business disruption" and "political environment and climate change", included in this report that could be described as climate related (see pages 41 and 44). As we continue to evaluate our emerging and principal risks, we will continue to monitor our exposure to climate-related risks, with the expectation of more developed reporting on this area in future years.

Metrics and targets

We have previously reported on Scope 1 and 2 emissions in a limited way, and this report includes full reporting on Scope 1 and 2 emissions for the first time (see page 27). This section also includes several metrics related to our environmental impact.

Future TCFD priorities

Our focus in 2022/23 is to develop our approach in relation to each of the four pillars and the eleven recommended disclosures, with a particular focus on:

- defining the division of responsibilities for ESG matters at Board level, and including this in job roles;
- further articulating the key climate-related risks and opportunities for our business, and how they relate to the achievement of our strategic objectives and our financial performance;
- undertaking scenario analysis to assess our strategic resilience, conducted following recognised best practices;
- separating out climate-related risks and opportunities within our ERM governance process; and
- developing methodologies to capture our emissions in the most material Scope 3 categories, and using enhanced lifecycle data to develop coherent and ambitious metrics and targets in climate-related areas, including a timeline to becoming net zero.

"Moving our business strategy in a low carbon direction is a response to the clear opportunity raised by international policy and consumer response to the climate crisis. It also offers a risk mitigation mechanism for the business as we can diversify our income dependencies towards a wider range of markets.

Developing our ESG approach: next steps

Beginning in January 2022, we will be working with specialist consultancy Design Portfolio to conduct a detailed review of our ESG activities and plans and develop a fully fledged ESG strategy for Stelrad. Building on our progress to date, our aim is to create a holistic, long-term strategy that is fully aligned to our corporate aims and the needs of our stakeholders, as well as identifying our national and international ambitions and the standards with which we want to align.

By putting our first in-depth materiality assessment at the heart of the process, we aim to ensure that our new strategy addresses priority risks and opportunities and the issues that matter most to our business and our stakeholders. We will be engaging widely with internal and external stakeholders to understand their views, conducting a business impact assessment of the risks and opportunities that have the potential to affect Stelrad, and undertaking a comprehensive review of internal and external factors and trends that may be crucial to our strategy. The strategy that we develop will outline our ESG priorities, the targets that we are setting out to achieve, our plans for progressing our goals and how we will measure our performance along the way. As such, it marks an important milestone in the ongoing integration of sustainability into our business.

Our immediate plans also continue apace. We know how important it is going to be for our future to fully understand our ESG impacts as a business. From an environmental perspective, having measured our global Scope 1 and 2 greenhouse gas emissions for the first time in 2021, we have put in place plans for next year to conduct an initial assessment of our indirect Scope 3 emissions and a lifecycle analysis of our products for the first time. This will help to pinpoint where our biggest impacts are in the process of bringing our products to the market – from the steel we process and energy we use in our operations, through to how we package and transport our products – and the steps we can take to reduce these.

It promises to be a busy and exciting year ahead, and we are already looking forward to sharing our new strategy and progress with you.

Stelrad's ESG journey and next steps

Up to 2011

- Mexborough gains ISO 14001
- Mexborough achieves zero waste to landfill and joins Valpak packaging compliance scheme
- Çorlu gains ISO 14001 and OHSAS 18001
- Social, Charity and Community Forum established
- Apprenticeship programmes established

2012–2015

- Mexborough gains OHSAS 18001 and joins the Climate Change Agreements scheme
- Group develops ESG minimum standards, policy and targets
- Çorlu reforestation project started

2016–2018

- Mexborough gains ISO 50001
- Nuth gains ISO 14001 and ISO 45001
- Use of high strength steel in mainstream production
- Mexborough sources 100% renewable electricity

2019–2020

- Mexborough and Çorlu join SEDEX responsible sourcing platform
- First Scope 1 and 2 emissions report produced for the UK
- Mexborough joins the forest carbon project
- Disability Confident employer

2021

- Mexborough migrates to ISO 45001
- Çorlu gains ISO 50001 and migrates to ISO 45001
- STEM links established with UK colleges
- Group joins EcoVadis sustainability ratings scheme
- ESG working group formed
- ESG strategy refresh and first ESG and TCFD report as part of the Annual Report and Accounts

2022 (planned)

- Group to conduct first materiality assessment and full ESG strategic review
- Enhanced ESG strategy to be developed and new targets set
- Scope 3 emissions measurement and lifecycle analysis
- Environmental product declarations
- Nuth to gain ISO 50001

"Profit attributable to shareholders increased by £5,961k or 68.5% to £14,660k (2020: £8,699k).

George Letham
Chief Financial Officer

Our financial position is more robust than ever having successfully navigated through the impacts of both the global pandemic and unprecedented steel price volatility

Financial overview

Revenue for the year was £272,285k, an increase of £75,720k, or 38.5%, on last year (2020: £196,565k). This was principally as a result of increased sales volumes which were exceptionally low in Q2 2020 due to the Covid-19 pandemic and implementation of selling price increases in 2021, recovering a significant rise in steel prices.

Adjusted operating profit for the year was £33,169k, an increase of £17,546k, or 112.3%, compared to last year (2020: £15,623k). This was principally as a result of an increase in sales volumes, the transfer of production to lower cost facilities, a growth in premium panel sales volumes and the benefit of increased selling prices, partially offset by the impact of steel price rises. The Group benefited from its normal policy of forward purchasing steel in Turkey when steel prices increased rapidly during 2021 to unprecedented levels.

Statutory operating profit for the year was £26,559k (2020: £19,524k), including exceptional costs of £9,589k (2020: £nil) and the impact of foreign exchange gains of £2,979k (2020: £3,901k). The Group's effective tax rate in the year benefited from the one-off recognition of UK deferred tax assets.

Profit attributable to shareholders increased by £5,961k, or 68.5%, to £14,660k (2020: £8,699k). Earnings per share was 11.51 pence (2020: 6.83 pence) and adjusted earnings per share was 16.92 pence (2020: 4.44 pence).

There was a significant devaluation of the Turkish Lira during 2021. When the opening reserves and current year profits of the Group were retranslated at the closing exchange rate, the result was a charge of £26,072k through the consolidated statement of comprehensive income in the year.

On 10 November 2021, the Group listed on the premium segment of the London Stock Exchange, having previously been under private ownership. As part of this process, the Group repaid all legacy financing arrangements including shareholder loans. This was funded by a part drawdown on a new £80 million debt facility, a share capital raise of £25,085k and existing cash. The new debt is a revolving credit facility with an initial three-year term, then two one-year extension options. At 31 December 2021 the Group had cash of £15,563k and undrawn available facilities of £23,500k, with net debt excluding finance leases of £40,937k.

Group overview

The following table summarises the Group's results from operations for the years ended 31 December 2021 and 31 December 2020.

	2021 £'000	2020 £'000	Increase/ (decrease) £'000	Increase/ (decrease) %
Revenue	**272,285**	196,565	75,720	38.5
Adjusted operating profit	**33,169**	15,623	17,546	112.3
Exceptional items	**(9,589)**	—	(9,589)	—
Foreign exchange differences	**2,979**	3,901	(922)	(23.6)
Operating profit	**26,559**	19,524	7,035	36.0
Net finance costs	**(10,238)**	(10,337)	99	1.0
Profit before tax	**16,321**	9,187	7,134	77.7
Income tax expense	**(1,661)**	(488)	(1,173)	(240.4)
Profit for the year	**14,660**	8,699	5,961	68.5
Earnings per share (p)	**11.51**	6.83	4.68	68.5
Adjusted earnings per share (p)[(1)]	**16.92**	4.44	12.48	281.0
Dividend per share (p)	**0.96**	—		

(1) Adjusted earnings per share is calculated on adjusted profit after tax, being earnings before exceptional items and foreign exchange differences and tax on exceptional items and foreign exchange differences.

Revenue by geographical market

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

Revenue by geographical market	2021 £'000	2020 £'000	Increase £'000	Increase %
UK & Ireland	**130,405**	89,430	40,975	45.8
Europe	**118,063**	90,566	27,497	30.4
Turkey & International	**23,817**	16,569	7,248	43.7
Total	**272,285**	196,565	75,720	38.5

UK & Ireland

The Group's revenue in the UK & Ireland for the year was £130,405k (2020: £89,430k), an increase of £40,975k, or 45.8%. This was principally as a result of increased sales volumes which were lower in Q2 2020 due to the impact of the Covid-19 pandemic on the UK market. Additionally, four selling price increases were applied in 2021 following a significant rise in steel prices.

Europe

The Group's revenue in Europe for the year was £118,063k (2020: £90,566k), an increase of £27,497k, or 30.4%. This was principally as a result of market share gains through growth in sales volumes with existing customers and four selling price increases during 2021 due to rising steel prices.

Turkey & International

The Group's revenue in Turkey & International for the year was £23,817k (2020: £16,569k), an increase of £7,248k, or 43.7%. This was principally as a result of increased sales volumes which were lower in 2020 due to the Covid-19 pandemic and selling price increases in 2021 following a significant rise in steel prices.

Adjusted operating profit by geographical market

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

Adjusted operating profit by geographical market	2021 £'000	2020 £'000	Increase/ (decrease) £'000	Increase/ (decrease) %
UK & Ireland	**21,589**	8,618	12,971	150.5
Europe	**12,929**	9,821	3,108	31.6
Turkey & International	**2,898**	1,218	1,680	137.9
Central costs	**(4,247)**	(4,034)	(213)	(5.3)
Total	**33,169**	15,623	17,546	112.3

UK & Ireland

The Group's adjusted operating profit in the UK & Ireland for the year was £21,589k (2020: £8,618k), an increase of £12,971k, or 150.5%. This was principally as a result of an increase in sales volumes after the initial impact of the Covid-19 pandemic on the UK market, increased premium panel sales volumes, the transfer of additional production to lower cost facilities and the benefit of increased selling prices, partially offset by the impact of steel price rises.

Europe

The Group's adjusted operating profit in Europe for the year was £12,929k (2020: £9,821k), an increase of £3,108k, or 31.6%. This was principally as a result of an increase in sales volumes, the transfer of additional production to lower cost facilities and the benefit of increased selling prices, partially offset by the impact of steel price rises.

Turkey & International

The Group's adjusted operating profit in Turkey & International for the year was £2,898k (2020: £1,218k), an increase of £1,680k, or 137.9%. This was principally as a result of an increase in sales volumes after the initial impact of the Covid-19 pandemic in Turkey and China and the benefit of increased selling prices, partially offset by the impact of steel price rises.

Central costs

Central costs for the year were £4,247k (2020: £4,034k), an increase of £213k, or 5.3%. Costs increased principally as a result of additional expenditure arising due to the Group being listed, following the completion of the IPO in November 2021.

Exceptional items

During the year exceptional costs of £9,589k were incurred (2020: £nil) relating to professional advisers employed to consider the potential recapitalisation of the Group and the costs associated with the IPO undertaken by the Group in the year. These costs are one-off in nature and disclosing these costs as exceptional allows the true underlying performance of the Group to be more easily reviewed.

Finance costs

The Group's finance costs for the year were £10,238k (2020: £10,337k). The 1.0% decrease of £99k was primarily due to a reduction in interest payable on external loans due to a lower average revolving credit facility usage during 2021 and the benefit of ongoing repayments on the Group's term loans. The 2021 finance costs include accrued interest on repaid shareholder loans which will not recur in future years as a consequence of the Group's new capital structure.

Income tax expense

The Group's income tax expense for the year was £1,661k (2020: £488k), an increase of £1,173k, or 240.4%. The increase was primarily due to an increase in profits chargeable to taxation and an increase in overseas tax rates with the tax rate in Turkey increasing from 22% to 25%.

The tax charge for 2021 has been reduced as the Group has recognised previously unrecognised deferred tax assets relating to tax losses. The newly recognised losses are all post-April 2017 UK losses and the decision has been taken to recognise the losses in the year because the new capital structure of the Group post-IPO means that tax deductible interest will be lower which, along with higher UK profitability, will lead to these losses being utilised over a much shorter time frame.

Earnings per share and adjusted earnings per share

Profit attributable to shareholders increased by £5,961k, or 68.5%, to £14,660k (2020: £8,699k) and earnings per share was 11.51 pence (2020: 6.83 pence). The weighted average number of shares was 127.4 million. Profit attributable to shareholders before exceptional items, foreign exchange differences and tax thereon increased by £15,896k, or 281.0%, to £21,552k (2020: £5,656k) and consequently adjusted earnings per share was 16.92 pence (2020: 4.44 pence).

Dividends and reserves

The Group is committed to delivering returns for its shareholders. It intends to adopt a progressive dividend policy targeting an initial annualised pay-out of approximately 40% of adjusted earnings, with capital allocation focused on reinvestment for growth. The Group intends to split dividend payments approximately 33% and 67% between the Group's interim and final dividend payments respectively, across the fiscal year. The Group expects to pay its first dividend in May 2022 which, due to the timing of the Group's admission, will be the only dividend paid in respect of 2021. The 2021 dividend will be determined on a pro rata basis for the period from admission to 31 December 2021.

The Company successfully submitted an application to the High Court of Justice of England and Wales (the "Court") to reduce the value of each ordinary share of the Company from £1.00 to £0.001; the reduction will be credited to the retained earnings of the Company. Under the same application the Court approved the removal of the share premium account of the Company in full, with the reduction credited to the retained earnings of the Company. The Court approved the application on 25 January 2022.

Cash flows

The following table summarises the Group's cash flow for the years ended 31 December 2021 and 31 December 2020.

	2021 £'000	2020 £'000	Increase/ (decrease) £'000
EBITDA [1]	**40,578**	23,544	17,034
Gain on disposal of property, plant and equipment	**(213)**	(142)	(71)
Working capital adjustments	**(8,707)**	798	(9,505)
Net capital expenditure	**(9,825)**	(9,889)	64
Adjusted cash flow from operations	**21,833**	14,311	7,522
Income tax paid	**(3,734)**	(1,927)	(1,807)
Interest received	**141**	68	73
Adjusted free cash flow	**18,240**	12,452	5,788

	2021	2020	Increase/ (decrease)
Adjusted cash flow from operations (£'000)	**21,833**	14,311	7,522
Adjusted operating profit (£'000)	**33,169**	15,623	17,546
Adjusted cash flow from operations conversion (%)	**65.8**	91.6	(25.8)

(1) EBITDA is defined in the glossary of terms on page 17.

The Group's adjusted free cash flow for the year was £18,240k (2020: £12,452k), an increase of £5,788k. This reflected an increase in the profitability of the Group and increased working capital, due to the replenishment of inventories as the 31 December 2020 inventory levels were exceptionally low.

The Group's adjusted cash flow from operations for the year was £21,833k (2020: £14,311k), an increase of £7,522k. This was principally as a result of an increase in the profitability of the Group partially offset by an increase in working capital, linked to an increase in inventories, and higher income tax paid in 2021. Adjusted operating profit for the year was £33,169k (2020: £15,623k), an increase of £17,546k. This was principally as a result of an increase in the profitability of the Group. Adjusted cash flow from operations conversion for the year was 65.8% (2020: 91.6%), a reduction of 25.8pp, due to the significant impact of replenishment of inventories during 2021 and the higher level of capital expenditure related to the incremental development capital expenditure programme, which was completed in 2021.

On 10 November 2021, the Group listed on the premium segment of the London Stock Exchange, having previously been under private ownership. As part of this process, the Group repaid all legacy financing arrangements including shareholder loans funded by a part drawdown on a new £80 million revolving credit facility, of which £56,500k was drawn at 31 December 2021, a share capital raise of £25,085k and existing cash.

Capital expenditures

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

	2021 £'000	2020 £'000
Freehold land and buildings	**688**	997
Leasehold buildings	**546**	523
Assets under construction[1]	**1,979**	(1,448)
Plant and equipment	**5,245**	8,758
Fixtures and fittings	**1,192**	733
Total	**9,650**	9,563

(1) The significant parts of the assets under construction relate to plant and equipment.

Since 2015, approximately £25 million of development capital expenditure has been invested by the Group in an incremental programme across all three of its manufacturing plants to provide flexibility and improve quality, capacity and productivity. The incremental capital expenditure programme was completed in the current financial year.

Key capital expenditure in the year ended 31 December 2021 related to: investment in an additional hybrid production line and robotic systems at the manufacturing site in Turkey; production line upgrades at the UK manufacturing site; and vertical welding line upgrades at the manufacturing site in the Netherlands. Investments in warehousing facilities have also been made in Turkey and the UK.

Net debt

During the year ended 31 December 2021, the Group refinanced and repaid all legacy financing arrangements and shareholder loans, replacing them with a new three-year revolving credit facility of £80 million.

At 31 December 2021, statutory net debt (including IFRS 16 leases) of £50,255k comprises £56,500k drawn down against the revolving credit facility and £9,318k finance leases net of £15,563k cash.

At 31 December 2020, statutory net debt (including IFRS 16 leases) of £69,170k comprised £67,613k shareholder loans, a £1,798k ABL revolving credit facility, £9,227k ABL and Lombard term loans and £10,615k finance leases net of £20,083k cash.

	2021 £'000	2020 £'000
Revolving credit facility	**56,500**	—
ABL revolving credit facility	**—**	1,798
ABL and Lombard term loans	**—**	9,227
Shareholder loans	**—**	67,613
Cash	**(15,563)**	(20,083)
Net debt before finance leases	**40,937**	58,555
Finance leases	**9,318**	10,615
Net debt	**50,255**	69,170

George Letham
Chief Financial Officer
14 March 2022

Risk management

The Board has ultimate responsibility for the Group's system of internal control and risk management, supported by the Audit & Risk Committee. The Board understands that successful delivery of its strategic objectives depends on effective risk management processes that enable the monitoring and mitigation of existing risks and the early identification of emerging risks.

Risk management approach

The Group's approach to risk management combines a top down strategic assessment of risk and risk appetite with a bottom up operational identification and reporting process. Top down activities are carried out by the Group Board and Audit & Risk Committee and consider the strategy and operating environment of the Group. Bottom up activities take place across the Group and capture risks that are significant at a business unit, project or functional level.

The risk evaluation process begins in the business units with regular exercises undertaken by management to identify and document the significant risks facing the businesses. This process ensures risks are identified and monitored and mitigating management controls are embedded in the businesses' operations. The risk assessments from each of the operating businesses are then considered by Group management to determine the principal risks of the Group with reference to the Group's strategy and operating environment. The principal risks of the Group are reported to the Board for review.

New and emerging risks are considered through the regular risk activities outlined above, regular review of risk research and other publications, and the results of assurance activities. Emerging risks are also collated from assessments made by the business units and through considered risk oversight across the Group and industry.

The Group considers that the process for the management of risk consists of three lines of defence. The first line of defence is business unit and management activity which aligns to the bottom up activities detailed above. The second line of defence is Group oversight provided by the Group Board and Audit & Risk Committee assurance model which corresponds to the top down activities outlined above. Finally, the third line of defence is independent review performed by external audit and other external assurance providers.

Risk appetite

The Group Board is responsible for setting and monitoring the Group's risk appetite. The Group Board accepts that, in order to achieve its strategic objectives, and generate suitable returns for shareholders, it must accept, and manage, a certain level of risk.

The Group's approach is to minimise exposure to reputational, financial and operational risk, while accepting and recognising a risk and reward trade-off in the pursuit of its strategic and commercial objectives. For example, the Group has a zero tolerance for risks relating to health and safety. However, management recognises that certain strategic, commercial and investment risks will be involved to capture opportunities and deliver growth in line with the Group's strategic objectives. The Group establishes its risk appetite through use of delegated authorities so that matters considered higher risk require the approval of senior management or the Group Board. The Group's risk appetite remains unchanged in the year.

Principal risks

The Board confirms that it has carried out a thorough assessment of the principal and emerging risks facing the Group. Set out below is the Board's view of the principal risks currently facing the Group, along with details of the impact and strategic relevance of the risks and an explanation of how the risks are managed or mitigated. The trend for each risk has also been identified, based upon the changes from prior year. The Board acknowledges that the Group is exposed to a wide range of risks; however, only the risks that are believed to have the greatest impact on the Group delivering its strategic objectives have been listed.

Risk management framework

Top down, bottom up approach

Identification of emerging risks

Board	**Ultimate responsibility for risk management** • Sets Group strategy • Approves the Group risk management framework • Sets the Group's risk appetite • Top down risk identification • Reviews the Group's principal risks • Sets delegated levels of authority
Audit & Risk Committee	**Monitors risk management and assurance arrangements** • Supports the Board in risk management responsibilities and activities • Reviews the effectiveness of key risk management and control processes
Executive Directors	**Monitor performance and changes in key risks** • Provide regular risk management update reports to the Board and the Audit & Risk Committee • Report to the Board and the Audit & Risk Committee on the status of key risks • Provide guidance and advice to operating companies to assist with identifying risks, assessing the extent of the impact of identified risks and implementing mitigating actions • Oversee health and safety activities
Business units	**Identify, manage and report local risks** • Maintain local risk registers and risk management plans • Identify and assess risks • Identify and implement mitigating actions

1. Business disruption

Risk
The Group could be subject to disruption due to incidents including, but not limited to, pandemics, major accidents or natural disasters.

Change from prior year
No change

Impact
- There is a risk of Covid-19 infection without any control measures in place and a consequential loss of production capacity due to staff shortages.
- A further wave of Covid-19 could reduce market demand for the Group's products.
- The Group's production and distribution facilities could be disrupted, due to events including major accidents and natural disasters leading to an inability to meet customer demands.

Mitigations
- Covid-19 risk assessments are in place and reviewed regularly. Measures include:
  - social distancing;
  - regular testing on site;
  - working from home and segregation of staff; and
  - following all applicable government guidance in each location as prescribed.
- Home working is applied where possible and infected employees are quarantined off site until clear of infection.
- Appropriate fire safety measures are in place at key sites; in particular new fire safety systems have been installed in Çorlu and at the Heerlen warehouse.
- Building modifications have been made to address flooding risk.
- The majority of stock is stored in racking high off the ground.
- Accident prevention measures are put in place.
- There is an option and ability to flex production volume across facilities around the Group.
- Appropriate business interruption insurance is in place.

2. Reliance on key customers

Risk
The Group, in some geographies, is overly dependent on a small number of customers, or on a particular market or business segment.

Change from prior year
No change

Impact
- In certain markets, particularly the UK, the Group derives a significant proportion of its revenue from a small number of customers. Failure to manage these relationships or a change in the organisational structure of these entities could lead to a loss of demand.

Mitigations
- The Group continues to maintain and develop strong relationships in all market channels.
- The Group continues to maintain strong specifier relationships to generate demand for the Group's brands through the distribution channel.
- The Group will take appropriate measures to regain lost customers.
- Commercial policies will be reviewed and modified if appropriate.

3. Loss of competitive advantage

Risk
New products, innovations or routes to market could cause a loss of competitive advantage.

Change from prior year
No change

Impact
- Competitors could gain a cost, reputation or product advantage that results in a loss of market share for the Group.
- New product types could enter the market or increase market share as part of the drive to "zero carbon", for example underfloor heating, electrification or fan assisted heat exchanger products. There could be a resultant loss of Group sales volumes.

Mitigations
- The Group continues to monitor legislative changes.
- The Group will evaluate the potential impact of zero carbon initiatives.
- The Group continues to maintain strong customer and specifier relationships to determine the most appropriate solutions.
- Appropriate product types are brought to market under the Group's brands.
- The Group continues to maintain and develop strong relationships in all market channels.
- The Group continues to maintain strong specifier relationships to generate demand for the Group's brands through the distribution channel.

4. Supply chain risk

Risk
Failure of the supply chain either due to lack of availability or unforeseen price increases.

Change from prior year
No change

Impact
- A reduction of raw material availability, in particular steel availability, could restrict the ability of the Group to manufacture products or harm profit margins.
- Unforeseen increases in raw material prices, in particular steel price, could harm profit margins.
- The Group has a complex, wide-ranging distribution chain which is critical to the success of the Group and any disruption in the supply chain could impact on the ability of the Group to meet customer demands and/or cause a reduction in profitability.

Mitigations
- Raw material is dual sourced with all key components and materials having a secondary provider; this extends to location dual sourcing.
- Following the threat of Covid-19-related supply chain disruptions, raw material stockholdings have been increased.
- Raw material prices are constantly monitored by the business. For the purchase of raw materials, stocks are maintained to protect against sharp price rises and buy prices are agreed in advance which gives a clear understanding of future prices.
- Where prices are rising the business has sufficient foresight to implement selling price increases.
- High stocks levels are maintained across the Group to prevent against short-term supply issues.
- Long-term relationships are maintained on good terms with trusted shipping partners.
- Options are available to use alternative forms of transport, for example trucks instead of shipping.

5. IT failure or cyber breach

Risk

Prolonged or major failure of the Group's IT systems or a significant security breach.

Change from prior year

Slight increase due to heightened sophistication and frequency of cyber attacks across a number of industry sectors

Impact

- A cyber attack at one of the Group's facilities could disrupt its production and/or distribution capabilities leading to an inability to meet customer demands.
- Failure of our IT and communication systems could affect any or all of our business processes and have significant impact on our ability to trade, collect cash and make payments.

