Stelrad® Group plc

Leading with our purpose.

Delivering on our strategy.

Stelrad Group plc
Annual Report 2022

OUR CORE PURPOSE

Helping to heat homes sustainably

» Read more on page 27

STRATEGIC PILLAR

Driving better environmental performance

» Read more on page 30

STRATEGIC PILLAR

Enabling an exceptional workforce

» Read more on page 34

UNDERPINNING FOUNDATIONS

Conducting business responsibly

» Read more on page 36

Record results underpinned by our resilient business model

Revenue (pre-IAS 29)
£312.1m
(2021: £272.3m)

Adjusted operating profit[1]
£34.0m
(2021: £33.2m)

Adjusted free cash flow[1]
£17.2m
(2021: £21.2m)

Adjusted EPS[1]
19.11p
(2021: 16.92p)

Financial and operational highlights

- Record Group financial performance as a result of Stelrad's resilient business model
  - UK & Ireland: 6.5% revenue growth (pre-IAS 29), 5.2% growth in adjusted operating profit
  - Europe: 25.3% (-0.8% organic) revenue growth (pre-IAS 29), 7.3% growth in adjusted operating profit
  - Turkey & International: 6.4% (3.1% organic) revenue growth (pre-IAS 29), 29.1% reduction in adjusted operating profit
- Contribution per radiator (pre-IAS 29) increased by 16.5% (18.6% like-for-like increase), more than offsetting a 9.2% year on year sales volume decline (15.3% like-for-like decline) versus exceptionally strong comparatives in 2021
- Improved performance underpinned by proactive margin management and operational improvements across the business
- Completion of two further production line transfers from Western European plants to lower cost Turkish facility in the period
- Acquisition of Italian manufacturer of heat emitters DL Radiators for €28.3 million in July 2022
- Continued to strengthen our market position, thanks to strong, long-lasting customer relationships, market-leading product availability and customer service and product innovation
- Recommended final dividend of 4.72 pence per share, to be paid on 26 May 2023

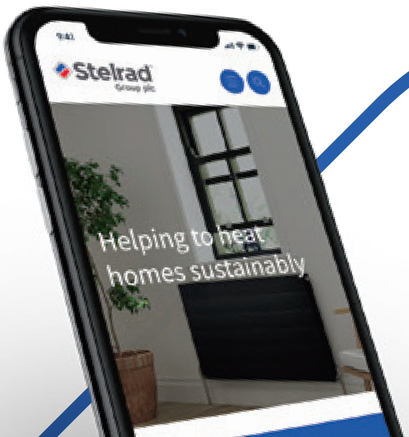
(1) Adjusted figures are stated before the impact of IAS 29, exceptional items, amortisation of customer relationships and foreign exchange differences and tax thereon where applicable.

STRATEGIC REPORT

GOVERNANCE REPORT

FINANCIAL STATEMENTS

ADDITIONAL INFORMATION



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

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

Our heat emitters transform people's experience of their worlds

Standard steel panel radiators

Premium steel panel and low surface temperature steel panel radiators

Towel warmers

Decorative steel tubular and column radiators

Electric, hybrid and dual fuel radiators

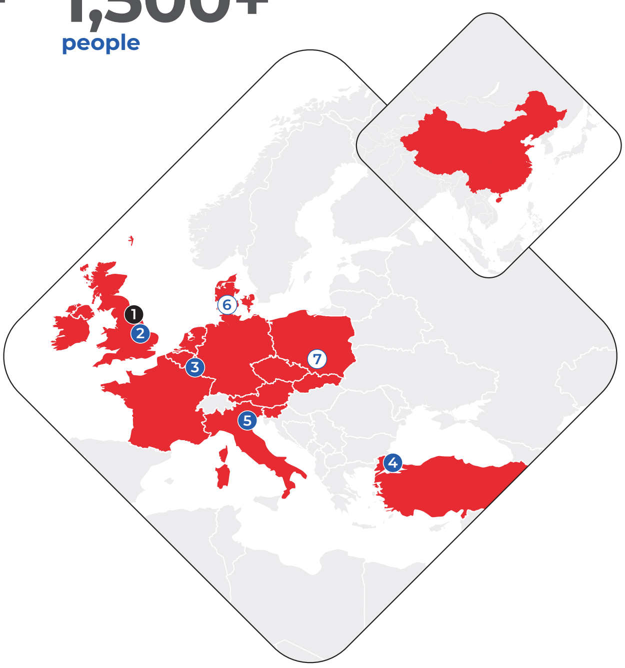
An important long-term player in the global radiator market

500+ customers

40+ countries

1,500+ people

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



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

Our international presence is significant and growing

Stelrad has well-invested, state-of-the-art manufacturing facilities supported by market-leading distribution centres, designed to provide our customers with high levels of service and product availability wherever they are based and supported by an extensive sales and marketing network. In July 2022, our operational footprint grew, following the acquisition of DL Radiators in Moimacco, Italy (see page 16).

Revenue (pre-IAS 29)

UK & Ireland	Europe	Turkey & International
£138.9m	£147.9m	£25.3m

Five strong brands

Stelrad

Europe's number 1 brand

Sold across the world, Stelrad is our premier brand.

HENRAD

Number 1 brand in the Netherlands

Henrad is a channel differentiated European brand with a particularly strong presence in the Netherlands, Belgium, the UK and France.

termoteknik

Number 5 brand in Turkey

Sold primarily into Turkey and Eastern European markets, Termo Teknik offers a high quality to cost ratio.

HUDEVAD RADIATOR DESIGN

High-end design brand

Hudevad represents the best of Danish design, a favourite brand of architects, interior designers and commercial specifiers.

DL RADIATORS

Advanced technology, Italian innovation

DL Radiators is a brand blending style and innovation, employing advanced heat emission technologies suitable for a wide variety of heat sources and heating systems.

An ESG strategy fit for the future

Our strategy is aligned with and depends up on the responsible treatment of both stakeholders and the environment. Consistent with our core purpose, **helping to heat homes sustainably**, Stelrad's sustainability framework reflects our vision of the significant role we can play in facilitating the transition to a low and zero carbon heating industry.

Fit for the Future comprises two strategic pillars. The first will focus on reducing our impact on the environment whilst also engaging, educating and influencing others to achieve an effective transition to the heating systems of the future. The second enables our people to contribute positively to delivering our strategy and our sustainability objectives. Fundamental issues such as safety, governance and supply chain management underpin the achievement of these objectives.

Our framework sets out our approach to delivering our business strategy whilst also delivering on our sustainability commitments to stakeholders and the environment.

FIT FOR THE FUTURE

» **Read more in the Sustainability section on page 26**

Leveraging our business strengths and delivering on our strategy

"

In 2022, Stelrad's clear focus on delivering its strategy enabled us to leverage our scale and robust business model to achieve exceptional financial results in a highly challenging market environment. The acquisition of DL Radiators and a continuing strong focus on the decarbonisation of home heating will deliver sustainable growth over the longer term.

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 2021, with a top 3 position in twelve countries in total

» Read more about our markets on page 10

Robust business model

Attractive long-term dynamics led by replacement demand in mature European markets

- Proven financial resilience to external shocks through economic cycles, including 2008's global financial crisis, the Covid-19 pandemic and the current challenging macroeconomic climate
- Increasingly broad geographic spread and an underlying growth trend towards higher value design radiators, coupled with focused cost management

40.1%

organic volume growth in higher added-value design radiators since 2015

» Read more about our business model on page 12

Experienced management and effective strategy

A lean, customer-orientated leadership team with unparalleled sector experience

- A flat management structure with clear focus on quality, innovation and customer service
- Effective channel management driven by a multibrand strategy, active product repositioning and timely adaptation to evolving channels to market

500+

customers in 40 countries

» Read more about our strategy on page 14
» Read more about our Board of Directors on pages 58 and 59

Strong financial position

A track record of consistent growth

- Sector leading margins
- Strong cash generation and return on capital employed

11.1% CAGR

sales growth between 2018 and 2022

» Read more about our KPIs on page 20

Long-term focus on decarbonisation and ESG

Our Fit for the Future sustainability framework positions Stelrad effectively for the transition to low and zero carbon home heating over the coming decades

- Anticipated pan-European legislation relating to the heating of buildings and the reduction in fossil fuel use is expected to present favourable near-term growth drivers for the specification of higher output heat emitters, suitable for lower temperature, lower carbon heating systems
- Stelrad and its stakeholders will all benefit from long-term sector transformation to a more sustainable heating model

61.2%

reduction in Scope 1 and Scope 2 carbon emissions intensity per tonne

» Read more about our ESG priorities on page 27

Record results are underpinned by our resilient business model

> In its first year as a plc, Stelrad made the strategic acquisition of DL Radiators and improved on 2021's record financial performance, despite facing a challenging macroeconomic climate.

Bob Ellis
Chair

Dear shareholders,

In 2022, its first full year as a plc, I am pleased to report that Stelrad has continued to make strong progress. Although macroeconomic conditions have been challenging, with an unpredictable trading environment and significant inflationary pressures, the Group's record financial performance was ahead of last year's results, which were the previous record level. This underlines the resilience of our business model and management's ability to execute our long-term strategy.

I would like to take this opportunity to welcome DL Radiators' employees to the Stelrad Group. The acquisition of DL Radiators was completed in July 2022 and is highly complementary, being clearly aligned with Stelrad's key strategic objectives.

Performance and results

Despite a reduction in volume of 9.2% in 2022, Stelrad's revenue (pre-IAS29) increased by 14.6% to £312.1 million, whilst adjusted operating profit rose from £33.2 million in 2021 to £34.0 million, up 2.4%. As these results show, Stelrad's business model and strategy, built on our market leadership in five countries and Top 3 position in seven more, continue to demonstrate high levels of resilience despite the difficult trading environment, supply chain challenges and significant inflationary pressures.

Dividend

The Board is recommending a final dividend of 4.72 pence per share. Subject to approval by shareholders at the Annual General Meeting on 22 May 2023, the final dividend will be paid on 26 May 2023 to shareholders on the register on 28 April 2023.

Purpose

Stelrad continues to make meaningful progress towards achieving our purpose: **helping to heat homes sustainably**. The Group has an important role to play in facilitating the transition to low and zero carbon heating systems, through influencing specification and supplying products able to contribute effectively to environmental and social improvement.

Strategy

Stelrad's clear commercial and operational strategies delivered strong results in 2022, as the Group continued to pursue its four key strategic objectives: growing market share, improving product mix, optimising routes to market and positioning effectively for decarbonisation.

The acquisition of DL Radiators will enable further progress against these objectives in 2023 and beyond. The resulting market share growth in steel panel radiators in Germany will move Stelrad into a Top 3 position in this key European heating market. In 2021, 60% of DL Radiators' sales were in higher added-value products, which will improve Stelrad's overall product mix. Increased access to channels and territories continues to build the Group's distribution footprint and DL Radiators' wide range of hybrid, dual fuel and electric products effectively complements Stelrad's expanding range of heat emitters suitable for low and zero carbon heating systems.

Environmental, social and governance ("ESG") objectives

High standards of corporate responsibility, sustainability and employee engagement are central to Stelrad Group's values and we take them into account as we consider the long-term impact of all our business operations.

During 2022, we set up a Task Force, led by the Chief Executive Officer, to conduct a detailed review of the Group's activities and to develop our ESG strategy further, consistent with our purpose of helping to heat homes sustainably.

This has resulted in the creation of our ESG framework, **Fit for the Future**, which supports our belief that our long-term success depends on the responsible treatment of all our stakeholders and the natural environment. Fit for the Future builds on our well-established ways of working and focuses on the most material issues for Stelrad and its stakeholders.

Our purpose, helping to heat homes sustainably, is supported by three strategic components. **Driving better environmental performance** focuses on reducing our environmental impact whilst seeking to engage, educate and influence others in the value chain in order to achieve an effective and mutually beneficial transition to the low and zero carbon heating systems of the future. **Enabling an exceptional workforce** is intended to help our people contribute positively to the realisation of our goals. **Conducting business responsibly** represents the structural foundation which underpins these two objectives and represents strong governance, effective oversight of supply chain management and exceptional safety standards.

Board

The Board expanded significantly in advance of our listing in November 2021, to ensure we could demonstrate good practice in our corporate governance. The future focus of the Board is to build upon this successful first year of activity, whilst continuing to aid the success of the business for all stakeholders over the coming years.

Governance

The Group remains 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 57.

Summary

Although 2022's turbulent macroeconomic conditions are expected to continue into 2023, the proven strength of Stelrad's management team, business model and strategic approach positions the Group effectively to benefit from market recovery over the medium term.

The strategic acquisition of DL Radiators will enable Stelrad to leverage a complementary product range, increased access to additional territories and channels to market and the transition to the low and zero carbon heating systems of the future. This provides a significant opportunity to maximise the clear synergies that exist across our portfolio of leading brands.

Although 2022 was Stelrad's first full year as a plc, the Group's proven track record for progress in challenging times continued, with strong financial performance, a successful acquisition and the development of our sustainability framework, **Fit for the Future**.

Bob Ellis
Chair
13 March 2023

Leveraging our business strengths, delivering on our strategy

"We delivered a record performance in 2022, thanks to the resilience of our business model combined with the hard work of our employees, the strength of our product offering and customer service, the quality of our customer relationships and our relentless approach to operational improvements across the business.

Trevor Harvey
Chief Executive Officer

Overview

Stelrad continued to make significant progress in 2022, delivering a record year despite testing trading conditions. Across the heating industry, this has been a period of supply chain disruption coupled with significant material and labour cost inflation. In order to mitigate the effects for our stakeholders, the Group has effectively managed these input cost risks and acted quickly and proactively to optimise prices, whilst continuing to pursue our strategic objectives in the face of the current macroeconomic headwinds.

In addition, over the course of the year, we have developed our **Fit for the Future** sustainability framework, seeking to build upon our robust existing practices and to formalise a more structured approach to ESG, consistent with Stelrad's plc status. Full details can be found on pages 26 to 41.

In July 2022, Stelrad acquired leading Italian heat emitter manufacturer DL Radiators, a well-established business which complements Stelrad's existing commercial and operational strategy. As detailed on pages 16 and 17, the acquisition case was compelling, providing Stelrad with market share growth, increased access to key territories and channels to market and a product range orientated towards higher added-value designs, including those suitable for use in decarbonised heating systems. As a result, the Group is more effectively positioned than ever for future success.

Strong financial performance

Including DL Radiators' sales from August 2022, Stelrad delivered revenue growth (pre-IAS 29) of 14.6% relative to 2021, increasing from £272.3 million to £312.1 million. Adjusted operating profit rose by 2.4% to £34.0 million (2021: £33.2 million). Our flexible manufacturing footprint continues to provide us with an important cost advantage. We moved further manufacturing lines to Turkey during the period which, along with careful management of pricing, enabled us to increase contribution per radiator (pre-IAS 29) by 16.5%.

In the UK & Ireland, revenue (pre-IAS 29) grew by 6.5% and adjusted operating profit by 5.2%, whilst in Europe, revenue (pre-IAS 29) and adjusted operating profit increased by 25.3% and 7.3% respectively. In the Turkey & International markets, revenue (pre-IAS 29) increased by 6.4% whilst adjusted operating profit fell by 29.1% due to a 55% sales volume decrease in China.

In 2022, general inflationary pressures, rising interest rates and the effects of the war in Ukraine, notably on energy costs, combined to halt and reverse the post-pandemic recovery and were coupled with compensating distributor inventory reductions to reflect lower underlying levels of demand.

The impact of this challenging macroeconomic environment was clearly felt in terms of sales volume, which reduced by 9.2% versus the prior year. 2021 was an admittedly strong comparator year, when volume was enhanced by post-Covid-19 spending and stock levels throughout the distribution channel increased in anticipation of a sustained period of recovery.

Compared to 2021, the volume mix for higher added-value premium steel panel radiators remained around 6% overall. Between 2015 and 2022, Stelrad achieved 48.5% volume growth in premium steel panel radiators and is positioned effectively for the future, as economic conditions improve and markets recover. Penetration increased slightly in European markets, reflecting effective upselling in the distribution channels. The European market for premium steel panel products is more mature than the UK and, as a result, we remain excited by the opportunity to substantially increase UK premium steel panel volumes in the future.

Continued investment for the future

During the course of 2022, we continued to invest in our state-of-the-art operational facilities whilst managing the supply chain to minimise any impact on our customers and scaling production output appropriately for reduced levels of market demand. To enhance manufacturing flexibility, a production line was transferred from the UK to our low-cost Turkish facility, an operational investment further supported by additional local warehousing capacity, which will enable ongoing improvements in customer service across the Group.

Investment in our facilities continues to drive improvements in the health, safety and wellbeing of our employees. Across the Group during 2022, we recorded a 26% reduction in lost time incidents (LTIs) relative to the prior year and, at the end of February 2023, our UK site had gone **942** days without an LTI, beating the previous record of 929 days.

Outlook

We remain committed to our strategic objectives of growing market share, improving product mix, optimising routes to market and positioning the business for decarbonisation.

Despite well-documented market headwinds, Stelrad's scale, strong brands and resilient business model, combined with the highly complementary strategic acquisition of DL Radiators, mean that the Group is well positioned as we enter 2023.

In the short term, whilst trading since the period end has been encouraging and slightly ahead of expectations, the Group still anticipates the volume trends experienced in 2022 to continue into the first half of 2023. The Group is expecting 2023 to return to historical seasonal patterns, with the second half of the year being stronger than the first.

In the longer term, energy security concerns in the wake of the Russian invasion of Ukraine continue to stimulate increased discussion around the provision of sustainable future heating solutions. Stelrad has an important role to play in driving better environmental performance through engaging, educating and positively influencing its stakeholders as we aim to fulfil our purpose: helping to heat homes sustainably.

Furthermore, an underlying requirement for new homes, increasing demand for premium design radiators and, as part of the transition to net zero carbon, greater consumer focus on low temperature heating systems needing higher output heat emitters remain supportive macro trends underpinning the broader outlook for the business.

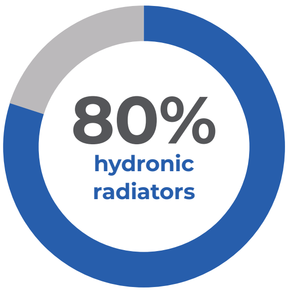
Whilst the market backdrop is not easy, as a company with a near 100-year track record, we have successfully navigated previous market downturns and our current management team has the experience and ability to deliver ongoing outperformance despite the challenging macroeconomic environment. As decarbonisation drives the installation of low and zero carbon heating systems, we remain well placed to deliver value for all our stakeholders over the longer term.

Trevor Harvey
Chief Executive Officer
13 March 2023

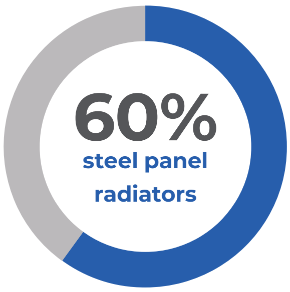
Scale in steel panel radiators, low-cost manufacturing operations and a significant distribution platform are at the heart of Stelrad's continuing success

Replacement demand is the principal driver of the European heating market. As 80% of currently installed heating systems function through water circulation, hydronic heat emitters not only dominate the European market now, they are expected to do so in the future. As the most popular type of hydronic heat emitter, steel panel radiators will be a key enabler of the transition to low-carbon, low-temperature heating systems.

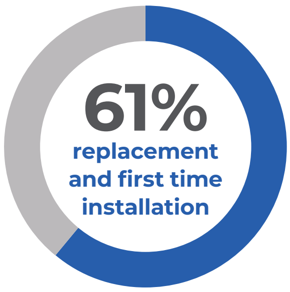
Residential heating systems by type



Hydronic heat emitters by type



Steel panel radiator demand drivers



Stelrad operates across three core geographies

UK & Ireland

52%
market share in 2021

The UK & Ireland represented 45% of the Group's 2022 revenue, with Stelrad maintaining clear market leadership in both countries in 2021.

Europe

11%
market share in 2021

European sales represented 47% of Stelrad's 2022 sales. The Group is market leader in its long-established core markets of Belgium and the Netherlands and also in Denmark, following the acquisition of Hudevad Radiator Design in 2018. With strong growth in France and Sweden, Stelrad now has a challenger position in six countries, and is number 3 in Poland.

Turkey & International

7%
market share in 2021

Our third geography represented 8% of sales in 2022. Stelrad holds a number 5 position in both the Turkish and Chinese markets.

» **Read more in our associated strategy in action on page 18**

Data source: BRG Building Solutions, October 2022 – latest available data: 2021.

Our strategy aligns with underlying market trends

Historical market stability impacted by short-term macroeconomic headwinds

Link to strategy 1 Growing market share

After ten years of relative volume stability between 2009 and 2019, the hydronic radiator market fell by 3% during 2020 due to the Covid-19 pandemic but rebounded by 7% in 2021, to more typical historical levels. In 2022, macroeconomic shocks resulting from Russia's invasion of Ukraine and high levels of inflation negatively impacted consumer spending, particularly in the private residential replacement sector. We expect volumes at least to stabilise in 2024, as the annualisation of these macro effects eases and underlying demand recovers.

Our opportunity

Following a programme of investment into our state-of-the-art assets, Stelrad's scale, operational flexibility, low-cost manufacturing and market-leading logistics capability position the Group well to ride out these short-term challenges and to profit from healthy longer-term fundamentals. There is a clear opportunity to act as a natural consolidator and to increase our market share in select geographies as smaller competitors exit the market. Our acquisition of DL Radiators in Italy in 2022 is a good example of this.