Mitigations

- Training and education are delivered to all staff.
- Appropriate access rights are applied on all IT systems across the business.
- Email scanning processes are implemented.
- Robust systems and processes are in place including data back-ups.
- Third party penetration testing is carried out by all sites.
- The business uses internal and third party expertise to keep up to date with the latest developments.
- Disaster recovery plans are in place.
- There is continued investment in and maintenance of IT systems across the Group.

6. People

Risk

Being unable to retain key personnel and attract skilled individuals or there is deterioration of our relationships with unions.

Change from prior year

No change

Impact

- The loss of key personnel or the inability to put the correct succession planning in place could lead to a shortage of experience that could damage business performance.
- Labour shortages/workforce strikes or the increase in costs of skilled labour could increase the costs of the Group or lead to delays in production.

Mitigations

- Successive deputies are in place for immediate interim assumption of key roles.
- Longer-term succession planning focuses on identification and development of potential successors for key roles.
- Documented processes are in place for key functions to ensure continuity of process.
- Policies and procedures are embedded to ensure appropriate management practices.
- Identified successors can be stepped up.
- Knowledge sharing and support are available from other functions and sites.
- Any necessary recruitment process will be identified, commenced and progressed in a timely manner, where necessary.
- Relationships with unions and works councils are managed closely.
- Pay rates are maintained at a competitive level to attract and retain staff.
- Training and development programmes are in operation, including apprenticeship and other formal trainee programmes.
- Employee relationships are well maintained locally through employee engagement activities.

7. Health and safety

Risk

Failure to comply with health and safety legislation and regulatory requirements including obligations to take the correct measures to prevent fatalities or serious injury.

Change from prior year

No change

Impact

- The Group's production, manufacturing and distribution operations are carried out under potentially hazardous conditions. Accidents, events or conditions that are detrimental to the health and safety of the Group's employees, including, for example, as a result of operating heavy machinery, could have a material adverse effect on the Group's business, reputation and financial results.

Mitigations

- Health and safety is proactively managed with robust processes in place to identify and manage risks.
- Health and safety training is provided across the Group.
- The Group has invested heavily in trying to remove risk, for example by introducing appropriate machinery guarding and also introducing robotics.
- Where health and safety incidents arise, there are rigorous processes in place to learn from these incidents and put in place procedures and training to prevent them from reoccurring.

8. Political environment and climate change

Risk

Failure to evolve business practices and operations in response to the changing political environment, particularly in respect of climate change.

Change from prior year

Slight increase due to heightened focus on climate change initiatives and the volatile Turkish Lira exchange rate

Impact

- The change in political conditions in Turkey could give rise to an adverse change in the Group's Turkish operations, either due to the costs to produce, the availability of labour or the ability for Turkey to interact globally with other economies.
- Increasing legislative pressures on matters such as climate change could have an adverse impact on the demand for the Group's product offering, particularly through the decarbonisation political agenda.
- The Group is also exposed to potential changes in economic circumstances as a consequence of political events, examples of which include public funding, exchange rate fluctuations and private disposable income.

Mitigations

- The Group continuously monitors legislative changes and evaluates any potential impact.
- The Group continues to maintain strong customer and specifier relationships to gain insight into potential market evolution and to influence the selection of the Group's brands.
- The Group continues to develop market appropriate products and commercial solutions, and ensures appropriate product types are brought to market under the Group's brands.
- Mitigating actions against exchange rate fluctuations include:
  - the natural hedge of key currency spend where possible; and
  - for currencies where there is no natural hedge and where deemed necessary, appropriate exchange forward contracts are entered into to fix the parity over the short to medium term.

Viability statement and going concern

Viability statement

The Board has considered the viability of the Group over a three-year period to 31 December 2024, taking into account the Group's current financial position and forecasts, as well as the potential impact of the principal risks and uncertainties facing the Group. The three-year period chosen is one for which the Board believes that it can forecast with a degree of accuracy and certainty. While the Board has no reason to believe that the Group will not be viable over a longer period, it recognises that there is inherent uncertainty involved in looking further forward than three years. The Board believes that this time frame also increases reliability in the modelling and stress testing of the Group's viability and provides the users of the Annual Report with a reasonable degree of confidence over the Group's viability. Additionally, three years aligns with the Group's business planning cycle and a three-year horizon is typically the period over which the Group reviews its external banking facilities.

The Group's annual business plan process looks at financial projections for the next three years, including profitability, balance sheet liquidity and cash flow. The business plan is a detailed bottom up process and is used to perform central debt, headroom and covenant compliance analysis. A sensitivity review is performed on the most significant risks, as well as a combination of those risks. The output of the annual business plan process is reported to the Board for consideration. The Group monitors performance through the financial year against this budget and prior year actual performance with a formal reforecast process conducted as required.

During the year ended 31 December 2021, significant additional work was carried out in preparation for the IPO. This involved the preparation of financial projections for the following two years, a review of liquidity headroom and covenant compliance, and stress testing of significant risks.

The financial position of the Group remains robust. On 10 November 2021, the Group refinanced its bank debt and now has in place an £80 million multicurrency revolving credit facility, of which £56.5 million was drawn down at 31 December 2021. The facility matures in November 2024, with the option to extend for up to two additional years.

The Board believes that the business model will remain highly relevant to the long-term viability of the Group. The regulatory drive towards making new and existing homes more energy efficient will continue, meaning that there will be increased opportunities to play a part in providing greener solutions for heating homes.

The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, liquidity or solvency. Principal risks to the business are identified through the risk management process and are set out on pages 40 to 44. They are recorded in a Group risk register, which is reviewed and discussed at all Audit & Risk Committee meetings, which are held at least three times per annum.

The review has considered all the principal risks identified by the Group, but a selection of risks were considered to pose a severe but plausible downside scenario if they occurred. These risks have been stress tested to assess the viability of the Group. The sensitivities modelled used the same assumptions as for the going concern statement, as set out in the going concern statement on the next page, for the years ending 31 December 2022 and 31 December 2023 with further assumptions applied for the year ending 31 December 2024.

The Directors note that the Covid-19 pandemic had a short-term negative impact on the Group's UK trading results in Q2 2020. For the second half of the year ended 31 December 2020, demand in the UK returned to in excess of 95% of 2020 budget levels despite the UK experiencing a range of regional and national lockdowns. A key difference from the initial lockdown, in Q2 2020, is that merchants, housebuilders and installers were able to continue their activities as these were all deemed essential services which could be conducted while remaining socially distanced. During 2021, demand across all markets has remained strong and largely unaffected by any regional or national lockdowns that have been in place.

The Board has carefully considered the principal risks of the Group and the impact of those risks on the viability of the Group and has concluded that there is no reason to believe the Group will not be viable over the period assessed.

Viability statement and going concern *continued*

Going concern statement

The financial position of the Group, its cash flows and liquidity position are set out in the financial statements. Furthermore, note 29 to the consolidated financial statements includes the Group's objectives and policies for capital management, and note 30 to the consolidated financial statements outlines the Group's financial risk management objectives and policies, details of its financial instruments and its exposure to credit and liquidity risk.

As part of its year-end review, management has performed a detailed going concern review looking at the Group's current financial position and forecasts, cash flows, liquidity and loan covenant compliance over the forecast period, and taking into account the potential impact of the principal risks facing the Group. Management has also applied severe but plausible downside scenario testing to the Group forecasts. Under a severe but plausible downside scenario, the Group remains within its debt facilities and its financial covenants until 31 December 2024. Based on the output of this going concern review, the Directors have concluded that, at the time of approving the financial statements, the Group will be able to continue to operate within its existing facilities and is well placed to manage its business risks successfully. The Directors also used the financial forecasts as the basis for their assessment of the Group's ability to continue as a going concern for at least twelve months from the date of the financial statements. Therefore, the financial statements have been prepared on a going concern basis.

The Group meets its day-to-day working capital requirements through an £80 million bank loan facility which is in place up to November 2024 with the option to extend for up to two years. At the year-end date the Group had drawn down £56.5 million of the £80 million bank loan facility. The remainder of the facility and cash balances of £15.6 million were available to enable day-to-day working capital requirements to be met.

The financial covenants on the £80 million bank loan facility are for leverage (net debt (excluding IFRS 16 finance leases)/adjusted EBITDA (before exceptional items and foreign exchange differences)) of not more than three times and for interest cover of not less than four times. The Group has complied with the covenants during the year ended 31 December 2021 and, as discussed above, is forecast to comply with the covenants for the next three financial years.

The forecast base case scenario has been prepared using robust forecasts from each of our operating companies, with each considering the risks and opportunities the businesses face. Two key sensitivities have been applied to prepare what is considered to be a severe but plausible downside scenario, these being:

- the reduction in volumes to 2019 levels; and
- a reduction of the contribution per radiator from forecast levels to reflect a reduction in profitability due to external factors.

Volumes

The business has performed strongly in recent years on a commercial basis and volumes have grown. In 2019, mainly due to the conscious decision to reduce sales into the Turkish market, volumes were much lower. Volumes could reduce in the future due to competitive pressures or market weakness and this has been modelled as a downside risk.

Contribution per radiator

The Group's contribution per radiator sold has increased in recent years, with the improvement being supported by several sustainable developments:

- shift of sales volumes from the Turkish market to more profitable Western European markets;
- movement of production from UK and Western European facilities to the lower cost base Turkish facility;
- selling price recovery following the failure of a significant competitor; and
- the growth of premium panel radiators as a proportion of total sales.

The Group believes that these benefits are sustainable, but at the same time there is a downside risk that competitive pressures could reduce contributions in the future.

In the downside scenario, volumes have been reduced to 2019 levels and the contribution per radiator has been reduced for the whole period. Under these circumstances, the Group would remain compliant with both of its covenants without the adoption of mitigating actions. Mitigating actions could include restructuring the cost base, and implementation of further cash saving measures, such as reducing advertising costs and other discretionary expenditure, deferral of capital expenditure, delayed/reduced dividend payments and active management of net working capital.

Chair's introduction to governance

"The future focus of the Board is to establish ourselves as a listed company and to aid the continued success and growth of the business over coming years.

Bob Ellis
Chair

Dear shareholders,

On behalf of the Board, I am pleased to present the first Corporate Governance Report of Stelrad Group plc. The report summarises the new governance structure and the enhanced governance procedures of the Group, which have been put in place following our listing on the Main Market of the London Stock Exchange in November 2021. We look forward to bedding in the new Board and the new Committees of the Board over the next year.

This report sets out the following:

- details of the Board of Directors and their biographies (pages 48 and 49);
- the role of the Board and how it delegates authority (pages 50 and 51);
- the key roles of the Board and the division of responsibilities (page 51)
- the Audit & Risk Committee Report (pages 54 to 57);
- the Nomination Committee Report (pages 58 and 59);
- the Remuneration Committee Report (pages 60 to 73); and
- the Directors' Report (pages 74 to 77).

Establishing a plc Board

The Board believes that good governance enhances long-term shareholder value and promotes a sustainable business. The Board also believes that all decisions should be made to the benefit of all stakeholders and to ensure the long-term success of the Group. It is a priority of the Board to set the culture and values of the Group and to lead by example.

The Board expanded significantly in advance of the listing in November 2021 to ensure that we could demonstrate good practice in our corporate governance duties and requirements. We welcomed three new independent Non-Executive Directors as members of the Board: Terry Miller, Martin Payne and Nicola Bruce. Each new member of the Board brings their own skills, knowledge and experience. We also believe that their fresh perspective will enable them to provide independent challenge in Board discussions and new insight to the Group's business model and strategy. Details of the Board of Directors and their biographies can be found on pages 48 and 49.

The future focus of the Board is to establish ourselves as a listed company and to aid the continued success and growth of the business over coming years.

Compliance with the 2018 UK Corporate Governance Code

The Board is committed to the highest standards of corporate governance. Since admission, we have strived to comply with the 2018 UK Corporate Governance Code (the "Code"); further details are included in the Statement of Corporate Governance on page 50.

Board composition and diversity

As a result of the Company announcing its intention to list as a public company, and its subsequent admission, during the year, the Board membership grew from five members to eight members in October 2021, as three new independent Non-Executive Board members were appointed. Building a diverse Board was an essential consideration when searching for and appointing the new Non-Executive Directors. The Board recognises the advantages of having a diverse and inclusive Board in bringing different perspectives to the debate and decision-making processes of the Board, to the benefit of all stakeholders. As a result of the new appointments, female Directors make up 25% of the Board.

During the year, the Group has continued to encourage diversity and inclusion across the Group. Examples of this can be found in the ESG Report on pages 20 to 35.

Stakeholders

The Board understands the importance of listening to all stakeholders and making sure that their views are heard and acted upon. Our Section 172 Statement on page 18 details how the Board has engaged with stakeholders during the year.

The strategy and business model of the Group aim to deliver sustainable growth for the business and long-term benefits for all stakeholders.

During the IPO process, the Executive Directors spent a significant amount of time meeting potential investors and engaging with them and informing them about the Stelrad Group plc products, business model and strategy, as well as the markets in which we operate.

The Board looks forward to the first Annual General Meeting of the Group as an opportunity to continue to engage with our stakeholders.

Bob Ellis
Chair
14 March 2022

A broad range of leading industry, corporate and financial skills and experience

Bob Ellis
Chair

Bob Ellis is a Director and the Chair of the Board and joined the Group in August 2009.

Skills and experience
Mr Ellis has a strong financial background with significant experience in operational restructuring and has also worked with various companies with private equity ownership, across a number of sectors, including the retail, manufacturing and construction sectors.

External appointments
Mr Ellis currently holds directorships on the board of Whittan Group as chair of the board and remuneration and audit committees and the board of Reconomy as chair of the board and remuneration and audit committees. Mr Ellis is also a board adviser to Perceptive eClinical Limited, a medical technology company.

Trevor Harvey
Chief Executive Officer

Trevor Harvey is the Chief Executive Officer of the Group and joined the Group in January 2000.

Skills and experience
Prior to joining the Group, Mr Harvey held management positions as managing director of Myson Radiators and managing director of Myson Heat Emitters, both of which operate within the radiator and heat emitter sector. Trevor studied at the University of Newcastle upon Tyne and graduated with a BSc (Hons) in Mechanical Engineering.

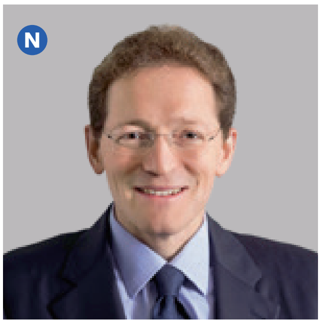
External appointments
Mr Harvey is currently a director of ISG Boiler Holdings Limited, a holding company whose subsidiaries are engaged in the manufacture and distribution of boilers, and has held this position since January 2002.

George Letham
Chief Financial Officer

George Letham is a Director and the Chief Financial Officer of the Group having joined the Group in January 2003.

Skills and experience
Mr Letham has over 40 years of finance experience and held multiple senior finance roles before joining the Group, including at Price Waterhouse Hong Kong and Blue Circle Industries PLC. Mr Letham is a member of the Institute of Chartered Accountants of Scotland.

External appointments
From January 2021 until December 2021, Mr Letham was on the board of The Rangers Football Club Ltd as a non-executive director.



Edmund Lazarus
Non-Executive Director

Edmund Lazarus is a Non-Executive Director and joined the Group in November 2014.

Skills and experience
Mr Lazarus is also managing partner and founder of EMK Capital. Prior to EMK Capital, Mr Lazarus was managing partner of Bregal Capital which he co-founded in 2002. He has been in senior private equity positions for over 20 years. Mr Lazarus' prior career was as a strategic consultant with Bain & Co and as an M&A and corporate finance adviser with SG Warburg and Merrill Lynch before entering the private equity industry with Morgan Stanley Capital Partners.

External appointments
In addition to being a partner of EMK Capital LLP, Mr Lazarus holds a number of other external appointments in private equity portfolio companies.

Committee key

- **A** Audit & Risk
- **N** Nomination
- **R** Remuneration
- Chair of Committee

Nicholas Armstrong

Non-Executive Director

Nicholas Armstrong is a Non-Executive Director and joined the Group in November 2015.

Skills and experience

Mr Armstrong is a partner and member of the founding team at EMK Capital. Prior to EMK, Mr Armstrong was part of the Bregal Capital team from mid-2014 and worked extensively across a number of portfolio companies including Stelrad Group. Prior to joining Bregal, Mr Armstrong worked in Nomura's UK M&A team in London and Nomura's Australian M&A team in Sydney. He graduated from the University of Sydney with a Bachelor and Master of Commerce.

External appointments

In addition to being a partner of EMK Capital LLP, Mr Armstrong holds a number of other external appointments in private equity portfolio companies.

Terry Miller

Non-Executive Director and Senior Independent Director

Terry Miller is a Non-Executive Director and the Senior Independent Director, and joined the Group in October 2021.

Skills and experience

As well as her significant non-executive board experience, Ms Miller has also previously held senior executive positions as general counsel for the London Organising Committee of the Olympic Games and Paralympic Games and, prior to her LOCOG appointment, as a partner and international general counsel for Goldman Sachs.

External appointments

Ms Miller is a non-executive director of Goldman Sachs International and Goldman Sachs International Bank, part of the multinational Goldman Sachs Group of financial services businesses. Ms Miller is also a non-executive director of Rothesay Life plc, and the senior independent director of Galliford Try Holdings plc.

Nicola Bruce

Non-Executive Director

Nicola Bruce is a Non-Executive Director and joined the Group in October 2021.

Skills and experience

In addition to her significant non-executive board experience, Ms Bruce was a partner at the Monitor Group (now Deloitte) and group director of strategy at De La Rue plc. She has chaired the remuneration committees at the Civil Service Healthcare Society Ltd and the Anchor Hanover Group. Ms Bruce is a Fellow of the Chartered Institute of Management Accountants and holds both an MBA from INSEAD and an MA (Hons) in PPE from Oxford University.

External appointments

Ms Bruce is currently a non-executive director of OFWAT, the UK water regulator, and senior independent director and chair of the remuneration committee at the Anchor Hanover Group.

Martin Payne

Non-Executive Director

Martin Payne is a Non-Executive Director and joined the Group in October 2021.

Skills and experience

Mr Payne is an experienced chief executive officer and up until recently was the chief executive of Genuit Group plc, a UK FTSE 250 company which serves the construction industry by providing sustainable water and climate management solutions. Previously Mr Payne has also held the roles of group financial director at Norcros plc and group financial controller at JCB Group. Mr Payne is a qualified accountant and a Fellow of the Chartered Institute of Management Accountants and holds a BA (Hons) in Economics from Durham University.

External appointments

Mr Payne is currently a non-executive director of the Construction Products Association, where he is chair.

Statement of corporate governance

Compliance with the Code

The Board is committed to the highest standards of corporate governance. Since admission, we have complied with the 2018 UK Corporate Governance Code (the "Code") except in the following areas:

Board composition

At least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent

On admission and at the year end, the Board was composed of eight members. The Directors regard only the three newly appointed Non-Executive Directors as being independent. The Company therefore does not comply with the Code recommendation that at least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent. Two of the current Non-Executive Directors are representatives of the Major Shareholder as a condition of the Relationship Agreement. The number of Non-Executive Directors on the Board who are not considered to be independent will reduce over time if the Relationship Agreement lapses due to a reduction in the shareholding of the Major Shareholder.

Independent chair

The chair should be independent on appointment

The Code recommends that the chair of a company should be independent on appointment when assessed against the circumstances set out in the Code. The Chair, Bob Ellis, has in the past held, and continues to hold, various positions with portfolio companies owned by affiliates of The Bregal Fund III LP, the Company's Major Shareholder, and was initially appointed as a Non-Executive Director of the Group in 2009. By virtue of holding these positions with portfolio companies owned by affiliates of the Major Shareholder and taking into account Mr Ellis' tenure as a Non-Executive Director, the Board does not consider that the Chair should be viewed as being independent on appointment by reference to the independence criteria set out in the Code. However, in view of the Chair's involvement with the Group over the last twelve years, and as Chair since 2013, the Board considers that he has made a major contribution to the Group's growth and success and is unanimously of the opinion that his continued involvement as Chair will help to ensure the ongoing success of the Company following admission.

A copy of the Code can be found at www.frc.org.uk.

Annual evaluation

An annual evaluation of the performance of the board should be performed

An annual evaluation of the performance of the Board has not yet taken place given the short period of time between admission and the financial year end. The Board is committed to holding an annual Board evaluation of its own performance, and that of its Committees and the individual Directors. The first formal evaluation will be reported in the 2022 Annual Report.

Role of the Board and its Committees

Board

The role of the Board is to set and monitor the Group's purpose and strategy in order to promote sustainable growth and the long-term success of the business and, in doing so, generate value for the shareholders. It is the responsibility of the Board to ensure that the strategy of the business is in alignment with the culture and values of the organisation. The Board is also responsible for taking into account the views and interests of all stakeholders, including the wider community, through engagement with a wide range of stakeholders.

The Board, supported by the Audit & Risk Committee, is responsible for the Group's systems of internal control and risk management and for ensuring that these systems of governance are strong and effective. The Board also sets the risk appetite of the Group.

The Board's main responsibilities are included in a schedule of matters reserved for the Board, as set out below:

- strategic matters – responsibility for the overall leadership of the Group and setting and monitoring the Group's strategy, values and standards;
- structure and capital – approving or recommending any changes relating to the Group's capital structure;
- financial reporting and controls – approving the Group's annual financial statements and reports, and approving the Group's business plan, budget and forecasts;
- agreements – approving major capital projects, investments, contracts and lending or borrowing by the Group (outside of the treasury policy);
- communications with shareholders – ensuring an effective engagement strategy with shareholders;
- Board appointments and remuneration – approving changes to the structure, size and composition of the Board;
- risk assessment and internal controls – ensuring the maintenance of sound systems of internal control and risk management, and monitoring these systems; and
- corporate governance – reviewing the Company's overall corporate governance arrangements and assessing and monitoring the Group's culture.

The membership of the Board is detailed below:

- a Non-Executive Chair;
- two Executive Directors;
- three independent Non-Executive Directors, including a Senior Independent Director; and
- two Major Shareholder Representative Directors.

The Directors of the Company who were in office during the year and up to the date of signing the financial statements are detailed on pages 48 and 49.

As envisaged by the Code, the Board has established an Audit & Risk Committee, a Nomination Committee and a Remuneration Committee, each with formally delegated duties and responsibilities with written terms of reference. The Committees play an essential role in supporting the Board and provide focused oversight of key aspects of the business. A summary of the membership and responsibilities of each Committee is detailed in this report. The full terms of reference for each Committee are available on the Company's website, www.stelradplc.com.

Audit & Risk Committee

Responsibility for oversight of the Group's financial reporting, internal controls, risk management and relationship with the external auditors.

Members:

- Three independent Non-Executive Directors – Martin Payne (Chair), Terry Miller and Nicola Bruce.

The Audit & Risk Committee Report can be found on page 54.

Nomination Committee

Responsibility for the composition and make-up of the Board and Committees of the Board including succession planning and ongoing review of diversity policies.

Members:

- Three independent Non-Executive Directors – Terry Miller (Chair), Martin Payne and Nicola Bruce.
- One Major Shareholder Representative Director – Edmund Lazarus.

The Nomination Committee Report can be found on page 58.

Remuneration Committee

Responsibility for the Remuneration Policy, setting individual remuneration levels for Executive Directors and the Chair, and aligning workforce remuneration and related policies with the Group's strategy and culture and the requirements of the Code.

Members:

- Three independent Non-Executive Directors – Nicola Bruce (Chair), Terry Miller and Martin Payne.

The Remuneration Committee Report can be found on page 60.

Key roles of the Board

The roles and division of responsibilities between the Chair, Chief Executive Officer and Senior Independent Director have been clearly defined and agreed by the Board. A summary of the key roles and responsibilities is given below:

Chair

- Responsible for the leadership of the Board, promoting a culture of openness and debate.
- Promotes the highest standards of integrity, probity and corporate governance, in line with best practice.
- Sets the Board agenda, ensuring it has a focus on strategy, performance, value creation, culture, stakeholders and accountability.
- Oversees the development, induction and performance evaluation of each Director.
- Ensures that Directors receive accurate, timely, high quality and clear information on the basis of which they can make sound decisions.
- Ensures that the Board listens to the views of shareholders, the workforce, customers and other key stakeholders by ensuring effective communication with them in order to understand their issues and concerns, and by communicating issues to the Board.

Chief Executive Officer

- Responsible for the leadership of the business.
- Works closely with the Chair and the Board to propose, develop and implement the Company's strategy.
- Represents the Company and oversees and manages all business activities, operations and performance of the Group within the authority delegated by the Board.
- Leads the senior management team of the Group in the day-to-day running of the business.
- Regularly reviews the Group's operational performance and strategic direction and reports accurately in agreed formats to the Board and the Committees.
- Monitors and maintains high standards of corporate governance.
- Manages the Group's risk profile in line with the extent and categories of risk identified as acceptable by the Board and the Audit & Risk Committee.

Senior Independent Director

- Provides a sounding board to the Chair and supports the Chair in the delivery of their objectives.
- Appraises the Chair's performance.
- Acts as an intermediary between the Chair and the other Directors, when necessary.
- Available to shareholders if they have concerns which have not been resolved through the normal channels.

Board activities and priorities during 2021

Since admission in November 2021, the new plc Board has met twice. The following areas have been prioritised and discussed during this period:

- purpose and culture of the Group;
- health and safety;
- training on section 172;
- ESG strategy;
- 2022 budget approval;
- risk management; and
- internal controls.

Governance report

Board meetings and attendance

The Board held two scheduled meetings during the period under review, which took place between our admission to the London Stock Exchange in November and 31 December 2021. The table below sets out the attendance of each Director versus the maximum number of meetings they could have attended following completion of the IPO.

	Board	Audit & Risk Committee	Remuneration Committee
Trevor Harvey	2/2	—	—
George Letham	2/2	—	—
Bob Ellis	2/2	—	—
Terry Miller	2/2	1/1	2/2
Martin Payne	2/2	1/1	2/2
Nicola Bruce	2/2	1/1	2/2
Edmund Lazarus	1/2 (1)	—	—
Nicholas Armstrong	1/2 (1)	—	—

(1) Edmund Lazarus and Nicholas Armstrong were unable to attend the first Board meeting due to commitments arranged prior to admission.

The Nomination Committee did not meet in the period from admission to 31 December 2021.

Appointment and election

The identification and appointment of the three new independent Non-Executive Directors was a significant factor in establishing the new governance structure prior to the IPO. A full, detailed search was undertaken, led by executive search firm Ridgeway, to find individuals with a range of experience and skill sets that would complement the business. The dates of appointment of the Directors can be found in their biographies on pages 48 and 49.

The Board is satisfied that all Directors are effective and committed to their roles and have sufficient time available to perform their duties. In line with the Code and the Company's Articles, all of the Directors will be subject to annual re-election. Therefore, having been appointed during the period under review, all members of the Board will be standing for election at the 2022 Annual General Meeting to be held on 16 May 2022.

> "The Group's core values and principles, and the standards of behaviour to which every employee across the Group is expected to uphold, are set out in the Stelrad Group plc Code of Conduct. These values and principles are applied to dealings with our employees, customers and suppliers and all other stakeholders of the business.

Board induction and training

Details of the Board induction and training can be found in the Nomination Committee Report on pages 58 and 59.

Board evaluation

It is intended that a Board and Committee evaluation will take place in 2022 when the Board has been in operation for a full year. Details of the Board evaluation process can be found in the Nomination Committee Report on pages 58 and 59.

Succession planning

Areas of focus for the Nomination Committee during the course of 2022 will include Board succession planning and senior management pipeline evaluation.

Non-Executive Director independence

The Non-Executive Directors bring a broad range of skills and experience to Stelrad Group plc, and they are qualified to provide constructive challenge in Board discussions, where needed, and considered insights to refine the strategy of the Group over the coming years. From 2022 onwards, the independence of the Non-Executive Directors will be reviewed as part of an annual Board evaluation process. As stated within the Statement of Corporate Governance above, the Board does not currently comply with the requirements of the Code in relation to majority of independence of the board and the independence of the chair on appointment. Three of the Non-Executive Directors – the two Major Shareholder Representative Directors and the Chair – are not independent. Under the meaning of independence within the Code, the Company regards the three independent Non-Executive Directors as independent and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

Time commitment

All Non-Executive Directors are required to devote appropriate time to meet their Board responsibilities and demonstrate commitment to their role. The time commitment of each Non-Executive Director was considered prior to their appointment to determine that it was appropriate. The Non-Executive Directors' letters of appointment contain information in relation to the time commitment expected of each Director in their role. Directors' external time commitment is regularly reviewed to ensure Directors can allocate the necessary time and effort to the Company. This process is continually managed by the Company Secretary and the Chair and takes into consideration outside appointments and commitments.

The Board has concluded that, notwithstanding Directors' other appointments, they are each able to dedicate sufficient time to fulfil their duties and obligation to the Company.

Directors' conflicts of interest

The Group has a formal ongoing procedure for the disclosure, review and authorisation of Directors' conflicts of interest. All Directors are required to make the Board aware of any other commitments. Potential and actual conflicts of interest are carefully considered, and if deemed appropriate, the continuing existence of the potential or actual conflict of interest may be approved by the Board. All conflicts of interest are recorded in the conflicts register. The conflicts of interest are reviewed annually to determine whether they should remain authorised.

Internal control and risk management

The Board, supported by the Audit & Risk Committee, is responsible for the Group's systems of internal control and risk management and for ensuring that these systems of governance are strong and effective.

Details of how the Audit & Risk Committee reviews and assesses the effectiveness of the system of internal control can be found in the Audit & Risk Committee Report on pages 54 to 57. The Board understands that systems of internal control can only manage, and not eliminate, risk, and that they are designed to provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board is responsible for the oversight of the risk management process, which involves reviewing the processes in place to calculate and manage risk effectively. The Board is also responsible for setting the risk appetite of the Group and acknowledges its responsibility for determining the extent of the risks it is willing to take in achieving its strategic objectives. The Board regularly reviews the principal risks facing the Group and the mitigation measures for each risk which are set out on pages 40 to 44.

Whistleblowing

The Group has a whistleblowing policy in place and a whistleblowing contact email address is available to enable employees to raise any legitimate concerns which they feel need to be brought to the attention of management concerning any wrongdoings within their workplace. The Group believes that it is important to have a culture of openness to prevent such situations occurring or to bring them to the attention of management when they do occur.

Information and support

The information presented to the Board is clear, accurate and timely, and intended to enhance Board effectiveness. A comprehensive Board procedures manual is maintained in the online Board portal, to which all Directors have access. The standing information held there includes Board and Committee terms of reference, the duties and responsibilities of Directors, including standards of conduct and compliance, and training documents. The Board and Committee papers are also deposited in the online Board portal.

All Directors have access to the advice and services of the Group Company Secretary, who can specifically advise them on governance matters. The Directors may also take independent professional advice at the Group's expense when it is judged necessary to perform their duties effectively.

Business ethics

The Group's core values and principles, and the standards of behaviour to which every employee across the Group is expected to uphold, are set out in the Stelrad Group plc Code of Conduct. These values and principles are applied to dealings with our employees, customers and suppliers and all other stakeholders of the business.

The Group has anti-bribery policies which are communicated to all employees through business units' intranets and readily available from the respective Human Resources departments. The policy is prepared in light of the UK Bribery Act 2010 and describes the legal framework applicable to the business as well as standards and policies to be adhered to by employees. In addition training courses are provided locally.

The Group is opposed to modern slavery and human trafficking and will only work with organisations which formally commit to the Group's ethical trading policy. The Board has approved the modern slavery statement which can be found on the Group's website at www.stelradplc.com.

Overseeing financial reporting and risk management

Committee members
Martin Payne (Chair)
Terry Miller
Nicola Bruce

Highlights of 2021
- Examining the Group's risk management framework and risk register.
- Review of the planned audit approach for the 2021 financial year.
- Agreeing the approach for the Group's viability statement and going concern assessment.

Focus areas for 2022
- Monitor the integrity of the Group's financial reporting.
- Carry out a review of the effectiveness of the external auditors.
- Review the effectiveness of the Group's risk management and internal control procedures.
- Oversee the implementation of new reporting requirements relating to climate change.
- Review our performance during our first year as a Committee.

"Post-admission, particular focus was placed on understanding the Group's financial reporting and risk management processes.

Martin Payne
Chair of the Audit & Risk Committee

Dear shareholders,
As Chair of the Audit & Risk Committee, I am pleased to introduce the inaugural Committee's report as a listed company. This report provides a summary of the Committee's role and activities for the period from admission on 10 November 2021 to the end of the financial year ended 31 December 2021.

The Committee plays a vital role in delivering the Company's corporate governance obligations, by overseeing the accounting, financial reporting and internal control and risk management processes, and providing valuable independent challenge where required.

As well as detailing the composition and remit of the Committee, this report will also outline how the Committee operates; give an appraisal of the external auditors and auditor effectiveness; and provide an overview of the Group's internal control environment and risk management framework, including the Committee's assessment of its effectiveness.

Audit & Risk Committee composition
The Committee comprises three independent Non-Executive Directors: Nicola Bruce, Terry Miller and Martin Payne as Committee Chair. The Major Shareholder is entitled to nominate an observer to the Audit & Risk Committee.

The initial membership of the Committee was selected at the time of listing with the aim of providing the range of financial, commercial and sector expertise necessary to meet the responsibilities of the Committee and the requirements of the Code.

Going forward, the Committee will keep its composition under review to ensure it remains appropriate. In agreeing the membership of the Committee, the Board was satisfied that, as a whole, it had competence and experience that are relevant to the sector in which the Company operates. The Board is also satisfied that Martin Payne, a Chartered Accountant and a former finance director, has recent and relevant financial experience and he has been designated as the financial expert on the Committee for the purposes of the Code.

Details of the Directors' experience and skill sets can be found in the Director biographies on pages 48 and 49.

Audit & Risk Committee remit

The key responsibilities of the Committee are:

- reviewing and monitoring the integrity of the Group's annual and interim financial statements, and reviewing the significant financial reporting judgements made in connection with their preparation;
- reviewing the content of the Annual Report and Accounts and advising the Board on whether, taken as a whole, it is fair, balanced and understandable;
- monitoring and reviewing the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems;
- overseeing and maintaining an appropriate relationship with the Company's external auditors and reviewing the independence, objectivity and effectiveness of the audit process;
- ensuring that internal audit arrangements are appropriate and effective; and
- ensuring that fraud prevention and whistleblowing arrangements are established which minimise the potential for fraud and financial impropriety.

Further details on the remit and responsibilities of the Committee can be found in its terms of reference. The terms of reference, which are reviewed annually and approved by the Board, can be found on our website, www.stelradplc.com.

How the Committee operates

Between the Group's listing on the London Stock Exchange's Main Market on 10 November 2021 and the end of the financial year the Committee had one meeting which was attended by all Committee members. Looking ahead, the Committee has arranged to schedule its meetings to align with the key dates in the Company's financial calendar. The dates of the meetings have been set using a structured forward planner, developed in conjunction with the Company Secretary, to ensure it is able to devote sufficient time to discussing and debating the key matters within its remit and discharge its responsibilities in full.

Currently the Committee is planning to meet three times per annum, but the planner will be reviewed regularly. The external auditors, PricewaterhouseCoopers LLP, are invited to attend each meeting together with the Chair of the Board, the Chief Financial Officer, the Group Finance Director and the Company Secretary. The Committee Chair will also update the Board as needed on its discussions following each meeting.

The Committee also plans to set time aside at each meeting to seek the views of the external auditors, in the absence of management. In between meetings the Committee Chair keeps in touch with the Chief Financial Officer and other members of the management team.

2021 Committee activities

The Committee met once during the period under review on 14 December 2021, and key areas covered at the first meeting of the Committee were:

- an update from the external auditors on the planned approach and scope for the full year audit;
- an update on the Group's financial position and prospects procedures and the steps the Group had taken both during and after the IPO to address any action points identified as part of the listing process;
- consideration of the Group's proposed approach to the going concern assessment and viability statement to be disclosed in the Annual Report;
- consideration of the risk management framework and the Group risk register; and
- consideration of the Group's approach to internal audit.

Financial reporting review

A key requirement of the financial statements is that they are fair, balanced and understandable. In reaching a judgement as to whether this is the case, the Annual Report and Accounts are reviewed and assessed by the Committee. The Committee considers that the 2021 Annual Report and Accounts are fair, balanced and understandable in terms of the form and content of the strategic, governance and financial information presented therein.

Significant issues and other accounting judgements

The Committee reviewed the integrity of the Group's financial statements and all formal announcements relating to the Group's financial performance. This included an assessment of each critical accounting policy, as set out in note 6 to the financial statements, as well as review of the following key areas of judgement:

Revenue recognition and indirect rebates

In conjunction with the annual audit, the Committee continued to review key judgements in respect of revenue recognition and indirect rebate provisions.

Going concern and long-term viability

The Committee has reviewed the Group's going concern and long-term viability disclosures in this Annual Report, along with supporting documents, and advised the Board on their appropriateness. More detail on these disclosures can be found on page 46 of the Strategic Report. As part of its review, the Committee considered the appropriateness of the "severe but plausible" downside scenario modelled by the business, especially considering the potential ongoing impact of the Covid-19 pandemic.

External auditors and audit effectiveness

PricewaterhouseCoopers LLP ("PwC") were appointed as the auditors of Noosa Holdings Jersey Limited, which was the parent company of the Group prior to the Group's listing, in 2017 and have subsequently been appointed as auditors of the Company.

For the financial year ending 31 December 2022, the Committee has recommended to the Board that PwC be reappointed as external auditors and the Company will be seeking shareholder approval for the reappointment of PwC at its AGM to be held in May 2022.

The current lead audit partner, Jonathan Greenaway, was appointed in 2017. Current professional standards require a lead partner to be rotated every five years. Following the completion of the audit for the financial year ended 31 December 2021 Jonathan will therefore stand down as audit partner, and a new partner will be appointed shortly thereafter.

In assessing the independence of the auditors from the Group, the Committee has been provided with information and assurances that all of the auditors' partners and staff involved with the audit are independent of any links to the Group. The Committee has reviewed, and is satisfied with, the independence of PwC as the external auditors.

Subsequent to the year end, the Committee assessed the effectiveness of PwC and the external audit process for 2021 through discussions with senior members of management across the Group who had been involved in the audit process. A summary of the findings was prepared for consideration by the Committee and PwC.

There were no substantive matters identified during this assessment and the Committee concluded that the external audit process for 2021 had been effective.

The Committee reviewed PwC's findings in respect of the audit of the financial statements for the year ended 31 December 2021. The Committee met separately with the auditors without management present and with management without the auditors present, to ensure that there were no issues in the relationship between management and the external auditors which it should address, in which no matters were raised.

Non-audit services

A policy governing the provision of non-audit services was put in place during the financial year as part of the preparation for the IPO, in order to ensure the independence of the external auditor. Non-audit services should not be carried out by the external auditor where doing so would compromise its independence. The provision of non-audit services by the external auditor must always be approved by the Board, either by specific pre-approval or on a case by case approval basis. In deciding whether the external auditor should be appointed to carry out any non-audit services, the following areas should be taken into consideration:

- the skills and experience of the external auditor to perform the required services;
- the effect of the non-audit services on the audited financial statements;
- the potential impact of each project on the external auditors' independence and objectivity; and
- the resulting ratio of non-audit to audit fees.

In 2021, PwC received total fees of £849k (2020: £217k) comprising £272k of audit fees (2020: £179k) and £577k of non-audit service fees (2020: £38k). The fees for non-audit services during the year include:

- £523k related to work undertaken by PwC on a one-off basis in relation to the historical financial information required for the Company's IPO; and
- £24k (2020: £38k) related to tax compliance services for 2020 and 2019 respectively and £30k (2020: £nil) related to tax advisory services. From 2022, the tax compliance and advisory services will no longer be performed by PwC.

Further details of fees paid to PwC are set out in note 10 to the financial statements.

Internal control framework

The day-to-day management of our principal risks is supported by an internal control environment which is embedded in our management and operational processes. The most significant elements of the Group's internal control environment include the following:

Communication of policies and procedures

The Group has documented policies and procedures underpinning its key business and finance processes. Policies and procedures documents are held at both Group and business unit level, with more detailed documents held at a business unit level to support the local conditions.

Promoting a culture of honesty and ethical behaviour

The Group educates new staff on the values and culture of the business through employee handbooks and induction training sessions. The content and structure of the employee handbooks vary across the business units to support local conditions. Areas covered include terms of employment and health and safety. In addition to the local employee handbooks, the Group maintains complementary key policies and procedures for HR, anti-bribery, modern slavery and whistleblowing.

Monitoring and oversight by those charged with governance

There are a number of operational controls in place which facilitate the Executive Directors' monitoring of the Group's financial performance and position. In addition, business process controls are in place for the key operational cycles.

The Group has a documented organisational structure that clearly specifies roles and reporting lines for all business units and departments within the Group. The reporting line to the Board is through the Chair, Chief Executive Officer and Chief Financial Officer. There is frequent interaction between the Chief Executive Officer and Chief Financial Officer and business unit management teams.

Segregation of duties

Appropriate segregation of duties has been put in place across the Group.

Risk management

Overall responsibility for risk management lies with the Board, supported in its role by the Audit & Risk Committee, which has been delegated the responsibilities of reviewing the risk management methodology and the effectiveness of internal control.

The Group has in place a risk management framework, underpinned by the use of business unit and Group level risk registers, which clearly documents procedures to ensure risks to the organisation are identified, reported and reassessed on an ongoing basis.

In addition to the assurance provided by the formal risk management framework, the Executive Directors are very involved in the day-to-day running of the business and have overview of potential risks in the business units.

The Group continually assesses and monitors the impact of the most significant risks. Where necessary, mitigating actions are put in place to reduce the likelihood or impact of such risks to an acceptable level.

The Group's risk appetite is largely risk averse. However, the Group Board accepts that, in order to achieve its strategic objectives and generate suitable returns for shareholders, it must accept, and manage, a certain level of risk.

Internal audit

The Group Finance team, led by the Chief Financial Officer, develops and delivers an annual programme of internal audits, which includes business unit key control reviews, balance sheet audits and commercial reviews. During the year ending 31 December 2022, these reviews will be formally documented and delivered to the Committee for its appraisal.

Assessment of the Group's system of internal control and risk management framework

The risk assessment process within the Group and the management of significant business risks is a key area of focus for the Committee. The Committee's undertakings with regard to risk assessment have focused on the key risks identified by the Group and the actions it had put in place to address these – as described in the Risk Management section of the Strategic Report on pages 40 to 44.

The Group's internal control environment is designed to protect the business from the material risks which have been identified. Management is responsible for establishing and maintaining adequate internal controls over financial reporting and the Committee has responsibility for ensuring the effectiveness of these controls.

As part of the review of financial position and prospects procedures that was undertaken in preparation for listing, an analysis of the Group's system of internal control and risk management framework was carried out by external advisers. Significant progress has been made in any areas identified as needing further improvement and the Committee will continue to receive updates on completing and embedding outstanding recommendations.

In accordance with the requirements of the Code, the Committee confirms it has reviewed the Group's risk management framework and internal control environment. No significant failings or weaknesses were identified as a result of the review that may significantly impact the financial statements.

Fraud, whistleblowing and the UK Bribery Act

The Committee recognises the importance of effective whistleblowing policies as being an additional tool to strengthen governance, by ensuring a reliable system is in place to identify and correct any unlawful or unethical conduct. The Committee monitors any reported incidents under the Group's whistleblowing policy, which is explained in more detail on page 53 of the Statement of Corporate Governance. There were no incidents during the year which were required to be brought to the attention of the Committee.

The Committee also reviews the Group's procedure for detecting fraud and the systems and controls in place to prevent a breach of anti-bribery legislation. The policy is explained in more detail on page 53 of the Statement of Corporate Governance. There were no breaches during the year which were required to be brought to the attention of the Committee.

Martin Payne
Chair of the Audit & Risk Committee
14 March 2022

The Nomination Committee was established in October 2021 and met for the first time in January 2022

Committee members

Terry Miller (Chair)
Martin Payne
Nicola Bruce
Edmund Lazarus

Highlights to date

- Establishing the Nomination Committee.
- Agreeing the Nomination Committee's remit and plans for 2022.
- Consideration of the Board diversity policy.

Focus areas for 2022

- Review Board and senior management appointment and succession planning processes.
- Review of diversity and inclusion policies and initiatives.
- Develop and implement the Board effectiveness review.

"In 2022, the Nomination Committee will focus on the key areas of succession planning, Board effectiveness and our diversity policies.

Terry Miller
Chair of the Nomination Committee

Dear shareholders,

I am pleased to present the first Nomination Committee Report of Stelrad Group plc following the Group's admission to the London Stock Exchange's Main Market on 10 November 2021. The Nomination Committee was formed in October 2021 in anticipation of the listing and, as a result, the Committee did not have the cause to meet formally during the year ended 31 December 2021 but subsequently met as a Committee in January 2022. As well as detailing the composition and remit of the Committee, this report will also examine the future focus areas of the Committee.

Nomination Committee composition

During the period since admission, the Nomination Committee comprised the Committee Chair (Terry Miller), who is an independent Non-Executive Director and the Senior Independent Director, two further independent Non-Executive Directors (Nicola Bruce and Martin Payne) and one non-independent Non-Executive Director (Edmund Lazarus) who is a Representative Director of the Major Shareholder. Details of the Directors' experience and skill sets can be found in the Director biographies on pages 48 and 49.

Nomination Committee remit

The key responsibilities of the Nomination Committee are:

- to assist the Board in discharging its responsibilities relating to the composition and make-up of the Board and any Committees of the Board;
- to periodically review the Board's structure and identify potential candidates to be appointed as Directors or Committee members as the need may arise;
- to evaluate the balance of skills, knowledge and experience and the size, structure and composition of the Board and Committees of the Board, and retirements and appointments of additional and replacement Directors and Committee members, and to make appropriate recommendations to the Board on such matters;
- to assist the Chair in the annual evaluation of the Board's performance and to review the results relating to Board composition and performance;
- to put in place plans for the orderly succession of appointments to the Board and to senior management and to oversee the development of a diverse pipeline for succession, taking into account the importance of maintaining the Group's culture, the challenges and opportunities facing the Group, and the skills, experience and knowledge needed within the Group and on the Board; and
- to maintain an ongoing review of the Group's diversity policy and the progress in meeting its objectives for the Board, its Committees and the Group, recommending changes to the Board as appropriate.

Further details on the remit and responsibilities of the Committee can be found in its terms of reference. The terms of reference, which are reviewed at least annually and approved by the Board, can be found on our website, www.stelradplc.com.

Appointing the new Stelrad Group plc Board

An executive search firm, Ridgeway, was engaged in July 2021 to assist with the search for three independent Non-Executive Directors to be appointed to the new plc Board. The prospective candidates were required to be a good fit in terms of organisational culture and be able to provide a well-rounded commercial perspective to the business. A range of experience and skill sets was sought to complement the existing expertise on the Board and to provide constructive challenge to its established ways of thinking. The importance of diversity and inclusion as core values of the business was taken into account in making the new Board appointments.

The search also focused on identifying Non-Executive Directors who had relevant plc experience that would make them well qualified to chair the Nomination Committee, Remuneration Committee or Audit & Risk Committee. Additionally, it was a requirement that one of the Non-Executive Directors be qualified to be appointed to be our Senior Independent Director.

A shortlist of suitable candidates was drawn up and interviews conducted by the Chair and members of the pre-plc Board. The recommendation to appoint Terry Miller, Martin Payne and Nicola Bruce as independent Non-Executive Directors, and Terry Miller as Senior Independent Director, was approved by the Board on 22 October 2021 and they formally joined the Board prior to the completion of the IPO and the admission to listing. Edmund Lazarus and Nicholas Armstrong were appointed to the Board as Representative Directors of the Major Shareholder. Following the completion of the IPO and the formal constitution of the plc Board and its principal Committees, the responsibility for overseeing the search process for future Board appointments now rests with the Nomination Committee.

All the Directors have service agreements or letters of appointment which are available for inspection at the Company's registered office during normal business hours and will be on display at the Company's 2022 Annual General Meeting.

Board induction and training

A comprehensive induction plan has been developed for the three new independent Non-Executive Directors, including:

- introductory sessions with the Chair, covering the structure of the Board and its Committees and their responsibilities;
- detailed overviews of the operations of each area of the business through meetings with the Chief Executive Officer, Chief Financial Officer and members of the leadership team, which will be built upon during 2022 through deep dives into the Group's three largest business units;
- site visits during 2022 to key operational centres;
- training on the statutory and regulatory duties and obligations of directors of public companies; and
- meetings with the external auditors and advisers, where appropriate.

Diversity and inclusion

Building a diverse Board was an essential consideration when searching for three independent Non-Executive Directors to join the new plc Board. The Board recognises the advantages of having a diverse and inclusive Board, and that diversity brings different perspectives to the debate and decision-making processes, which is a benefit to all stakeholders. Going forward, and despite being a relatively small Board, diversity and inclusion will be considered in all future Board appointments, to ensure that the Board membership reflects as broad a combination of skills, experience, gender, ethnicity, age, sexuality, disability, education and background as possible.

Maintaining oversight of the diversity policy and the Group's progress in meeting its objectives for Board and senior management appointments is an important element of the Committee's work. The Committee works with the Human Resources team, taking an active role in setting and meeting diversity objectives and strategies for the Group, and monitoring the impact of diversity initiatives.