» Read more on page 14

Replacement is the primary volume driver

Link to strategy 3 Optimising routes to market

In 2021, replacement and first time installation as a share of market volume was 75% in the UK, 69% in mature Western European markets and 55% in the developing markets of Turkey and Eastern Europe. New residential construction is the secondary volume driver and despite forecast reductions in the short term, strong underlying demand for new homes still exists in many geographies, including the UK.

Our opportunity

Stelrad has adapted quickly as routes to the replacement radiator market evolve. We continue to develop sales through our traditional trade distribution outlets and have also expanded our presence in the retail channel, both through organic growth and the acquisition of DL Radiators, which has a stronger retail presence, notably in France and Italy. Digital transformation, through online sales and specification tools, provides opportunities for Stelrad to leverage its leading trade brands across all market sectors. Although residential construction is expected to decline in 2023, Stelrad's strong market share position and close relationships with new build housing specifiers position the Group effectively for longer-term growth.

» Read more on page 15

Increasing adoption of premium design radiators

Link to strategy 2 Improving product mix

The longer-term fundamentals for premium steel panel and other design radiators remain strong, despite the short-term effects of the challenging macroeconomic environment. In more mature heating markets, notably in Western Europe, increasing focus on interior design is driving a positive growth trend for premium radiators. This trend is expected to continue once consumer confidence and disposable income recover.

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. The acquisition of DL Radiators has added new heat emitter types to the Group's manufactured design radiator portfolio, providing opportunities for growth through leveraging Stelrad's brands and well-established routes to market in our key countries of operation.

» Read more on page 14

A positive outlook for radiators in decarbonised heating systems

Link to strategy 4 Positioning effectively for decarbonisation

As households invest to lower their energy bills and decarbonise their homes, and legislation drives the installation of lower temperature heating systems in new buildings, there is a trend towards larger, higher value radiators. Over the longer term, electric radiator volume is likely to grow, as renewable energy sources deliver lower cost electricity and electricity prices become increasingly decoupled from fossil fuel energy sources.

Our opportunity

Stelrad is a trusted adviser to specifiers and has a clear opportunity to engage and educate to influence the selection of heat emitters compatible with low-carbon, low-temperature heating systems. We have continued to introduce suitable radiators to our portfolio and, with the acquisition of DL Radiators, now have an extended range of hybrid, dual fuel and electric products able to benefit from Stelrad's access to specifiers, strong brands and market-leading logistics capabilities.

» Read more on page 15

Stelrad's robust business model drives sustainable long-term value for our stakeholders

Our resources

People
Stelrad has a lean team of 1,500+ full-time employees and the most stable and experienced senior management team in the industry, with an average of 18 years' service.

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

Brands
Stelrad, Henrad and Termo Teknik are leading industry recognised steel panel radiator brands with loyal, extensive and growing customer bases. Acquired in 2022, DL Radiators is a well-established Italian design radiator brand. Completing our portfolio is the Hudevad Danish design brand, which targets the profitable commercial specification and high-end residential sectors.

Operational assets
Following a significant five-year investment programme focused on manufacturing automation and logistics infrastructure, Stelrad's 2022 acquisition of DL Radiators has added a new, multi-product manufacturing facility in Moimacco, Italy, to its efficient and low-cost Group operational platform.

What makes us different

Brand strength
Stelrad is the number one steel panel radiator brand across the combined UK, European and Turkish markets. The Group leverages a powerful multibrand strategy to manage evolving routes to market. This maximises access to specifiers in all segments and optimises channels to market.

Product availability
Aiming to provide best-in-class lead times, Stelrad has the largest radiator distribution centres in the UK and mainland Western Europe, with respective capacities of 350k and 200k units. Our customers are further supported by additional regional distribution hubs.

Range innovation
Stelrad pioneered premium steel panel and vertical steel panel radiator designs, which offer a unique combination of designer aesthetics, ease of installation and value for money. With these ranges, the Group has achieved significant market penetration in Western Europe and, with an innovative upselling approach, has first mover advantage in the under-developed UK market. 2022's DL Radiators acquisition extends Stelrad's portfolio to include hybrid, dual fuel and electric heat emitters, particularly suitable for low and zero carbon heating systems.

Standardised core design
The Group's core steel panel radiator design is used in all standard and premium steel panel ranges produced in the Çorlu, Mexborough and Nuth facilities. This ensures high quality levels at the lowest possible cost, providing production flexibility, cost efficiency and risk mitigation.

ESG fit for the future

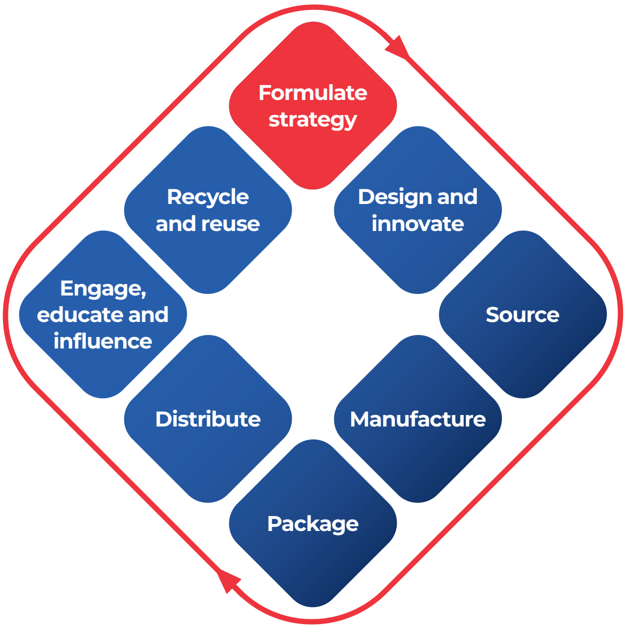
Helping to heat homes sustainably
Our sustainability framework, **Fit for the Future**, is centred around our core purpose: **helping to heat homes sustainably**. Stelrad has a significant role to play in facilitating the transition to a low and zero carbon heating industry and we believe that our long-term success depends on the responsible treatment of all stakeholders and our natural environment.

Driving better environmental performance
We recognise the urgent need to reduce global emissions and manage resources efficiently. We are focused on reducing both the direct and indirect environmental impacts of our products and on helping to drive the decarbonisation of heating. We will optimise our packaging design and reduce the environmental impact of the raw materials we use. We are committed to innovation, introducing suitable products as part of a coherent offering for lower carbon heating systems, regardless of heat source. We are working to understand and quantify our impacts and will target improvements as part of a long-term journey to net zero emissions.

» Read more on page 27

How we create value

Driving better environmental performance is central to Stelrad's strategy. We innovate to provide a coherent product offer for low and zero carbon heating systems, engaging with our value chain to minimise our environmental impact. We also have an important role to play in influencing positive behavioural change, through the specification of products effective in low and zero carbon heating systems.



Shared value

Customers

Decarbonisation will drive significant change in the heating industry. Our goal is to engage, educate and influence our loyal and longstanding customers, developing our trusted partnerships to jointly navigate the path towards zero carbon heating systems.

People

Stelrad is a place where commitment is rewarded and where people are encouraged to fulfil their potential. A sustainable business, which is Fit for the Future, will provide a desirable long-term career environment.

Investors

We aim to deliver reliable, sustainable returns for our investors by making Stelrad a better business year on year: continuing to develop long-term customer relationships, striving for cost leadership and harnessing the skills and commitment of our people.

Suppliers

We will continue to engage with our suppliers as a reliable, straightforward but challenging partner, as we strive to deliver cost-effective, sustainable solutions for our customers and to maximise long-term value for our investors.

Communities and the environment

Stelrad plays an important role in the life of the communities local to our facilities and we will continue to engage with them vocationally, charitably and sociably, contributing positively and striving to minimise our impact on the local environment.

Enabling an exceptional workforce

Our people are fundamental to the success of our business. Our ability to retain key personnel, develop the skills and knowledge of our workforce and attract talented individuals will be defining factors for our future growth and competitiveness. We want to ensure that everyone at Stelrad is encouraged to fulfil their potential and enjoys a long-term career with us. We are focused on training and development, diversity, equality and inclusion, and wellbeing, whilst also building on our employee engagement programme to ensure our employees' voices continue to be heard.

Conducting business responsibly

Nothing is more important than keeping our people safe and healthy and conducting ourselves responsibly in all aspects of business. We have embedded a positive safety culture and effective controls across the Stelrad organisation and, with our programme of manufacturing investment and training, aim to achieve our ultimate goal: zero harm. As well as the fundamental principles of international labour standards and human rights, our approach to business is guided by a strong set of Company values. We hold ourselves, our employees and our suppliers to high standards of ethical and corporate governance.

Four key objectives are at the heart of Stelrad's strategy

Growing market share 1

Links to risks 1 2 3 4 5 6 7 8 9

Strive for cost leadership

Now In addition to our scale as a leading radiator producer, Stelrad's programme of investment for cost leadership resulted in the upgrade of all our manufacturing facilities, including our low-cost Turkish operation.

Future We will continue to leverage our cost-leading multisite manufacturing platform to maximise profitable growth as smaller, higher cost competitors exit the market.

Provide market-leading product availability

Now Standardised core design across three facilities enables production planning flexibility. Our market-leading UK and European distribution centres are supported by dedicated inventory held in other key geographies, providing our customers with 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 in order to expand the market for higher added-value ranges, including those from DL Radiators.

Selectively target share growth in key geographic markets

Now Stelrad is market leader in five countries and holds a top 3 position in seven more. Important share gains continue to be made in France and Scandinavia.

Future We will continue to develop our relationship with Saint-Gobain and other long-established players in our core geographies, whilst ensuring we continue to adapt to evolving routes to market. The acquisition of DL Radiators delivers additional share growth in France, Germany and Italy across several product categories and provides a clear opportunity to leverage our strong brands in our key geographies to gain share beyond the steel panel radiator category.

Act as a market consolidator

Now Stelrad has a reputation amongst its customers as a reliable, long-term player with scale. It has demonstrated its ability to act as a consolidator and grown market share through deploying highly effective sales strategies when competitors have left the market.

Future The addition of DL Radiators' business to the Stelrad Group will extend the range of products available to our sales and distribution network and expand routes to market where our presence has historically been less strong, notably Germany. For remaining smaller scale competitors, the current challenging market conditions will increase pressure on profitability, providing Stelrad with opportunities to gain share organically, either through business gains or competitor exits.

» Read more in our associated strategy in action on page 18

Improving product mix 2

Links to risks 1 2 3 4 5 6

Accelerate upselling to premium steel panel and design products

Now Since 2015, Stelrad has achieved 40.1% organic volume growth in higher added-value design radiators, significantly benefiting the Group's profitability.

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

Pursue complementary acquisition opportunities

Now Following the acquisition of high-end design brand Hudevad in 2018, Stelrad acquired DL Radiators in 2022. With the majority of DL Radiators' sales being in higher added-value design ranges, this acquisition will improve Stelrad's overall product mix.

Future There are opportunities to develop sales of DL Radiators' products into Stelrad's core markets through our well-established international sales and distribution network.

» Read more in our associated strategy in action on page 16

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 and culture
7 Health and safety
8 Political and economic environment
9 Climate change

Optimising routes to market

3

Links to risks 1 2 3 4 5 6

Adapt quickly to channel evolution

Now Stelrad continues to manage changes in channel mix effectively. In the UK in 2022, the Group developed Stelrad branded sales with Vita Series radiators through UK Plumbing Supplies, following its acquisition of the Graham brand from Saint-Gobain. In France and Scandinavia, sales volume through Saint-Gobain continued to grow despite extremely challenging market conditions, clearly demonstrating the benefits of our longstanding relationship with this leading European distributor.

Future We will maintain our close customer relationships across all our key geographies and will continue to invest in our brands to position them appropriately to maximise profitable growth in evolving markets. Acquiring DL Radiators increases Stelrad's penetration of the DIY and retail channel and notably expands the Group's presence with the Kingfisher Group. DL Radiators' long-established relationship with Bosch in Germany provides Stelrad with share growth through its Buderus brand in this key European market.

Embrace digital transformation

Now Across the Group, Building Information Modelling ("BIM") facilitates the specification of our products by architects and consultant engineers. Online sales to the UK private residential replacement market continue to develop positively despite this sector having been strongly impacted by 2022's difficult macroeconomic conditions.

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

Positioning effectively for decarbonisation

4

Links to risks 1 3 4 6 8 9

Maximise sales of products compatible with low-temperature systems

Now The full impact of heating system decarbonisation will take decades to be felt, due to long replacement cycles and the significant numbers of radiators already installed. Legislation will focus primarily on heat source technologies, requiring heat emitters compatible with low-temperature systems. To provide a range fully optimised for low temperature heating systems, we continue to expand our portfolio of higher output heat emitters with multipanel, multiconvector steel panel radiators. We have also launched hybrid and electric radiators, conscious that the future heating market will be more fragmented in terms of heat source technology.

Future DL Radiators' product portfolio provides Stelrad with a wide range of hybrid, dual fuel and electric heat emitters in addition to existing high output steel panel products, which will be introduced into the Group's core markets through our comprehensive sales and distribution network. Stelrad's role as a trusted customer adviser provides a unique opportunity to influence specification in a positive way, helping to heat homes sustainably through optimising heat emitter 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 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 further diversification into complementary heat emitters and into other product areas relating to the long-term decarbonisation of home heating.

The acquisition of leading Italian manufacturer DL Radiators is strongly aligned with Stelrad's key strategic objectives

DL Radiators is a well-established, well-invested heat emitter manufacturer

- Based in Moimacco, near Udine, Italy
- Manufactures steel panel, steel column, aluminium, decorative steel tubular and towel warmer radiators, with a 2021 volume of c.1 million units
- Employs approximately 350 people
- Experienced management team
- Generates 17% of its electricity requirement through solar energy
- 2021 revenue of €86.9 million

DL Radiators is an extremely complementary acquisition

c.60%
of sales are in higher added-value design ranges

c.90%
of sales are into France, Germany and Italy

> DL Radiators is a compelling acquisition for Stelrad, delivering market share growth and increased channel access in key geographies, as well as providing product mix improvement through higher added-value designs and a range of heat emitters compatible with low and zero carbon systems.
>
> **Trevor Harvey**
> Chief Executive Officer

The acquisition of DL Radiators delivers against all four of Stelrad Group's strategic objectives

1

Growing market share

Provides share growth in key geographic markets through market consolidation

2

Improving product mix

Introduces a wider range of higher added-value heat emitter types and technologies, also providing upselling opportunities through existing Stelrad Group channels

3

Optimising routes to market

Increases access to key geographic markets, channels and routes to market

4

Positioning effectively for decarbonisation

Extends Stelrad's offer for low-temperature system compatible products and provides an electric range suitable for decarbonised heating systems

Growing market share

In 2021, the latest year for which data is available, Stelrad made important gains in market share and position across key countries, providing a strong foundation to meet future market challenges.

Stelrad is outperforming its peer group

Of the top five players in the European steel panel radiator market, Stelrad performed most strongly between 2018 and 2021, increasing its market share to 18.4% and gaining 0.7 percentage points over the period. Over the same four-year timeline, our traditional European competitors experienced share decline.

Holding a significant market-leading UK share position meant that we were more exposed than most to the impact of the 2020 Covid-19 pandemic, which affected the UK more than other European markets, but strong recovery across all geographies in 2021 ensured the continuation of our positive longer-term share growth trend.

Number 1 in five countries and Top 3 in seven more

According to the latest available steel panel market data for 2021, Stelrad secured a Top 3 position in twelve European countries, with clear market leadership in five of those: the UK, Ireland, the Netherlands, Belgium and Denmark. In addition, the Group developed its share in France and Sweden and now holds the challenger position in both of these important markets.

Having acquired DL Radiators, Stelrad expects to move into a clear number 3 position in Germany and overall is likely to be challenging for European market leadership from 2023 onwards.

UK

#1 Market position

In 2021, an increase of 1.9 percentage points relative to the prior year, resulting in 52.1% share, has clearly consolidated Stelrad's leadership position in Europe's largest single steel panel radiator market.

UK market share

52.1% ↑1.9

Netherlands

#1 Market position

The Group achieved 45.8% share in 2021, with significant growth of 6.4 percentage points versus 2020, building on the momentum gained following QRL's exit from the market in 2019.

Netherlands market share

45.8% ↑6.4

Belgium

#1 Market position

2021 market share increased by a further 4.7 percentage points to 38.2%. Expansion of our distribution base has delivered 7.1 percentage points overall share improvement since 2019.

Belgium market share

38.2% ↑4.7

Data source: BRG Building Solutions, October 2022 – latest available data: 2021.

"The valuable share gains we made in 2021 in our key countries of operation positioned Stelrad Group positively for growth in 2022 and beyond.

Trevor Harvey
Chief Executive Officer

Denmark

#1 Market position

Following the acquisition of Hudevad Radiator Design in 2018, the Group has grown steel panel radiator share rapidly: in 2021 it was more than double 2019's level. Year on year growth of 5.1 percentage points resulted in an overall market share of 42.6%.

Denmark market share

42.6% ↑5.1

2021	42.6
2020	37.5
2019	21.2

France

#2 Market position

Stelrad had previously identified France as a key target market for growth. In 2021, we moved from third to second position, having recorded 26.4% market share overall, growth of 6.6 percentage points compared to 2020 and of 11.5 percentage points relative to 2019.

France market share

26.4% ↑6.6

2021	26.4
2020	19.8
2019	14.9

Sweden

#2 Market position

As we continue to develop business in the Nordic region following our 2018 acquisition of Hudevad Radiator Design, Stelrad moved from number 5 position to number 2 position in Sweden, with 18.2% share. This 12.2 percentage points gain versus 2020 followed business development activity with Saint-Gobain.

Sweden market share

18.2% ↑12.2

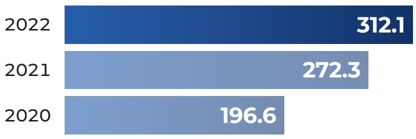
2021	18.2
2020	6.0
2019	5.3

Measuring and analysing the Group's performance

Management considers a variety of financial and non-financial measures 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. These are non-IFRS financial measures.

Revenue (pre-IAS 29)

£312.1m



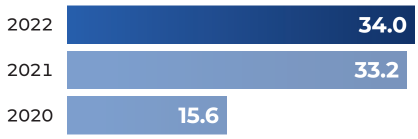
Links to strategy 1 2 3 4

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 (pre-IAS 29) grew by 14.6%, supported by the acquisition of DL Radiators in the year (like-for-like increase was 3.0%), combined with the impact of selling price increases implemented in the second half of 2021, partially offset by a decrease in sales volumes. Steel price volatility continued in the first half of 2022. Selling price increases were applied throughout the period to recover steel and other inflationary cost increases.

Adjusted operating profit

£34.0m



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 2.4%, driven by the benefit of increased contribution per radiator and the acquisition of DL Radiators, partially offset by a decrease in sales volumes.

Strategy key

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

Adjusted free cash flow

£17.2m

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
Despite an increase in EBITDA, adjusted free cash flow fell due to an increase in working capital and the investment in a new manufacturing line at our Italian site.

Adjusted EPS

19.11p

Links to strategy 1 2 3 4

Description
Adjusted EPS is the adjusted profit for the year of the Group per share in issue.

Performance
Adjusted EPS grew in the period, supported by growth in adjusted operating profit and reduced interest costs, partially offset by increased tax charges as one-off credits in 2021 did not recur.

Total radiator volumes sold

5,404k units

Links to strategy 1 3

Description

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

Performance

Volumes decreased by 9.2% in the year (like-for-like decline of 15.3% excluding the acquisition of DL Radiators in the year), with markets declining due to global macroeconomic uncertainty and volumes in 2021 benefiting from high private repairs, maintenance and improvement activity.

Total premium panel radiator volumes sold

304k 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 fell by 12.1%, due to a decline in overall volumes. Premium panel penetration was broadly in line with 2021.

Contribution per radiator (pre-IAS 29)

£16.01

Links to strategy 2 4

Description

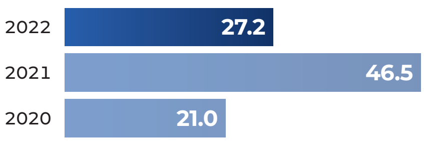
The value of contribution generated per radiator sold.

Performance

Contribution per radiator has increased by 16.5% (18.6% like-for-like increase), benefiting from the transfer of production to lower cost facilities and increased selling prices, partially offset by the impact of steel and other inflationary price rises.

Return on capital employed

27.2%



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 reduced in the period, primarily due to IAS 29 balance sheet adjustments which have increased the value of assets and the acquisition of DL Radiators, partially offset by a 2.4% 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 for the year 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, amortisation of customer relationships, foreign exchange differences and the impact of IAS 29.

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

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, foreign exchange differences and the impact of IAS 29.