The Board also believes it has a responsibility to support the business in maintaining a culture where everyone feels supported and included in the work they carry out, and where individuals are valued and recognised. The Committee's work includes ensuring that the right tone from the top is communicated clearly and consistently throughout the Group, and that adherence to the Group's culture is taken into account in developing the pipeline for Board and senior management succession planning.

Board evaluation

As the Group's listing only occurred in November 2021 a formal Board performance evaluation has not yet been conducted. It is intended that the Committee will assist the Chair in working with the Company Secretary to facilitate a Board and Committee evaluation in 2022 when the Board has been in operation for a full year. The process and results of the evaluation, along with an action plan, will be reported to the Board following completion, and the aspects relating to Board and Committee composition and performance will be reviewed by the Committee.

Future focus

The Committee will meet as often as needed and, in any case, no less than twice per year, depending on circumstances, to ensure we are discharging our duties as a Committee in full and in accordance with our terms of reference.

The agenda items for the Committee's first meeting on 18 January 2022 included: a review of its terms of reference; an initial review of the Board's composition; consideration of the diversity policy; and succession planning for the Board and the pipeline for recruitment for key roles within the senior leadership team. The Committee's future focus will continue to include consideration of these topics.

Annual re-election of Directors

As required by the Corporate Governance Code 2018, all Directors will be subject to re-election at the next AGM. The Committee has considered each of the current Board members in the context of re-election and is satisfied that each Director has dedicated sufficient time to their duties and that they have shown commitment to their role. Acting on the Committee's advice, the Board recommends that each Director be elected.

Terry Miller
Chair of the Nomination Committee
14 March 2022

Overseeing how we reward our people

Committee members
Nicola Bruce (Chair)
Terry Miller
Martin Payne

Highlights of 2021
- Refinement of Annual Bonus Plan to include new measures and a share deferral requirement.
- Introduction of a Long Term Incentive Plan for Executive Directors and key members of the senior management team.
- Development of the Directors' Remuneration Policy.

Focus areas for 2022
- Implement the post-IPO Remuneration Policy.
- Carry out Executive Director and senior management pay review.
- Carry out a wider workforce remuneration review.
- Determine incentive scheme outcomes and set incentive scheme targets.
- Review performance and effectiveness during our first year as a Committee.

"The principal work of the Remuneration Committee in 2021 has been to develop Stelrad's first Remuneration Policy as a listed company.

Nicola Bruce
Chair of the Remuneration Committee

Annual Statement by the Remuneration Committee Chair

Dear shareholders,
On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2021.

As the Company is now a constituent of the premium segment of the London Stock Exchange's Main Market, this report has been prepared in accordance with The Large and Medium-sized Companies and Groups Accounts and Reports (Amendment) Regulations 2013, the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, the FCA Listing Rules and the UK Corporate Governance Code. This report consists of three sections:

- the Annual Statement and associated high level summary (remuneration at a glance);
- the Directors' Remuneration Policy, which is to be put to a binding shareholder vote at the 2022 AGM on 16 May 2022; and
- the Annual Report on Remuneration, which outlines the decisions made by the Remuneration Committee (the "Committee") and payments made to Directors in respect of 2021, describes the link between Company performance and remuneration for 2021 and sets out the proposed approach to remuneration in 2022.

The Directors' Remuneration Report (excluding the Policy) will be put to an advisory shareholder vote at the 2022 AGM.

Background to the Remuneration Policy
The Group's Remuneration Policy is designed to motivate our senior leaders to deliver strategic objectives and deliver long-term sustainable value. The core elements of our incentive framework are summarised in the Remuneration Policy summary table (page 62).

Before being admitted to the London Stock Exchange's Main Market, the Group had been in private ownership since 2000. Regular remuneration benchmarking had been undertaken in connection with the Chief Executive Officer ("CEO"), the Chief Financial Officer ("CFO") and other members of senior management in the context of private ownership. In preparation for listing on the London Stock Exchange's Main Market, the Board engaged consultants to review the Executive Directors' remuneration structure and packages in a plc context in order to ensure that remuneration fairly and accurately reflected individual responsibilities and performance, and that the existing remuneration framework was appropriate for a Main Market-listed company.

In the development of the Remuneration Policy, the Committee took account of prevailing market and best practices, including the UK Corporate Governance Code and various investor body guidelines. Prior to listing, pension contributions for Executive Directors were reduced to 9% of salary, to align with average contributions for the Group's UK workforce.

Remuneration outcomes in 2021

The key highlights of the performance of the business during the year can be found in the Strategic Report on page 1.

The single figure of remuneration payable for Executive Directors for the period ended 31 December 2021 shown in this report is based on the period from admission on 10 November 2021 to 31 December 2021. The base salary, benefits and pension are the amounts payable over this period.

The Annual Bonus Plan ("ABP") structure for the year ended 31 December 2021 was determined pre-admission and was based on the delivery of a Group EBITDA (before foreign exchange differences and exceptional items) target. In the context of a strong trading performance throughout the year, the Group EBITDA target was exceeded. The Committee reviewed the ABP outcomes in the context of the broader business performance and the experience of all stakeholders over the year. Recognising the strong performance of the Group against set targets, the Committee determined that the pay-out of the maximum bonus opportunity to Executive Directors was appropriate, resulting in an award of 75% of base salary. This bonus will be paid wholly in cash, in line with the previous Remuneration Policy prior to admission.

During the year, the Committee did not exercise any discretion to determine any remuneration outcomes for Executive Directors.

There were no long-term incentive awards outstanding as at the date of admission.

Major decisions on Directors' remuneration for 2022

Salary

The Committee noted that the CEO and the CFO's salaries were not adjusted at admission. From January 2022, the salaries of the CEO and the CFO have been set at £495,101 and £316,866 respectively, which represent an increase of 4% to salaries at admission, which is in line with the average increase awarded to the broader UK workforce.

Annual and Deferred Bonus Plan performance targets for 2022

The Committee considered which performance metrics would best support the continued and sustainable growth of the business in line with its strategy. It is the Committee's view that a mix of financial measures and strategic objectives is most appropriate to supporting the delivery of our business strategy. To this end, the Committee determined that for 2022 90% of the ABP would be linked to two financial measures and 10% would be linked to strategic objectives:

- We have selected Group adjusted operating profit as the target profit measure, to align with our key performance indicators going forward. This measure will have a weighting of 70% of the maximum opportunity.
- We have introduced an adjusted cash flow from operations conversion measure to supplement adjusted operating profit as a second financial measure in order to support cash flow management across the Group, with a weighting of 20% of the maximum opportunity.
- The strategic element will have a weighting of 10% of the maximum opportunity.

The Committee has determined that from 2022 the maximum annual bonus payable to Executive Directors will be set at 125% of base salary. In addition, no more than 75% of any annual bonus awarded to Executive Directors will be paid in cash, with the remaining 25% to be issued as deferred shares, under the Deferred Share Bonus Plan ("DSBP"). Deferred share awards vest after two years, subject to continued employment. Malus and clawback provisions apply for a period of three years following vesting.

It is the Committee's intention to retrospectively disclose the targets for the 2022 ABP once pay-outs have been considered, as the targets are currently deemed to be commercially sensitive.

Long Term Incentive Plan and performance targets

As part of our review of remuneration, we have looked at the use of equity-based remuneration and have introduced a Long Term Incentive Plan ("LTIP") for Executive Directors and certain key individuals in the senior management team below Executive Director level. To ensure alignment with our business strategy, and in line with good practice, the Committee has selected one financial performance measure and one market performance measure. The financial measure will be adjusted EPS with a weighting of 50% of the total award; the market measure will be the Group's total shareholder return ("TSR") as compared to the selected benchmark, the FTSE Small Cap index, with a weighting of 50% of the total award. Awards will be granted in the first half of 2022. Vesting will be conditional on the achievement of three-year EPS and TSR performance targets, which are outlined in detail in the table at the bottom of page 72. Executive Directors' shares from vested awards will be required to be held for a further two years.

Malus and clawback provisions apply for a period of three years following vesting.

The Committee's view is that these changes create an annual and long-term bonus structure which effectively supports the key elements of our strategy, aligning the interests of our senior leadership with our shareholders and other stakeholders.

As the Group's ESG strategy evolves, the Committee will continue to consider the development of appropriate ESG metrics for inclusion in the incentives.

Conclusion

We are committed to maintaining a clear, open and transparent dialogue with our shareholders on executive remuneration. The Committee has communicated to all shareholders the remuneration decisions made pre-admission in preparation for listing and those made post-admission following the formation of the Committee.

On behalf of the Board, I would like to thank shareholders for their support and we hope that you will support the resolutions requesting approval of the Annual Report on Remuneration at this year's Annual General Meeting on 16 May 2022.

Nicola Bruce
Chair of the Remuneration Committee
14 March 2022

Remuneration at a glance

Implementation of the Remuneration Policy in 2022

For 2022, the Executive Directors will be remunerated in line with the proposed Remuneration Policy, as summarised in the table below.

Element of pay	Implementation for 2022
Fixed remuneration	
Base salary	The salaries of the Executive Directors, Trevor Harvey and George Letham, have been set at £495,101 and £316,866 respectively, which represent a 4% increase to the salaries at admission, in line with the average increase awarded to the wider UK workforce.
Pension	The Executive Directors will receive a salary supplement in lieu of pension contribution of 9% of salary.
Benefits	Each Executive Director will receive the benefit of a life assurance scheme, private health cover, a car allowance and the reimbursement of fuel expenses.
Variable pay	
ABP and DSBP	The ABP will award up to a maximum of 125% of base salary, based on the achievement of two financial measures and one strategic measure: Group adjusted operating profit (70%); adjusted cash flow from operations conversion (20%); and a strategic measure (10%). 75% of the annual bonus will be paid in cash, with the remaining 25% issued as awards under the DSBP.
LTIP	The LTIP will award up to a maximum of 150% of base salary, based on the achievement of two performance conditions: adjusted EPS (50%); and relative TSR as compared to the selected benchmark index, the FTSE Small Cap index (50%). The LTIP has a three-year performance period for all participants, followed by a two-year holding period for all Executive Directors.

Remuneration Policy

In accordance with the Remuneration Reporting Regulations, the Directors' Remuneration Policy (the "Policy") as detailed below is subject to shareholder approval at the AGM on 16 May 2022 and will apply for a period of three years thereafter unless a new Policy is approved by the Company's shareholders prior to expiry. The Policy builds on the information disclosed to shareholders in the Group's Prospectus as issued when the Company listed on the Main Market in November 2021.

Our Policy is underpinned by the philosophy that remuneration should support the delivery of the Group's evolving business strategy, and align Executive Directors with the creation of long-term shareholder value. The Policy incorporates prevailing best practice design features, as set out in the latest UK Corporate Governance Code and various investor body guidelines. For the Executive Directors, remuneration will typically consist of four elements: (i) salary; (ii) annual bonus; (iii) share-based remuneration; and (iv) pension, or a salary supplement in lieu of pension contribution. In addition, all employees, including Executive Directors, are entitled to a range of employment benefits.

Corporate Governance Code principles

The table below reflects how the Remuneration Policy fulfils the factors set out in provision 40 of the 2018 UK Corporate Governance Code.

Criteria	Approach
Clarity – Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The Committee operates a consistent remuneration approach that is well understood internally and externally. The Committee regularly engages with major shareholders on executive remuneration and undertook a detailed consultation ahead of the admission to the Main Market.
Simplicity – Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	Our remuneration arrangements for Executive Directors are based on a market-standard remuneration structure consisting of fixed pay, an annual bonus and a single long-term incentive. This design is simple in nature and well understood by participants as well as other stakeholders.
Risk – Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	Targets are reviewed annually to ensure they are adequately stretching yet achievable without encouraging excessive risk taking. Using recovery provisions or discretion, the Committee retains the ability to override formulaic incentive outcomes in the event that these produce a result inconsistent with the Group's remuneration principles.
Alignment to culture – Incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	The variable incentive schemes and performance measures are designed to be consistent with the Group's purpose, values and strategy. We believe that aligning remuneration practices across the business is a key element of supporting our culture, fulfilling our values and being a strong driver of business performance.
Predictability – The range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the Policy.	The Committee maintains clear caps on incentive opportunities and will use its available discretion if necessary. The potential value and composition of the Executive Directors' remuneration packages at below threshold, target and maximum scenarios are provided in the Remuneration Policy.
Proportionality – The link between individual awards, the delivery of strategy and the long-term performance of the Group should be clear. Outcomes should not reward poor performance.	Executives are incentivised to achieve stretching targets over annual and three-year performance periods. The Committee assesses performance holistically at the end of each period, taking into account underlying business performance and the internal and external context to ensure that pay outcomes are appropriate and reflective of overall performance.

Consistent with best practice, the Committee may apply discretion with respect to outcomes that affect the actual level of reward payable to individuals, both upwards and downwards. Such discretion, if exercised, would be disclosed in the report on implementation of the Policy (i.e. the Annual Report on Remuneration) for the year in question.

Remuneration Policy continued

Remuneration Policy summary table

Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	To provide competitive fixed remuneration. To attract, retain and motivate Executive Directors of the calibre required to deliver the Group's strategy.	An Executive Director's salary takes into account the individual's professional experience, individual performance, level of responsibility and the scope and nature of their role and is set with reference to market. Base salaries will typically be reviewed on an annual basis.	Any Executive Director salary increases will not normally exceed those of the majority of the Group's employees unless exceptional correctional increases are appropriate (for example if an Executive Director was initially appointed below the relevant benchmark level).	Not applicable.
Benefits and pension	To provide market competitive levels of employment benefits.	The Executive Directors receive a salary supplement in lieu of pension contribution of 9% of salary. This contribution percentage is in line with the average of the Group's UK workforce. Any new Executive Directors will have their pension contributions set in line with the majority of the UK workforce. Each Executive Director is entitled to the benefit of a life assurance scheme, private health cover, a car allowance and the reimbursement of fuel expenses.	The benefits package is set at a level which the Committee considers provides an appropriate level of benefits for the role and is appropriate in the context of the benefits offered to the wider workforce or to comparable roles in companies of a similar size and complexity.	Not applicable.
ABP and DSBP	To reward the year-on-year achievement of demanding annual performance metrics.	Performance measures, weightings and targets are reviewed annually by the Committee and may be changed from time to time. Threshold, targets and stretch goals are set for each performance measure. No more than 75% of the annual bonus will be paid out as cash after the end of the financial year. The remainder will be issued as awards under the DSBP. DSBP awards will be in the form of conditional awards or nil-cost options with awards normally vesting after two years. Under the DSBP, an additional payment, in cash and/or shares, may be made equal to the value of dividends which would have accrued on vested shares between the grant date and date of vesting. Malus and clawback provisions apply.	Up to 125% of salary. Percentage of maximum bonus earned for levels of performance: • Threshold: 24% • On target: 50% • Maximum: 100%	A minimum of 70% of weighting will be associated with financial targets. The Board will determine the actual bonus outcome based on achievement against pre-determined targets. Actual targets, performance achieved and awards made will be published at the end of the performance period.

Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
LTIP	To provide a direct link to the achievement of sustainable performance over the longer term.	Awards will be in the form of conditional awards or nil-cost options with vesting subject to the achievement of performance conditions determined by the Committee at the time of grant. The measurement period for the performance conditions for LTIP awards will normally be a period of three financial years. Additionally, a two-year post-vesting holding period will normally apply at the end of each relevant vesting period for Executive Directors. An additional payment, normally in shares, may be made equal to the value of dividends which would have accrued on vested shares between the grant date and date of vesting. Malus and clawback provisions apply.	LTIP award levels will be no greater than 150% of base salary.	The Committee will determine the appropriate performance conditions prior to grant each year, to align with the Company's longer-term strategy. Performance conditions may include financial, market-based and/or non-financial measures. Financial and market-based measures will account for at least 70% of the total award.
Share ownership guidelines	To provide long-term alignment between Executive Directors and shareholders.	Executive Directors are expected to build up and then subsequently hold a shareholding equivalent to 200% of base salary. Following cessation of employment, Executive Directors will also be required to retain for two years the lower of: (i) the 200% shareholding requirement; and (ii) the shares accumulated toward the shareholding requirement that have been granted under the LTIP from 2022 onwards, at the date of termination.	Progress against the shareholding requirement will be reviewed by the Committee annually.	Not applicable.
Non-Executive Director fees	To attract and retain Non-Executive Directors of a high calibre with relevant commercial and other experience.	Non-Executive Directors receive a base fee and additional fees for acting as Senior Independent Director or Chair of the Board Committees and for membership of Board Committees (or to reflect any additional time commitments – subject to approval from the Chair). The Chair receives a fixed annual fee with additional fees payable to reflect additional time commitment in certain circumstances, such as in periods of exceptionally high activity – subject to approval. Fees are typically reviewed annually, taking into account the time commitment requirements and responsibility of the individual roles, and after reviewing practice in other comparable companies. The fee paid to the Chair is determined by the Committee, while the fees for other Non-Executive Directors are determined by the Board as a whole.	For the Non-Executive Directors, there is no prescribed maximum annual increase. The maximum cap for the total aggregate remuneration paid to the Chair of the Company and the Non-Executive Directors is set within the Company's Articles of Association. Actual fee levels are disclosed in the Annual Report on Remuneration for the relevant financial year. The Company will reimburse any reasonable expenses incurred.	Not applicable.

Remuneration Policy continued

Payments from previously agreed remuneration arrangements

The Committee reserves the right to make any remuneration payments where the terms of the payment were agreed: (i) prior to the Company's admission; or (ii) before the Policy came into effect; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. Details of any such payments will be set out in the Annual Report on Remuneration as they arise.

Malus and clawback provisions

Consistent with best practice, malus and clawback will be used at the Committee's discretion in relation to ABP, DSBP and LTIP awards. Malus permits the Company to reduce the amount of any unvested award, including awards in holding periods. Clawback permits the Company to reduce the amount of any vested award or any future salary or bonus and also require the employee to pay back amounts.

Malus and clawback may be applied at any time before an award vests (or would have vested but for the operation of any holding period) or for three years after vesting in the following circumstances: material misstatement of the results of the Group, errors or inaccuracies or misleading information leading to incorrect grant or vesting of the award, gross misconduct, material failure of risk management by the Group, corporate failure (e.g. administration or liquidation) or any other circumstance which in the opinion of the Committee could have a significantly adverse impact on the Group's reputation.

Remuneration Committee discretion

The Committee may make minor revisions to the Policy without obtaining shareholder approval. Further, there are a number of specific areas in which the Committee may exercise discretion, including:

- to vary the ABP and LTIP performance measures and weightings each year to reflect strategic priorities;
- to adjust the formulaic ABP and LTIP outcomes, positively or negatively, based on a holistic assessment of Company performance, to ensure that the final outcome is a fair and true reflection of underlying business performance and stakeholder experience;
- to adjust the performance conditions for in-flight LTIP awards in exceptional circumstances, provided the new conditions are no tougher or easier than the original conditions were intended to be at the time;
- to adjust in-flight LTIP awards in the event of a variation of the Company's share capital or a demerger, delisting, special dividend, rights issue or other event, which may, in the Committee's opinion, affect the current or future value of awards; and
- to settle awards in cash (for example on a termination).

The exercise of any Committee discretion will be fully disclosed in the relevant year's Annual Report on Remuneration.

Performance measures and targets

For each financial year, appropriate performance measures and their respective weightings will be selected by the Committee for both the ABP and the LTIP. The selection of measures will be guided by and aligned to the Group's strategy and also take into account multiple reference points, including internal and broker forecasts. The current year measures have been selected to support the Group strategy and align with the KPIs and growth ambitions outlined by the Company in the Prospectus at the time of admission.

Service agreements and letters of appointment

In advance of admission, each of the Executive Directors entered into a service agreement with the Company and each of the Non-Executive Directors entered into a letter of appointment with the Company.

The Committee's policy for setting notice periods is that a twelve-month period will apply for the CEO and a six-month period will apply for the CFO.

Name	Position	Date of service agreement	Notice period by Company (months)	Notice period by Director (months)
Trevor Harvey	CEO	22 October 2021	12	12
George Letham	CFO	21 October 2021	6	6

The Non-Executive Directors of the Company (including the Chair) are appointed by letters of appointment. Their terms are subject to their re-election by the Company's shareholders at any AGM at which the Non-Executive Directors stand for re-election (in accordance with the Company's Articles of Association). The details of each Non-Executive Director's current terms are set out below:

Name	Date of appointment
Bob Ellis	8 October 2021
Edmund Lazarus	8 October 2021
Nicholas Armstrong	8 October 2021
Terry Miller	22 October 2021
Nicola Bruce	22 October 2021
Martin Payne	22 October 2021

Remuneration policy on recruitment

On recruitment, the Committee would seek to align the remuneration package with the policy approved by shareholders. When determining a remuneration package for a new Executive Director, the Committee will consider the relevant skills and experience of the individual as well as the internal and external market conditions. Incentive opportunities will be consistent with the Remuneration Policy set out above. Additionally, the Committee will have the ability to buy out any entitlements lost at their previous employer on similar terms to the entitlements forgone. The Committee will seek to use the current remuneration structure in making such awards, but in some cases it may be required to use the flexibility afforded by Listing Rule 9.4.2R, if appropriate. Shareholders will be informed of any such awards or payments at the time of appointment.

Remuneration policy on termination

In the event of termination, any payments will be in accordance with the terms of the Executive Director's service contract with the Company, having regard to all of the relevant facts and circumstances available at that time.

The annual bonus may be payable in respect of the proportion of the year worked by the Director, at the Committee's discretion. There is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked. The bonus would be payable at the normal date and would be subject to deferral provisions under the terms of the plan.

Deferred bonus awards granted under the DSBP are governed by the DSBP rules which contain discretionary good leaver provisions for designated reasons (that is, participants who leave early on account of death, injury, disability, sale of their employing company or business unit, or any other reason at the discretion of the Committee). In these circumstances, a participant's awards will not be forfeited on cessation of employment and instead will vest on the normal vesting date or such earlier date to the extent that the Committee may determine.

Long-term incentives granted under the LTIP are governed by the LTIP rules which contain discretionary good leaver provisions for designated reasons (that is, participants who leave early on account of death, injury, disability, sale of their employing company or business unit, or any other reason at the discretion of the Committee). In these circumstances, a participant's awards will not be forfeited on cessation of employment and instead will vest on the normal vesting date or such earlier date to the extent that the Committee may determine. In either case, the extent to which the awards will vest depends on the extent to which the Committee considers that the performance conditions have been satisfied or are likely to be satisfied by the end of the performance period and a pro rata reduction of the awards will be applied by reference to the time of cessation (although the Committee has discretion to disapply time pro-rating if it considers that the circumstances warrant it). All other leavers would forfeit all outstanding awards. In respect of vested LTIP awards that are still subject to a holding period, the holding period will continue to apply unless the Committee determines otherwise, taking into account the circumstances at the time.

On a change of control, the payment of any annual bonus will be at the Committee's discretion. DSBP awards will normally vest immediately on a change of control. LTIP awards will normally vest immediately on a change of control, with a pro rata reduction for time served. The Committee will use its discretion to determine the extent to which the LTIP performance conditions have been met at the time of change of control. Alternatively, participants may choose, or at the discretion of the Committee may be required, to accept an exchange for new equivalent awards in the acquiring company, in respect of both the DSBP and the LTIP.

Remuneration policy for other employees

The reward package for the Group's wider employees is based on the principle that it should enable the Group to attract and retain the best talent, rewarding employees for their contribution to Group performance. It is driven by local market practice as well as level of seniority and accountability of each role. There is alignment in the pay structures for executives and the wider workforce, in the way that remuneration principles are followed as well as the mechanics of the salary review process and incentive plan design, which are broadly consistent throughout the organisation.

Statement of consideration of employment conditions elsewhere in the Group

The Committee has responsibility for reviewing remuneration and related policies applicable to the wider workforce. To support this, the Committee is periodically briefed on the structure and quantum of the all-employee remuneration as well as being informed about the context, challenges and opportunities related to wider workforce remuneration topics. This enables the Committee to take the wider workforce into account when setting the policy for executive remuneration. The Committee receives insights from the broader employee population via regular briefings from the Company. When considering salary increases for the Executive Directors, the Committee considers the general level of salary increase across the Group and in the external market.

Statement of consideration of shareholder views

In line with our commitment to full transparency and engagement with our shareholders on the topic of executive remuneration, the Committee Chair will in future years conduct an annual programme of consultation with major shareholders. This will typically involve setting out the changes planned for the following year in writing and seeking shareholder input and views on various executive remuneration matters including the development of, or potential changes to, the Remuneration Policy or arrangements.

The Major Shareholder is entitled to nominate an observer to the Remuneration Committee, subject to the terms of the shareholder agreement outlined in the Prospectus at the time of admission.

Remuneration Policy continued

Illustration of the application of the Remuneration Policy

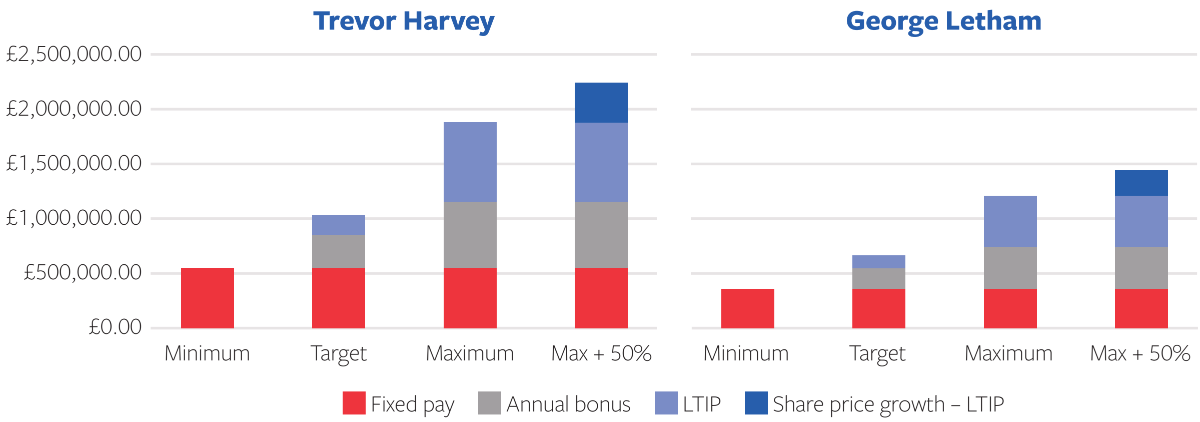
The chart below indicates the level of remuneration receivable by the Executive Directors in accordance with the proposed Remuneration Policy as applied in 2022. The chart contains separate bars representing: (i) minimum performance (fixed pay); (ii) target performance; (iii) maximum performance; and (iv) maximum performance plus 50% share price appreciation. The charts below exclude the effect of any Company share price appreciation except in the maximum plus 50% scenario.

Minimum or fixed pay comprises base salary, 9% of salary supplement in lieu of pension contribution and the estimated value of benefits in 2022.

Target comprises fixed pay, plus an ABP pay-out of 50% of the maximum (i.e. 62.5% of salary) and an LTIP vesting level of 25% of the maximum (i.e. 37.5% of salary).

Maximum comprises fixed pay, plus full ABP pay-out (i.e. 125% of salary) and full LTIP vesting (i.e. 150% of salary).

Maximum plus 50% comprises fixed pay, plus full ABP pay-out and full LTIP vesting plus 50% share price appreciation.



Annual Report on Remuneration

The following section sets out our Annual Report on Remuneration and outlines the decisions made by the Committee in relation to Directors' remuneration in respect of 2021 and how the Committee intends to apply the proposed Remuneration Policy for 2022. The Annual Report on Remuneration will be subject to an advisory shareholder vote at the AGM to be held on 16 May 2022.

Some sections of this report have been reported on by the auditors and are thus clearly indicated as audited. All other information in this report is unaudited.

Membership and meetings of the Remuneration Committee

Membership comprises the Committee Chair (Nicola Bruce), who is an independent Non-Executive Director, and two further independent Non-Executive Directors (Terry Miller and Martin Payne) with support from the Group's Company Secretary. The Committee also receives assistance from the Group HR Director who attends meetings by invitation. The CEO also attends by invitation. The Committee will keep its composition under review to ensure it remains appropriate. The Board is satisfied that the Committee has the competence and experience necessary to discharge its duties effectively. Details of the Directors' experience and skill sets can be found in the Director biographies on pages 48 and 49.

The Committee will meet not less than three times a year. Since listing in November 2021, the Committee met on two occasions prior to the year end. The Directors consider that the Company complies with the requirements of the Corporate Governance Code in respect of remuneration committees.

Key responsibilities

The key responsibilities of the Remuneration Committee are:

- to determine the Remuneration Policy (the "Policy") and the total remuneration packages for all Executive Directors and the Chair of the Company;
- to approve the design of, and determine targets for, any performance-related pay schemes operated by the Company and approve the total annual payments made under such schemes;
- to align the Policy with the UK Corporate Governance Code's requirement for clarity, simplicity, risk mitigation, predictability and proportionality;
- to ensure that the Policy drives behaviours that are consistent with Company purpose, values and strategy;
- to review workforce remuneration and related policies and the alignment of incentives and rewards with culture; and
- to review any major changes in employee benefit structure and to administer all aspects of any share scheme.

Further details on the remit and responsibilities of the Committee can be found in its terms of reference. The terms of reference, which are reviewed annually and approved by the Board, can be found on our website, www.stelradplc.com.

Advisers (unaudited)

The Committee has appointed Mercer to provide independent advice on executive remuneration matters. Mercer is a signatory to the Code of Conduct for Remuneration Consultants in the UK. The fees paid to Mercer in relation to advice provided to the Committee for 2021 were £8,000.

The Committee will evaluate the support provided by Mercer annually and is content that it does not have any connections with the Group that may impair its independence. No non-remuneration-related advice was provided by Mercer to the Group in the year.

Information on remuneration for the year ended 31 December 2021

Single total figure of remuneration for the period from admission to 31 December 2021 (audited)

The following table sets out the single figure of total remuneration received by the Directors who served during the period from admission (10 November 2021) to 31 December 2021:

£'000	Year	Basic salary/fees	All taxable benefits[2]	Pension-related benefits[3]	Annual bonus	LTIP	**Total remuneration**	Total fixed remuneration	Total variable remuneration
Executive Directors									
Trevor Harvey[1]	2021	67	4	6	51	—	**128**	77	51
George Letham[1]	2021	43	3	4	32	—	**82**	50	32
Non-Executive Chair									
Bob Ellis	2021	17	—	—	—	—	**17**	17	—
Non-Executive Directors									
Terry Miller	2021	12	—	—	—	—	**12**	12	—
Nicola Bruce	2021	10	—	—	—	—	**10**	10	—
Martin Payne	2021	10	—	—	—	—	**10**	10	—
Edmund Lazarus[4]	2021	—	—	—	—	—	**—**	—	—
Nicholas Armstrong[4]	2021	—	—	—	—	—	**—**	—	—
Total	**2021**	**159**	**7**	**10**	**83**	**—**	**259**	**176**	**83**

(1) During 2021, the annual salaries of the Executive Directors were £476,058 and £304,678 for the CEO and CFO, respectively.
(2) Benefits provided include: life assurance cover, private health cover, a car allowance and the reimbursement of fuel expenses.
(3) Salary supplement in lieu of pension contribution of 9%.
(4) Edmund Lazarus and Nicholas Armstrong are representatives of the Major Shareholder and receive no fees for their roles as Non-Executive Directors.

Incentive outcomes for 2021 (audited)

The 2021 annual bonus for Executive Directors was based on the delivery of a Group EBITDA (before foreign exchange differences and exceptional items) target. In the context of a strong trading performance throughout the year, this Group EBITDA target was exceeded. The Committee reviewed the ABP outcomes in the context of the broader business performance and the experience of all stakeholders over the year. Based on the scheme rules in place prior to admission, the Committee determined that the pay-out of the maximum bonus opportunity to Executive Directors was appropriate, resulting in an award of 75% of base salary. This bonus will be paid wholly in cash.

Corporate measures

Performance against the corporate financial measures is set out below:

	Performance targets				
Metric	Weighting	On target	Stretch	Actual	% of maximum bonus opportunity
		67% of maximum	100%		
EBITDA before foreign exchange and exceptional items	100%	£36.0m	£37.8m	£40.6m	100%

Based on the performance described above, the Committee determined that the Executive Directors should be awarded their full formulaic bonus entitlement for the period as shown below:

	% of maximum	% of salary	Bonus amount, pro rata since admission £'000
Trevor Harvey	100%	75%	51
George Letham	100%	75%	32

The 2021 bonus amounts will be paid fully in cash in line with the 2021 ABP scheme rules defined prior to admission.

Information on remuneration for the year ended 31 December 2021 continued

Long Term Incentive Plan vesting (audited)

In relation to pre-admission share incentive arrangements, the Company has not operated any share incentive arrangements under which employees have acquired shares, or been awarded a right to receive shares, in the Company. As such, no long-term incentives have vested in the year or in respect of performance during the year.

Payments for loss of office (audited)

No payments for loss of office were made during the year under review.

Payments to past Directors (audited)

No payments were made to past Directors during the year under review.

LTIP awarded during the financial year (audited)

There were no LTIP awards between admission and 31 December 2021.

Statement of Directors' interests (audited)

The interests of the Directors who served in the year and who held an interest in the ordinary shares of the Company are as follows:

	Interests				
	Ordinary shares held at 10 November 2021	Ordinary shares held at 31 December 2021	Subject to deferral/ holding period	Unvested and subject to performance conditions	Total of all scheme interests and shareholdings as at 31 December 2021
Executive Directors					
Trevor Harvey	11,455,129	11,455,129	—	—	11,455,129
George Letham	5,727,564	5,727,564	—	—	5,727,564
Non-Executive Directors					
Bob Ellis	2,863,782	2,863,782	—	—	2,863,782
Terry Miller	2,325	2,325	—	—	2,325
Nicola Bruce	4,651	4,651	—	—	4,651
Martin Payne	9,302	9,302	—	—	9,302
Edmund Lazarus	—	—	—	—	—
Nicholas Armstrong	—	—	—	—	—

Executive Directors' share ownership guidelines (unaudited)

In accordance with the Remuneration Policy to be submitted for approval following admission, the shareholding requirements currently in place are 200% of base salary for the Executive Directors. Non-Executive Directors are not subject to a shareholding requirement. The table below shows the actual Executive Director share ownership compared with the share ownership guidelines:

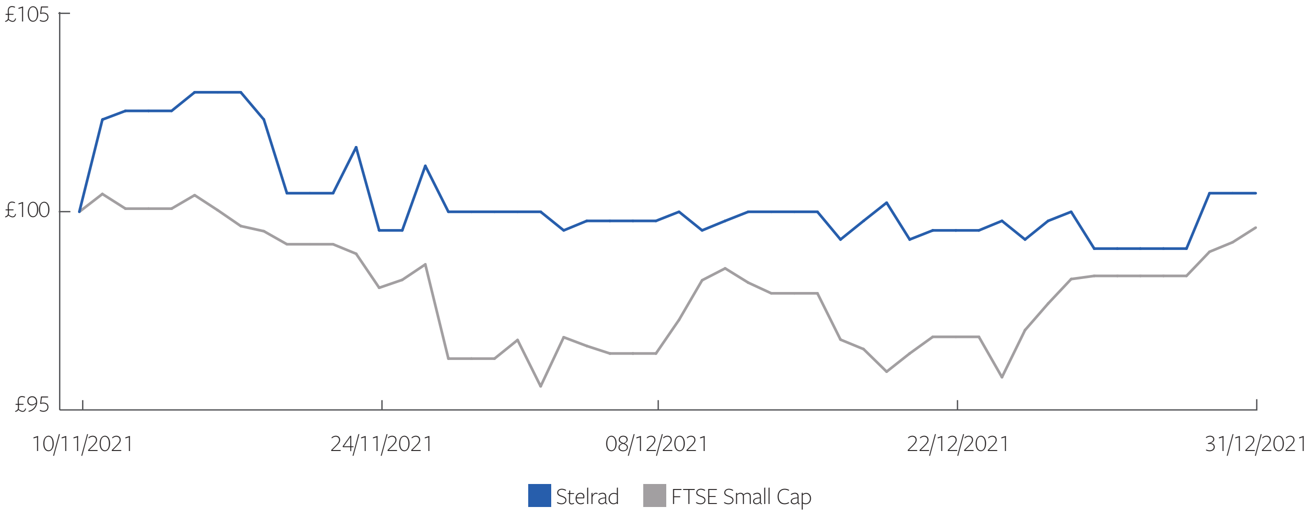
Director	Beneficially owned shares as at 31 December 2021	Shareholding requirement (% of salary) (1)	Current shareholding (% of salary) (1)	Shareholding requirement met?
Trevor Harvey	11,455,129	200%	5,197%	Yes
George Letham	5,727,564	200%	4,061%	Yes

(1) The share price of £2.16 as at 31 December 2021 has been used for the purpose of calculating the current shareholding as a percentage of salary.

No changes in the above interests have occurred between 31 December 2021 and the date of this report.

Performance graph (unaudited)

The graph below shows the total shareholder return ("TSR") performance of an investment of £100 in Stelrad Group plc's shares from its listing on the Main Market on 10 November 2021 (using the offer price of £2.15 per share) to the end of the period, compared with £100 invested in the FTSE Small Cap index over the same period. The FTSE Small Cap index was chosen as a comparator because its constituents have a comparable market capitalisation to that of the Group.



The table below illustrates the CEO's single figure of total remuneration over the same period.

	2021
CEO single figure	£128k
Annual bonus pay-out (% of maximum)	100%
LTIP vesting (% of maximum)	n/a

CEO pay ratio (unaudited)

The table below sets out the ratio between the CEO's salary and total remuneration and that of the 25th percentile, median and 75th percentile of our UK employees, for whom total remuneration has been calculated on the same basis.

Total remuneration ratio	Method	25th percentile	Median	75th percentile
2021	A	34	28	21

The salary and total remuneration for the individuals identified at the 25th percentile, median and 75th percentile for 2021 are set out below:

Period from 10 November 2021 to 31 December 2021 £'000	CEO	25th percentile	Median	75th percentile
Basic salary	67	3.6	4.0	5.7
Total remuneration	128	3.8	4.6	6.2

The lower quartile, median and upper quartile employees were determined using calculation method A which involved calculating the actual full-time equivalent remuneration for all UK employees. From this analysis, three employees were then identified as representing the 25th, 50th and 75th percentiles of the UK employee population. The Group chose this method as it is considered to be the most accurate way of identifying the relevant employees required by The Companies (Miscellaneous Reporting) Regulations 2018. No other adjustments were necessary, and no elements of employee remuneration have been excluded from the pay ratio calculation.

As this is the first year of reporting the CEO pay ratio using the above methodology, there is no comparative data against which to compare the pay ratios above. The Committee will consider future pay ratios in the context of historical ratios.

Relative importance of spend on pay (unaudited)

The table below shows the Group's expenditure on employee pay compared to distributions to shareholders for the year ended 31 December 2021. All figures provided are taken from the consolidated financial statements.

	2021 £'000	2020 £'000	Percentage change
Overall spend on pay including Executive Directors	**38,979**	41,353	(5.7%)
Distribution to shareholders	**—**	—	n/a

Information on remuneration for the year ended 31 December 2021 continued

Percentage change in CEO remuneration

This section is not applicable as the Company listed on 10 November 2021; as such, there is no prior year comparison that can be made.

External appointments

The Executive Directors are permitted to hold external appointments and are entitled to retain the fees earned from such appointments. All Directors are required to seek approval from the Board prior to accepting external appointments. Currently the CEO holds one external appointment and the CFO has two external appointments.

Implementation of Remuneration Policy in 2022

This section sets out information on how the Remuneration Policy will be implemented in 2022 if approved by shareholders at the first post-admission Annual General Meeting, in 2022.

This Remuneration Policy formalises the Policy adopted on admission to the Main Market. If the Remuneration Policy set out on pages 63 to 68 is not approved by shareholders, then the Committee will continue to operate the existing Policy as detailed on admission.

When implementing the Remuneration Policy, the Committee will take into account factors such as remuneration packages available at comparable companies, the Group's overall performance, internal relativities, individual performance and experience, achievement of corporate objectives and general market and wider economic trends.

Summary of planned implementation of Remuneration Policy during 2022

Salary (unaudited)

The Executive Directors' salaries for 2022 are set out below:

Name	Salary 2021	Salary 2022	Percentage change
Trevor Harvey	£476,058	**£495,101**	4%
George Letham	£304,678	**£316,866**	4%

The increase awarded to the Executive Directors is in line with the average increase awarded to the broader UK workforce.

Benefits and pension (unaudited)

There will be no changes to the Executive Directors' benefits and pension entitlements in 2022 as compared with 2021. At admission, the Executive Directors' pension contributions were reduced to 9% of salary, in line with the wider UK workforce.

Annual bonus (unaudited)

The maximum bonus opportunity for the Executive Directors in 2022 will be 125% of salary (with a target bonus of 62.5% of salary) with a maximum of 75% of the entitlement to be paid as cash and the remainder issued as awards in the DSBP. The performance measures will be:

- Group adjusted operating profit (70% of maximum);
- adjusted cash flow from operations conversion % (20% of maximum); and
- a strategic measure (10% of maximum).

The Committee considers that the detailed performance targets for the 2022 bonus are commercially sensitive and that disclosing precise targets in advance would not be in shareholder interests. Actual targets, performance achieved and outturns will be disclosed in the 2022 Annual Report so that shareholders can fully assess the basis for any pay-outs.

Malus and clawback provisions apply for a period of up to three years post-vesting.

Long Term Incentive Plan (unaudited)

Awards of 150% of base salary will be made to the Executive Directors in March or April 2022. The awards will vest three years from grant subject to the achievement of the following performance conditions:

Performance measure	Weighting (% of award)	Threshold target (25% vesting)	Stretch target (100% vesting)
Adjusted EPS	50%	20.12p	23.73p
Relative TSR vs. constituents of the FTSE SmallCap Index (excluding investment trusts)	50%	Median	Upper quartile

The adjusted EPS target will be assessed on an undiluted basis. A two-year post-vesting holding period will apply to vested awards, during which vested awards may not be sold save to cover tax liabilities. Malus and clawback provisions apply for a period of up to three years post-vesting.

Chair and Non-Executive Director fees (unaudited)

No changes will be made to the Chair and Non-Executive Director fees for 2022. A breakdown of the fee components for the Chair and Non-Executive Directors in 2022 is as follows:

Role	Fee (per annum)
Chair	£120,000
Non-Executive Director base fee	£50,000
Additional fees	
Senior Independent Director fee	£15,000
Chair of the Remuneration Committee	£10,000
Member of the Remuneration Committee	£5,000
Chair of the Audit & Risk Committee	£10,000
Member of the Audit & Risk Committee	£5,000
Chair of the Nomination Committee	£7,500
Member of the Nomination Committee	£3,750

On behalf of the Board

Nicola Bruce
Chair of the Remuneration Committee
14 March 2022

Directors' report

The Directors present their report and audited financial statements for the Group for the year ended 31 December 2021. The Directors' Report forms part of the management report as required under the Disclosure Guidance and Transparency Rules. The Strategic Report, which together with the Directors' Report forms the management report, can be found on pages 1 to 46 of this Annual Report.

The Directors' Report for the year ended 31 December 2021 comprises pages 74 to 77 of this Annual Report, in addition to the following information, which is provided in other appropriate sections of the Annual Report and is incorporated by reference, in accordance with section 414C(11) of the Act, and The Companies (Miscellaneous Reporting) Regulations 2018:

- The Corporate Governance Report is set out on page 47.
- Information relating to future business developments can be found throughout the Strategic Report on pages 1 to 46.
- Information on how the Directors have had consideration for the Company's stakeholders can be found on pages 18 and 19 of the Strategic Report.
- Information relating to risk management can be found on pages 40 to 44.
- The going concern and long-term viability statements can be found on pages 45 and 46.
- The Group's global greenhouse gas emissions during the year can be found on page 27 of the ESG Report, which is located within the Strategic Report.
- The Group is exposed to a number of financial instrument-related risks; these are discussed in more detail in note 30 to the consolidated financial statements.
- As required by Listing Rule 9.8.4R, details of the Group's long-term incentive schemes can be found in the Remuneration Report on pages 60 to 73.

General information

Stelrad Group plc (the "Company") was incorporated in England and Wales on 8 October 2021 as a public company, limited by shares. The Company is incorporated, domiciled and registered in England and Wales, with its registered office situated at 69-75 Side, Newcastle upon Tyne, Tyne and Wear, United Kingdom NE1 3JE.

On 10 November 2021, the entire issued share capital of the Company was admitted to the premium listing segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange's Main Market for listed securities.

Principal activities

The Group's principal activities are the manufacture and distribution of radiators. The principal activity of the Company is that of a holding company.

More detailed information about the activities of the Group during the year, and its likely future prospects, can be found in the Strategic Report on pages 1 to 46. The principal subsidiaries operating within the Group are shown in note 14 to the Company financial statements.

Profit and dividends

The Group profit for the year, after taxation, amounted to £14,660k (2020: £8,699k). The Board is recommending a final dividend of 0.96 pence per share which, subject to shareholder approval, will be paid on 27 May 2022.

Articles of Association

The Articles set out the rules relating to the powers of the Company's Directors and their appointment and replacement. The Articles may only be amended by a special resolution at a general meeting of the shareholders. Shareholders of the Group can request a copy of the Articles by contacting the Group Company Secretary, Computershare Governance Services, UK, at Moor House, 120 London Wall, London EC2Y 5ET.

Share capital

As at 31 December 2021, the Company has one class of ordinary share with a nominal value of £1.00. The shares are listed for trading on the Main Market of the London Stock Exchange, and at 31 December 2021, the Company had 127,352,555 shares in issue. The shares rank pari passu in respect of voting and participation, and carry the right to one vote at general meetings of the Company, which may be exercised by members in person, by proxy or by corporate representatives (for corporations).

The ordinary shares are free from any restriction on transfer, subject to compliance with applicable securities laws. However, the following lock-up arrangements have been put in place for a period of time from the date of admission on 10 November 2021:

- The Company has agreed that, subject to certain customary exceptions, during the period of 180 days from the date of admission, it will not, without the prior written consent of Investec, issue, offer, sell or contract to sell, or otherwise transfer or dispose of, directly or indirectly, or announce an offer of any ordinary shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.
- The Major Shareholder and certain Directors have agreed that, subject to certain exceptions, during the period of 180 days in respect of the Major Shareholder and 360 days in respect of certain Directors, in each case from the date of admission, they will not, without the prior written consent of Investec, offer, sell or contract to sell, or otherwise transfer or dispose of, directly or indirectly, or announce an offer of any ordinary shares (or any interest therein in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.

The Company successfully submitted an application to the High Court of Justice of England and Wales (the "Court") to reduce the value of each ordinary share of the Company from £1.00 to £0.001; the reduction will be credited to the retained earnings of the Company. Under the same application the Court approved the removal of the share premium account of the Company in full, with the reduction credited to the retained earnings of the Company. The Court approved the application on 25 January 2022.

Substantial shareholdings

As at 31 December 2021 the Company had received notification of the following interests in voting rights pursuant to Chapter 5 of the DTR:

Shareholder	Interest	% of share capital
The Bregal Fund III LP	63,103,765	49.6%
Trevor Harvey	11,455,129	9.0%
Chelverton Asset Management	6,976,744	5.5%
George Letham	5,727,564	4.5%
Unicorn Asset Management	4,883,720	3.8%
Tellworth Investments	4,436,945	3.5%
Janus Henderson Investors	4,423,945	3.5%
Lombard Odier Asset Management	4,186,046	3.3%
Charles Stanley	3,957,148	3.1%

As at the date of this report, the Company has not been made aware of any further changes to the above shareholdings.

Relationship agreement with controlling shareholder

The Company has entered into a relationship agreement with the Major Shareholder, The Bregal Fund III LP (the "Relationship Agreement"). The principal purpose of the Relationship Agreement is to ensure that where, following admission, the Major Shareholder, together with its associates, holds, in aggregate, ordinary shares in the Company representing at least 10% of the voting rights of the ordinary shares in issuance by the Company from time to time, the Company is capable of carrying on its business independently of the Major Shareholder and its associates.

The provisions of the Relationship Agreement imposing obligations on the Major Shareholder will remain in full force and effect, for so long as they, together with its associates, hold, in aggregate, ordinary shares representing at least 10% of the voting rights of the ordinary shares in issuance by the Company.

Under the Relationship Agreement, the Major Shareholder has agreed that:

(i) transactions and arrangements between it (and/or any of its associates) and the Company will be conducted at arm's length and on normal commercial terms;

(ii) neither it nor any of its associates shall take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules; and

(iii) neither it nor any of its associates shall propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

For so long as the Major Shareholder (together with any of its associates) holds, in aggregate, at least 10% but less than 20% of the voting rights of the ordinary shares, the Major Shareholder shall be entitled to appoint (and remove and reappoint) one Non-Executive Representative Director to the Board, or if the Major Shareholder (together with any of its associates) holds, in aggregate, 20% or more of the voting rights of the ordinary shares, then the Major Shareholder shall be entitled to appoint (and remove and reappoint) two Non-Executive Representative Directors to the Board. The Major Shareholder's first appointed shareholder Directors are Edmund Lazarus and Nicholas Armstrong.

For so long as the Major Shareholder (together with any of its associates) holds 20% or more of the voting rights of the ordinary shares, the Major Shareholder is entitled to nominate a shareholder Director to be a member of the Nomination Committee. Furthermore, for so long as the Major Shareholder (together with any of its associates) holds 10% or more of the voting rights of the ordinary shares, the Major Shareholder is entitled to appoint an observer to each of the Nomination Committee, Audit & Risk Committee and Remuneration Committee. The Major Shareholder will not appoint an observer to the Nomination Committee whilst a shareholder Director is a member of such Committee.