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

Decision making by the Board

1 Board information

- Board training and induction, including s172 training
- Board papers including financial and non-financial information
- Advice and presentations by internal and external experts
- Board engagement with key stakeholders

2 Board discussion

- s172 considerations are taken into account in the Board's discussions, including the long-term impacts on the Group, its stakeholders and the wider environment
- s172 is taken into account in the Board's decision making
- The Board satisfies itself that information provided is sufficient, accurate and comprehensive to enable decision making, and further information is requested if required
- The Executive team provides information on a timely basis and further assurance where required

3 Board decision

- Actions are taken to implement the Board's decisions

4 Board review

- The Board is provided with information on outcomes and actions of its decisions

Section 172 statement

The Board of Directors of Stelrad Group plc, both individually and together, consider that they have acted in good faith and in a way that would be most likely to promote the long-term success of the Group and Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a–f) of the Act) when making decisions during the year ended 31 December 2022.

The Board considers its key stakeholders to be its people, customers, suppliers and investors, and also recognises the importance of the communities and environment in which the Group operates. The Board takes the views of its 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 also 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 short and long-term plans and, as part of this process, carefully assesses any consequences of these plans. 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 Board will also, on an ad-hoc basis, consider other decisions, both strategic and operational, and in doing so will ask the Group to explore various alternatives and the likely consequences of each.

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 or indirectly impact all of our stakeholders, are outlined in the Sustainability section on page 26.

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

» **Read more in our Corporate Governance Report on page 57**

Our stakeholders

People

Customers

Suppliers

Investors

Communities and the environment

People

Why we engage

Our people are fundamental to delivering our strategy and driving the future performance of the Group. We aim to be a responsible employer and an attractive place to work. We offer competitive pay, attractive benefits and continuous investment in training. The views of our colleagues are an important input in the ongoing development of the training, benefits and working environment we provide. The health, safety and wellbeing of our people is a primary consideration in the way we do business and is a critical part of our decision-making process.

As a key element of our engagement with our people, we seek to maintain strong collaborative relationships with our trade unions and employee representatives. Through a combination of these relationships, periodic employee surveys and ongoing communication with our people, we believe that our employee engagement approach is effective and appropriate for the Group.

The Board as a whole shares responsibility for ensuring that employee engagement is sufficiently robust and regularly appraises the appropriateness of the approach and the need for alternative methods of engagement.

How we engage

- Regular access to and provision of training and development
- Individual performance reviews
- Recognition and reward
- Regular communications including newsletters
- Annual Report
- Employee surveys
- Board member visits to sites
- Code of Conduct
- Equality, Diversity and Inclusion Policy

Outcomes

- Communication of relevant and timely information and sharing of knowledge
- Improved level of engagement, lower absence rates and higher retention rates
- Development and improvement of skills throughout the workforce
- Improved awareness and support for health and wellbeing issues
- Processes improved, initiatives developed and management buy-in at all different levels – facilitated by the Group's Code of Conduct
- High standards of health and safety performance maintained

» **Read more about our workforce in our Sustainability Report on page 34**

Stakeholder engagement *continued*

Customers

Why we engage

Trusted relationships with our customers and high standards of business conduct are critical to our Group's performance. 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
- Supporting customers with design of low-temperature heating systems
- Proactive and high-quality customer service

Outcomes

- Continued customer satisfaction and loyalty
- Establishment of long-term partnerships
- Successful and mutually beneficial product development as we 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 as we undertake sustainability initiatives.

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
- Annual Report

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 fulfilling regulatory requirements and to provide fair, balanced and understandable information about the business to enable informed investment decisions to be made.

How we engage

- Annual Report
- Annual General Meeting
- Corporate website including dedicated investor section
- Results presentations and post-results engagement with 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
- Expansion of analyst coverage as a further way of communicating to investors

Outcomes

- Maximising demand for the Group's shares
- Support for investment opportunities including potential acquisitions or capital investment programmes

Communities and the environment

Why we engage

The Group's ESG strategy is key to ensuring our ESG ambitions are realised. In 2022 ESG was a significant area of focus for the Board and will remain so going forward. The Group has clear ESG initiatives in each of the main territories in which it operates, all of which strive to enable the Group to make a positive impact in the communities where it is based. The Group is aware of the impact it has on the environment and this is a critical part of our decision-making and business planning process.

How we engage

- Community investment initiatives
- Sponsorship and employee volunteering
- Contributing to development of local, regional and national initiatives
- Regular engagement with local authorities and businesses to identify and support the delivery of educational and vocational initiatives
- Participation in initiatives to help reduce environmental impact of our business
- Supporting customers with design of low-temperature heating systems

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
- Successful product development as we transition to zero carbon heating systems

» **Read more about our environmental performance in our Sustainability Report on page 30**

Establishing the foundations for sustainability

Trevor Harvey
Chief Executive Officer

Highlights of 2022

- Increase in the proportion of energy from renewable sources from 9.0% in 2021 to 52.2% in 2022, contributing to a reduction in market-based carbon intensity of 61.2% (see page 33)
- First measurement of indirect Scope 3 emissions in the UK (see page 33)
- Supplier auditing process established, with 20% of major Group suppliers audited in 2022 (see page 37)
- Employee engagement survey completed in the UK, with 92% of employees responding (see page 34)
- Our manufacturing site in the Netherlands gained ISO 50001 certification (energy management)

Next steps for 2023

- Development of sustainability metrics, including setting of targets
- Expansion of Scope 3 emissions measurement to include all business units
- Investment in renewable electricity generation projects
- Review of Group training and development schemes
- Roll-out of supplier audit process to all business units

Introduction to our Sustainability Report

I am pleased to report significant progress in sustainability at Stelrad this year. Using our findings from a stakeholder materiality assessment, we have renewed our sustainability framework to address the issues of greatest importance to our stakeholders and our business. This is enabling us to target future actions to support our sustainability priorities and our core purpose of helping to heat homes sustainably.

We have also strengthened our sustainability governance. Our sustainability working group is now complemented by a newly appointed Group Sustainability Manager and a sustainability steering group made up of senior managers across a range of functions within our business. This steering group is responsible for driving our sustainability actions across Stelrad and helping us achieve our longer-term sustainability goals.

In 2022 we made a lot of progress building our understanding of our overall impacts across our whole business. This included our environmental impacts; for example, we measured our lifecycle impacts and Scope 3 emissions in the UK for the first time. We also built understanding of our supply chain by conducting supplier audits and expanded our methods of collecting feedback from our employees. Each of these workstreams will pave the way for targeted and impactful actions in future years. This work will also be key in the development of an expanded set of sustainability metrics and targets to be developed in 2023.

This year hasn't only been about developing the foundations for future improvements, we have also taken significant steps on reducing the impacts of our energy usage. A particular highlight is the expansion of our renewable electricity purchasing, contributing to our market-based Scope 2 emissions falling by 99%. We will build on this in 2023 by investing in renewable electricity generation and working to further increase the share of energy provided by renewable sources. We have also seen reductions in our Scope 1 and 3 carbon emissions although these are largely a result of reduced production volumes. Our goal is to decouple our future emissions from our production volumes, reducing our carbon intensity.

This year has also been characterised by a challenging economic environment for our employees. In response to the pressures of the rising cost of living and hyperinflation in Turkey, we decided to support our employees even more. In 2022 we implemented a bi-annual pay review in Turkey and brought forward our salary review in the UK. These actions are useful examples of our culture in practice: acting with integrity and empathy and putting the people and businesses we serve at the centre of everything we do.

Finally, a word on safety. This remains our number one priority and we have seen areas of strong progress this year. The number of lost time incidents and the total number of accidents reduced, with the UK achieving a second year with zero lost time incidents. We also acted to reinforce our safety culture even further – focusing on the reporting of hazardous conditions and near misses. I am hopeful that these actions will help to progress us towards our goal of doing zero harm.

Trevor Harvey
Chief Executive Officer
13 March 2023

FIT FOR THE FUTURE

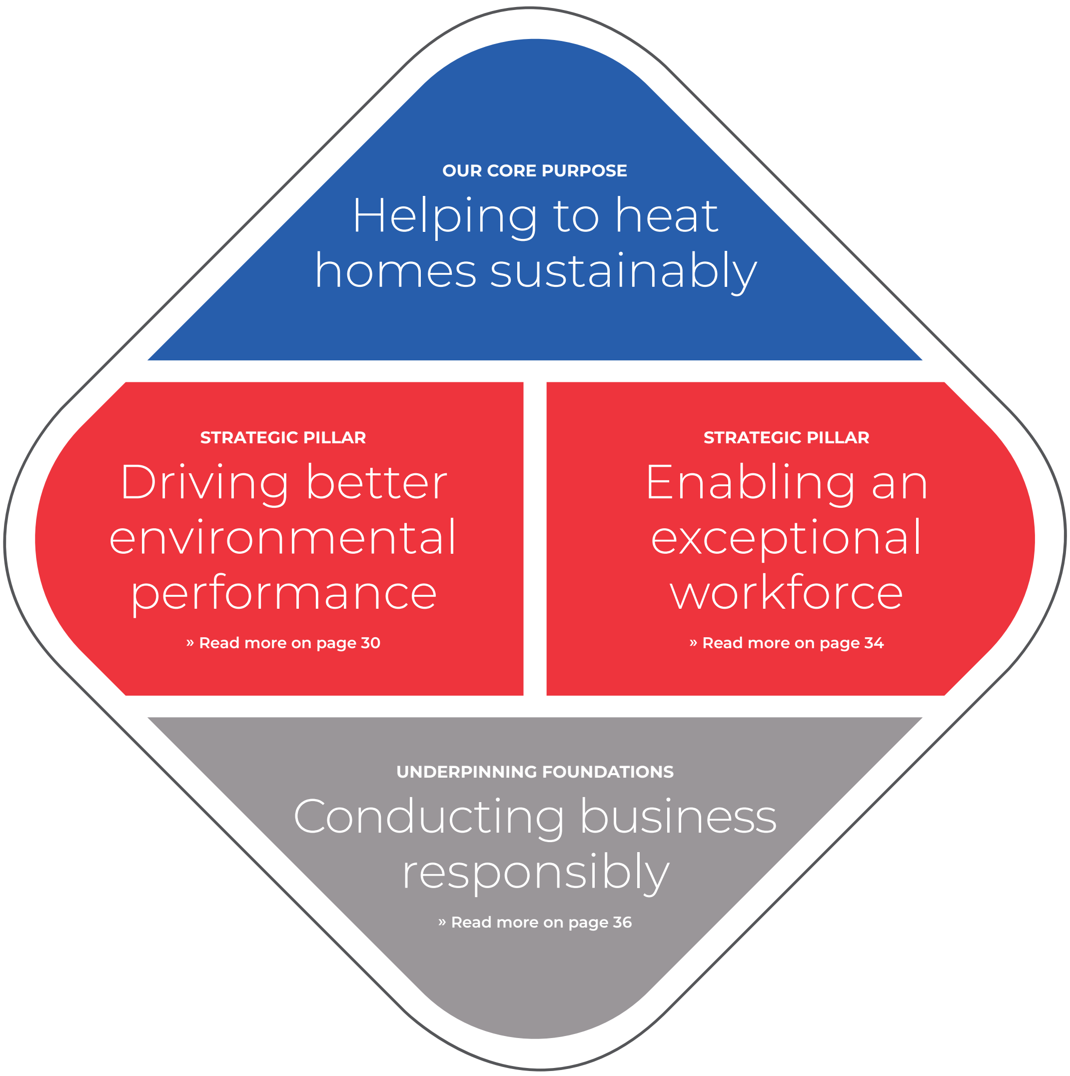
Our commitment to sustainability

Our strategy is aligned with and depends upon the responsible treatment of all stakeholders and the natural environment.

Focusing on the material issues for Stelrad and its stakeholders, our Fit for the Future sustainability framework represents an evolution of our historical ways of working. It is centred around our core purpose: **helping to heat homes sustainably**. This reflects our vision of the significant role we can play in facilitating the transition to a low and zero carbon heating industry.

Our framework sets out our approach to delivering our business strategy whilst also delivering on our sustainability commitments to stakeholders and the environment. Fit for the Future comprises two strategic pillars. The first, "Driving better environmental performance", will focus us on reducing our impact on the environment whilst also engaging, educating and influencing others throughout the value chain to achieve an effective transition to the low and zero carbon heating systems of the future. The second, "Enabling an exceptional workforce", helps our people contribute positively to the delivery of our strategy and our sustainability objectives.

Finally, our sustainability strategy is underpinned by strong governance, exceptional safety standards and effective oversight of supply chain management, which are the structural foundations for achieving our objectives.



Our commitment to sustainability continued

Materiality

The material focus areas of the Fit for the Future framework were determined through an in-depth consultation process with a wide range of the Group's key stakeholders. This process was completed formally for the first time in 2022 and was supplemented with desk research identifying industry trends. We also benchmarked our approach against members of our own and other industries, including competitors and customers.

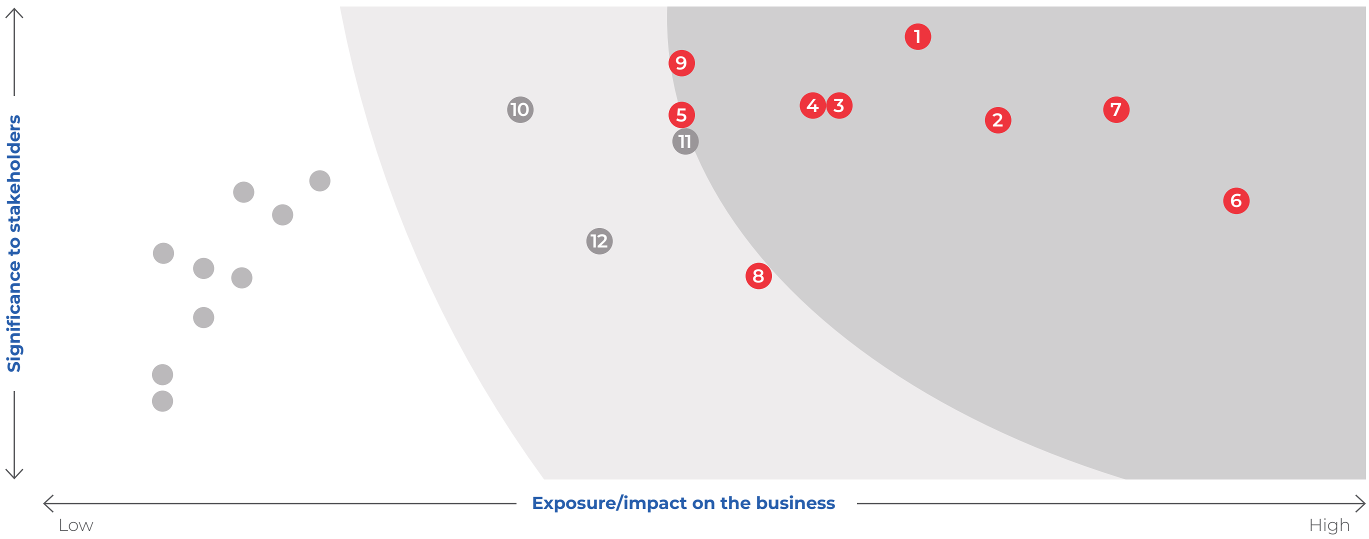
Each issue was assessed on its significance to stakeholders and the potential impact it could have on our business. This resulted in the materiality matrix shown below, with issues shown towards the top right of the matrix being those with the greatest level of importance and focus. These material issues are the ones specifically addressed through our Fit for the Future framework.

We were reassured to see that the material issues emerging from this process strongly aligned with our previous areas of focus. This contributed to an evolution rather than a comprehensive redesign of our sustainability approach.

Material issues

Driving better environmental performance	1 Decarbonisation of heating 2 Raw material impacts 3 Greenhouse gas emissions 4 Product innovation 5 Energy management 6 Product packaging impacts
Enabling an exceptional workforce	7 Employment and skills 8 Diversity and inclusion 9 Health, safety and wellbeing
Conducting business responsibly	10 Anti-bribery and corruption 11 Labour standards and workers' rights 12 Supply chain human rights

Materiality matrix



Alignment with the UN Sustainable Development Goals

Through our sustainability work, we are supporting several of the Sustainable Development Goals ("SDGs"). Of the 17 SDGs, seven align most closely with our sustainability activities.

Driving better environmental performance

We promote sustainable manufacture and resilient infrastructure and contribute to sustainable industry

Our products can deliver low-cost and efficient heat distribution and are suitable for low-carbon heating systems

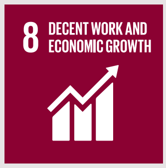
We actively manage our environmental footprint, reducing our resource usage and waste where possible

We combat climate change by reducing carbon in our value chains and supporting the decarbonisation of heating systems

Enabling an exceptional workforce

We prioritise the health and safety of our people, ensuring access to healthcare and aiding mental health

We promote equal opportunities for women, including in STEM and leadership roles. We do not tolerate discrimination



We provide productive employment and decent work, and maintain high standards, while targeting responsible growth

Sustainability metrics

The metrics below address the material issues within each section of our Fit for the Future framework and were chosen to provide a transparent assessment of our progress against our key objectives. A wider set of sustainability metrics is presented on page 41, where we refer to several Sustainability Accounting Standards Board ("SASB") metrics for the first time. The metrics in this section do not currently include data from the DL Radiators business, and this will be incorporated during 2023, when we will also focus on refining these metrics based on industry best practice, setting long-term targets and further alignment to external standards.

These metrics show progress in a number of areas, especially in energy and carbon. 99.8% of our procured electricity in 2022 was from renewable sources which was the major reason for significant reductions in our carbon emissions and emissions intensity. We have also seen a strong increase in training provided and reductions in labour turnover. Whilst the percentage of women in our business remains low, this increased last year. Our safety measures have shown mixed results, with a reduced frequency of accidents but an increased severity. We aim to continue towards our goal of zero harm, with a primary focus in 2022 on reinforcing our culture and on training. The other metric showing a decline in performance this year was the intensity of plastic we use in our packaging, which increased due to product mix changes. The work completed in 2022 has set the foundation for us to make improvements and reduce this intensity in future.

Metric	**2022**	2021
Driving better environmental performance		
Total market-based Scope 1 and 2 emissions (tCO_2e)	**6,712.4**	24,302.9
Total market-based Scope 1 and 2 emissions intensity (tCO_2e/t)	**0.06**	0.17
Energy from renewable sources	**52.2%**	9.0%
Plastic packaging intensity (kg/t)	**13.1**	11.9
Enabling an exceptional workforce		
Training days per employee	**3.1**	2.1
Labour turnover rate	**4.9%**	6.2%
% of women in workforce	**9.2%**	8.3%
Conducting business responsibly		
Lost time frequency rate[(1),(2)]	**6.05**	7.19
Lost time severity rate[(1),(3)]	**51.78**	32.10
% of suppliers with up to date audits	**19.7%**	—

(1) Any incident resulting in an employee not being able to attend work the following day is regarded as a lost time incident.
(2) Number of lost time incidents for every one million hours worked.
(3) Number of days lost due to incidents over the year per 200,000 working hours.

Stelrad's sustainability journey

Up to 2015

- Çorlu and Mexborough both gain ISO 14001 and OHSAS 18001
- Mexborough achieves zero waste to landfill
- Social, Charity and Community Forum established
- Apprenticeship programmes established
- Group develops minimum ESG standards
- Çorlu reforestation project started

2016–2018

- Mexborough gains ISO 50001
- Nuth gains ISO 14001 and ISO 45001
- Mexborough sources 100% renewable electricity

2019–2020

- Group joins SEDEX responsible sourcing platform
- First Scope 1 and 2 emissions measurement in the UK
- Mexborough joins the Forest Carbon project
- Stelrad UK becomes a Disability Confident employer

2021

- Mexborough migrates to ISO 45001
- Çorlu gains ISO 50001 and migrates to ISO 45001
- Group joins EcoVadis sustainability ratings scheme
- Sustainability working group formed
- First Sustainability and TCFD Report as part of Annual Report

2022

- Fit for the Future framework developed
- Stakeholder materiality assessment completed
- Sustainability steering group formed
- First Scope 3 emissions measurement, and first lifecycle analysis completed
- Nuth gains ISO 50001
- Packaging strategy working group formed

Driving better environmental performance

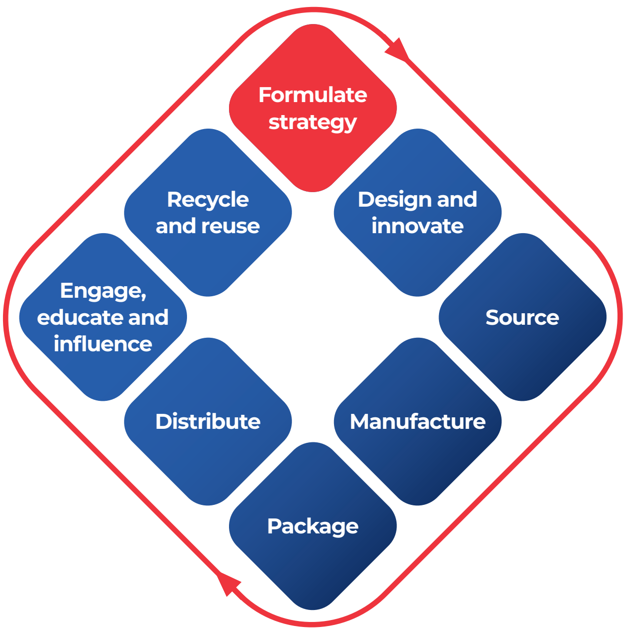
A key pillar of our strategy focuses on reducing the direct and indirect environmental impacts of our products and on helping to drive the decarbonisation of heating. We recognise the urgent need to reduce global emissions and manage resources efficiently. Our actions will ensure we play our part in meeting these global aims.