Subject to applicable law and regulation, the Major Shareholder will have the benefit of certain information rights, including for the purposes of its accounting and other regulatory requirements.

The Relationship Agreement is governed by the laws of England and Wales.

The Board of Directors

Director biographies of all Directors for the year ended 31 December 2021 can be found on pages 48 and 49.

The appointment and removal of Directors are governed by the Articles, the UK Corporate Governance Code 2018, the Companies Act 2006 and related legislation. All Non-Executive Director appointments can be terminated by either the Company or by the individual upon three months' written notice. In accordance with the Articles, Directors can be appointed or removed either by the Board or by the shareholders in general meeting with immediate effect.

Directors' interests and conflicts of interest

Details regarding the share interests of the Directors in the share capital of the Company are set out in the Remuneration Report on page 70. Details of the Executive Directors' service agreements and Non-Executive Directors' letters of appointment are available in the Remuneration Report on page 66.

The Group has a formal ongoing procedure for the disclosure, review and authorisation of Directors' conflicts of interest. All Directors are required to make the Board aware of any other commitments. Potential and actual conflicts of interest are carefully considered, and if deemed appropriate, the continuing existence of the potential or actual conflict of interest may be approved by the Board. All conflicts of interest are recorded in the conflicts register. The conflicts of interest are reviewed annually to determine whether they should remain authorised.

Directors' indemnities

In relation to the Directors of the Company who are also Directors of UK-based subsidiaries, the Group has granted an indemnity to one or more of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provisions were in force during the year ended 31 December 2021 and remain in force as at the date of approving the Directors' Report.

In addition, the Group maintained a Directors' and officers' liability insurance policy throughout the year.

Change of control provisions

There are no agreements between the Group and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover or change of control of the Group.

Details of the significant agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid are set out below:

Share plans

The Company's share plans contain specific provisions relating to change of control. Normally, awards will vest pro rata in the event of a change of control of the Company. The Remuneration Committee will determine whether the performance criteria have been met at that time.

Bank agreement

The revolving credit facility agreement dated 2 November 2021 contains change of control provisions such that in the event of the occurrence of a change of control event, the banks shall have 30 business days to exercise an individual right to cancel all undrawn commitments on the facility and to require that all outstanding participations in utilisations are repaid with accrued interest and any other relevant amounts accrued.

Relationship Agreement

The Relationship Agreement ceases to apply if the Company's shares cease to be listed and traded on the London Stock Exchange, or if the Major Shareholder, together with any of its associates, ceases to hold at least 10% of the Company's shares.

Employee engagement and equal opportunities

The Group is committed to involving its employees in the decisions that affect them. Regular meetings take place between local management and employees to allow a free flow of information and ideas. In addition, where practicable, the Group seeks to keep employees informed through regular newsletters.

The Group aims to build a culture where everyone feels valued as an individual and feels supported and motivated to carry out their work to the best of their abilities.

The Group believes in equal opportunities regardless of gender, ethnicity, age, sexuality and, where practicable, disability. The Group is committed to providing equal opportunities to current and potential employees and to applying employment practices based on equal opportunities for all employees. The Group gives full consideration to applications for employment from disabled persons where disabled persons can adequately fulfil the requirements of the job. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and provide training, career development and promotion wherever appropriate.

Further details of employee engagement across the Group and equal opportunities initiatives implemented by the Group can be found in the ESG Report on pages 20 to 35.

Research and development expenditure

Research and development costs of £1,047k (2020: £1,025k) have been incurred in the year in relation to the design and development of new products. All such costs are expensed as incurred.

Political donations and expenditure

It is the Group's policy not to make political donations, and accordingly, no political donations were made in the year (2020: £nil) and no political expenditure was incurred during the year (2020: £nil).

The Group's policy is that it does not make what are commonly regarded as donations to any political party. However, the Companies Act 2006 defines political donations very broadly and so it is possible that normal business activities, such as sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling certain public duties and support for bodies representing the business community in policy review or reform, which might not be thought of as political expenditure in the usual sense, could be captured. Activities of this nature would not be thought of as political donations in the ordinary sense of those words. The resolution to be proposed at the 2022 AGM, authorising political donations and expenditure, is to ensure that the Group does not commit any technical breach of the Companies Act 2006.

At a general meeting of the Company held on 4 November 2021, shareholders voted to allow the Company to incur political expenditure up to a maximum aggregate amount of £100,000 in line with market practice. That authority is due to expire at the Annual General Meeting due to be held on 16 May 2022 and therefore the Company will seek to renew the authority in line with the above considerations.

Important developments since 31 December 2021

There have been no material events or developments affecting the Company or any of its operating subsidiaries since 31 December 2021.

Independent auditors

PricewaterhouseCoopers LLP acted as auditors during the year and a resolution to reappoint PricewaterhouseCoopers LLP as auditors will be put to the members at the Annual General Meeting.

Fair, balanced and understandable

In accordance with the principles of the Code, the Group has processes in place to ensure that the content of the Annual Report and Accounts is fair, balanced and understandable. The Directors consider, on the advice of the Audit & Risk Committee, that 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 performance, position, business model and strategy.

Annual General Meeting ("AGM")

The Company's AGM will be held at the offices of Investec Bank plc: 30 Gresham Street, London EC2V 7QP, on 16 May 2022 at 4pm. The notice convening the AGM will be sent to shareholders separately. Further information on arrangements for the AGM and voting instructions will be set out fully in the Notice of AGM and Form of Proxy.

Statement of Directors' responsibilities in respect of the Annual Report

The Directors are responsible for preparing the Annual Report, the Remuneration Report and Policy and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the consolidated financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under Company law, 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 Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed for the consolidated financial statements and United Kingdom Accounting Standards, comprising FRS 102 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose, at any time and with reasonable accuracy, the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006.

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

Directors' confirmations

We confirm that, to the best of our knowledge:

- the consolidated financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and the Company financial statements which have been prepared in accordance with United Kingdom accounting standards, comprising FRS 102, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the Company;
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face;
- the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Group's and Company's position, performance, business model and strategy; and
- there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006) of which the Group's and Company's auditors are unaware, and the Directors have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

This responsibility statement was approved by the Board of Directors on 14 March 2022 and is signed on its behalf by:

George Letham
Chief Financial Officer
14 March 2022

Independent auditors' report to the members of Stelrad Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Stelrad Group plc's consolidated financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2021 and of the Group's profit and the Group's cash flows for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company balance sheets as at 31 December 2021; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of cash flows and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the consolidated and Company financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit & Risk Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 3 to the financial statements, the Group, in addition to applying UK-adopted international accounting standards, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. In our opinion, the consolidated financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 10 of the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Context

As part of our audit we made enquiries of management to understand the process they have adopted to assess the extent of the potential impact of climate change risk on the consolidated financial statements. Management consider that the impact of climate change does not currently give rise to a material financial statement impact. We used our knowledge of the Group to evaluate management's assessment. We discussed with management the ways in which climate change disclosures should continue to evolve as the Group continues to develop its response to the impact of climate change. We also considered the consistency of the disclosures in relation to climate change made in the other information within the Annual Report with the financial statements and our knowledge from our audit.

Overview

Audit scope

- Significant components being the UK and Turkey, with the Continental division also being in full scope.
- This provides coverage of 92% of the Group's revenue and 96% of Group's EBITDA.
- All UK entities receive a statutory audit opinion.
- Analytical review performed over all out of scope divisions.

Key audit matters

- Completeness and accuracy of indirect rebates (Group).

Materiality

- Overall Group materiality: £1,000,000 based on 2.5% of EBITDA.
- Overall Company materiality: £1,375,000 (restricted to £400,000 for Group reporting purposes) based on 1% of total assets.
- Performance materiality: £750,000 (Group) and £1,031,000 (restricted to £300,000 for Group reporting purposes) (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Report on the audit of the financial statements continued

Our audit approach continued

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Going concern and considerations relating to COVID-19, which were key audit matters last year, are no longer included because of lower level of uncertainty, the group delivering strong trading performance and COVID-19 has had minimal financial impact on the Group. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Completeness and accuracy of indirect rebates (Group) The UK rebate arrangements include installer rebates in addition to merchant rebates. Installer rebates is a complex area with a high degree of estimation. This arises as the rebate is granted on indirect sales and so the sales information is not readily available. As such, historical rates, as well as management forecasts, are used in calculating the provision for indirect rebates. This is reasonable given the relatively stable market for radiators. Furthermore the claims for rebates can be made up to, and over a year from the sales date. As we sign the statutory accounts in March, the value of the rebates as at the year end can only ever be estimated and this area of accounting is inherently judgemental. The balance of this at year end is £15.5 million and the amount of rebates in the income statement is £37.9 million	This is a highly judgemental area of the audit, given the nature of the balance and the estimates that are involved in formulating the accrual balance. To test the indirect rebates, we have: • Performed a walkthrough to understand the process and the calculations behind the model; • Tested the performance and integrity of the model; • Performed a sensitivity analysis on the model and a look back test on the prior year accrual; • Agreed the completeness of the sales in the model, by reconciling the model to detailed sales listings; • Tested a sample of the payments and agreed the percentage rebate for a sample of contracts; • Agreed the completeness of the claimed rebates in the model, by reconciling a sample between detailed claims listings and the model; • Tested the take up rates and poundage rates used throughout; and • Obtained confirmations of the year end merchant stock held. No issues were noted on any of the above procedures.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is based in the UK with the majority of the trading operations in the UK, Turkey and Continental (Belgium and the Netherlands). These trading entities are in scope for audit of Group given the size of each operations and the trading operations in the UK and Turkey are deemed to be significant components. Furthermore all UK entities receive a statutory audit.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – consolidated	Financial statements – Company
Overall materiality	£1,000,000	£1,375,000 (restricted to £400,000 for Group reporting purposes)
How we determined it	2.5% of EBITDA	1% of total assets
Rationale for benchmark applied	EBITDA is used by management and shareholders in assessing performance of the group and is a generally accepted auditing benchmark.	Total assets is applicable as entity does not trade.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £600,000 and £950,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

Report on the audit of the financial statements continued

Our audit approach continued

Materiality continued

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £750,000 for the consolidated financial statements and £1,031,000 (restricted to £300,000 for Group reporting purposes) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit & Risk Committee that we would report to them misstatements identified during our audit above £50,000 (Group audit) and £20,000 (Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management forecasts for the period to March 2023 and evaluating management's downside scenarios, including a severe but plausible scenario, and challenging their appropriateness and underlying assumptions;
- Evaluating the level of forecast liquidity and forecast compliance with the bank facility covenants

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Directors' Remuneration

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

Report on the audit of the financial statements continued

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit & Risk Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the Annual Report, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for assessing the Group's and the 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 the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to unethical and prohibited business practices and the wide variety of jurisdictions in which the Group operates, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and the Listing Rules.

Independent auditors' report to the members of Stelrad Group plc
continued

Report on the audit of the financial statements continued
Responsibilities for the financial statements and the audit continued

Auditors' responsibilities for the audit of the financial statements continued

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of minutes of meetings of the Board of Directors;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the accounting for indirect rebates; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting
Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit & Risk Committee, we were appointed by the directors on 15 December 2021 to audit the financial statements for the year ended 31 December 2021 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Other matters

The financial statements for the year ended 31 December 2020, forming the corresponding figures of the financial statements for the year ended 31 December 2021, are unaudited.

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Jonathan Greenaway
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
14 March 2022

Consolidated income statement

for the year ended 31 December 2021

	Notes	2021 £'000	Unaudited 2020 £'000
Continuing operations			
Revenue	7	**272,285**	196,565
Cost of sales		**(192,279)**	(139,372)
Gross profit		**80,006**	57,193
Selling and distribution expenses		**(35,478)**	(31,265)
Administrative expenses (excluding exceptional items)		**(11,584)**	(11,741)
Exceptional items	7	**(9,589)**	—
Administrative expenses		**(21,173)**	(11,741)
Other operating income	8	**3,204**	5,356
Other operating expenses	9	**—**	(19)
Operating profit	10	**26,559**	19,524
Finance income	13	**141**	68
Finance costs	14	**(10,379)**	(10,405)
Profit before tax		**16,321**	9,187
Income tax expense	15	**(1,661)**	(488)
Profit for the year		**14,660**	8,699

	Notes	2021	Unaudited 2020
Earnings per share			
Basic	16	**11.51p**	6.83p
Diluted	16	**11.51p**	6.83p
Adjusted earnings per share			
Basic	16	**16.92p**	4.44p
Diluted	16	**16.92p**	4.44p

Consolidated statement of comprehensive income

for the year ended 31 December 2021

	Notes	2021 £'000	Unaudited 2020 £'000
Profit for the year		**14,660**	8,699
Other comprehensive income/(expense)			
Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods:			
Net gain on monetary items forming part of net investment in foreign operations and qualifying hedges of net investments in foreign operations		**5,192**	1,337
Income tax effect	15	**(1,235)**	(286)
Exchange differences on translation of foreign operations		**(26,072)**	(8,890)
Net other comprehensive expense that may be reclassified to profit or loss in subsequent periods		**(22,115)**	(7,839)
Other comprehensive expense not to be reclassified to profit or loss in subsequent periods:			
Remeasurement losses on defined benefit plans	27	**(141)**	(317)
Income tax effect	15	**35**	70
Net other comprehensive expense not to be reclassified to profit or loss in subsequent periods		**(106)**	(247)
Other comprehensive expense for the year, net of tax		**(22,221)**	(8,086)
Total comprehensive (expense)/income for the year, net of tax attributable to owners of the parent		**(7,561)**	613

Consolidated balance sheet
as at 31 December 2021

(Registered Number 13670010)

	Notes	2021 £'000	Unaudited 2020 £'000
Assets			
Non-current assets			
Property, plant and equipment	18	**53,694**	61,024
Trade and other receivables	21	**10**	17
Deferred tax assets	15	**6,284**	4,342
		59,988	65,383
Current assets			
Inventories	20	**56,781**	30,986
Trade and other receivables	21	**46,731**	39,024
Income tax receivable		**104**	70
Cash and cash equivalents	22	**15,563**	20,083
		119,179	90,163
Total assets		**179,167**	155,546
Equity and liabilities			
Equity			
Share capital	25	**127,353**	65
Share premium	25	**13,391**	198
Merger reserve		**(114,469)**	940
Retained earnings		**57,814**	43,260
Foreign currency reserve		**(57,177)**	(35,062)
Total equity attributable to owners of the parent		**26,912**	9,401
Non-current liabilities			
Interest-bearing loans and borrowings	19	**62,865**	85,785
Deferred tax liabilities	15	**126**	—
Provisions	24	**158**	203
Net employee defined benefit liabilities	27	**1,728**	2,529
		64,877	88,517
Current liabilities			
Trade and other payables	23	**83,883**	53,658
Interest-bearing loans and borrowings	19	**1,794**	3,347
Income tax payable		**1,522**	431
Provisions	24	**179**	192
		87,378	57,628
Total liabilities		**152,255**	146,145
Total equity and liabilities		**179,167**	155,546

The financial statements on pages 83 to 115 were approved by the Board of Directors on 14 March 2022 and signed on its behalf by:

George Letham
Chief Financial Officer

Consolidated statement of changes in equity

for the year ended 31 December 2021

	Attributable to the owners of the parent					
	Issued share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Foreign currency £'000	Total £'000
At 1 January 2020	65	198	940	34,808	(27,223)	8,788
Profit for the year	—	—	—	8,699	—	8,699
Other comprehensive expense for the year	—	—	—	(247)	(7,839)	(8,086)
Total comprehensive income/(expense)	—	—	—	8,452	(7,839)	613
At 31 December 2020 (Unaudited)	65	198	940	43,260	(35,062)	9,401
Profit for the year	**—**	**—**	**—**	**14,660**	**—**	**14,660**
Other comprehensive expense for the year	**—**	**—**	**—**	**(106)**	**(22,115)**	**(22,221)**
Total comprehensive income/(expense)	**—**	**—**	**—**	**14,554**	**(22,115)**	**(7,561)**
Shares issued on incorporation	**50**	**—**	**—**	**—**	**—**	**50**
"C" share redemption	**(13)**	**—**	**—**	**—**	**—**	**(13)**
Noosa share reorganisation	**(50)**	**50**	**—**	**—**	**—**	**—**
Share for share exchange – old	**(2)**	**(248)**	**250**	**—**	**—**	**—**
Share for share exchange – new	**115,659**	**—**	**(115,659)**	**—**	**—**	**—**
Shares issued	**11,644**	**13,391**	**—**	**—**	**—**	**25,035**
At 31 December 2021	**127,353**	**13,391**	**(114,469)**	**57,814**	**(57,177)**	**26,912**

Consolidated statement of cash flows

for the year ended 31 December 2021

	Notes	2021 £'000	Unaudited 2020 £'000
Operating activities			
Profit before tax		**16,321**	9,187
Adjustments to reconcile profit before tax to net cash flows:			
– Depreciation of property, plant and equipment	18	**7,409**	7,921
– Gain on disposal of property, plant and equipment		**(213)**	(142)
– Finance income	13	**(141)**	(68)
– Finance costs	14	**10,379**	10,405
Working capital adjustments:			
– Increase in trade and other receivables		**(17,380)**	(6,373)
– (Increase)/decrease in inventories		**(31,695)**	3,681
– Increase in trade and other payables		**40,291**	3,549
– Increase in provisions		**158**	8
– Movement in other financial assets and liabilities		**—**	(33)
– Decrease in other pension provisions		**(59)**	(39)
– Difference between pension charge and cash contributions		**(22)**	5
		25,048	28,101
Income tax paid		**(3,734)**	(1,927)
Interest received		**141**	68
Net cash flows from operating activities		**21,455**	26,242
Investing activities			
Proceeds from sale of property, plant and equipment		**487**	474
Purchase of property, plant and equipment	18	**(8,646)**	(8,640)
Net cash flows used in investing activities		**(8,159)**	(8,166)
Financing activities			
Transaction costs related to refinancing		**(1,171)**	(153)
Proceeds from external borrowings		**56,500**	—
Repayment of external borrowings		**(11,001)**	(6,999)
Repayment of shareholder loans		**(76,528)**	—
Settlement of deferred consideration		**(202)**	—
Payment of lease liabilities		**(1,666)**	(1,723)
Share capital issued		**25,085**	—
Share capital repaid – "C" shares		**(13)**	—
Interest paid		**(779)**	(684)
Net cash flows used in financing activities		**(9,775)**	(9,559)
Net increase in cash and cash equivalents		**3,521**	8,517
Net foreign exchange difference		**(8,041)**	(3,664)
Cash and cash equivalents at 1 January	22	**20,083**	15,230
Cash and cash equivalents at 31 December	22	**15,563**	20,083

Notes to the consolidated financial statements

for the year ended 31 December 2021

1 Corporate information

The consolidated financial statements of Stelrad Group plc and its subsidiaries (collectively, the "Group") for the year ended 31 December 2021 were authorised for issue by the Board of Directors on 14 March 2022.

Stelrad Group plc (the "Company") was incorporated in England and Wales on 8 October 2021 as a public company, limited by shares. The Company is incorporated, domiciled and registered in England and Wales, with its registered office situated at 69-75 Side, Newcastle upon Tyne, Tyne and Wear, United Kingdom NE1 3JE.

The principal activity of the Group is the manufacture and distribution of radiators. The principal activity of the Company is that of a holding company.

On 10 November 2021, the entire issued share capital of the Company was admitted to the premium listing segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange's Main Market for listed securities.

2 Group reorganisation

On 10 November 2021, the Company acquired the entire shareholding of Noosa Holdings Jersey Limited by way of a share for share exchange. Also on 10 November 2021, Noosa Holdings Jersey Limited made a dividend in specie of its investment in Stelrad Radiator Group Limited leaving the Company with two direct subsidiaries. The insertion of the Company on top of the existing Noosa Holdings Jersey Limited group does not constitute a business combination under IFRS 3 Business Combinations and instead has been accounted for as a common control transaction.

Under merger accounting principles, the assets and liabilities of the subsidiaries are consolidated at book value in the consolidated financial statements. The consolidated reserves of the Group have been adjusted to reflect the statutory share capital of the Company with the difference between the statutory share capital of the Company and that of Noosa Holdings Jersey Limited presented as the merger reserve.

These consolidated financial statements of the Group are the first set of financial statements for the newly formed Group and the prior period has been presented as a continuation of the former Noosa Holdings Jersey Limited group on a consistent basis as if the Group reorganisation had taken place at the start of the earliest period presented. The prior period comparatives are those of the former Noosa Holdings Jersey Limited group since no substantive economic changes have occurred.

3 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value. The consolidated financial statements are presented in GB Pounds and all values are rounded to the nearest thousand (£'000), except when otherwise indicated. The consolidated financial statements have been prepared on a going concern basis, the basis for which is outlined below. Details of the going concern assessment can be found in the Strategic Report on page 46.

Prior year comparatives

The financial statements for the year ended 31 December 2020, forming the comparative figures of the financial statements for the year ended 31 December 2021, are referenced as unaudited. Prior to the reorganisation, the Group was not in existence in its current form, as outlined in note 2. As Stelrad Group plc was not incorporated until October 2021, technically an audit of the comparatives in accordance with the Companies Act 2006 was not performed and hence no audit opinion was issued in respect of the consolidated financial statements of Stelrad Group plc for the year ended 31 December 2020. However, a statutory audit was performed and an audit opinion was issued on the consolidated financial statements of Noosa Holdings Jersey Limited for the year ended 31 December 2020 and on the consolidated financial statements of Stelrad Radiator Group Limited for the year ended 31 December 2020, which are publicly available. In addition, as part of the process of Admission to listing on the Official List and to trading on the London Stock Exchange, an accountant's report, undertaken by PricewaterhouseCoopers LLP, in accordance with the Standards for Investment Reporting 2000 issued by the Auditing Practices Board in the United Kingdom, was issued on the historical information included in the Prospectus. The accountant's report, dated 5 November 2021, included an unqualified opinion on the historical information presented.

4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2021 and 31 December 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

5 Summary of significant accounting policies

The accounting policies outlined below have been applied consistently, other than where new policies have been adopted.

a) Current versus non-current classification

The Group presents assets and liabilities in the balance sheet based on current/non-current classification. An asset is current when it is:

- expected to be realised or intended to be sold or consumed in the normal operating cycle;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in the normal operating cycle;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

b) Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date. The fair values of financial instruments measured at amortised cost are disclosed in note 30.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

c) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in GB Pounds (£), which is the Company's functional and the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income/(expense) as qualifying net investment hedges or because the monetary asset or liability forms part of the net investment in the foreign operation.

Foreign exchange gains are presented in other operating income within the income statement and foreign exchange losses are presented in other operating expenses within the income statement.

5 Summary of significant accounting policies continued

c) Foreign currency translation continued

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income/(expense).

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income/(expense).

d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

In accordance with IFRS 15 Revenue from Contracts with Customers the Group follows a five-step process to determine whether to recognise revenue:

1. Identifying the contract with a customer.
2. Identifying the performance obligations.
3. Determining the transaction price.
4. Allocating the transaction price to its performance obligations.
5. Recognising revenue when/as performance obligation(s) are satisfied.

Revenue is recognised at a point in time, when the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The specific recognition criteria described below must also be met before revenue is recognised.

Interest income

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate ("EIR").

Rebates

Rebates are paid to certain direct customers and end consumers of goods sold (end consumers being installers, contractors or housebuilders which install the Group's products). Rebates represent either: an agreed percentage discount on the gross invoice value of each purchased product; or less frequently an agreed discount based on annual sales volume incentives. Provisions for rebates to direct customers are based upon the terms of sales contracts and are recorded in the same period as the related gross sale as a deduction from revenue. Where rebates are volume related these are provided for when the associated targets are met or deemed likely to be met, with the expected outcome being reassessed at each reporting date. Volume rebates result in variable revenue; in accordance with IFRS 15, provision for volume rebates is only made when it is highly probable that a significant reversal will not occur. For indirect rebates paid to the end consumer, the Group estimates the provision for rebates based on historical take-up rates and rebate values per product category to ensure it is highly probable that a significant reversal would not occur. Rebates paid to direct customers are offset against trade receivables whereas indirect rebates, which are payable to the end consumer, are disclosed as other payables.

e) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax is recognised in income unless it relates to items recognised in other comprehensive income/(expense) or directly in equity, in which case the current income tax is recognised in other comprehensive income/(expense) or directly in equity respectively. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

5 Summary of significant accounting policies continued

e) Taxation continued

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill (taxable temporary differences only) or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised in income unless it relates to items recognised in other comprehensive income/(expense) or directly in equity, in which case the deferred tax is recognised in other comprehensive income/(expense) or directly in equity respectively.

f) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Freehold buildings – 10 to 50 years

Leasehold buildings – period of lease

Plant and equipment – 3 to 10 years

Fixtures and fittings – 2 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Assets under construction are transferred to the appropriate category of property, plant and equipment upon completion of a project. Depreciation commences upon transfer.