Our products can operate effectively with all heat sources. As alternatives to fossil fuels are developed, we will continue to innovate and introduce complementary products as part of a coherent offering for lower and zero carbon heating systems.

In the design, manufacture and distribution of our products, we are working to understand and quantify our environmental impacts and will target improvements as part of a long-term journey to net zero emissions. This work will extend beyond the scope of our own operations. We will engage with our value chain to minimise our impact, optimise our packaging design and reduce the environmental impact of the raw materials that we use in our products. We also have a clear role to play in influencing positive behavioural change for consumers to encourage the decarbonisation of heating.

Our key metrics within this pillar reflect the areas where we can have the greatest impact: our operational carbon emissions and intensity, the source of our energy and the use of plastic in our packaging.

Our strategy to drive better environmental performance applies across all stages of our business model as we outline below.



1. Formulate strategy

Environmental considerations feature strongly in our strategy. Our key objectives are outlined on page 14 and are closely aligned to environmental performance. Equally, our strategic decisions on acquisitions such as DL Radiators carefully consider the value any such acquisition may contribute to sustainability. For more information on the acquisition, see page 16. The central importance of environmental aspects reinforces the need to properly understand our impacts. One example of how we have done this is completing our first lifecycle assessment ("LCA") on the major product ranges sold in the UK. This identified opportunities to reduce the environmental impact of our products through the sharing of best practice and reinforced our strategy to reduce steel consumption by using lower-gauge steel, among other longer-term opportunities.

2. Design and innovate

Our radiators are designed to strike the best compromise between raw material usage and performance. A key method of improving our material consumption is to design products and processes that enable the use of lower gauge steel. In 2022, 17.6% of our steel purchases were classified as lower gauge (e.g. less than 1.1mm for panel steel), an increase from 16.5% in 2021. The purchase of this lower gauge steel directly reduced our steel purchases by 1,665 tonnes.

We continue to develop our higher heat output product portfolio, prioritising products that are particularly suited to the heating systems of the future. We have further expanded the range of triple panel, triple convector radiators that we sell, and the Vento radiator with an electric fan convection saw sales increase by 534%.

The acquisition of DL Radiators also helps us to achieve this product portfolio expansion, especially our electric radiator range. New electric products include aluminium radiators, fan-assisted towel rails and decorative steel tubular products. DL Radiators also sells dual fuel ranges that can operate as part of a hydronic system or solely from electricity. We are exploring ways these new capabilities can benefit our wider product offering.

Spotlight on UK water usage

Initial metrics showed that our UK site had the highest water intensity across the Group. This prompted further investigation, and during 2022 we installed additional water meters and built up a detailed schematic of water usage. This enabled us to identify several significant opportunities to reduce water usage, including the installation of additional valves and controls to manage water levels. The most significant outcome was the identification of an underground leak on site, which was subsequently located and repaired. These changes have contributed to a 21.8% reduction in annual water usage.

Spotlight on energy usage – fan optimisation

Extractor fans, which remove welding fumes, vapours and process gases, are present on each production line in our Turkish facility. During 2022, significant operational changes were made, resulting in estimated savings of 1,596MWh per year.

The changes took two forms: adjusting the fan speed using frequency inverters and reducing the amount of time the fans were running. Through a series of trials, we identified the lowest speed possible for each fan without jeopardising performance or air quality. This optimised energy consumption and performance. The second change involved automatically stopping a fan if there had been no welding activity for three minutes. The fan then restarts with the first new welding cycle. Details of this project have been shared through our best practice forums and we are investigating the opportunity to replicate this success in our other facilities.

3. Source

Our Scope 3 assessment (see page 33) has identified that purchased goods and services and upstream transportation are our two most significant emissions categories.

Steel is the most important material that we purchase, representing 96% of the weight of our packaged products. Conscious of this and the environmental impact of the steel supply chain, we are proactively engaging with our key steel suppliers to understand their plans to decarbonise steel manufacturing. We are discussing the likely timings of this as well as our opportunity to contribute to, and benefit from, this transition. Our strong relationships with suppliers will be a key enabler for reducing the environmental impact of our steel.

Across our supplier base, we have initiated a supplier auditing process, more details of which can be found on page 37. This process will help us to raise environmental standards across our whole supply chain.

4. Manufacture

Improving efficiency in our manufacturing operations continues to be a key focus, supported by significant investment across the Group, especially in our Turkish facility. This investment has contributed to improved carbon efficiency in Turkey and the initial LCA work suggests that manufacturing an equivalent product in Turkey results in a slightly (0.5%) lower carbon footprint than manufacturing in the UK. Our improvement work is ongoing, with several successful projects in 2022, such as those shown in the spotlight above.

Aided by our decision to increase purchases of renewable electricity and our efficient Turkish production, our overall carbon intensity reduced by 61.2%, from 0.17 tCO_2e/t to 0.06 tCO_2e/t. Our manufacturing and distribution facilities in Turkey, the Netherlands, Denmark and the UK all now purchase 100% renewable electricity. These purchases are largely on multi-year contracts and it is our aim to maintain this permanently, setting the foundation for further improvement in our key metrics. The purchase of renewable electricity reduced our Scope 2 emissions by 99% in 2022, with further small savings to be realised from a full year of purchases in 2023. Our purchase of DL Radiators also means we have renewable electricity generation capacity in the Group for the first time. We will investigate the possibility of expanding this in 2023, focusing on solar projects in Turkey.

A key enabler of improving energy efficiency is our energy management systems. In 2022, Nuth became the latest facility to achieve ISO 50001 certification, meaning that three out of five of our business units and 50% of our facilities now hold this key certification. Through the certification process, targeted energy saving projects were identified, which will contribute to future energy savings.

Beyond energy, our water usage has reduced by 20.1%. Helped by the activity outlined in the spotlight on UK water usage the UK site achieved a 21.8% reduction in total annual water usage against 2021.

The amount of waste we generated fell 16.6% to 6,596 tonnes, and we continue to divert virtually all waste from landfill, achieving 99.99% in 2022.

Driving better environmental performance continued

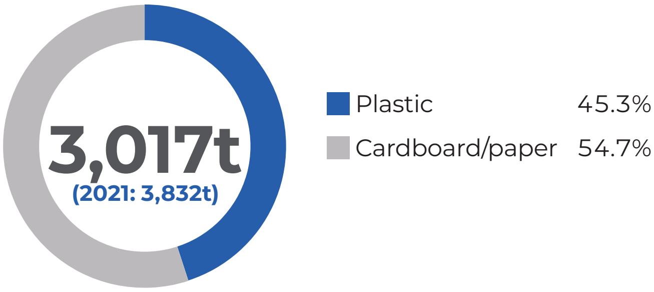
5. Package

Our products are often heavy and bulky, and the correct specification of packaging is essential to avoid damages. During 2022 we engaged in a significant project to understand better the packaging that we use, with the aim of reducing environmental impact without compromising the quality of the protection offered. This project has led to a detailed understanding of the packaging we use and has enabled us to publish a range of packaging metrics for the first time.

In 2023, our focus will shift to making improvements to our packaging, with an initial focus on the use of plastic. This is measured by our key metric of plastic packaging intensity, which increased by 9.9% this year due to product mix changes. This increase demonstrates the challenge we have to make our packaging more sustainable. We began this process in 2022, with changes made to the shrink film we use, ensuring it contains at least 30% recycled content. This is an improvement from 0–15% and affected 151 tonnes of material last year. This change has been successfully implemented with no deterioration in quality.

In 2022, we used 3,017 tonnes of packaging material, down 21% from 2021 due to reduced production volumes. This is broken down by material type as shown below:

Packaging used (2022), by material type



In addition, our packaging includes an average recycled content of 62%.

6. Distribute

We primarily use external logistics companies to distribute our products to 40 countries, from six manufacturing and warehousing facilities. Our distribution methods are flexible, and actively managed to increase efficiency, ensuring that we maximise vehicle utilisation rates. Final distribution to customers is managed with route optimisation software. We also aim to reduce the miles travelled, delivering to customer hubs in full pallet loads where possible, and investing significantly in the reorganisation of our European warehousing activities to reduce unnecessary trips.

We are addressing the carbon impact of our own car fleet and aim for all vehicles across the Group to emit less than 50g CO_2e per km. Currently, 33% of cars in the Group meet this standard and we aim for the UK to be the first unit to reach 100% during 2023.

Spotlight on low-carbon heating – Glenrothes Energy Network

Stelrad supplied radiators to 85 new affordable homes as part of an award-winning district heating scheme in Glenrothes. The properties will benefit from low-carbon heating supplied from the Glenrothes Energy Network which uses recycled timber to generate power. This innovative district heating system benefited from funding from the Scottish Government's Low Carbon Infrastructure Transition Project and contributes positively to the UK's Net Zero Strategy. The choice of Stelrad products to effectively distribute this heat reinforces the suitability of our radiators for use in low-carbon heating systems.

7. Engage, educate and influence

We recognise that as industry leaders we have a duty of care to educate and inform our customers, helping them to make more informed decisions on heating systems and accelerate the decarbonisation of home heating. In support of this, we engage in communication campaigns explaining how radiators can be suitable for a range of heat sources. We also regularly deliver training sessions to customers and specifiers in the form of continuing professional development courses ("CPD"), including directly addressing low-temperature systems.

In addition, we are strengthening our industry involvement, continuing to develop partnerships with key influencers such as trade associations, and forming partnerships with heating system design agencies.

8. Recycle and reuse

It is estimated that the lifecycle of our radiators is in excess of 30 years. Steel is 100% recyclable and, with a recycling rate of around 80% in some regions, benefits from one of the highest recycling rates of all materials. Recycled steel is reused to make new steel and our purchased steel contains between 15 and 20% recycled content.

In addition to the radiator itself, we are working to improve the recyclability of our packaging, primarily by replacing hard to recycle plastics with alternatives such as cardboard.

Streamlined Energy and Carbon Reporting

The table below summarises our energy usage and associated emissions for the Group during 2022. This table does not include data from DL Radiators for this year; this will be incorporated in future years.

We achieved 96.15% verifiable data coverage, with only 3.85% of consumption data being estimated.

Our chosen intensity metric is tCO_2e per tonne of product produced. The results of this intensity metric are as follows:

	2022	2021	Variance
Market-based	**0.06**	0.17	(61.2)%
Location-based	**0.19**	0.17	10.9%

		2022			2021			
		UK	**Non-UK**	**Total**	UK	Non-UK	Total	Variance
Consumption (MWh)	Scope 1	**7,359**	**28,183**	**35,542**	10,918	36,909	47,827	(25.7)%
	Scope 2	**6,899**	**32,375**	**39,273**	8,649	39,270	47,919	(18.0)%
	Total	**14,258**	**60,557**	**74,815**	19,567	76,179	95,746	(21.9)%

		Tonnes of carbon dioxide equivalent (CO_2e)						
		2022			2021			
		UK	**Non-UK**	**Total**	UK	Non-UK	Total	Variance
Scope 1		**1,377.8**	**5,252.9**	**6,630.7**	2,026.8	6,886.3	8,913.1	(25.6)%
Scope 2	Market-based	**0.5**	**81.1**	**81.6**	0.7	15,389.1	15,389.8	(99.5)%
	Location-based	**1,334.1**	**12,116.2**	**13,450.3**	1,836.5	14,691.1	16,527.6	(18.6)%
Total Scope 1 and 2	Market-based	**1,378.4**	**5,334.0**	**6,712.4**	2,027.5	22,275.4	24,302.9	(72.4)%
	Location-based	**2,711.9**	**17,369.1**	**20,081.0**	3,863.3	21,577.4	25,440.7	(21.1)%
Scope 3 category 1		**38,023**	**—**	**38,023**	43,126	—	43,126	(11.8)%
Scope 3 category 4		**2,373**	**—**	**2,373**	3,075	—	3,075	(22.8)%
Other Scope 3 emissions		**1,588**	**—**	**1,588**	2,389	—	2,389	(33.5)%
Total gross Scope 3 emissions		**41,984**	**—(1)**	**41,984**	48,591	—(1)	48,591	(13.6)%
Total Scope 1, 2 and 3 emissions	Market-based	**43,362**	**5,334**	**48,696**	50,618	22,275	72,894	(33.2)%
	Location-based	**44,696**	**17,369**	**62,065**	52,454	21,577	74,031	(16.2)%

(1) A Scope 3 analysis has not currently been completed for non-UK businesses.

Reporting methodology

Scope 1 and 2 consumption and CO_2e emission data has been calculated in line with 2019 UK Government environmental reporting guidance.

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

Estimations undertaken to cover missing billing periods were calculated on a kWh/day pro rata basis at meter level. These estimations equated to 3.85% of reported consumption.

Purchased goods and services account for 90.6% of Stelrad's Scope 3 emissions. Other significant emissions categories include upstream transportation and distribution (5.7%), fuel-related emissions (1.7%) and capital goods (0.9%). All other categories are either not applicable, or account for 0.5% or less of Scope 3 emissions.

Indirect use of energy by sold products is optional to report in category 11. This would include the indirect energy use of boilers, which, if included, would represent more than 99% of total emissions. This is therefore not included in our inventory. More details can be found in our Carbon Balance Sheet Report, published on our website.

Enabling an exceptional workforce

Our people are fundamental to the success of our business. We aim to retain key personnel, develop the skills and knowledge of our workforce and attract talented individuals to aid our future growth and competitiveness. At the same time, we want to ensure that everyone at Stelrad is encouraged to fulfil their potential and enjoy a long-term career with us.

To help us achieve this we monitor our key sustainability metrics of training days, labour turnover and women in the workforce, which focus us on key areas including training and development, diversity, equality and inclusion and wellbeing. These key metrics have all seen positive progress in 2022 and we will aim to continue this momentum in the future. We will also build on our employee engagement programmes to ensure our employees' voices continue to be heard. Outside of our business, we are committed to community initiatives tailored to local needs across our broad geographic spread.

Our people

Our geographical footprint is shown on page 2. Across the Group, we employ a total of 1,572 people, with 1,333 of those outside the UK. Given this geographic span, we have a diversity of cultural norms as well as a breadth of differing statutory requirements. Our culture, with its emphasis on respect, integrity, service, stewardship and excellence, bridges and values the rich heritage of our people and the diversity we have within our business. Our strategy of local-led implementation ensures we are delivering for our employees in each country. Our flat management structure also assists us in maintaining close working relationships across the Group.

Development

We provide opportunities for personal development and growth for all our employees. We continue to build our leadership capability to support and develop our current and future leaders and a key focus is on enhancing technical skills aligned to the evolving requirements of the sector. As an example, 24 UK employees attended a course that provided the knowledge and skills required to design, specify and sell heat pump systems. This included information on the environmental background of heat pumps, relevant legislation, and system selection and design.

These initiatives and a large increase in safety training in Turkey have contributed to an increase in our key metric of training days provided, from 2.1 to 3.1 per employee.

Developing our employees of the future

We continue to maintain our investment in developing employees of the future, with active internship and apprenticeship schemes across the Group. We currently have five apprentices in place, with plans for an additional one in 2023. In addition, we provide scholarships in Turkey to technical high school students, and in Continental Radiators, we participate in the PML platform – see the spotlight on Continental Radiator for more information.

Additionally, we foster links with local schools and colleges and participate in career development activities, including hosting open days and school leaver days across the Group. For example, in the UK this year, our Engineering Manager delivered a new programme in Advanced Manufacturing Engineering at Sheffield College as part of the Employer Skills Academy.

Spotlight on Continental Radiators – how we develop employees

We participate in Procestechniek & Maintenance Limburg ("PML"). PML is a platform established to address the shortage of operators and maintenance technicians by promoting enrolment in training courses. As part of this programme, we participate in several activities, including providing Company tours for secondary school students and their parents and participating in school open days. We also directly provide internships for students in maintenance and operations, offering opportunities to three students in 2022.

Internally, we ensure we offer career opportunities and personal growth to our employees who wish to progress within the business. We have a partnership with a local educational institute, which provides training including on leadership skills, lean skills and safety. When our employees indicate a desire for progress, they are given targeted support to give them the skills and experience required, including expanding role responsibilities. This approach has enabled us to fill several key vacancies with internal candidates.

Employee engagement

Our approach to employee engagement is decentralised and tailored to local workforces. We listen to and communicate with our employees through communication structures that differ in each location, taking into consideration statutory requirements, practical experience of what is effective and the diversity of our people.

We have continued to develop how we engage with our employees this year, including conducting an employee engagement survey in the UK. All UK employees were invited to participate on a voluntary basis, and we were delighted to achieve a response rate of 92%. This means that findings are representative of our employees' views. All employees have had feedback on the outputs and we will use this to identify areas where we can collectively build on team strengths and identify areas for improvement.

In addition, we actively encourage employee representation and have well-established, positive relationships with trade union partners across our main sites.

Our labour turnover rate is a key sustainability metric, as this reflects the success of our approach to employee engagement and development. Our turnover rate is low when compared to our industry, and it fell to 4.9% in 2022. This reinforces the success of our approach to engagement, coupled with our belief in paying competitive salaries, providing good working conditions and investing in our people.

A more detailed review of employee engagement at Board level is shown on page 86.

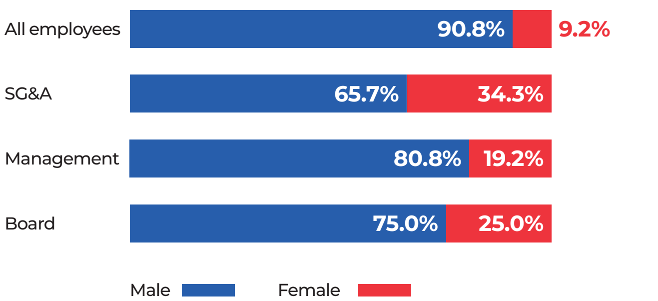
Equality, diversity and inclusion

As an international group, we recognise the importance of diversity in our people. Our priority is to integrate equality, diversity and inclusion into our key people processes and improve representation. Our success in achieving this is monitored by the Board, and more details can be found on page 69.

We have introduced a Group Code of Conduct Policy and a Group Equality, Diversity and Inclusion Policy. Both policies have been communicated to employees, with a significant number attending training courses. The Code of Conduct Policy sets out the standards of behaviour expected from all employees. The Equality, Diversity and Inclusion Policy underlines our commitment to continue to develop as an open and inclusive organisation.

Gender

Consistent with the demographics of the wider manufacturing sector, the majority of our workforce is male although there is stronger female representation in sales, general and administration ("SG&A") positions, where 34% are female. We recognise that increasing the number of women in our business and in leadership roles is important to our future success and we continue to actively support women's access to technical education.



In the UK we continue to report the gender pay gap statistics of Stelrad Limited on a voluntary basis, with a full report available on our website. In 2022, both the mean gender pay gap and the mean gender bonus gap were favourable to women. In addition, the proportion of men and women receiving a bonus is now comparable.

Spotlight on Turkey – engagement in practice

In Turkey, we engage directly with our employees through our employee feedback scheme. This involves daily meetings with employee representatives and shift supervisors. We also provide opportunities for all employees to submit their thoughts on paper, and through any of several hosted events that take place throughout the year. These activities are underpinned by the solid framework that is in place due to our collaborative relationship with our employers' union.

This enables us to tailor benefits to support retention and attraction. Our tailored benefits include health services, hot drinks and meals, transport to and from the home, an on-site prayer room and an annual festival for all employees and their families.

Wellbeing

We are committed to providing a safe and supportive working environment that promotes personal wellbeing for all our employees.

We continue to develop our health and wellbeing support and already offer a range of occupational health services across the Group, including workplace physicians and nurses, external specialist services and preventative medical exams. In 2022 we implemented an Employee Assistance Programme in the UK that allows employees to claim money back towards the cost of essential healthcare. This includes optical and dental treatments, access to valuable health and wellbeing services and telephone counselling.

Community

We commit to ensuring that each of our businesses fosters strong, tailored relationships with its local community. These take many forms, including charitable donations, local sponsorships and local partnerships.

This sense of community is typified by our Turkish business, where we actively engage with many elements of the community. In 2022 this included local schools and students, a local women's shelter and care homes. We sponsored 15 local students in an inter-school technical competition – paying for their flights and enabling them to take part in an ultimately successful project.

Away from Turkey, DL Radiators has signed up to take part in the "Cividale Del Friuli" project, where local businesses and individuals work together on various community improvement initiatives. This will develop through 2023. In the UK, our Social, Charity and Community Forum continued its fundraising work, leading to £3,100 being donated to each of our supported charities.

In response to the ongoing crisis in Ukraine, we donated £1,000 to the Disasters Emergency Committee appeal for Ukraine. We also gave employees the opportunity to donate, with all employee contributions matched by the Company. In total we raised £3,580.

Conducting business responsibly

Conducting business responsibly is a key foundation in everything we do and underpins all aspects of our business including our sustainability strategy.

Our approach to business is guided by a clear set of Company values and a culture of safety that is overseen by the strong corporate governance of our Board. Internally we have robust operational structures, controls and polices that ensure good communication, oversight and effectiveness.

We hold ourselves, our employees and our suppliers to high ethical and governance standards which include international labour standards and human rights. We continue to offer our employees a fair income, with opportunities for personal development and progression.

In pursuit of our goal of zero harm we continue to invest in training and manufacturing processes to keep our colleagues safe and healthy and to reduce accident rates.

Governance of sustainability

Our Chief Executive Officer continues to have overall accountability for sustainability. He is assisted in this by a sustainability steering group and our sustainability working group.

The sustainability steering group was created this year to provide greater senior management support and co-ordination of sustainability. The membership of the group, as well as its interaction with the Board, is described on page 38. The group is responsible for setting priorities and driving the implementation of our sustainability strategy. During 2022, the steering group has been primarily focused on stakeholder engagement and the development of our strategic direction and framework.

The sustainability working group is co-ordinated by our Group Sustainability Manager and comprises local representatives from each business unit. This group is responsible for co-ordinating local sustainability actions, reporting on data and progress to the steering group and acting as sustainability champions. We will ensure the group remains effective by expanding the membership to reflect Stelrad's ongoing development.

This governance structure is effective as the working group provides broad reach, a range of inputs and the ability to effectively communicate with those most able to effect progress, whilst co-ordination and decision making are centralised, ensuring flexible and effective decision making.

Spotlight on safety – collision warning

We work consistently to identify risks and implement safety improvements, not just after the occurrence of incidents. Formal site risk assessments in each work area happen regularly and are complemented by daily tours by our local H&S Managers. When a risk is observed, it is thoroughly assessed, and preventative measures are identified. An example of this is in Turkey, where close working between people and vehicles presented a collision risk. A team, including operatives, management and health and safety professionals, investigated and concluded that it was not possible to redesign the operation to avoid the risk entirely, but that appropriate warning systems could be implemented to reduce the risk of accidents. This pedestrian detection system has now been installed on all vehicles that have regular pedestrian interaction.

Health and safety

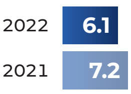
Our number one priority is to keep our employees and contractors safe and healthy and we aim for zero harm across all our operations. During 2022, we saw improvement across many of our safety measures, with both our lost time frequency rate ("LTFR") and our total recordable incident rate falling. However, we saw an increase in our lost time severity rate ("LTSR"), from 32.1 to 51.8, reflecting an increase in the number of days lost. This increase is driven by accidents in Turkey and is attributed to trainees not following correct procedures. Corrective actions have been identified and are outlined below. LTFR and LTSR are both key sustainability metrics, and they each provide different perspectives on our safety performance.

Our UK site achieved a second year without a lost time incident ("LTI") and has since exceeded the previous record of 929 days without an LTI. To reinforce this success of LTIs, the Group's focus has shifted more to near misses and hazardous conditions reporting. Focus on these aspects helps to identify potential hazards before they cause injury and to embed a strong culture of safety. Our increased focus on reporting near misses resulted in an increase of 110% in the number of incidents captured.

The unit with the highest number of incidents continues to be Turkey – a point of real focus for the Group. This year has seen improvement, with LTIs falling from 18 to 12 but there are still opportunities for further development as shown by the increase in the LTSR. This increase in the LTSR is attributed to trainees not following correct procedures. This increased the risk of incurring injuries that require an extended period off work, which could be avoided by correct operation. This indicated that the main priority was to improve operator training. Work instructions have been made more detailed and are in many cases now supported by video recordings used to train new recruits and provide refresher training.

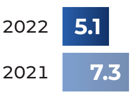
Fatality rate

Lost time frequency rate



Lost time severity rate

Total recordable incident rate



Supply chain management

Conducting business responsibly also extends to ensuring that we understand and manage our supply chain appropriately. To this end, in 2022 we developed a process for auditing our suppliers. This allows us to assess our suppliers' performances in a range of areas, using the findings to identify opportunities to work together to improve and develop.

The audit process covers health and safety, the environment, human rights and ethics, in addition to operational measures of delivery, quality and planning. This provides a holistic view of the activities of each supplier and helps ensure meaningful conclusions can be drawn.

We aim for all our major suppliers to go through this audit process periodically, and have included this as a key sustainability metric. By the end of 2022 20% of major suppliers had been audited, and we aim for all initial assessments to be completed by the end of 2024. In addition to the full audit process for larger suppliers, we have also reviewed our ethical trading policy and we are in the process of sharing this with our supplier base, ensuring understanding and agreement.

Anti-bribery, corruption and labour standards

We have a zero-tolerance stance on bribery and corruption. In 2022, the Board approved a new Group Code of Conduct, which set out our expectations on anti-bribery and corruption, among other areas. The roll-out of our new Code of Conduct was supported by in-person training to a large number of colleagues.

We respect fundamental principles of human rights, such as the United Nations Global Compact's ten principles. We also comply with all local and international laws and regulations. Our Code of Conduct is reinforced by our Group Conflicts of Interest and Whistleblowing Policies, and by a range of business unit level, topic-specific policies.

Our approach to labour standards is typified by our approach to collective bargaining and pay. This is also reflected in our EcoVadis rating, with all sites having shown improvement against the labour and human rights measure, contributing to Stelrad UK being awarded a gold medal for the first time and Continental Radiators maintaining a silver medal.

TCFD Report

This is the second report in which we make disclosures against the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"). We are pleased to be able to report progress towards full compliance since last year and we continue to develop the integration of climate risks and opportunities into our strategy. Our focus in the coming years will be on ensuring further alignment with the disclosures not currently made: climate scenario modelling and the development of targets. These two disclosures are not made this year due to a desire to ensure any scenarios or targets are as meaningful and relevant as they can be, which necessitates more work on building organisational knowledge and capabilities. We plan to further develop our sustainability metrics, including the setting of targets in 2023. Beyond 2023 we will further our analysis and understanding of the potential financial impacts of climate change on our business, including taking into consideration different climate-related scenarios.

Climate governance

Our Chief Executive Officer has overall accountability for our sustainability strategy, including climate-related risks and opportunities. The Board is responsible for ensuring that appropriate systems and processes are in place to monitor and manage progress. The Board is guided by the Audit & Risk Committee in matters relating to climate risk. The Audit & Risk Committee is also responsible for overseeing the implementation of the overall risk management framework and for reviewing the Group's risk assessment capabilities and processes.

Climate risks are incorporated into the wider risk management framework, as climate change is considered to be a principal risk. This means that significant emerging or evolving climate risks are reviewed and assessed by the Audit & Risk Committee on an ongoing basis.

As well as including climate change as a principal risk, our Group Sustainability Manager maintains a climate-related risk and opportunity register, which aids the assessment and management of risks. This register was created during 2022 due to the unique characteristics of climate-related risks, advantageously separating this from existing business unit registers. Members of operational teams, particularly those involved in the sustainability working group, feed information on emerging risks to our Group Sustainability Manager and review the register in advance of reviews by the Audit & Risk Committee. The climate-related register is reviewed every six months by the Board and the Audit & Risk Committee, alongside business unit registers.

Progress on the execution of our sustainability strategy is driven and monitored by our sustainability steering group. This group was set up during 2022 and comprises the Group Chief People Officer, Group Sustainability Manager, Group Operations Director and Group Strategic Marketing Director. This group benefits from cross-functional leadership, helping to progress our strategy across the business. Members of the steering group periodically update the Chief Executive Officer and the Board on progress and the Board has embedded a process to ensure that sustainability is an essential consideration of all key decisions, alongside the section 172 requirements.

Co-ordination of sustainability actions across the Group is led by our Group Sustainability Manager and he is supported in this by members of the sustainability working group. This working group comprises representatives from each of the business units, who are actively involved in the day-to-day delivery of our sustainability strategy and who co-ordinate and direct actions within each business unit.

Strategy

We have a clear business strategy (outlined on page 14) which is supported by our core purpose, helping to heat homes sustainably. Sustainability and climate are significantly linked to major parts of this strategy, especially in relation to decarbonisation of heating, for example ensuring our evolving product range is appropriate for lower and zero carbon heat sources. We set out our Fit for the Future sustainability framework on page 27, which sets the framework for how we are addressing our climate-related risks and opportunities. The table on page 39 shows the main risks and opportunities we have identified, as well as considering the impact these would have on our business and strategy.

In future years we expect to conduct scenario analysis to support our understanding of how climate-related risks and opportunities will impact Stelrad's business resilience, strategy and financial planning.

Risk management

Our wider risk management processes are explained in detail on pages 48 to 54. Climate change is included at the Group level as a principal risk, with the detail of specific risks being captured in a climate-specific risk and opportunity register. This register captures the transitional risks associated with adapting to a lower carbon economy, the physical risks associated with climatic temperature increases and any opportunities that may arise and from which we may gain competitive advantage.

Our climate-related risks and opportunities are assessed in terms of the likelihood of the risk arising over three different time periods. Short term covers the next three years (2023–2025), medium term up to ten years (to 2032) and long term considers the impacts up to 2050. Likelihood of occurrence is expressed in levels from one to three, with level one meaning that the risk or opportunity is unlikely to occur in the period and level three suggesting that the risk is more likely than not to happen.

Likelihood is assessed in conjunction with the potential impact if a risk does occur. This impact is defined based on the likely financial or reputational damage or gain that could result, with the highest impact relating to events that could halt our ability to service our customers for a period.

Following this assessment, mitigation and realisation actions are developed to avoid or reduce the risk, or to ensure we take advantage of the opportunity. The management of the risk or opportunity and the implementation of the agreed actions are assigned to a specific member of senior management, responsible for ensuring that risks are maintained within an acceptable level as defined by the Board and for updating on changes.

The following pages provide details on the main climate-related risks and opportunities that have been identified through this process.

Metrics and targets

The key metrics we use to monitor our strategically material sustainability issues are shown on page 29, with further data included on page 41. The key metrics include measurement of our Scope 1 and 2 emissions and market-based emissions intensity per tonne of output. We provide further detail, including limited measurement of Scope 3 emissions, on page 33, where there is also a description of the main contributors to our Scope 3 emissions.

A priority for the future is to improve the quality of our metrics, including setting targets in key areas and expanding the coverage of our emissions reporting. Furthermore, we will ensure that our metrics are developed in consideration of our main climate-related risks.

Failure to meet stakeholder sustainability expectations or our previous commitments.

Category

Transition risk

Description	Impact	Mitigation/realisation actions
There is a growing awareness from stakeholders of a company's sustainability performance, especially around climate and achieving carbon reductions. This includes examination of performance against previously stated commitments. There is a risk that these expectations are not met.	• Customers may move their business to competitors with more developed carbon strategies, resulting in losses of market share and revenue. • Stelrad's access to capital may worsen, making it more difficult or costly to invest and impacting the Company's valuation.	An appropriate governance structure exists to ensure that sustainability matters are prioritised according to materiality and that we meet stakeholders' climate expectations. This includes managing interfaces with major stakeholders, ensuring that perceptions are accurate.

Increased cost of business due to a combination of legislation and market dynamics.

Category

Transition risk

Description	Impact	Mitigation/realisation actions
Climate change may result in suppliers developing lower carbon alternatives, for example through using green hydrogen. These may come at a higher cost. Sustainability targets are also leading to the introduction of legislation to encourage companies to reduce their environmental impacts and increase transparency in reporting. This trend is likely to continue and may differ by region, affecting some competitors more than others.	• Legislation may result in increased input costs, including of raw materials, energy and transport. • Cost drivers may lead to changes to the relative competitiveness of radiators against alternatives. • Legislation that requires additional data gathering and reporting will impact on the required level of resourcing.	We continue to monitor legislative changes and ensure that appropriate responses are developed. Any internal process changes that are required will also focus on efficiency improvements. We develop the skills and partnerships necessary to understand market changes in a timely manner and implement appropriate responses. Partnerships with key suppliers and trade bodies are especially important.

An increase in the use of alternative technology.

Category

Transition risk

Description	Impact	Mitigation/realisation actions
The drive to reduce carbon in heating may lead to new heat emitting technology entering the market, or in an increase in market share of existing competing technology. This could be driven by consumer behaviour and could be intensified by policy or legislation. The future changes may also support us, leading to the opportunity for differentiation described on the next page.	• Any increase in the presence of competing technologies may reduce the relative share of radiators and may impact on Stelrad's market share and profitability.	We continue to monitor legislative changes and assess these for their likely impact on product choices. We maintain strong relationships with customers and specifiers to ensure the positive attributes of radiators are understood and incorporated. Where appropriate, alternative technologies will continue to be brought to market as part of our offering.

TCFD Report continued

Differentiation of Stelrad's product and service offering.

Category
Opportunity

Description	Impact	Mitigation/realisation actions
The drive to reduce carbon in heating may also lead to changes that could benefit us, including an increasing demand for higher output products. There is also the opportunity to bring new technology to market as part of our offering. The buying decision on heating products is likely to encompass broader considerations, leading to greater opportunity for differentiation.	• Opportunities for development of our product and service offering and differentiation. • Diversified or increased revenue streams through growing market share and from new products.	Realising this opportunity requires that we have an offering that meets the changing demands of customers. To this end, we will continue to focus on increasing our technical capability, as well as adapting and optimising our product offering.

Increased severity and frequency of extreme weather events.

Category
Physical risk

Description	Impact	Mitigation/realisation actions
The severity and frequency of extreme events with the capability to cause damage is increasing. These events include intense rainfall, flooding, heatwaves and droughts.	• Damage or disruption to our production facilities may reduce our ability to fulfil customer demand. • Disruption to global supply chains may reduce our ability to move product and materials. • Extreme heat may necessitate changes to working practices to maintain worker welfare, which may impact on productivity or cost. • Prolonged periods of heat may create drought conditions, reducing access to water in our operations.	All facilities have reactionary processes in place to adapt to acute events. Proactive defences (such as fire prevention or flood defences) are regularly assessed for adequacy. Production volume can be flexed across the Group if specific facilities have issues. Many inputs are sourced from multiple suppliers across different regions, reducing the risk if specific supply routes are disrupted.

Sustainability metrics table

The below table shows our wider set of sustainability metrics, referring to Sustainability Accounting Standards Board ("SASB") metrics where relevant. These SASB metrics have been taken from a range of sectors relevant to Stelrad.

		Unit of measure	SASB reference	2022	2021	Change
Driving better environmental performance	**Energy and carbon**					
	Total energy consumed	GJ	CG-BF-130a.1	**269,335**	344,685	(21.9)%
	Grid energy	%	CG-BF-130a.1	**47.8%**	91.0%	(43.2)pp
	Renewable energy	%	CG-BF-130a.1	**52.2%**	9.0%	43.2pp
	Gross global Scope 1 emissions	$kgCO_2e$	EM-IS-110a.1	**6,630,712**	8,913,102	(25.6)%
	Gross global Scope 2 emissions	$kgCO_2e$	n/a	**81,643**	15,389,811	(99.5)%
	Total market-based Scope 1 and 2 emissions intensity	$kgCO_2e$/tonne	n/a	**0.06**	0.17	(61.2)%
	Water and waste					
	Total water withdrawn	m^3	EM-IS-140a.1	**62,227**	77,863	(20.1)%
	Water usage in areas of water stress	%	EM-IS-140a.1	**64.5%**	63.9%	0.7pp
	Water intensity	l/tonne	n/a	**595**	530	12.3%
	Total waste generated	tonnes	EM-IS-150a.1	**6,596**	7,911	(16.6)%
	Waste intensity	kg/tonne	n/a	**63.0**	53.8	17.2%
	Waste sent to landfill	%	n/a	**0.00%**	0.03%	(0.03)pp
	Materials					
	Low-gauge steel purchased	%	n/a	**17.6%**	16.5%	1.1pp
	Packaging material used	tonnes	n/a	**3,017**	3,832	(21.3)%
	Plastic packaging material	%	n/a	**45.3%**	45.6%	(0.3)pp
	Plastic packaging intensity	kg/tonne	n/a	**13.1**	11.9	9.9%
	Recycled content of packaging material used	%	n/a	**62.2%**	60.9%	1.3pp
Enabling an exceptional workforce	**Training and development**					
	Training days per person	days	n/a	**3.1**	2.1	51.3%
	Number of apprentices	FTE	n/a	**5**	4	25.0%
	Labour practices					
	Employee turnover	%	n/a	**4.9%**	6.2%	(1.4)pp
	Absence rates	%	n/a	**8.1%**	5.9%	2.2pp
	Gender diversity					
	Female	%	n/a	**9.2%**	8.3%	0.9pp
	Male	%	n/a	**90.8%**	91.7%	(0.9)pp
	Not available	%	n/a	**—**	—	—
Conducting business responsibly	**Health and safety**					
	Lost time frequency rate	rate	n/a	**6.1**	7.2	(15.9)%
	Lost time severity rate	rate	n/a	**51.8**	32.1	61.3%
	Total recordable incident rate	rate	EM-IS-320a.1	**5.1**	7.3	(30.5)%
	Fatality rate	rate	EM-IS-320a.1	**—**	—	—
	Business ethics					
	Total amount of monetary losses as a result of legal proceedings associated with bribery or corruption	£m	RT-EE-510a.2	**—**	—	—
	Total amount of monetary losses as a result of legal proceedings associated with anti-competitive behaviour regulations	£m	RT-EE-510a.3	**—**	—	—

Our robust financial performance positions the Group for continuing growth

Group overview

The following table summarises the Group's results for the years ended 31 December 2022 and 31 December 2021.

	2022 £m	2021 £m	Increase/ (decrease) £m	Increase/ (decrease) %
Revenue	**316.3**	272.3	44.0	16.2
Revenue (pre-IAS 29)	**312.1**	272.3	39.8	14.6
Adjusted operating profit	**34.0**	33.2	0.8	2.4
Exceptional items	**(1.8)**	(9.6)	7.8	81.1
Amortisation of customer relationships	**(0.1)**	—	(0.1)	n/a
Foreign exchange differences	**(3.5)**	3.0	(6.5)	(215.7)
Impact of IAS 29	**(6.0)**	—	(6.0)	n/a
Operating profit	**22.6**	26.6	(4.0)	(14.8)
Net finance costs	**(4.5)**	(10.2)	5.7	55.8
Monetary losses – net (IAS 29)	**(7.9)**	—	(7.9)	n/a
Profit before tax	**10.2**	16.4	(6.2)	(37.2)
Income tax expense	**(5.9)**	(1.7)	(4.2)	(257.4)
Profit for the year	**4.3**	14.7	(10.4)	(70.6)
Earnings per share (p)	**3.38**	11.51	(8.13)	(70.6)
Adjusted profit for the year	**24.3**	21.6	2.7	12.9
Adjusted earnings per share (p)[1]	**19.11**	16.92	2.19	12.9
Total dividend per share (p)	**7.64**	0.96	6.68	695.8

(1) Adjusted earnings per share is calculated on adjusted profit after tax, being earnings before exceptional items, amortisation of customer relationships, foreign exchange differences and the impact of IAS 29 and tax thereon.

Financial overview

The business was negatively impacted by a decline in demand during 2022. Renovation activity across the majority of European countries was weaker throughout the year. The reduced demand for radiators in Europe was mainly driven by a challenging macroeconomic environment due to high inflation and increasing interest rates. The market price for steel spiked upwards in the second quarter of 2022 and gradually decreased during the second half of the year, but energy costs increased significantly in the same period.

Revenue (pre-IAS 29) for the year was £312.1 million, an increase of £39.8 million, or 14.6%, on last year (2021: £272.3 million), supported by the acquisition of DL Radiators in July 2022 and the impact of selling price increases, partially offset by a decrease in sales volumes. Steel price volatility continued in 2022 and selling price increases were applied in the year to recover steel and other inflationary cost increases. Revenue growth (pre-IAS 29) was 3.0% on a like-for-like basis.

Adjusted operating profit for the year was £34.0 million, an increase of £0.8 million, or 2.4%, compared to last year (2021: £33.2 million), with the benefits of a successful focus on margin management and operational improvements leading to increased margins per radiator, which have more than offset a decrease in sales volumes of 9.2%. Adjusted operating profit increased by 1.6% on a like-for-like basis.

Statutory operating profit for the year was £22.6 million (2021: £26.6 million), after deducting the non-cash impact of IAS 29 of £6.0 million (2021: £nil), exceptional costs of £1.8 million (2021: £9.6 million), the amortisation of customer relationships of £0.1m (2021: £nil) and the impact of foreign exchange losses of £3.5 million (2021: gains of £3.0 million). The exceptional costs incurred in 2022 related to restructuring costs to reconfigure and optimise production, acquisition costs and the reversal of the IFRS 3 uplift on finished goods and work in progress required as part of business combination accounting.

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A strong focus on margin management and operational improvements more than offset the impact of lower volumes in 2022.

George Letham
Chief Financial Officer

Adjusted profit for the year increased by £2.7 million, or 12.9%, to £24.3 million. Statutory profit for the year, after deducting the £6.0 million impact of IAS 29 within operating profit and £7.9 million of net monetary losses, decreased by £10.4 million, or 70.6%, to £4.3 million (2021: £14.7 million). Adjusted earnings per share was 19.11 pence (2021: 16.92 pence), whilst the statutory earnings per share after the impact of IAS 29 was 3.38 pence (2021: 11.51 pence).

On 13 July 2022, the Group purchased DL Radiators SpA for €28,346,000. As part of this process, the £80 million revolving credit facility jointly financed by National Westminster Bank plc and Barclays PLC was increased by £20 million by means of an accordion option on 8 July 2022. The amended and restated facility agreement is made up of a £76.0 million revolving credit facility and a €28.3 million term loan facility, expiring in November 2024 with a two-year extension option.