See note 5(m)(i) for the accounting policy related to right-of-use assets.

5 Summary of significant accounting policies continued

g) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss or at amortised cost, as appropriate. With the exception of trade receivables which are recognised at transaction price, all financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For the purposes of subsequent measurement, financial assets of the Group are classified in two categories:

- financial assets at fair value through profit or loss; and
- financial assets at amortised cost (debt instruments).

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. The Group has not designated any financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade receivables.

Derecognition

A financial asset is primarily derecognised (i.e. removed from the Group's consolidated balance sheet) when the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to receive cash flows from the asset.

ii) Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Trade receivables are the Group's only financial asset for which ECLs need to be calculated; for these the Group applies the simplified approach permitted under IFRS 9 for calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

5 Summary of significant accounting policies continued

g) Financial instruments – initial recognition and subsequent measurement continued

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the income statement.

This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

h) Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument and the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

5 Summary of significant accounting policies continued

h) Derivative financial instruments continued

Hedges that meet all the qualifying criteria for hedge accounting are accounted for as described below:

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income/(expense) while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the income statement.

The Group uses a loan as a hedge of its exposure to foreign currency risk.

i) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- raw materials: purchase cost on a first in, first out basis; and
- finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

j) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU's") fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of three years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the third year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

k) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

l) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item (as is the case with furlough income), it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

5 Summary of significant accounting policies continued

m) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease – that is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Leasehold buildings – period of lease

Plant and machinery – 3 to 10 years

Fixtures and fittings – 2 to 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (j) Impairment of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is calculated based on the Group's external borrowing rate. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in the interest-bearing loans and borrowings (see note 19).

iii) Short-term leases and leases of low value assets

The Group applies the short-term lease recognition exemption to its short-term leases of plant and machinery (i.e. those leases that have a lease term of twelve months or less from the commencement date and do not contain a purchase option). It also applies the lease of low value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

n) Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement net of any reimbursement.

The effect of the time value of money is not material and therefore the provisions are not discounted.

No warranty provision is made for radiators based on the very low claims history. The business sells a small volume of boilers in Turkey and provision for these is made on a £ per unit sold basis, driven by historical warranty claims data.

A provision is recognised in respect of an unused vacation pay liability due to certain employees in Turkey. The provision is calculated based on the number of unused days and the salary rates applicable.

5 Summary of significant accounting policies continued

o) Pensions and other post-employment benefits

The Group has an obligation to provide lump sum termination payments to certain employees in Turkey; the scheme is accounted for under IAS 19.

The cost of providing benefits under the scheme is determined using the projected unit credit method.

Remeasurements, comprising actuarial gains and losses, are recognised immediately in the balance sheet with a corresponding debit or credit to retained earnings through other comprehensive income/(expense) in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the defined benefit liability. The Group recognises the following changes in the defined benefit obligation under "cost of sales", "administration expenses" and "selling and distribution expenses" in the consolidated income statement (by function):

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements.

For the defined contribution schemes operated by the Group the amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in exchange for services rendered in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

p) Exceptional items

Exceptional items are disclosed by virtue of their nature, size or incidence to allow a better understanding of the underlying trading performance of the Group.

q) Research and development costs

Research and development costs are expensed as incurred.

r) Dividends

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

s) New standards applied in the year

Several amendments and interpretations apply for the first time in 2021, but do not have an impact on the consolidated financial statements of the Group. These include:

- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

t) New standards and interpretations not applied

The International Accounting Standards Board has issued the following standards and interpretations with an effective date after the date of these financial statements:

International Accounting Standards (IAS/IFRSs)	Effective date (period beginning on or after)
IFRS 17 Insurance Contracts	1 January 2023
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2023
Definition of Accounting Estimates – Amendments to IAS 8	1 January 2023
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendment to IAS 12	1 January 2023
Reference to the Conceptual Framework – Amendments to IFRS 3	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	1 January 2022
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	1 January 2022
IFRS 9 Financial Instruments – Fees in the "10%" Test for Derecognition of Financial Liabilities	1 January 2022

It is anticipated that adoption of these standards and interpretations will not have a material impact on the Group's financial statements.

The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

6 Significant accounting judgements, estimates and assumptions

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

Judgements

In the process of applying the Group's accounting policies, management does not consider that it has made any judgements which would have a significant effect on the amounts recognised in the consolidated financial statements.

Estimates and assumptions

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

Rebates

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

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

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

7 Segmental information

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

During the year ended 31 December 2021, the Group, led by the CODM, amended the way that it reports segments. Previously, there was deemed to be only one reportable segment, being the manufacture and distribution of radiators.

Adjusted operating profit is earnings before interest, tax, amortisation, exceptional items and foreign exchange differences.

Revenue by geographical market

	2021 £'000	Unaudited 2020 £'000
UK & Ireland	**130,405**	89,430
Europe	**118,063**	90,566
Turkey & International	**23,817**	16,569
Total revenue	**272,285**	196,565

Adjusted operating profit by geographical market

	2021 £'000	Unaudited 2020 £'000
UK & Ireland	**21,589**	8,618
Europe	**12,929**	9,821
Turkey & International	**2,898**	1,218
Central costs	**(4,247)**	(4,034)
Adjusted operating profit	**33,169**	15,623
Exceptional items	**(9,589)**	—
Foreign exchange differences	**2,979**	3,901
Operating profit	**26,559**	19,524

7 Segmental information continued

Non-current operating assets

	2021 £'000	Unaudited 2020 £'000
UK	**20,237**	20,083
The Netherlands	**23,606**	26,841
Turkey	**8,362**	12,805
Other	**1,489**	1,295
Total	**53,694**	61,024

The exceptional items in the year ended 31 December 2021 are costs relating to professional advisers employed by the Group to explore the potential sale of the Group and to subsequently execute the IPO. These costs are one-off in nature and disclosing these costs as exceptional allows the true underlying performance of the Group to be more easily reviewed. There were no exceptional items in the year ended 31 December 2020.

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

One customer has revenues in excess of 10% of revenue (2020: one).

8 Other operating income

	2021 £'000	Unaudited 2020 £'000
Net gain on disposal of property, plant and equipment	**213**	142
Foreign currency gains	**2,575**	3,306
Net gains on forward derivative contracts	**404**	595
Sundry other income	**12**	9
Government grant income	**—**	1,304
	3,204	5,356

9 Other operating expenses

	2021 £'000	Unaudited 2020 £'000
Sundry other expenses	**—**	19
	—	19

10 Operating profit

Operating profit is stated after charging/(crediting):

	2021 £'000	Unaudited 2020 £'000
Auditors' remuneration:		
– Audit of the Company and consolidated financial statements	**79**	29
– Audit of subsidiaries	**193**	150
	272	179
– Non-audit services: UK – tax compliance	**14**	19
– Non-audit services: UK – tax advisory	**30**	—
– Non-audit services: overseas – tax compliance	**10**	19
– Non-audit services: services related to the IPO	**523**	—
	577	38
Total auditors' remuneration	**849**	217
Depreciation of owned assets	**5,730**	6,177
Depreciation of right-of-use assets	**1,679**	1,744
	7,409	7,921
Profit on sale of property, plant and equipment	**(213)**	(142)
Other exchange gains	**(2,979)**	(3,901)
Research and development costs	**1,047**	1,025

11 Employee benefits expense

	2021 £'000	Unaudited 2020 £'000
Wages and salaries	**32,489**	34,435
Social security costs	**4,079**	4,320
Other pension costs	**2,411**	2,598
	38,979	41,353

The average monthly number of employees during the year was made up as follows:

	2021 Number	Unaudited 2020 Number
Direct	**806**	657
Indirect	**316**	382
Sales, service and administration	**204**	222
	1,326	1,261

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2021

12 Directors' remuneration

The Group listed on the London Stock Exchange on 10 November 2021. Prior to admission it was a private company which operated a customary private equity remuneration model and post-listing a "listed" Remuneration Policy and practice were implemented. The Remuneration Policy from 10 November 2021 (and currently applicable) is fully described in the Remuneration Report on pages 60 to 73.

The figures in the table below represent a full twelve-month period to 31 December 2021 and are a mixture of two distinct ownership structures and remuneration practices, which can be analysed further as follows:

	2021 £'000	Unaudited 2020 £'000
Aggregate remuneration	**1,911**	2,098

The amounts in respect of the highest paid Director are as follows:

	2021 £'000	Unaudited 2020 £'000
Aggregate remuneration	**1,083**	1,229

Aggregate remuneration is inclusive of basic salary, annual bonus (including any accrued bonuses), pension contributions and other taxable benefits. No retirement benefits are accruing to Directors under a defined contribution scheme or a defined benefit scheme (2020: £nil). Further details on Directors' remuneration can be found in the Remuneration Report on pages 60 to 73.

13 Finance income

	2021 £'000	Unaudited 2020 £'000
Interest on cash deposits	**141**	68

14 Finance costs

	2021 £'000	Unaudited 2020 £'000
Interest on bank loans	**370**	449
Interest on ultimate shareholder loans	**9,117**	9,230
Amortisation of loan issue costs	**178**	80
Interest expense on defined benefit liabilities	**260**	263
Finance charges payable on lease liabilities	**127**	148
Other finance charges	**327**	235
	10,379	10,405

15 Income tax expense

The major components of income tax expense are as follows:

	2021 £'000	Unaudited 2020 £'000
Consolidated income statement		
Current income tax:		
Current income tax charge	**4,179**	1,711
Adjustments in respect of current income tax charge of previous year	**(68)**	(59)
Deferred tax:		
Relating to origination and reversal of temporary differences	**(2,095)**	(853)
Relating to change in tax rates	**(355)**	(311)
Income tax expense reported in the income statement	**1,661**	488

15 Income tax expense continued

	2021 £'000	Unaudited 2020 £'000
Consolidated statement of comprehensive income		
Tax related to items recognised in other comprehensive income/(expense) during the year:		
Deferred tax on actuarial loss	**(35)**	(70)
Current tax on monetary items forming part of net investment and on hedges of net investment	**1,235**	286
Income tax expensed to other comprehensive income/(expense)	**1,200**	216

Reconciliation of tax expense and the accounting profit at the tax rate in the United Kingdom of 19% (2020: 19%):

	2021 £'000	Unaudited 2020 £'000
Profit before tax	**16,321**	9,187
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%):	**3,101**	1,746
Adjustments in respect of current income tax charge of previous year	**(68)**	(59)
Non-deductible expenses	**2,715**	1,640
Differences arising due to tax losses	**(3,052)**	(527)
Other timing differences	**(271)**	(428)
Benefit of overseas investment incentives	**(1,723)**	(1,974)
Effect of changes in overseas tax rates	**(102)**	(180)
Effect of different overseas tax rates	**1,314**	401
Effect of changes in UK deferred tax rate	**(253)**	(131)
Total tax expense reported in the income statement	**1,661**	488

Deferred tax

Deferred tax relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2021 £'000	Unaudited 2020 £'000	2021 £'000	Unaudited 2020 £'000
Capital allowances	**579**	530	**(42)**	1,336
Pension	**414**	526	**134**	67
Fixed asset fair value adjustments	**(491)**	(465)	**(41)**	(542)
Losses available for offsetting against future income	**4,440**	2,846	**1,659**	435
Other temporary differences	**1,216**	905	**740**	(134)
Deferred tax credit			**2,450**	1,162
Net deferred tax assets	**6,158**	4,342		
Reflected in the balance sheet as:				
Deferred tax assets				
Continuing operations	**6,284**	4,342		
Deferred tax liabilities				
Continuing operations	**(126)**	—		
Deferred tax assets, net	**6,158**	4,342		

15 Income tax expense continued

Reconciliation of deferred tax assets, net

	2021 £'000	Unaudited 2020 £'000
Opening balance as at 1 January	**4,342**	3,292
Tax income recognised in income statement	**2,450**	1,162
Tax income recognised in other comprehensive income/(expense)	**35**	70
Exchange adjustment	**(669)**	(182)
Closing balance as at 31 December	**6,158**	4,342

The Group offsets tax assets and liabilities if it has a legally enforceable right to set them off and they are levied by the same tax authority. Deferred tax assets in respect of losses of £581,000 (2020: £619,000) have been recognised in respect of one (2020: one) loss making subsidiary company; these are recognised on the grounds of future projected performance.

Deferred tax asset recognition

During the year the Group has chosen to recognise previously unrecognised deferred tax assets in relation to tax losses. The newly recognised losses are all post-April 2017 UK losses and the decision has been taken to recognise the losses in the year because the new capital structure of the Group post-IPO means that tax deductible interest will be lower which, along with higher UK profitability, will lead to these losses being utilised over a much shorter time frame.

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

Unrecognised deferred tax balances

	2021 £'000	Unaudited 2020 £'000
Capital allowances	**29**	22
Losses available for offsetting against future income	**1,904**	3,930
	1,933	3,952

The Group has tax losses which arose in the United Kingdom of £8,653,000 (2020: £20,684,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they arose prior to April 2017 and have arisen in subsidiaries that are not profit making and there are no other tax planning opportunities or other evidence of recoverability in the near future.

Changes in the corporate income tax rate

The UK Government has announced its intention to increase the UK corporation tax rate to 25% by 1 April 2023. This rate change has now been substantively enacted. When recognising deferred tax within the balance sheet, the Group has used a blended rate which represents the rate at which deferred tax is expected to unwind.

16 Earnings per share

	2021 £'000	Unaudited 2020 £'000
Net profit for the period attributable to owners of the parent	**14,660**	8,699
Exceptional items	**9,589**	—
Foreign exchange differences	**(2,979)**	(3,901)
Tax on exceptional items and foreign exchange differences	**282**	858
Adjusted net profit for the period attributable to owners of the parent	**21,552**	5,656

16 Earnings per share continued

	2021	Unaudited 2020
Basic weighted average number of shares in issue	**127,352,555**	127,352,555
Diluted weighted average number of shares in issue	**127,352,555**	127,352,555
Earnings per share		
Basic earnings per share (pence per share)	**11.51**	6.83
Diluted earnings per share (pence per share)	**11.51**	6.83
Adjusted earnings per share		
Basic earnings per share (pence per share)	**16.92**	4.44
Diluted earnings per share (pence per share)	**16.92**	4.44

The number of shares in issue is as at IPO as this reflects the underlying number of shares. The 2020 comparatives have been adjusted to align with the number of shares at IPO to allow for comparability.

17 Dividends

The Board is recommending a dividend of 0.96 pence per share (2020: nil), which, if approved, will mean a total dividend payment of £1,223,000.

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

18 Property, plant and equipment

	Freehold land and buildings £'000	Leasehold buildings £'000	Assets under construction £'000	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost						
At 1 January 2020	23,223	10,082	4,987	46,798	6,967	92,057
Additions	26	523	6,568	2,175	271	9,563
Transfers	971	—	(8,016)	6,583	462	—
Disposals	—	—	(16)	(814)	(466)	(1,296)
Exchange adjustment	(491)	574	(111)	(1,781)	(220)	(2,029)
At 31 December 2020 (Unaudited)	23,729	11,179	3,412	52,961	7,014	98,295
Additions	**138**	**546**	**6,379**	**1,724**	**863**	**9,650**
Transfers	**550**	**—**	**(4,400)**	**3,521**	**329**	**—**
Disposals	**—**	**—**	**(32)**	**(163)**	**(593)**	**(788)**
Exchange adjustment	**(2,589)**	**(706)**	**(591)**	**(10,137)**	**(694)**	**(14,717)**
At 31 December 2021	**21,828**	**11,019**	**4,768**	**47,906**	**6,919**	**92,440**
Accumulated depreciation and impairment						
At 1 January 2020	8,162	920	—	16,977	4,595	30,654
Depreciation charge	859	1,146	—	4,887	1,029	7,921
Disposals	—	—	—	(545)	(419)	(964)
Exchange adjustment	(13)	66	—	(261)	(132)	(340)
At 31 December 2020 (Unaudited)	9,008	2,132	—	21,058	5,073	37,271
Depreciation charge	**850**	**1,151**	**—**	**4,688**	**720**	**7,409**
Disposals	**—**	**—**	**—**	**(90)**	**(424)**	**(514)**
Exchange adjustment	**(556)**	**(160)**	**—**	**(4,340)**	**(364)**	**(5,420)**
At 31 December 2021	**9,302**	**3,123**	**—**	**21,316**	**5,005**	**38,746**
Net book value						
At 31 December 2021	**12,526**	**7,896**	**4,768**	**26,590**	**1,914**	**53,694**
At 31 December 2020 (Unaudited)	14,721	9,047	3,412	31,903	1,941	61,024
At 1 January 2020	15,061	9,162	4,987	29,821	2,372	61,403

18 Property, plant and equipment continued

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

	2021 £'000	Unaudited 2020 £'000
Leasehold buildings	**7,814**	8,937
Plant and equipment	**911**	1,240
Fixtures and fittings	**638**	511
	9,363	10,688

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

	2021 £'000	Unaudited 2020 £'000
Leasehold buildings	**543**	407
Plant and equipment	**79**	357
Fixtures and fittings	**382**	159
	1,004	923

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

	2021 £'000	Unaudited 2020 £'000
Leasehold buildings	**1,127**	1,141
Plant and equipment	**348**	295
Fixtures and fittings	**204**	308
	1,679	1,744

Land and buildings with a carrying amount of £10,890,000 (2020: £3,879,000) are subject to a first charge to secure the Group's bank loan.

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

19 Financial liabilities

Financial liabilities – interest-bearing loans and borrowings

	Effective interest rate %	Maturity	2021 £'000	Unaudited 2020 £'000
Current interest-bearing loans and borrowings				
Lease liabilities			**1,794**	1,660
ABL term loan facility	Libor/Euribor + 2.25%	18 Dec 2022	**—**	561
Lombard facility	Libor + 2.50%	Jul 2024	**—**	1,187
Unamortised loan costs			**—**	(61)
			1,794	3,347
Non-current interest-bearing loans and borrowings				
Lease liabilities			**7,524**	8,955
Ultimate shareholder loans	15%	25 Sep 2033	**—**	67,411
Deferred consideration – shares			**—**	202
ABL term loan facility	Libor/Euribor + 2.25%	18 Dec 2022	**—**	3,853
ABL revolving credit facility	Libor/Euribor + 1.50%	18 Dec 2022	**—**	1,798
Lombard facility	Libor + 2.50%	Jul 2024	**—**	3,626
Revolving credit facility	SONIA + 2.25%	9 Nov 2026	**56,500**	—
Unamortised loan costs			**(1,159)**	(60)
			62,865	85,785
Total interest-bearing loans and borrowings			**64,659**	89,132

The ultimate shareholder loans consist of two amounts: i) an amount funded by the ultimate controlling party of the Group, The Bregal Fund III LP; and ii) an amount funded by certain managers of the Company. The loan notes issued by The Bregal Fund III LP were listed on the Channel Islands Securities Exchange. The shareholder loans were repaid during the year ended 31 December 2021 as part of the Group reorganisation with the loan notes issued by The Bregal Fund III LP delisted as part of this transaction.

On 10 November 2021, the Group refinanced its external debt as part of the IPO; consequently the Group had three external debt facilities during the year:

i) a £32.9 million asset-based lending ("ABL") facility with the Royal Bank of Scotland Invoice Finance, consisting of a £28.0 million revolving credit facility and a £4.9 million term loan facility, which was repaid on 10 November 2021;

ii) a term loan facility with Lombard North Central PLC ("Lombard"), which was repaid on 10 November 2021; and

iii) an £80 million revolving credit facility ("RCF") jointly financed by National Westminster Bank plc and Barclays PLC, which was first drawn on 10 November 2021.

The ABL facility was a cross-collateral agreement secured on specific assets of certain Group companies. Certain companies that are party to the agreement were able to draw borrowings that were secured on assets elsewhere in the Group. As part of the facility the Group drew down the following borrowings in the year:

- a term loan secured on the land and buildings and plant and machinery of certain Group companies; and
- a revolving credit facility secured on the inventory and receivables of certain Group companies.

The Lombard facility was secured on the plant and machinery of certain Group companies.

All of the security held under the ABL and Lombard facilities was released as part of the refinancing on 10 November 2021.

The £80 million revolving credit facility is secured on the assets of certain subsidiaries within the Group.

The shareholder loans and accrued interest balances were repaid on 10 November 2021 as part of the Group reorganisation. As a result the ultimate shareholder loan balance, after including accrued interest, at 31 December 2021 is £nil (2020: £67,411,000). Prior to 10 November 2021 further interest of £9,117,000 was accrued during 2021 (2020: £9,230,000 further interest was accrued).

The £202,000 deferred consideration, which arose in 2015 following the sale of a business, was repaid on 15 October 2021 (2020: £202,000 deferred consideration outstanding).

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2021

20 Inventories

	2021 £'000	Unaudited 2020 £'000
Raw materials – cost	**18,647**	10,756
Work in progress – cost	**1,293**	829
Finished goods – lower of cost and net realisable value	**34,181**	16,778
Other consumables	**2,660**	2,623
	56,781	30,986

The cost of inventories recognised as an expense in the year was £192,279,000 (2020: £138,859,000). The provision for the impairment of stocks decreased in the year giving rise to a credit of £127,000 (2020: credit of £28,000). At 31 December 2021 the provision for the impairment of stocks was £1,534,000 (2020: £1,815,000).

21 Trade and other receivables

	2021 £'000	Unaudited 2020 £'000
Current		
Trade receivables	**42,749**	35,658
Other receivables	**3,314**	2,912
Prepayments	**668**	454
	46,731	39,024
Non-current		
Trade receivables	**10**	17

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

	2021 £'000	Unaudited 2020 £'000
At 1 January	**130**	105
Charge for the year	**108**	52
Utilised	**(23)**	—
Unused amounts reversed	**—**	(23)
Exchange adjustment	**(11)**	(4)
At 31 December	**204**	130

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

	Total £'000	Current £'000	<30 days £'000	30–90 days £'000	>90 days £'000
2021					
Gross carrying amount	**42,963**	**38,014**	**1,464**	**2,645**	**840**
Expected credit loss rate (%)	**—**	**—**	**1**	**4**	**10**
Expected credit loss	**204**	**—**	**15**	**106**	**83**
2020 (Unaudited)					
Gross carrying amount	35,805	31,771	1,408	1,739	887
Expected credit loss rate (%)	—	—	1	3	7
Expected credit loss	130	—	14	53	63

22 Cash and cash equivalents

	2021 £'000	Unaudited 2020 £'000
Cash at bank and on hand	**15,563**	20,083

23 Trade and other payables

	2021 £'000	Unaudited 2020 £'000
Current		
Trade payables	**57,751**	31,331
Other payables and accruals	**22,198**	16,844
Other taxes and social security	**3,858**	5,452
Interest payable	**76**	31
	83,883	53,658

24 Provisions

	Warranty £'000	Unused vacation £'000	Total £'000
At 1 January 2020	70	425	495
Arising during the year	26	372	398
Utilised	(34)	(345)	(379)
Unused amounts reversed	—	(10)	(10)
Exchange adjustment	(12)	(97)	(109)
At 31 December 2020 (Unaudited)	50	345	395
Arising during the year	**30**	**397**	**427**
Utilised	**(28)**	**(223)**	**(251)**
Unused amounts reversed	**—**	**(19)**	**(19)**
Exchange adjustment	**(17)**	**(198)**	**(215)**
At 31 December 2021	**35**	**302**	**337**
Current	14	165	179
Non-current	21	137	158

Unused vacation

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

25 Share capital and reserves

During the year, the Company carried out a reorganisation of its share capital to facilitate a listing to the premium segment of the Official List of the Financial Conduct Authority and to trade on the London Stock Exchange Main Market for listed securities. This is described below in the detail on transactions in the year.

	2021 Number	2021 £	Unaudited 2020 Number	Unaudited 2020 £
Authorised, called up and fully paid				
Ordinary shares of £1 each	**127,352,555**	**127,352,555**	—	—
Ordinary “A” shares of £0.01 each	—	—	200,000	2,000
Ordinary “B” shares of £1 each	—	—	50,000	50,000
Ordinary “C” shares of £1 each	—	—	13,000	13,000
		127,352,555		65,000

The movements in the ordinary share capital during the year ended 31 December 2021 were as follows:

	Shares Number	Share capital £
At 1 January 2021 (Unaudited)	263,000	65,000
Issued on incorporation of Stelrad Group plc	50,000	50,000
Redemption of ordinary “C” shares	(13,000)	(13,000)
Noosa Holdings Jersey Limited share reorganisation	—	(49,500)
Share for share exchange:		
– Noosa Holdings Jersey Limited	(250,000)	(2,500)
– Stelrad Group plc	115,658,370	115,658,370
Shares issued	11,644,185	11,644,185
At 31 December 2021	**127,352,555**	**127,352,555**

Transactions in the year

On incorporation on 8 October 2021, Stelrad Group plc (the “Company”) issued 50,000 ordinary shares with a nominal value of £1 each for a total cash consideration of £50,000. This was paid up in full on 10 November 2021.