There was a further devaluation of the Turkish Lira against all hard currencies during 2022. Historically, devaluation of Turkish Lira has led to foreign exchange gains (non-cash in nature) being recorded in the income statement. The USD strengthened more significantly against Turkish Lira than both GBP and Euro in 2022, resulting in non-cash foreign exchange losses of £3.5 million (2021: gains of £3.0 million). The currency differences arise from the retranslation of our hard currency assets and liabilities in our Turkish subsidiary and these non-cash currency gains and losses have been excluded from adjusted operating profit.

At 31 December 2022 the Group had cash of £22.6 million (2021: £15.6 million) and undrawn available facilities of £10.1 million (2021: £23.5 million), with net debt before finance leases of £68.4 million (2021: £40.9 million).

IAS 29

As a result of inflation in Turkey exceeding 100% over a three-year period, the Group was required to adopt IAS 29 in respect of its Turkish subsidiary for the first time in its financial statements during the year ended 31 December 2022. The impact of the adoption of IAS 29 is explained in more detail in note 32 of the consolidated financial statements, with the accounting policy outlined in note 5.

The impact of IAS 29 at 31 December 2021 is accounted for as a positive restatement to opening reserves. Management believes that the pre-IAS 29 results give a more meaningful representation of the Group’s underlying performance in the year due to more than 80% of assets, liabilities, revenues and costs in the Turkish subsidiary being denominated in hard currencies. A negative adjustment to operating profit in the year ended 31 December 2022 of £6.0 million has therefore been removed in arriving at adjusted operating profit. Similarly, adjusted profit after tax is stated before the full impact of the IAS 29 loss for the year of £16.3 million.

IAS 29 continued

The impact of IAS 29 on the results for the year ended 31 December 2022 is outlined below.

	Statutory position £m	IAS 29 £m	Pre-IAS 29 position £m
Revenue	316.3	4.2	312.1
Adjusted operating profit	34.0	—	34.0
Exceptional items	(1.8)	—	(1.8)
Amortisation of customer relationships	(0.1)	—	(0.1)
Foreign exchange differences	(3.5)	(0.5)	(3.0)
Impact of IAS 29	(6.0)	(6.0)	—
Operating profit/(loss)	22.6	(6.5)	29.1
Net finance costs	(4.5)	—	(4.5)
Monetary losses – net (IAS 29)	(7.9)	(7.9)	—
Profit/(loss) before tax	10.2	(14.4)	24.6
Income tax expense	(5.9)	(1.9)	(4.0)
Profit/(loss) for the year	4.3	(16.3)	20.6

Functional currency

The Group determined that the functional currency of its Turkish business has changed following the increased production capabilities at the Turkish factory arising from the installation of two new manufacturing lines in the second half of 2022. The new lines are intended to predominantly serve the European and UK export markets which has given rise to a change in the currency profile and therefore functional currency of the business. The change in functional currency of the Turkish business from Turkish Lira to Euro will be accounted for prospectively from 1 January 2023, after which date IAS 29 will no longer be adopted.

DL Radiators acquisition

During the year, the Group completed the acquisition of DL Radiators for €28,346,000. DL Radiators is a leading Italian heat emitter manufacturer which produces and sells both hydronic and electric radiators into the European domestic heating market.

Further analysis of DL Radiators, and its strategic fit within the Group, is outlined on pages 16 and 17 of the Strategic Report. The business combination accounting for the acquisition is outlined in note 21 of the financial statements.

Revenue (pre-IAS 29) by geographical market

The table below sets out the Group's revenue (pre-IAS 29) by geographical market.

Revenue (pre-IAS 29) by geographical market	**2022 £m**	2021 £m	Increase £m	Increase %
UK & Ireland	**138.9**	130.4	8.5	6.5
Europe	**147.9**	118.1	29.8	25.3
Turkey & International	**25.3**	23.8	1.5	6.4
Total	**312.1**	272.3	39.8	14.6

UK & Ireland

The Group's revenue (pre-IAS 29) in UK & Ireland for the year was £138.9 million (2021: £130.4 million), an increase of £8.5 million, or 6.5%. This was principally a result of the impact of selling price increases implemented to mitigate the impact of inflationary costs, partially offset by a decrease in sales volumes.

Europe

The Group's revenue (pre-IAS 29) in Europe for the year was £147.9 million (2021: £118.1 million), an increase of £29.8 million, or 25.3%, supported by the acquisition of DL Radiators and the impact of selling price increases implemented to mitigate the impact of inflationary costs, offset by a decrease in sales volumes. Excluding the acquisition of DL Radiators, the Group's revenue (pre-IAS 29) in Europe for the year was £117.1 million.

Turkey & International

The Group's revenue (pre-IAS 29) in Turkey & International for the year was £25.3 million (2021: £23.8 million), an increase of £1.5 million, or 6.4%. This was principally a result of the impact of selling price increases implemented to mitigate the impact of inflationary costs, partially offset by a decrease in sales volumes.

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	2022 £m	2021 £m	Increase/ (decrease) £m	Increase/ (decrease) %
UK & Ireland	**22.7**	21.6	1.1	5.2
Europe	**13.9**	12.9	1.0	7.3
Turkey & International	**2.1**	2.9	(0.8)	(29.1)
Central costs	**(4.7)**	(4.2)	(0.5)	(9.9)
Total	**34.0**	33.2	0.8	2.4

UK & Ireland

The Group's adjusted operating profit in UK & Ireland for the year was £22.7 million (2021: £21.6 million), an increase of £1.1 million, or 5.2%. This was principally as a result of successful margin management leading to increased margins per radiator, partially offset by lower sales volumes.

Europe

The Group's adjusted operating profit in Europe for the year was £13.9 million (2021: £12.9 million), an increase of £1.0 million, or 7.3%. This was principally as a result of successful margin management leading to increased contributions per radiator, combined with the acquisition of DL Radiators, partially offset by lower sales volumes.

Turkey & International

The Group's adjusted operating profit in Turkey & International for the year was £2.1 million (2021: £2.9 million), a reduction of £0.8 million, or 29.1%. Despite proactive margin management, a decline of 55% in sales volumes in China reduced operating profit in this territory.

Central costs

Central costs for the year were £4.7 million (2021: £4.2 million), an increase of £0.5 million, or 9.9%. 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 costs

During the year exceptional costs of £1.8 million were incurred (2021: £9.6 million).

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

The exceptional costs incurred in 2021 related to the cost of professional advisers employed to consider the potential recapitalisation of the Group and the costs associated with the IPO undertaken by the Group.

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 net finance costs for the year were £4.5 million (2021: £10.2 million). The 55.8% decrease of £5.7 million is primarily due to the repayment of the historical shareholder loans in November 2021, replaced by the Group's current debt structure with lower interest rates. The interest rate of the Group's debt is based on a margin of 2% plus SONIA/Euribor dependent on the currency of the drawing.

Income tax expense

The Group's income tax expense for the year was £5.9 million (2021: £1.7 million), an increase of £4.2 million, or 257.4%. On an adjusted basis, the Group's income tax expense was £5.1 million, which is an increase of £3.7 million from 2021. The 2022 statutory tax charge includes a £1.9 million charge due to IAS 29, with a deferred liability recognised to reflect the higher asset values arising under IAS 29. The increase in the underlying tax charge is due to a number of factors, but significantly the 2021 charge benefiting from the recognition of previously unrecognised deferred tax assets.

Earnings per share and adjusted earnings per share

Profit for the year decreased by £10.4 million, or 70.6%, to £4.3 million (2021: £14.7 million) and earnings per share was 3.38 pence (2021: 11.51 pence). The weighted average number of shares was 127.4 million (2021: 127.4 million). Adjusted profit for the year increased by £2.7 million, or 12.9%, to £24.3 million (2021: £21.6 million) and, consequently, adjusted earnings per share was 19.11 pence (2021: 16.92 pence).

Dividends and reserves

The Group is committed to delivering returns for its shareholders. It has initially adopted a dividend policy targeting an 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 paid an interim dividend in respect of the year ended 31 December 2022 of 2.92 pence per share. The Board has recommended a final dividend of 4.72 pence per share at a cost of £6.0 million to the Group. The total dividend in respect of the year ended 31 December 2022 will be 7.64 pence per share (2021: 0.96 pence per share on a pro rata basis from 10 November 2021 to 31 December 2021).

Cash flow

The following table summarises the Group's cash flow for the years ended 31 December 2022 and 31 December 2021.

	2022 £m	2021 £m	Increase/ (decrease) £m
EBITDA[1]	**42.2**	40.6	1.6
Gain on disposal of property, plant and equipment	**(0.2)**	(0.2)	—
Share-based payments	**0.3**	—	0.3
Working capital adjustments (adjusted for foreign exchange)	**(9.8)**	(5.7)	(4.1)
Net capital expenditure	**(11.6)**	(9.9)	(1.7)
Adjusted cash flow from operations	**20.9**	24.8	(3.9)
Income tax paid	**(3.8)**	(3.7)	(0.1)
Interest received	**0.1**	0.1	—
Adjusted free cash flow	**17.2**	21.2	(4.0)

	2022	2021	(Decrease)/ increase
Adjusted cash flow from operations (£m)	**20.9**	24.8	(3.9)
Adjusted operating profit (£m)	**34.0**	33.2	0.8
Adjusted cash flow from operations conversion (%)	**61.5**	74.8	(13.3)

(1) EBITDA is profit before interest, taxation, depreciation, amortisation, exceptional items, foreign exchange differences and the impact of IAS 29.

The Group's adjusted free cash flow for the year was £17.2 million (2021: £21.2 million), a decrease of £4.0 million. This reflects a reduction in the Group's adjusted cash flow from operations.

The Group's adjusted cash flow from operations for the year was £20.9 million (2021: £24.8 million), a decrease of £3.9 million. This was principally as a result of increased working capital outflows arising from reduced production output in Turkey and capital expenditure relating to a new production line in Italy, partially offset by an increase in EBITDA. Adjusted operating profit for the period was £34.0 million (2021: £33.2 million), an increase of £0.8 million, following an increase in the profitability of the Group. Adjusted cash flow from operations conversion for the period was 61.5% (2021: 74.8%), a reduction of 13.3pp, reflecting the movements in adjusted cash flow from operations described above.

Capital expenditures

The Group's capital expenditures mainly relate to investment in buildings and 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.

	2022 £m	2021 £m
Freehold land and buildings	**2.0**	0.7
Leasehold buildings	**0.4**	0.5
Assets under construction[1]	**1.6**	2.0
Plant and equipment	**5.6**	5.2
Fixtures and fittings	**1.6**	1.2
Intangible assets	**0.2**	—
Total	**11.4**	9.6

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

Key capital expenditure in the year ended 31 December 2022 related to investment in warehousing and additional production lines at the Group's facilities in Turkey and the installation of a new steel panel radiator production line in Italy. The Group's capital expenditure will reduce in future years.

> Adjusted operating profit rose by 2.4% to a record £34.0 million, showing resilience in tough market conditions.

George Letham
Chief Financial Officer

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 £80.0 million. During the year ended 31 December 2022, the Group increased the availability on existing facilities to £100.0 million (before foreign exchange movements) by means of exercising an accordion option. The amended and restated facility agreement is made up of a £76.0 million revolving credit facility and a €28.3 million term loan facility.

At 31 December 2022, statutory net debt (including finance leases) of £78.4 million (2021: £50.2 million) comprises £91.0 million (2021: £56.5 million) drawn down against the multicurrency facility and £10.0 million (2021: £9.3 million) finance leases net of £22.6 million (2021: £15.6 million) cash.

	2022 £m	2021 £m
Revolving credit facility – GBP	**55.3**	56.5
Revolving credit facility – Euro	**10.6**	—
Term loan	**25.1**	—
Cash	**(22.6)**	(15.6)
Net debt before finance leases	**68.4**	40.9
Finance leases	**10.0**	9.3
Net debt	**78.4**	50.2

George Letham
Chief Financial Officer
13 March 2023

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. Risk management teams are also set up for specific projects or operations to consider the risks associated with that project or a specific operational area of the business; for example, there is a separate climate risk management team. The risk assessments from each of the operating businesses, and from the project and operational risk teams, are reported to Group management twice a year and are considered in determining the principal risks of the Group with reference to the Group's strategy and operating environment. The principal risks of the Group are presented to the Board for review.

New and emerging risks are considered through the regular risk activities outlined here, 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 here. 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 here. Finally, the third line of defence is independent review performed by internal audit and other external assurance providers.

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/ operational and project level risk management teams	**Identify, manage and report local risks** • Maintain local risk registers and risk management plans • Identify risks • Identify and implement mitigating actions • Assess the likelihood and impact of each risk before and after mitigating and contingent actions are taken

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. The Group Board assesses its risk appetite across a number of risk categories according to a five-point scale, where one is zero tolerance to risk, and five is a high tolerance of risk. For example, the Group has zero tolerance for risks relating to health and safety.

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.

Climate change has been presented as a separate principal risk for the first time this year due to an increased focus on climate change in the regulatory environment and the requirements for TCFD reporting for the first time this year. The climate-related disclosures on pages 38 to 40 document our approach to climate risk management and our compliance with the TCFD requirements.

Assessment of risk direction

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

- A further global pandemic could reduce market demand for the Group's products.
- There is a risk of widespread absence caused by infection without any control measures in place and a consequential loss of production capacity due to staff shortages.
- 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

- Infection and pandemic risk assessments and response procedures are in place and reviewed regularly. Measures that could be implemented at short notice 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.
- Appropriate fire safety measures are in place at key sites.
- 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.

Assessment of risk direction continued

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

Relevant stakeholder

Customers

» See page 24

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 actively manages and maintains its ongoing customer relationships.
- The Group will take appropriate measures to seek to regain lost customers.
- The Group attends customer events and product launches, and participates in industry forums, exhibitions and events.
- The Group actively manages and maintains brand websites and its social media presence to establish and maintain a relationship with the final consumer.
- Commercial strategies will be reviewed and modified as appropriate.
- Customer surveys and interviews are carried out, particularly focused on sustainability.

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

Relevant stakeholder

Customers

» See page 24

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 continue to 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.
- The Group attends customer events and product launches, and participates in industry forums, exhibitions and events.
- The Group actively manages and maintains brand websites and its social media presence to establish and maintain a relationship with the final consumer.
- Customer surveys and interviews are carried out, particularly focused on sustainability.
- The Group invests in the development of new products to maintain a competitive advantage in changing markets.
- The Group invests in appropriate energy saving initiatives across its sites in line with its sustainability strategy.
- The Group will continue to tightly monitor and control costs.

4. Supply chain risk

Risk	Change from prior year	Relevant stakeholder
Failure of the supply chain either due to lack of availability or unforeseen price increases.	No change	Suppliers » See page 24

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.
- Reduced security and availability of energy supply could restrict the ability of the Group to manufacture products.
- Unforeseen increases in raw material prices, in particular steel price and energy prices, could harm profit margins.
- Inflationary price increases 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.
- 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.
- Sufficient stocks levels are maintained across the Group to prevent against short-term supply issues.
- The Group undertakes ongoing supplier performance and relationship building meetings, alongside supplier reviews and audits.
- 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.
- Energy prices are fixed with suppliers for the forthcoming year where this option is available.
- There is an option and ability to flex production volume across facilities around the Group.
- The Group pays suppliers on a timely basis.
- The Group will review and control any discretionary spend.
- The Group will continue to tightly monitor and control costs.
- Solar panels are in place at the warehouse in Heerlen, the Netherlands, and at the DL Radiators factory in Italy; Termo Teknik is installing solar panels at the factory in Çorlu, Turkey.

Assessment of risk direction continued

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

No change

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.
- Appropriate security software is installed, including firewalls and anti-malware, to protect our IT systems.
- 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.
- Internal audit conducted reviews of cyber security risks and identified mitigating actions during the year; the actions will be implemented and this will be periodically reviewed.

6. People and culture

Risk

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

Change from prior year

No change

Relevant stakeholder

People

» See page 23

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.
- The increase in hybrid working could create a risk of losing talent to more "flexible" roles.
- Inflationary increases in staff costs could harm profit margins.
- Lower than inflationary pay increases could result in workforce losses.

Mitigations

- 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.
- 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, alongside individual performance reviews.
- Employee relationships are well maintained locally through employee engagement activities and regular communications, including newsletters.
- An employee engagement survey was carried out in the UK during the year and the Group will continue to engage with our employees through a range of approaches.
- The Group rolled out the updated Code of Conduct to all employees during the year.

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 regularly across the Group.
- The Group has invested heavily in reducing 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 and economic environment

Risk

Failure to evolve business practices and operations in response to the changing political and economic environment.

Change from prior year

Continued increase due to the Russia/Ukraine war and the energy crisis

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.
- A change in political conditions in any of the countries in which the Group operates could give rise to an adverse change in the Group's operations.
- The Group is exposed to potential changes in economic circumstances as a consequence of political events, examples of which include exchange rate fluctuations and private disposable income.
- Inflationary price increases could harm profit margins; this is a particular risk in Turkey where the Turkish Lira has been hyperinflationary during the year.
- The energy crisis and high inflation resulting from the war in Ukraine have increased costs across the Group during the year and could lead to a reduction in consumer spending.
- A significant increase in interest rates would increase interest costs for the Group.
- Market lending capacity could reduce.

Mitigations

- The Group continuously monitors legislative changes and evaluates any potential impact.
- Exchange rate fluctuations are mitigated using the natural hedge of key currency spend where possible.
- 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 in line with the Group's hedging policy.
- The Audit & Risk Committee has reviewed and approved the Group's currency hedging strategy.
- The Group monitors and actions loan renewals on a timely basis.
- There is an option and ability to flex production volumes at each of the Group's facilities.

Assessment of risk direction continued

9. Climate change		
Risk **Failure to evolve business practices and operations in response to climate change.**	**Change from prior year** Continued increase due to heightened stakeholder focus on climate change initiatives	**Relevant stakeholder** Communities and the environment » See page 25

Impact	Mitigations
• See climate-related risks on pages 39 and 40.	• See climate-related risks on pages 39 and 40.

Climate change

Failure to manage and mitigate climate change is identified as a risk on the Group register. Given the scale and the potentially significant impact of climate risk on the Group, it is essential to understand how climate change might impact the business and which strategies may be employed to mitigate any exposure to the business. Expertise and resources have been allocated to manage climate risk across the organisation and to determine the impact that this risk may have on the business model and the broader Group strategy over the short, medium and long term. Climate risk is considered at a Board level when discussing Group strategy and making Board decisions.

Work undertaken by the Group to date to understand the impact of climate change, as well as potential risks and opportunities considered by the business, are further outlined in the TCFD section found on pages 38 to 40.

Viability statement and going concern

Viability statement

The Board has considered the viability of the Group over a three-year period to 31 December 2025, 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.

The financial position of the Group remains robust. On 8 July 2022, the Group increased its debt facility by £20 million by means of an accordion increase and now has in place a £100 million multicurrency facility, made up of a £76.027 million revolving credit facility and a €28.346 million term loan facility. At 31 December 2022, the whole term loan was drawn along with £65.897 million of the revolving credit facility. The facility matures in November 2024, with the option to extend for up to two additional years.

The Board believes that the business model remains 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 48 to 54. They are recorded in a Group risk register, which is reviewed and discussed at 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 later on this page, for the years ending 31 December 2023 and 31 December 2024 with further assumptions applied for the year ending 31 December 2025.

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.

Going concern statement

The financial position of the Group, its cash flows and liquidity position are set out in the financial statements. Furthermore, note 33 to the consolidated financial statements includes the Group's objectives and policies for capital management, and note 34 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 2025.

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 a £100 million bank loan facility, made up of a £76.027 million revolving credit facility and a €28.346 million term 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 the whole term loan along with £65.897 million of the revolving credit facility. The remainder of the facility and cash balances of £22.641 million were available to enable day-to-day working capital requirements to be met.

The financial covenants on the £100 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 2022 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; and
- a reduction of the contribution per radiator from forecast levels to reflect a reduction in profitability due to external factors.

Volumes

Volumes could reduce in the future due to competitive pressures or market weakness and this has been modelled as a downside risk.

Contributions per radiator

The Group's contribution per radiator sold has increased in recent years. There is a downside risk that competitive pressures could reduce the Group's contributions in the future.

In the downside scenario, volumes have been reduced 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.

Non-financial information statement

Non-financial information statement

The table below constitutes the Non-financial information statement of Stelrad Group plc produced to comply with sections 414(C)(A) and 414(C)(B) of the Companies Act 2006. The information listed in the table below is incorporated by cross-reference.

Reporting requirement	Relevant policies and standards which govern our approach	Read more in this report	Page reference
Environmental matters	• Risk management framework (including climate risk management) • Code of Conduct • Local corporate social responsibility policies • UN SDGs • ISO 14001 (environmental management) and ISO 50001 (energy management) • Sustainability strategy and sustainability framework	• Risk management • Sustainability Report • Task Force on Climate-related Financial Disclosures • Stakeholder engagement	48 26 38 22
Employees	• Whistleblowing policy • Equality, Diversity and Inclusion Policy • Code of Conduct • Health and safety policies and procedures • Sustainability strategy and sustainability framework	• Stakeholder engagement • Sustainability Report • Directors' Remuneration Report • Nomination Committee Report • Statement of corporate governance • Audit & Risk Committee Report	22 26 70 68 60 64
Social matters	• Group purpose and values • Code of Conduct • Local corporate social responsibility policies • Equality, Diversity and Inclusion Policy	• Stakeholder engagement • Sustainability Report	22 26
Human rights	• Modern slavery statement • Equality, Diversity and Inclusion Policy • Code of Conduct	• Stakeholder engagement • Sustainability Report • Statement of corporate governance	22 26 60
Anti-bribery and corruption	• Code of Conduct • Anti-bribery policy • Dealing policy • Insider dealing and market abuse policy	• Statement of corporate governance • Audit & Risk Committee Report	60 64
Business model	n/a	• Our business model • Our strategy	12 14
Principal risks	• Risk management framework	• Risk management	48
Non-financial KPIs	n/a	• Key performance indicators • Sustainability Report	20 26

Chair's introduction to governance

Dear shareholders,

On behalf of the Board, I am pleased to present the second Corporate Governance Report of Stelrad Group plc as a publicly listed company. The report summarises the governance structure and the governance procedures of the Group. Since our listing on the Main Market of the London Stock Exchange in November 2021 we have successfully established the new Board and the new Committees of the Board, all of which are functioning effectively.

This report sets out the following:

- details of the Board of Directors and their biographies (pages 58 and 59);
- the role of the Board and how it delegates authority (page 60);
- the key roles of the Board and the division of responsibilities (page 61);
- the Audit & Risk Committee Report (pages 64 to 67);
- the Nomination Committee Report (pages 68 and 69);
- the Remuneration Committee Report (pages 70 to 83); and
- the Directors' Report (pages 84 to 87).

First full year as 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 for 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. Each new member of the Board has brought additional skills, knowledge and experience. We also believe that their fresh perspective has enabled 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 58 and 59.

The first full year of operation of the Board and the Committees has included a thorough and complete induction and training programme, including deep dives into the business units, and a full timetable of Board and Committee meetings, details of which can be found on page 62. The future focus of the Board is to build upon this successful first year of activity whilst continuing to aid the success 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 60.

Purpose, culture and values

The core purpose of Stelrad Group plc of "helping to heat homes sustainably" is proudly delivered by the Group with oversight from the Board. Our core purpose is a key component of our sustainability framework, which is outlined in the Sustainability Report on pages 26 to 41.

The Group has established five values that provide its moral compass, governing the fundamentals of who we are and what we believe is right. These values define the culture we seek to maintain:

- respect – we harness the power of diversity and inclusion in our business, trust those we work with, and value everyone's contribution;
- integrity – we operate with honesty, transparency and fairness in all we do;
- service – we act with empathy and humility, putting people and businesses we serve at the centre of what we do;
- excellence – we champion innovation, and use our energy, expertise and resources to make a positive difference to the environment; and
- stewardship – we prize sustainability, and are passionate about leaving things better than we found them.

Board composition and diversity

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. Female Directors have made up 25% of the Board during the year ended 31 December 2022.

During the year, the Group has enhanced the Group Equality, Diversity and Inclusion Policy and developed a Board Diversity and Inclusion Policy. The Board continues to encourage diversity and inclusion across the Group, and examples of this can be found in the Sustainability Report on pages 26 to 41.

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 22 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.

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

Bob Ellis
Chair
13 March 2023

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.

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.

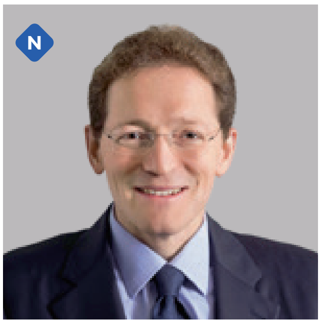
External appointments
Mr Harvey is currently a director of ISG Boiler Holdings Limited, a holding company whose subsidiaries are engaged in the manufacture and distribution of boilers, and has held this position since January 2002.

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
None.



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 an independent 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 is a lawyer and, over a 35-year career, held senior executive positions in the public and private sector, including 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. She holds degrees from the University of Michigan (Bachelor of Arts, 1973), University of Dayton (Juris Doctor, summa cum laude, 1977) and Georgetown University (Master of Laws, 1982).

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 an independent 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 economic water regulator for England and Wales, and senior independent director and chair of the remuneration committee at the Anchor Hanover Group.

Martin Payne

Non-Executive Director

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

Skills and experience

Mr Payne is an experienced chief executive officer and was formerly the chief executive officer of Genuit Group plc (formerly Polypipe Group plc), a UK FTSE 250 building materials company which serves the construction industry by providing sustainable water and climate management solutions. Prior to that Mr Payne was chief financial officer of Polypipe Group plc, and has also held the roles of group finance director at Norcros plc and group financial controller at JCB, the construction equipment manufacturer. Mr Payne was also a director and chairman of the Construction Products Association, the trade association that represents the UK building materials industry. 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

None.

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

During the year ended 31 December 2022, the Board has been composed of eight members. The Directors regard only three of the Non-Executive Directors as 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. Although the number of Non-Executive Directors on the Board who are not considered to be independent is expected to reduce over time, with reductions in the shareholding of the Major Shareholder leading to adjustment of the conditions set by the Relationship Agreement, the Board also continues to consider potential recruitment of additional independent Directors as part of Board succession planning.

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 13 years, and as Chair since 2013, the Board continues to consider that he has made, and will continue to make, a major contribution to the Group's growth and success, and in looking at the year ahead is unanimously of the opinion that his continued involvement as Chair will help to ensure the ongoing success of the Company.

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

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 58 and 59.

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 64**

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 68**

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 70**

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.

Statement of corporate governance *continued*

Board activities and priorities during 2022

During the year ended 31 December 2022, the Board has met ten times. The following areas have been discussed during the year:

- purpose and culture of the Group;
- health and safety;
- ESG strategy, sustainability and TCFD requirements;
- DL Radiators SpA acquisition;
- dividend approval;
- approval of 2021 Annual Report and 2022 Interim Statement;
- Directors' induction and training plan;
- Board evaluation;
- Board and senior management succession planning;
- Equality, Diversity and Inclusion Policy for the Group and for the Board;
- 2021 annual bonus approval, 2022 LTIP grant and 2023 annual bonus proposals;
- cost of living considerations and the 2023 annual pay review for all employees;
- risk management and risk register; and
- internal controls and the establishment of an internal audit process.

Governance report

Board meetings and attendance

The Board held ten scheduled meetings during the year ended 31 December 2022. The table below sets out the attendance of each Director versus the maximum number of meetings they could have attended during the year ended 31 December 2022.

	Board	Audit & Risk Committee	Nomination Committee	Remuneration Committee
Trevor Harvey	10/10	—	—	—
George Letham	10/10	—	—	—
Bob Ellis	10/10	—	—	—
Terry Miller	10/10	4/4	4/4	3/3
Martin Payne	10/10	4/4	4/4	3/3
Nicola Bruce	10/10	4/4	4/4	3/3
Edmund Lazarus	4/10 (1)	—	1/4	—
Nicholas Armstrong	8/10 (1)	—	—	—

(1) Edmund Lazarus and Nicholas Armstrong were unable to attend a number of meetings due to pre-existing commitments.

Appointment and election

There has been no change to the composition of the Board during the year ended 31 December 2022.

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, all members of the Board will be standing for election at the 2023 Annual General Meeting to be held on 22 May 2023.

Board induction and training

Details of the Board induction and training can be found in the Nomination Committee Report on pages 68 and 69.

Board evaluation

A Board and Committee evaluation was undertaken for the first time in 2022 following the Board's first full year of operation. Overall, the results confirmed that the Board and its Committees were operating effectively. Following review by the Nomination Committee, the findings will be presented to the Board to agree actions for addressing the recommendations of the evaluation. In summary, key areas of focus identified by the evaluation include:

- succession planning for senior management and the Board;
- ESG strategy and implementation; and
- stakeholder engagement.

Board effectiveness review

In line with the Code, the Board reviewed its own effectiveness and that of its Committees during 2022. The 2022 Board evaluation was internally facilitated by the Chair of the Nomination Committee in conjunction with the Company Secretary, and it was conducted during December 2022 using an online questionnaire which each Director was asked to complete, with specific reference to individual Board and Committee responsibilities. The completed questionnaires were then collated and the responses reviewed by the Chair of the Nomination Committee and Company Secretary.

The findings of the 2022 evaluation exercise confirmed that overall the Board and its Committees have been operating effectively during the first full year of the Company's life as a public company. The Nomination Committee will consider the findings and develop proposals for action by the Board to address recommendations arising from the evaluation.

With respect to individual performance assessment, the Senior Independent Director provided a performance assessment to the Chair following a session with all Board members (excluding the Chair) and the Company Secretary. The Chair holds frequent one-on-one meetings with each Board member throughout the year and an annual performance assessment with each Non-Executive Director, to ensure that performance, contribution, commitment and any training and development needs are discussed.

Succession planning

Details of Board succession planning and senior management pipeline evaluation can be found in the Nomination Committee Report on pages 68 and 69.

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. The independence of the Non-Executive Directors is reviewed as part of an annual Board evaluation process. As previously stated within the statement of corporate governance, 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 64 to 67. 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 48 to 54.

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 posted 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.

Equality, diversity and inclusion

During the year, the Board has approved a new Equality, Diversity and Inclusion Policy. The Board has also approved a new Diversity and Inclusion Policy for the Board, ensuring that diversity and inclusion will be considered in all future Board appointments so that the Board membership reflects a broad combination of factors such as diversity of gender, age, educational and professional background, social, ethnic and geographical background, and cognitive and personal strengths.

Female Directors made up 25% of the Board during the year ended 31 December 2022.

Succession planning

Succession planning, both for the Board and for senior management, has been a major focus over the past year. Details of the Nomination Committee's consideration of succession planning can be found in the Nomination Committee Report on pages 68 and 69.

Overseeing financial reporting and risk management

Committee members
Martin Payne (Chair)
Terry Miller
Nicola Bruce

Highlights of 2022

- Completion of the 2021 Annual Report – the Group's first since listing.
- Implementation of a strengthened internal audit approach using external resource.
- Continued development of the Group's risk management framework.
- In quarter four, reviewed and agreed to change the functional currency of the Group's Turkish business commencing 1 January 2023.

Focus areas for 2023

- Continued development of the Group's TCFD reporting.
- Continued development of the Group's risk management framework.
- Review of currency risk management.
- Review of the 2022 Annual Report.
- Review of controls in the Group's recent acquisition, DL Radiators.
- Develop a formal process for external auditor review.

"Our work in the year has concentrated on refining and building upon the strong foundations already in place within the Group.

Martin Payne
Chair of the Audit & Risk Committee

Dear shareholders,

As Chair of the Audit & Risk Committee, I am pleased to introduce the Committee's report, which provides a summary of the Committee's role and activities for the financial year ended 31 December 2022.

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 auditors effectiveness; and provide an overview of the Group's internal control environment and risk management framework, including the Committee's assessment of its effectiveness.

Committee composition

The Committee has comprised three independent Non-Executive Directors during the year ended 31 December 2022: Nicola Bruce, Terry Miller and Martin Payne as Committee Chair. The Major Shareholder is entitled to nominate an observer to the Audit & Risk Committee and has exercised its right to do this during the year.

The membership of the Committee was selected 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. The Board believes that the Committee has the 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 58 to 59.

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 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

The Committee schedules 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. Additional meetings are held as required where there are specific areas of judgement to discuss. During the year ended 31 December 2022, an additional Committee meeting was held to consider the appropriate functional currency of the Turkish business, and further details of the decision can be found later in this report.

The Committee will meet at least three times per annum. 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 following each meeting.

The Committee also sets 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.

2022 Committee activities

The Committee met four times during the year ended 31 December 2022, and key areas covered at the meetings of the Committee were:

- a review of external auditors effectiveness;
- an update on the Group's financial position and prospects procedures and the steps the Group has taken during the year to address any outstanding action points identified as part of the listing process;
- consideration of the relevant elements of the Group's 2021 Annual Report, including the key accounting judgements and the going concern and viability statement, and of the Interim Statement;
- review of newly applied accounting standards, including the first time application of IAS 29 Financial Reporting in Hyperinflationary Economies and IFRS 2 Share-based Payments;
- review of proposed dividend and assessment of distributable reserves;
- review of the functional currency of the Turkish business;
- consideration of the risk management framework and of the Group risk register, including the incorporation of climate risk into the risk management framework and the creation of a climate risk and opportunity register;
- consideration of the Group's approach to internal audit, and development of this approach culminating in the appointment of Grant Thornton UK LLP as internal auditors during 2022; and
- oversight of the new TCFD reporting requirements related to climate change.

IAS 21 – functional currency

During the year ended 31 December 2022, the Committee met to consider whether it was necessary to change the functional currency of the Turkish business due to a change in its currency profile. This has arisen from the increased production capabilities at the Turkish factory following the installation of two new lines in 2022. The markets that the new lines are intended to serve are predominantly the European and UK markets, which was determined to have given rise to a change in currency profile and the functional currency of the business. The functional currency of the Turkish business was deemed to have changed from Turkish Lira to Euro and the change will be accounted for prospectively from 1 January 2023.

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 is reviewed and assessed by the Committee. The Committee considers that the 2022 Annual Report is 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 and areas of audit risk:

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.

Accounting for business combinations

In July 2022, the Group acquired DL Radiators SpA, an Italian manufacturer of heat emitters. The Group has applied IFRS 3 Business Combinations to fair value the assets and liabilities acquired as part of the business combination. Judgement was exercised in determining whether any additional intangible assets, such as customer relationships, should be identified and the valuation assigned to these. External experts were engaged to assist with the valuation of certain tangible and intangible assets, including customer relationships. The Committee reviewed the key judgements involved in the accounting for business combinations arising from the acquisition of DL Radiators SpA.

Significant issues and other accounting judgements continued

Application of IAS 29 Financial Reporting in Hyperinflationary Economies

On 19 April 2022, the International Monetary Fund published its World Economic Outlook Report and confirmed that the projected three-year cumulative inflation exceeded 100%. As a result, entities with Turkish Lira as their functional currency should start applying IAS 29 Financial Reporting in Hyperinflationary Economies from June 2022 onwards. IAS 29 requires restatement of the financial statements into the current purchasing power at the end of the reporting period. The calculation was relatively complex and required the application of a number of inputs. The monetary proof was performed, which acts as a sense check for the monetary gain or loss recognised in the statement of comprehensive income. The Committee reviewed the key inputs involved in the application of IAS 29 and the monetary proof.

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 55 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 current economic situation.

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 were subsequently appointed as auditors of the Company.

For the financial year ending 31 December 2023, 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 2023.

The current lead audit partner, Paul Cheshire, was appointed in 2022. Current professional standards require a lead partner to be rotated every five years.

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 2022 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 2022 had been effective.

The Committee reviewed PwC's findings in respect of the audit of the financial statements for the year ended 31 December 2022. 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. No matters were raised.

Non-audit services

A policy governing the provision of non-audit services is in place in order to ensure the independence of the external auditors. Non-audit services should not be carried out by the external auditors, where doing so would compromise their independence. The provision of non-audit services by the external auditors 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 auditors 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 auditors 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 2022, PwC received total fees of £440k (2021: £849k) comprising £398k of audit fees (2021: £272k) and £42k of non-audit service fees (2021: £577k). The fees for non-audit services during the year ended 31 December 2022 and the year ended 31 December 2021 include:

- In 2022, £35k related to interim review fees and £7k related to bank covenant reporting.
- In 2021, £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.
- In 2021, £24k related to tax compliance services for 2020 and £30k related to tax advisory services. In 2022, no tax compliance or tax advisory services were 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.

During the year ended 31 December 2022, Code of Conduct training was delivered to employees across the Group.

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

During the year ended 31 December 2022, the Board agreed with the Audit & Risk Committee recommendation that external providers should be engaged to deliver the Group's internal audit. Grant Thornton UK LLP were engaged and a rolling programme of internal audit activities was put in place. The programme began in the year ended 31 December 2022, and the following reviews have already been undertaken or are in progress:

- cyber risk assessment across the Group; and
- key financial controls reviews in the UK.

The internal audit programme will continue in 2023, visiting all remaining key sites including Turkey, Continental Radiators and Italy. The internal auditors will also follow up on any previous recommendations and their implementation. Following the completion of the key financial controls reviews, the internal auditors will implement a risk-based internal audit plan.

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 48 to 54.

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 was made in any areas identified as needing further improvement, and the Committee continued to receive updates on completing and embedding outstanding recommendations during 2022; this process has now come to a conclusion.

The newly appointed internal auditors, Grant Thornton UK LLP, will contribute to the review of the internal control environment.

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 63 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 63 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
13 March 2023

Ensuring Board effectiveness and succession planning

Committee members
Terry Miller (Chair)
Martin Payne
Nicola Bruce
Edmund Lazarus

Highlights of 2022
- Approval of enhanced Group Equality, Diversity and Inclusion Policy.
- Approval of new Board Diversity and Inclusion Policy.
- Implementation of Board effectiveness review.
- Review of Board and senior management succession planning.

Focus areas for 2023
- Focus on actions to address the outcomes of the Board effectiveness review.
- Continuing development of Board and senior management succession planning.

"In 2023, the Nomination Committee will oversee actions to address the outcomes of the Board effectiveness review and continue to focus on succession planning.

Terry Miller
Chair of the Nomination Committee

Dear shareholders,
I am pleased to present the Nomination Committee Report of Stelrad Group plc for the year ended 31 December 2022, the Group's first full year of operation following its admission to the London Stock Exchange's Main Market on 10 November 2021. This report summarises the activities of the Committee during the year and examines the future focus areas of the Committee.

Nomination Committee composition
The Committee's membership is detailed on page 61, and information on the Directors' experience and skill sets can be found in their biographies on pages 58 and 59. At the financial year end, the Committee comprised a majority of independent Non-Executive Directors, complying with provision 17 of the 2018 Code.

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 Equality, Diversity and Inclusion 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 are reviewed at least annually and approved by the Board. During the course of this year, the Committee recommended some enhancements to the terms of reference, which were approved by the Board. The terms of reference can be found on our website, www.stelradplc.com.

Board induction and training

The Committee continued to focus on the implementation of a comprehensive induction plan for the three independent Non-Executive Directors, building on the initial programme undertaken at the time and immediately following Directors' appointments in November 2021. An ongoing programme of induction and training has been developed, covering site visits to key operational centres, training on statutory and regulatory developments as these arise, and a series of "deep dives" into the Group's functions and business activities. During the course of the year, induction and training activities have included a site visit to the Group's UK manufacturing and distribution facility in Mexborough, and a detailed overview of the Group's approach to fulfilling its ESG strategy.

Diversity and inclusion

The Board recognises the significant advantages of having a diverse and inclusive workforce. Maintaining oversight of the Equality, Diversity and Inclusion Policy and the Group's progress in meeting its objectives, including how these are applied for Board and senior management appointments, is an important element of the Committee's work. The Committee works with the Chief People Officer and 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.

Over the course of this year, the Committee has reviewed and recommended enhancements to the Group's diversity policy, resulting in Board approval of a new Equality, Diversity and Inclusion Policy. The Board has also approved a new Diversity and Inclusion Policy for the Board, ensuring that diversity and inclusion will be considered in all future Board appointments so that the Board membership reflects as broad a combination of skills, experience, gender, ethnicity, age, sexuality, disability, education and background as possible.

Board evaluation

The Committee has assisted the Chair in working with the Company Secretary to facilitate the content and process of a comprehensive internally managed Board and Committee evaluation in quarter four of 2022, following a full year of Board operations. The results of the evaluation, along with an action plan for addressing any identified issues, will be reported to the Board early in 2023, and the aspects relating to Board and Committee composition and performance will be reviewed by the Committee. Further details of the format and outcome of the Board evaluation process can be found on page 62.

Committee meetings and agenda

The Committee meets as often as needed and, in any case, no less than twice per year, depending on circumstances, to ensure it is discharging its duties as a Committee in full and in accordance with our terms of reference. During the year ended 31 December 2022 the Committee met four times.

Agenda items for the Committee's meetings during the year ended 31 December 2022 included:

- a review of its terms of reference;
- periodic review of the Board's composition and the diversity of skills;
- consideration of the Group Equality, Diversity and Inclusion Policy and the Board Diversity and Inclusion Policy;
- succession planning for the Board and the pipeline for recruitment for key roles within the senior leadership team;
- further development of an ongoing induction and training plan for Non-Executive Directors;
- Board and Committee evaluation planning; and
- development of diversity reporting across the Group.

A major focus of consideration for the Committee over the past year has been succession planning both for the Board and for senior management. The Committee works closely with the Chief People Officer and the Human Resources team to identify and maintain robust pipelines of immediate, short-term and longer-term leadership potential within the senior management team, and is-supported by the Chief People Officer in ongoing review of objectives and time frames for Board succession planning.

The Committee's future focus will continue to include consideration of these topics.

Annual re-election of Directors

As required by the UK 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 re-elected.

Terry Miller
Chair of the Nomination Committee
13 March 2023

Overseeing how we reward our people

Nicola Bruce
Chair of the Remuneration Committee

Highlights of 2022

- Overseeing the implementation of the new Directors' Remuneration Policy.
- Granting of first LTIP awards under the new Policy.
- Determining incentive outcomes for Executive Directors and senior management.
- A review of workforce remuneration across all geographies.

Focus areas for 2023

- Setting incentive targets and determining incentive outcomes for Executive Directors and senior management, including the design of an ESG component for inclusion in future years.
- Review of remuneration for Executive Directors and senior management and its alignment with strategy.
- Oversight of wider workforce remuneration and policies.