On 15 October 2021, Noosa Holdings Jersey Limited redeemed its 13,000 ordinary “C” shares at par value.

On 10 November 2021, the following transactions arose:

- Noosa Holdings Jersey Limited redesignated its 200,000 ordinary “A” shares as 200,000 ordinary shares of £0.01 each.
- Noosa Holdings Jersey Limited split its 50,000 ordinary “B” shares as 50,000 ordinary shares of £0.01 each and 50,000 deferred redeemable shares of £0.99 each. The 50,000 deferred redeemable shares of £0.99 each were immediately redeemed with the credit applied to share premium.
- The Company acquired 100% of the ordinary shares of Noosa Holdings Jersey Limited by way of a share for share exchange by issuing 115,658,370 ordinary shares of £1 each to the shareholders of Noosa Holdings Jersey Limited.
- The Company issued an additional 11,644,185 ordinary shares of £1 each at a value of £2.15 giving rise to a share premium of £13,391,000.

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

26 Commitments and contingencies

Commitments

Amounts contracted for but not provided in the financial statements amounted to £1,389,000 (2020: £657,000) for the Group. All amounts relate to property, plant and equipment.

Contingent liabilities

Termo Teknik Ticaret ve Sanayi A.S. has issued letters of guarantee and letters of credit to its steel suppliers amounting to $30,089,000 (2020: $6,814,000) and $40,518,000 (2020: $29,256,000) respectively. Termo Teknik Ticaret ve Sanayi A.S. has also issued letters of guarantee denominated in Turkish Lira totalling TL9,497,000 (2020: TL7,002,000).

The Group enters into various forward currency contracts to manage the risk of foreign currency exposures on certain purchases and sales. The total amount of unsettled forward contracts as at 31 December 2021 is £nil (2020: £nil).

The fair value of the unsettled forward contracts held at the balance sheet date, determined by reference to their market values, is a liability of £nil (2020: £nil).

As part of the new £80 million revolving credit facility, entered into in November 2021, the Group is party to a cross-collateral agreement secured on specific assets of certain Group companies. No liability is expected to arise from the agreement.

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

27 Pensions and other post-employment plans

	2021 £'000	Unaudited 2020 £'000
Net employee defined benefit liability		
Turkish scheme	**1,655**	2,390
Other retirement obligations – non-IAS 19	**73**	139
	1,728	2,529

Turkish scheme

In Turkey there is an obligation to provide lump sum termination payments to certain employees; this represents 30 days' pay (subject to a cap imposed by the Turkish Government) for each year of service. The IAS 19 valuation gives a liability of £1,655,000 (2020: £2,390,000). There are no assets held in this plan (2020: nil). The expected contributions to the plan for the next reporting period to cover benefits paid are £158,000. The service cost in the year was £211,000 (2020: £203,000).

UK scheme

The UK has one defined contribution pension scheme, following the transfer of all pension arrangements to a Master Trust in 2020.

The total employer contributions made in the year were £1,020,000 (2020: £1,158,000). There were outstanding contributions totalling £nil (2020: £nil) due to the scheme at the balance sheet date.

Other overseas retirement obligations

The Group operates a number of defined contribution pension schemes in its overseas entities and also has certain other retirement obligations. This liability at the year end mainly relates to pre-pension payments that are due to Belgian employees who have retired early of £39,000 (2020: £79,000). The contributions to overseas pension schemes in the year and any movements in the provision for other retirement obligations are reported as part of the employee benefits note and total £1,180,000 (2020: £1,237,000).

IAS 19 accounting – Turkish scheme only

Amounts recognised in the balance sheet

	2021 £'000	Unaudited 2020 £'000
Defined benefit obligation	**1,655**	2,390
Net pension liability	**1,655**	2,390

27 Pensions and other post-employment plans *continued*

Movement in defined benefit obligation

	2021 £'000	Unaudited 2020 £'000
At 1 January	2,390	2,364
Current service cost	211	203
Interest cost	260	263
Actuarial losses	141	317
Benefits paid	(233)	(198)
Exchange differences	(1,114)	(559)
At 31 December	**1,655**	**2,390**

Amounts recognised in the income statement

	2021 £'000	Unaudited 2020 £'000
Current service cost	211	203
Interest cost	260	263
At 31 December	**471**	**466**

Amounts recognised in other comprehensive income/(expense)

	2021 £'000	Unaudited 2020 £'000
Experience adjustments – obligation	(143)	(132)
Changes in demographic assumptions – obligation	1	(1)
Changes in financial assumptions – obligation	1	(184)
At 31 December	**(141)**	**(317)**

Principal actuarial assumptions

	2021	Unaudited 2020
Discount rate (per annum)	19.00%	13.00%
Future salary increases (per annum)	14.25%	8.50%

Quantitative sensitivity analysis

	2021 Discount rate (per annum)		2021 Future salary increases (per annum)	
	+1% £'000	-1% £'000	+1% £'000	-1% £'000
(Decrease)/increase in defined benefit obligation – Turkish scheme	(114)	130	134	(119)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the net defined benefit obligation as a result of reasonable changes in key assumptions at the end of the reporting year.

28 Related party disclosures

Prior to admission to the London Stock Exchange on 10 November 2021, the ultimate controlling party was The Bregal Fund III LP.

The ultimate shareholder loans bore interest at 15% and consisted of two amounts: i) an amount funded by the ultimate controlling party of the Group, The Bregal Fund III LP; and ii) an amount funded by certain managers of the Company.

The value of the loans at 31 December 2020 was £67,411,000, including accrued interest of £28,000 (The Bregal Fund III LP: £56,932,000; managers: £10,479,000).

During 2021 interest was accrued totalling £9,117,000 (2020: £9,230,000) (The Bregal Fund III LP: £7,700,000 (2020: £7,795,000); managers: £1,417,000 (2020: £1,435,000)).

The value of the loans at 31 December 2021 was £nil, due to repayment of the shareholder loans and all accrued interest totalling £76,528,000 (The Bregal Fund III LLP: £64,632,000; managers: £11,896,000) as part of the Group reorganisation on 10 November 2021.

The Group owed deferred consideration to shareholders related to the sale of a business of £nil (2020: £202,000 (The Bregal Fund III LP: £171,000; managers: £31,000). The deferred consideration to shareholders was repaid on 15 October 2021.

Under the ownership agreement, before the Group reorganisation, the Group was charged a monitoring fee of £200,000 per annum by Bregal Capital LLP, which was the management company of the ultimate controlling party of the Group, The Bregal Fund III LP. An amount of £nil (2020: £nil) was accrued for this at the year end.

During the year the Group spent £9,000 (2020: £24,000) on purchases from Polypal Netherlands BV (whose ultimate controlling party is also The Bregal Fund III LP); the balance outstanding at the year end was £nil (2020: £nil).

The key management personnel are considered to be the Executive Directors of the Group. The following table highlights the remuneration that is recorded in the income statement in respect of these personnel, including Company social security costs:

	2021 £'000	Unaudited 2020 £'000
Short-term employment benefits	**2,175**	2,388

29 Capital management

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value. In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowings in the current year. The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants.

Details of the issued capital and reserves are shown in note 25. Details of interest-bearing loans and borrowings are shown in note 19.

30 Financial instrument disclosures

a) Hedging activity and derivatives

Derivatives not designated as hedging instruments

The Group uses foreign exchange forward contracts to manage some of its transaction exposures. Where used, foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to twelve months.

Hedge of net investments in foreign operations

Included in subsidiary loans at 31 December 2021 and at 31 December 2020 were Euro denominated borrowings which have been designated as a hedge of the net investments in its overseas subsidiaries. This borrowing is being used to hedge the Group's exposure to the Euro foreign exchange risk on these investments.

Gains or losses on the retranslation of this borrowing are transferred to other comprehensive income/(expense) to offset any gains or losses on translation of the net investments in the subsidiaries. There is no ineffectiveness in the years ended 31 December 2021 and 31 December 2020.

30 Financial instrument disclosures *continued*

b) Fair value of financial instruments at amortised cost

	Carrying amount		Fair value	
	2021 £'000	Unaudited 2020 £'000	**2021 £'000**	Unaudited 2020 £'000
Financial liabilities				
Lease liabilities	**9,318**	10,615	**9,318**	10,615
Ultimate shareholder loans	**—**	67,411	**—**	67,411
Deferred consideration – shares	**—**	202	**—**	202
ABL term loan facility	**—**	4,414	**—**	4,414
ABL revolving credit facility	**—**	1,798	**—**	1,798
Lombard facility	**—**	4,813	**—**	4,813
Revolving credit facility	**56,500**	—	**56,500**	—
	65,818	89,253	**65,818**	89,253

The external loan balances are stated gross of any issue costs.

The Directors consider that the carrying amount of the shareholder loans and deferred consideration is equal to their fair value.

The management assessed that the fair values of cash and cash equivalents, trade and other receivables, trade and other payables and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties.

The following methods and assumptions were used to estimate the fair values:

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps and foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity.
- Fair values of the Group's interest-bearing loans and borrowings are determined by using the DCF method using a discount rate that reflects the issuer's borrowing rate as at the end of the reporting year. As the external debt is all at variable rate the fair values are deemed to be identical to the carrying values. The rate at which interest is paid on the shareholder debt is deemed to be representative of that which would have been assigned if the debt was issued as at the end of the reporting year.
- The financial liabilities which are not recognised at fair value but for which fair value is disclosed are deemed to be level 2 hierarchy measurements, with the exception of shareholder debt which is deemed to be a level 3 valuation.
- There are not deemed to be any significant unobservable inputs to valuation.

c) Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise interest-bearing borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations.

The Group's principal financial assets include trade and other receivables, and cash and cash equivalents that derive directly from its operations. The Group also enters into derivative transactions. Due to timing there are no unsettled derivative contracts as at the end of the reporting year.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. All derivative activities for risk management purposes are carried out by individuals that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken.

30 Financial instrument disclosures continued

c) Financial risk management objectives and policies continued

The Group has established a risk and financial management framework, the primary objectives of which are to protect the Group from events that may hinder the achievement of financial performance objectives. These are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and commodity price risk. Financial instruments affected by market risk include interest-bearing borrowings and derivative financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to long-term interest-bearing borrowings.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate borrowings. To manage this, where deemed appropriate, the Group enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

At 31 December 2021 and 31 December 2020, no interest rate swaps are in place. Approximately 14% (2020: 88%) of the Group's borrowings are at a fixed rate of interest.

Interest rate risk – sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. The analysis does not include cash balances. With all other variables held constant the Group's profit before tax would be impacted as follows:

Year ended 31 December 2021	Increase/ decrease	Effect on profit before tax £'000
SONIA/Euribor	**+0.5%**	**(79)**
SONIA/Euribor	**-0.5%**	**16**

Year ended 31 December 2020 (Unaudited)	Increase/ decrease	Effect on profit before tax £'000
Libor/Euribor	+0.5%	(96)
Libor/Euribor	-0.5%	55

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue and expenses are denominated in different currencies) and the Group's net investments in foreign subsidiaries.

The Group manages its foreign currency risk by hedging transactions that are expected to occur within a maximum twelve-month period. There were no foreign currency exchange contracts in place at 31 December 2021 or 31 December 2020.

The Group hedges its exposure to fluctuations on the translation into GBP of its foreign operations by holding net borrowings in foreign currencies, including intercompany loans.

Foreign currency risk – sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in the Euro and USD exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives. The impact on the Group's equity is due to the monetary items that form part of the net investment in foreign operations. No sensitivity is performed against Turkish Lira on the basis that all Turkish Lira monetary assets and liabilities are held by Termo Teknik Ticaret ve Sanayi A.S. whose functional currency is Turkish Lira. The Group's exposure to foreign currency changes for all other currencies is not material.

The movement in equity arises from changes in Euro denominated borrowings in the hedge of net investments in European operations. These movements will offset the translation of the European operations' net assets into Sterling – this movement is not shown.

30 Financial instrument disclosures continued

c) Financial risk management objectives and policies continued

Foreign currency risk – sensitivity continued

	Change in Euro rate [1]	Effect on profit before tax £'000
2021	**+10%**	**(915)**
	-10%	**1,118**
2020 (Unaudited)	+10%	(822)
	-10%	1,004

	Change in USD rate [1]	Effect on profit before tax £'000
2021	**+10%**	**2,371**
	-10%	**(2,898)**
2020 (Unaudited)	+10%	818
	-10%	(1,000)

(1) A + movement indicates GBP strengthening relative to the other currency.

Commodity price risk

The Group is affected by the price volatility of certain commodities. Its operating activities require a continuous supply of steel which poses a risk due to the volatility of the price of the steel. The Group seeks to manage its exposure to commodity price risk by holding enough stock to negate short-term price fluctuations and if necessary allow sufficient time to pass price changes through to customers.

Demand risk

The market for the Group's goods is subject to movements in demand as the demand for new housing or upgrades to existing housing stock varies. The Group manages these variations through careful forecasting and flexing of production volumes. Financing arrangements anticipate demand changes and associated working capital movements.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and other financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit. Overseas subsidiaries have credit insurance policies in place to minimise the risk of trade debts going bad without recompense. UK subsidiaries have no credit insurance policy in place due to the cost of insurance not being justified by the low risk of non-recoverability with a large proportion of receivables being due from the three major customers with strong credit ratings.

Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

Outstanding customer receivables are regularly monitored.

An impairment analysis is performed at each reporting date on an individual basis for major clients. In addition, a large number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as medium, as it has several large customers in linked markets.

Note 21 discloses information about the credit risk exposure on the Group's trade receivables using a provision matrix.

Deposits with banks and other financial institutions

Credit risk from balances with banks and other financial institutions is managed by the Group's treasury team in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties. The Group's maximum exposure to credit risk is the cash and cash equivalents balance outlined in the balance sheet at 31 December 2021.

30 Financial instrument disclosures continued

Liquidity risk

The Group monitors its risk to a shortage of funds using monitoring requirements on a daily basis looking out over various time periods. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, bank revolver and finance leases. The Group's policy is that not more than 10% of borrowings should mature in the next twelve-month period.

Approximately 2.7% of the Group's debt will mature in less than one year at 31 December 2021 (2020: 3.8%) based on the carrying value of borrowings reflected in the financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available.

At 31 December 2021, the Group had available £23,500,000 (2020: £26,202,000) of undrawn committed borrowing facilities.

The table summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. Interest-bearing loans comprise interest and principal, with interest determined based on rates prevailing at the balance sheet date.

Year ended 31 December 2021	**<1 year £'000**	**1 to 5 years £'000**	**>5 years £'000**	**Total £'000**
Lease liabilities	**1,900**	**5,581**	**2,173**	**9,654**
Interest-bearing loans	**1,567**	**62,549**	**—**	**64,116**
Trade and other payables	**80,025**	**—**	**—**	**80,025**
	83,492	**68,130**	**2,173**	**153,795**

Year ended 31 December 2020 (Unaudited)	<1 year £'000	1 to 5 years £'000	>5 years £'000	Total £'000
Lease liabilities	1,774	6,545	2,750	11,069
Ultimate shareholder loans	—	—	67,411	67,411
Deferred consideration	—	—	202	202
Interest-bearing loans	1,946	9,500	—	11,446
Trade and other payables	48,206	—	—	48,206
	51,926	16,045	70,363	138,334

The above tables do not include the interest cash flows for the ultimate shareholder loan notes. The amount shown in the tables includes the principal amount plus accrued interest up to the balance sheet date.

Company balance sheet

as at 31 December 2021

	Notes	2021 £'000
Assets		
Non-current assets		
Investments	9	**115,908**
Amounts due from subsidiary undertakings	10	**21,553**
		137,461
Current assets		
Other receivables	11	**98**
Total assets		**137,559**
Equity and liabilities		
Equity		
Share capital	13	**127,353**
Share premium		**13,391**
Accumulated losses		**(4,135)**
Total equity		**136,609**
Current liabilities		
Other payables	12	**950**
Total liabilities		**950**
Total equity and liabilities		**137,559**

As permitted by section 408 of the Companies Act 2006, the Company's statement of profit or loss has not been included in these financial statements.

The Company incurred a loss for the period from 8 October 2021 to 31 December 2021 of £4,135,000.

The financial statements on pages 116 to 120 were approved by the Board of Directors on 14 March 2022 and signed on its behalf by:

George Letham
Chief Financial Officer

Company statement of changes in equity

for the period ended 31 December 2021

	Attributable to the owners of the parent			
	Issued share capital £'000	Share premium £'000	Accumulated losses £'000	Total £'000
At incorporation on 8 October 2021	50	—	—	50
Loss for the period	—	—	(4,135)	(4,135)
Total comprehensive expense	—	—	(4,135)	(4,135)
Share for share exchange	115,659	—	—	115,659
Shares issued	11,644	13,391	—	25,035
At 31 December 2021	**127,353**	**13,391**	**(4,135)**	**136,609**

Notes to the Company financial statements

for the period ended 31 December 2021

1 Corporate information

Stelrad Group plc (the "Company") was incorporated in England and Wales on 8 October 2021 as a public company, limited by shares. The Company is incorporated, domiciled and registered in England and Wales, with its registered office situated at 69-75 Side, Newcastle upon Tyne, Tyne and Wear, United Kingdom NE1 3JE.

The principal activity of the Company is that of a holding company.

On 10 November 2021, the entire issued share capital of the Company was admitted to the premium listing segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange's Main Market for listed securities.

2 Basis of preparation

The Company has presented a period from incorporation on 8 October 2021 to 31 December 2021. The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with United Kingdom Generally Accepted Accounting Policy (Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102")) in conformity with the requirements of the Companies Act 2006.

The Company has taken advantage of the following disclosure exemptions permitted by FRS 102:

- the requirements of section 7 Statement of Cash Flows and section 3 Financial Statement Presentation, paragraph 3.17(d);
- the requirements of section 11 Financial Instruments, paragraphs 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c); and
- the requirements of section 33 Related Party Disclosures, paragraph 33.7.

The Company financial statements are presented in GB Pounds and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

In preparing these financial statements on the going concern basis, the Directors have considered the Company's current and future prospects and its availability of cash resources and financing and the Group's financial position. The Company is directly impacted by the Group's going concern position which is as follows:

The Group meets its day-to-day working capital requirements through bank loan facilities which are in place up to November 2026. At the year-end date the Group had drawn down £56.5 million of an £80 million revolving credit facility. The remainder of the facility and significant cash balances of £15.6 million were available to enable day-to-day working capital requirements to be met.

As part of its year-end review, management has performed a detailed going concern review, based on severe but plausible conditions, looking at the Group's liquidity and banking covenant compliance, and examining expected future performance. Based on the output of this going concern review, management has concluded that the Group will be able to continue to operate within its existing facilities and as such the financial statements have been prepared on a going concern basis.

Details of the Group's going concern assessment can be found in the Strategic Report on page 46.

3 Summary of significant accounting policies

The accounting policies outlined below have been applied consistently, other than where new policies have been adopted.

a) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax is recognised in income unless it relates to items recognised in other comprehensive income/(expense) or directly in equity, in which case the current income tax is recognised in other comprehensive income/(expense) or directly in equity respectively. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

b) Dividends

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

c) Investments

Investments are stated at cost less any provision for impairment.

d) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

e) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

4 Summary of significant accounting judgements, estimates and assumptions

The following judgements have had the most significant effect on amounts recognised in the financial statements:

Investments

The Company assesses, at each reporting date, whether there is an indication that any investment may be impaired. If any indication exists, or when annual impairment testing for an investment is required, the Company estimates the investment's recoverable amount. In assessing an investment's recoverable amount, 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.

5 Employee benefit expense

The Company does not have any employees, other than Directors, and does not have any employee benefit expenses.

6 Directors' remuneration

The Directors of the Company are also directors of fellow subsidiary undertakings. The Directors received remuneration which was paid by a fellow subsidiary undertaking and not recharged to the Company. These emoluments are disclosed in the Group Directors' remuneration note (note 12) of the consolidated financial statements and the Directors' Remuneration Report on pages 60 to 73.

7 Auditors' remuneration

The Company has incurred audit fees of £8,000 for the current period which are borne by Stelrad Management Limited.

8 Dividends

The Board is recommending a dividend of 0.96 pence per share, which, if approved, will mean a total dividend payment of £1,223,000.

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

9 Investments

	£'000
At 8 October 2021	—
Acquisition via share for share exchange	115,658
Acquisition of investment via dividend in specie	250
At 31 December 2021	**115,908**

On 10 November 2021, the Company issued ordinary shares in a share for share exchange with the shareholders of Noosa Holdings Jersey Limited. Consequently the Company became the direct owner of 100% of the shares in Noosa Holdings Jersey Limited. Also on 10 November 2021, Noosa Holdings Jersey Limited made a dividend in specie on its investment in Stelrad Radiator Group Limited to the Company.

As the Company is reporting under FRS 102, under section 615 of the Companies Act 2006, the Company opted to record its investment in the shares acquired at an amount equal to the aggregate share capital only.

A list of the Company's investments in subsidiary undertakings can be found in note 14.

10 Amounts due from subsidiary undertakings

	2021 £'000
Amounts due from subsidiary undertakings	**21,553**

11 Other receivables

	2021 £'000
Other receivables	**98**

12 Other payables

	2021 £'000
Other payables	**950**

Notes to the Company financial statements *continued*

for the period ended 31 December 2021

13 Share capital and reserves

	2021 Number	2021 £
Authorised, called up and fully paid		
Ordinary shares of £1 each	**127,352,555**	127,352,555

The movements in the ordinary share capital during the period ended 31 December 2021 were as follows:

	Shares Number	Share capital £
At 8 October 2021	50,000	50,000
Share for share exchange	115,658,370	115,658,370
Shares issued	11,644,185	11,644,185
At 31 December 2021	**127,352,555**	**127,352,555**

For full details of share transactions during the period, see note 25 of the consolidated financial statements.

Subsequent to the period end, on 25 January 2022, a capital reduction application was approved by the courts, reducing the value of ordinary shares in issue from £1 to £0.001. Under the same application the courts approved the reduction of the Company's share premium account in full. The reduction of capital and share premium will be transferred to accumulated losses.

14 Subsidiary undertakings

The registered address and principal place of business of each subsidiary undertaking are shown in the footnotes below the table. The financial performance and financial position of these undertakings are included in the consolidated financial statements.

Name of company	Country of incorporation	Holding	Voting rights held 2021 %	Nature of business
Stelrad Radiator Group Limited[(1)]	United Kingdom	Ordinary	**100**	Holding company
*Stelrad Radiator Holdings Limited[(1)]	United Kingdom	Ordinary	**100**	Holding company
*Stelrad Management Limited[(1)]	United Kingdom	Ordinary	**100**	Management services
*Stelrad Limited[(1)]	United Kingdom	Ordinary	**100**	Radiator manufacturer
*Caradon Polska Sp ZOO[(2)]	Poland	Ordinary	**100**	Radiator distributor
*Caradon Stelrad B.V.[(3)]	The Netherlands	Ordinary	**100**	Radiator manufacturer
*Henrad NV[(4)]	Belgium	Ordinary	**100**	Radiator distributor
*Termo Teknik Holdings Limited[(1)]	United Kingdom	Ordinary	**100**	Holding company
*Termo Teknik Ticaret ve Sanayi A.S.[(5)]	Turkey	Ordinary	**100**	Radiator manufacturer
*ISG Heating Equipment (Shanghai) Co, Ltd[(6)]	China	Ordinary	**100**	Radiator distributor
*Caradon Heating CZ SRO[(7)]	Czech Republic	Ordinary	**100**	Radiator distributor
*Hudevad Radiator Design A/S[(8)]	Denmark	Ordinary	**100**	Radiator distributor
Noosa Holdings Jersey Limited[(9)]	Jersey	Ordinary	**100**	Holding company

* Held by subsidiary companies.
(1) Registered office is 69–75 Side, Newcastle upon Tyne, Tyne and Wear NE1 3JE, United Kingdom.
(2) Registered office is Zakliki Z Mydlnik Street, no. 16, 30-198 Kraków, Poland.
(3) Registered office is Kathagen 30, 6361 HG, Nuth, the Netherlands.
(4) Registered office is Welvaartstraat (HRT) 14 Map box 6, 2200 Herentals, Belgium.
(5) Registered office is Eski Buyukdere Caddesi, Park Plaza Bina No: 14 Kat: 7, 34467 Sariyer, Istanbul, Turkey.
(6) Registered office is Room 809, No.8 Dongan Rd, Xuhui District, Shanghai, P.R. China 200032.
(7) Registered office is Ostrava-Slezská-Ostrava, Hradní 27/37, PSČ 710 00, Czech Republic.
(8) Registered office is Ambolten 37, Kolding 6000, Denmark.
(9) Registered office is 15 Esplanade, St Helier JE1 1RB, Jersey.

The dormant subsidiaries in the Group comprise: Woolamai Group UK Limited and Henrad (UK) Limited. Both are incorporated in the UK[(1)] and 100% of the ordinary shares are owned.

Shareholder information

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