"An important consideration for the Remuneration Committee in 2022 has been the impact of the cost of living crisis on our workforce.

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 2022, our first full year as a listed business.

This report consists of three sections:

- the Annual Statement and associated high-level summary (remuneration at a glance);
- a summary of the Directors' Remuneration Policy approved by shareholders at the 2022 AGM – shareholders will not be asked to vote on the Policy at the 2023 AGM. In line with the applicable regulations, we have not detailed the full Policy but included those parts that we consider that shareholders will find most useful; 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 2022, describes the link between Company performance and remuneration for 2022 and sets out the proposed approach to remuneration in 2023.

We consider that the Policy has worked well in 2022 and continues to support our strategy effectively. Therefore we will not be asking shareholders to vote on a revised Policy at the 2023 AGM. In line with the usual three-year timetable, we plan to fully review the Policy in advance of the 2025 AGM, at which meeting shareholders will be asked to vote on a new Policy. The Directors' Remuneration Report (excluding the Policy) will be put to an advisory shareholder vote at the 2023 AGM.

Remuneration outcomes in 2022

The key highlights of the performance of the business during the year can be found in the Strategic Report on pages 1 to 56.

Fixed remuneration

As we reported last year, the Executive Directors' salaries were increased by 4% with effect from 1 January 2022 to £495,101 (in the case of Trevor Harvey) and £316,866 (in the case of George Letham), with these increases in line with the average increase awarded to the broader UK workforce. No changes were made to the Executive Directors' benefits and pensions in 2022, with pension contributions remaining at the 9% of salary level, to which they were reduced at admission, in line with the wider UK workforce.

Bonus

2022 was our first full year as a listed business. Accordingly, the Annual Bonus Plan ("ABP") structure for the year reflected the Policy approved at the 2022 AGM. Each Executive Director was eligible to earn a bonus of up to 125% of salary based on performance against:

- Group adjusted operating profit targets (with a 70% weighting);
- cash flow targets (with a 20% weighting); and
- a strategic measure based on the increase in volumes sold of premium panel radiators, directly reflecting our KPIs (with a 10% weighting).

Full details of the targets and performance against them are set out on page 79. As set out on page 79, the final outturn for Group adjusted operating profit delivered performance between threshold and target. Neither the cash flow target nor the target in relation to increase in volumes sold of premium panel radiators was achieved, resulting in a bonus entitlement of 31.2% of the total award (equivalent to 39.0% of salary). However in view of the cost of living challenges faced by our wider workforce, both Trevor Harvey and George Letham waived their 2022 annual bonus entitlement.

LTIP

A Long Term Incentive Plan ("LTIP") is in place for Executive Directors and other members of senior management. The first awards under the LTIP were granted in May 2022. The 2022 LTIP awards will vest by reference to performance against EPS and relative TSR targets over the three financial years 2022, 2023 and 2024, full details of which are set out on pages 79 and 80, with the Executive Directors' awards then subject to a further two-year holding period.

No long-term incentive awards were capable of vesting in respect of performance in the year ended 31 December 2022.

Wider workforce remuneration in 2022

An important consideration for the business during 2022 has been the impact on our wider workforce of the increase in the cost of living. In response to cost of living pressures, the following key actions were taken:

- a biannual pay review was implemented in Turkey to recognise hyperinflationary pressures; and
- in the UK, we brought forward the annual salary review from January 2023 to November 2022. Focusing on our lower paid colleagues, we awarded a base salary increase of 10% to all of our UK workforce excluding senior management. Senior management, excluding Executive Directors, were awarded a base salary increase of 6%, effective from 1 January 2023.

Across the Group we have implemented nationally agreed pay settlements following engagement with local union representatives.

Implementation of the Policy in 2023

Salary

We will increase the salaries of the CEO and CFO by 4% to £515,000 and £330,000 respectively. This is below the 10% increase awarded to the majority of the UK workforce as referred to above, and below the 6% awarded to other members of senior management. However, in recognition of the challenging macroeconomic environment and the cost of living pressures for our workforce, Trevor Harvey and George Letham have requested that their salary increase is not implemented until January 2024. As a consequence, for financial year 2023, the CEO and CFO salaries will therefore remain at £495,101 and £316,866 noting that the 4% increase will be implemented in January 2024, in addition to any 2024 annual increase approved at that time.

Annual Bonus Plan

In 2023, the Executive Directors and other members of senior management will again participate in an ABP arrangement. For Executive Directors, the ABP provides that they can earn up to 125% of base salary for delivering stretching performance targets, with 75% of any bonus earned to be paid in cash and 25% to be paid in deferred shares to ensure longer-term alignment with the interests of shareholders.

Implementation of the Policy in 2023 continued

Annual Bonus Plan continued

In continued support of our strategy as set out for shareholders prior to our Main Market listing in 2021, recognising the importance of stability and continuity, particularly in this period of more challenging trading conditions, and consistent with the financial measures for the 2022 ABP, the Committee has again decided to apply two financial measures: a Group adjusted operating profit measure and a cash flow measure. Recognising the macroeconomic environment and the key importance of cash generation, for 2023 no strategic measure will be applied and the weighting of the cash flow measure will increase from 20% to 30%, with the Group adjusted operating profit retaining a 70% weighting. In line with the Policy, the Committee retains discretion to adjust formulaic ABP outcomes based on a holistic assessment of Company performance, so that strategic progress will still be considered in assessing the overall bonus outturn. The Committee will also take into account the quality of the cash generated as part of that overall assessment given the increase in the weighting of the cash flow measure.

It is the Committee's intention to retrospectively disclose the targets for the 2023 ABP once pay-outs have been determined, as with the 2022 ABP performance targets on page 79, as the targets are currently deemed to be commercially sensitive.

> "We are committed to maintaining a clear, open and transparent dialogue with our shareholders on executive remuneration.
>
> **Nicola Bruce**
> **Chair of the Remuneration Committee**

We recognise the importance of ESG considerations to all of our stakeholders, both internally and externally, and we have a well-established and meaningful commitment to sustainability as outlined in our Sustainability Report. In 2022, we established a Task Force to develop our ESG strategy more fully, with further information in relation to its activities included in the Sustainability Report. Based on the outputs of our Task Force, in 2023 we will shortlist a series of measures and develop targets for key ESG-related metrics. We will therefore be well placed to include ESG metrics in our incentive arrangements from 2024 onwards, at which time we will be confident that the measures we will include will be appropriate and robust.

Long Term Incentive Plan

Our Policy includes the ability to grant LTIP awards annually to our Executive Directors of up to 150% of base salary. In view of the current economic climate and, in particular, the cost of living crisis which is inevitably impacting all of our employees, no LTIP awards will be granted in 2023 for Executive Directors or senior management.

Conclusion

We are committed to maintaining a clear, open and transparent dialogue with our shareholders on executive remuneration.

On behalf of the Board, I would like to thank shareholders for their continued support and we hope that you will support the resolution requesting approval of the Annual Report on Remuneration at this year's Annual General Meeting on 22 May 2023.

Nicola Bruce
Chair of the Remuneration Committee
13 March 2023

This report has been prepared in accordance with the applicable remuneration reporting regulations, the FCA Listing Rules and the UK Corporate Governance Code.

Remuneration at a glance

Implementation of the Remuneration Policy in 2023

For 2023, the Executive Directors will be remunerated in line with the approved Policy, as summarised in the table below.

Element of pay	Implementation in 2022	Proposed implementation for 2023
Fixed remuneration		
Base salary	Each Executive Director received a 4% base salary increase in line with the average increase awarded to the UK workforce.	As noted above, the 4% increase approved by the Committee will be implemented with effect from 1 January 2024 in addition to any 2024 annual increase approved at that time, so that during 2023, the Executive Directors' salaries will remain at the level of £495,101 (in the case of the CEO) and £316,866 (in the case of the CFO).
Pension	The Executive Directors receive a salary supplement in lieu of pension contribution of 9% of salary.	
Benefits	Each Executive Director receives the benefit of a life assurance scheme, private health cover, a car allowance and the reimbursement of fuel expenses.	
Variable pay		
ABP	Bonus opportunities of up to 125% were awarded. Based on the stretching targets, a bonus of 39.0% of salary would have been earned by each Executive Director; however, the Executive Directors have waived their entitlement to a 2022 ABP award.	The ABP will award up to a maximum of 125% of base salary, based on the achievement of two financial measures: Group adjusted operating profit (70%); and adjusted cash flow from operations conversion (30%). 75% of the annual bonus will be paid in cash, with the remaining 25% delivered as deferred shares.
LTIP	No LTIP awards were capable of vesting by reference to performance in 2022. Awards were granted in 2022 at the level of 150% of salary vesting by reference to EPS and relative TSR performance over three years, with a further two-year holding period.	The Policy provides for an annual LTIP award up to a maximum of 150% of base salary. As noted previously, no LTIPs will be awarded in 2023.

Remuneration Policy

The Group's Directors' Remuneration Policy (the "Policy") was approved by shareholders at the AGM on 16 May 2022. As shareholders will not be asked to vote on the Policy at the 2023 AGM and in line with the applicable regulations, we have not included the full Policy but have summarised those parts that we consider that shareholders will find most useful. The full Policy is set out on pages 63 to 68 of the 2021 Annual Report which is available at https://stelradplc.com/investors-2/results-reports-and-presentations/.

UK 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.

Wider workforce considerations and engagement

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, including feedback from the employee survey as well as a regular programme of Director site visits. 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.

Remuneration Policy summary

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 Deferred Share Bonus Plan ("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: up to 24% • On target: up to 50% • Maximum: up to 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 predetermined targets. Actual targets, performance achieved and awards made will be published at the end of the performance period.

Remuneration Policy summary continued

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 towards 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.

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.

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

Annual Report on Remuneration
The following section sets out our Annual Report on Remuneration and outlines how the Policy was implemented in 2022. The Annual Report on Remuneration will be subject to an advisory shareholder vote at the AGM to be held on 22 May 2023.

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's Chief People Officer 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 58 and 59.

The Major Shareholder remains 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.

The Committee will meet not less than three times a year. During the year ended 31 December 2022, the Committee met on three occasions. The Directors consider that the Company complies with the requirements of the UK 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 to set the total remuneration packages for all Executive Directors, the Chair of the Company and senior management;
- 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 appointed Deloitte LLP ("Deloitte") with effect from October 2022 to provide independent advice on executive remuneration matters. Deloitte is a signatory to the Code of Conduct for Remuneration Consultants in the UK. The fees paid to Deloitte in relation to advice provided to the Committee for 2022 were £6,850. Prior to the appointment of Deloitte, the Committee was advised by Mercer whose fees for 2022 until October were £43,300 (2021: £8,000).

The Committee will evaluate the support provided by Deloitte annually and is content that it does not have any connections with the Group that may impair its independence. During the year, Deloitte also provided advice in relation to corporate tax matters, the valuation of employee share awards for accounting purposes, and tax reporting in relation to employee share awards.

Information on remuneration for the year ended 31 December 2022

Single total figure of remuneration for the year ended 31 December 2022 (audited)

The following table sets out the single figure of total remuneration received by the Directors who served during the year ended 31 December 2022:

£'000	Year	Basic salary/ fees	All taxable benefits(1)	Pension-related benefits(2)	Annual bonus	LTIP	**Total remuneration**	Total fixed remuneration	Total variable remuneration
Executive Directors									
Trevor Harvey	2022	495	29	45	—	—	**569**	569	—
George Letham	2022	317	24	28	—	—	**369**	369	—
Non-Executive Chair									
Bob Ellis	2022	120	—	—	—	—	**120**	120	—
Non-Executive Directors									
Terry Miller	2022	83	—	—	—	—	**83**	83	—
Nicola Bruce	2022	74	—	—	—	—	**74**	74	—
Martin Payne	2022	74	—	—	—	—	**74**	74	—
Edmund Lazarus(3)	2022	—	—	—	—	—	**—**	—	—
Nicholas Armstrong(3)	2022	—	—	—	—	—	**—**	—	—
Total	**2022**	**1,163**	**53**	**73**	**—**	**—**	**1,289**	**1,289**	**—**

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:

£'000	Year	Basic salary/ fees	All taxable benefits(1)	Pension-related benefits(2)	Annual bonus	LTIP	**Total remuneration**	Total fixed remuneration	Total variable remuneration
Executive Directors									
Trevor Harvey(4)	2021	67	4	6	51	—	**128**	77	51
George Letham(4)	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(3)	2021	—	—	—	—	—	**—**	—	—
Nicholas Armstrong(3)	2021	—	—	—	—	—	**—**	—	—
Total	**2021**	**159**	**7**	**10**	**83**	**—**	**259**	**176**	**83**

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

Incentive outcomes for 2022 (audited)

The maximum bonus opportunity for 2022 was 125% of salary for each Executive Director, with the amount earned based on the achievement of two financial measures and one strategic measure. Details of the performance targets set and the performance against them are set out below.

		Performance targets				
Metric	Weighting	Threshold	On target	Stretch	Actual	% of salary earned
		24% of maximum	50% of maximum	100%		
Group adjusted operating profit[1]	70.0%	£32.0m	£33.684m	£37.052m	£33.684m	39.0%[2]
Adjusted cash flow from operations conversion[1]	20.0%	89.8%	94.6%	104.0%	Below threshold	0%
Increase in volumes sold (compared to 2021) of premium panel[1]	10.0%	9.5%	10.0%	11.0%	Below threshold	0%
						0%

(1) All measures are assessed before acquisitions in the year.

(2) Due to the self-funding structure of the bonus scheme in 2022, the resulting bonus payable to the Executive Directors in respect of the adjusted operating profit element of bonus would have been 39.0% of salary.

In line with the Policy, the Committee reviewed the formulaic outturn in the context of underlying business performance and the broader stakeholder experience and concluded that the outturn of a bonus entitlement of 39.0% of salary was reflective of that performance and experience. However, as described on page 71, the Executive Directors have waived their annual bonus entitlement for 2022 in recognition of the cost of living challenges faced by our wider workforce.

Long Term Incentive Plan vesting (audited)

The first long-term incentives were issued in May 2022 and have a three-year vesting period. 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)

LTIP awards were granted to Executive Directors and certain key individuals in the senior management team below Executive Director level in May 2022. Each Executive Director received an award at the level of 150% of salary, as set out below.

	Type of award[2]	Number of shares subject to award	Face value of award[1]
Trevor Harvey	Conditional share award	348,663	£742,652
George Letham	Conditional share award	223,145	£475,299

(1) The face value of the award is based on the average of the closing share prices for the five dealing days before grant of the award, being the price used to determine the number of shares subject to the awards (£2.13).

(2) The awards will vest based on the achievement of the performance conditions and are then subject to a further two-year holding period.

The vesting of each award is subject to the performance conditions set out below, as disclosed in the 2021 Directors' Remuneration Report.

Information on remuneration for the year ended 31 December 2022 continued

LTIP awarded during the financial year (audited) continued

Performance measure	Weighting	Threshold (25% vesting)	Maximum (100% vesting)
Relative TSR vs constituents of the FTSE Small Cap index (excluding investment trusts) assessed over the three financial years ending with 2024(1)	50%	Median	Upper quartile
Adjusted EPS for 2024	50%	20.12p	23.73p

(1) Opening TSR will be averaged over the period from listing (10 November 2021) to 31 December 2021 and closing TSR over the three-month period ending on 31 December 2024.

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 31 December 2021	**Ordinary shares held at 31 December 2022**	Subject to deferral/ holding period	Unvested and subject to performance conditions	**Total of all scheme interests and shareholdings as at 31 December 2022**
Executive Directors					
Trevor Harvey	11,455,129	**11,455,129**	—	348,663	**11,803,792**
George Letham	5,727,564	**5,727,564**	—	223,145	**5,950,709**
Non-Executive Directors					
Bob Ellis	2,863,782	**2,863,782**	—	—	**2,863,782**
Terry Miller	2,325	**4,325**	—	—	**4,325**
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 (audited)

In accordance with the Policy, 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:

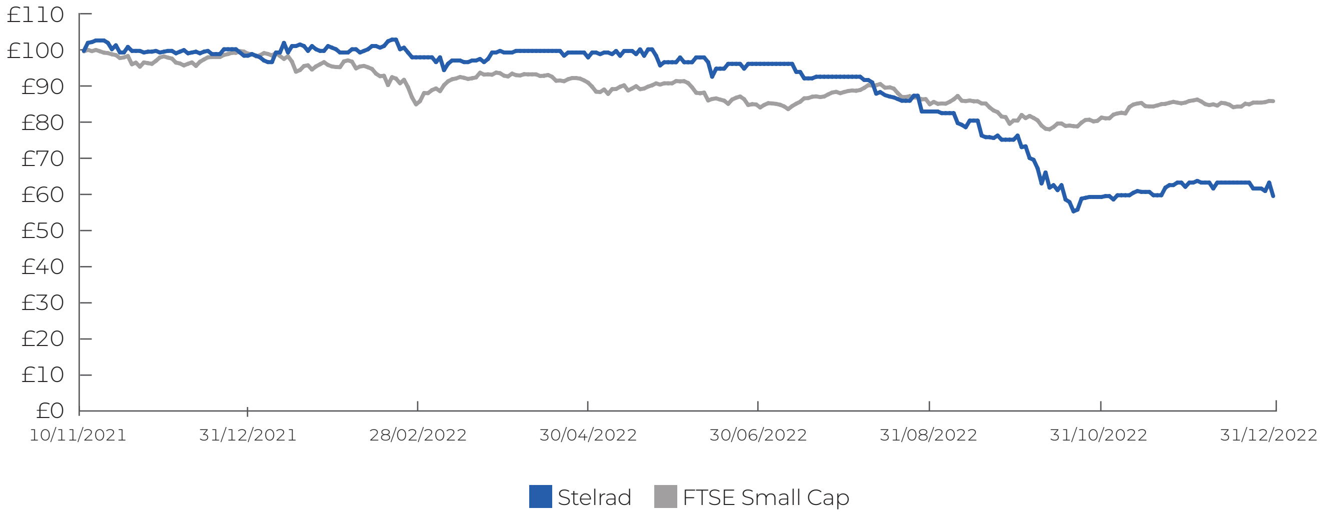
Director	Beneficially owned shares as at 31 December 2022	Shareholding requirement (% of salary)(1)	Current shareholding (% of salary)(1)	Shareholding requirement met?
Trevor Harvey	11,455,129	200%	2,892%	Yes
George Letham	5,727,564	200%	2,259%	Yes

(1) The share price of £1.25 as at 31 December 2022 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 2022 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.

Financial year	CEO single figure	Annual bonus pay-out (% of maximum)	LTIP vesting (% of maximum)
2021[(1)]	£128k	100%	n/a[(2)]
2022	£569k	0%[(3)]	n/a[(2)]

(1) The 2021 figures are based on the single remuneration figure for the period from admission on 10 November 2021 to 31 December 2021.
(2) The first LTIP awards were granted in May 2022 and therefore no awards were due to vest.
(3) The annual bonus pay-out as a percentage of maximum is different to the performance outturn, further details are provided on page 79.

CEO pay ratio (audited)

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
2022	A	18	16	11

The salary and total remuneration for the individuals identified at the 25th percentile, median and 75th percentile for 2022 and 2021 are set out below:

Year ended 31 December 2022 £'000	CEO	25th percentile	Median	75th percentile
Basic salary	495	29.3	30.3	45.7
Total remuneration	569	30.8	35.6	50.5

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 applicable regulations. No other adjustments were necessary, and no elements of employee remuneration have been excluded from the pay ratio calculation.

The ratio between all employee reference points and CEO pay reduced in the year, with UK employees benefitting from two pay awards in the period and the CEO waiving the 2022 bonus entitlement.

Information on remuneration for the year ended 31 December 2022 continued

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 2022. All figures provided are taken from the consolidated financial statements.

	2022 £'000	2021 £'000	Percentage change
Overall spend on pay including Executive Directors	**42,925**	38,979	10%
Distribution to shareholders	**4,941**	—	n/a

Percentage change in Directors' remuneration (unaudited)

The table below shows the percentage change in the salary or fees, benefits and annual bonus for each of the Directors compared to that for an average employee for the periods 2021–2022. Consistent with last year, as the Company only listed on 10 November 2021, no comparison is included between 2020 and 2021.

For the average employee change, the regulations require us to show the change for employees of Stelrad Group plc. Stelrad Group plc has no employees and accordingly, in the interests of transparency, we have included the change based on the mean employee pay for all UK employees in the Group, being a comparator group that is consistent with the comparator group used for the CEO Pay Ratio disclosure.

Neither Edmund Lazarus nor Nicholas Armstrong receives a fee for their roles as a Non-Executive Director and each has therefore been excluded from the table.

		Average employee	Trevor Harvey	George Letham	Bob Ellis	Terry Miller	Nicola Bruce	Martin Payne
Salary fees(1)	2021–2022	15%	4%	4%	0%	0%	0%	0%
Taxable benefits(1),(2)	2021–2022	11%	8%	5%	n/a	n/a	n/a	n/a
Annual bonus(3)	2021–2022	(55%)	(100%)	(100%)	n/a	n/a	n/a	n/a

(1) For the Directors, the 2021 numbers were determined based on the full-year equivalent of the remuneration arrangements put in place at IPO.
(2) Taxable benefits include the salary supplement in lieu of pension contribution.
(3) Annual bonus is based on the accrued year-end amount.

The average employee benefitted from two pay awards in the year, being that on 1 January 2022 and the early 2023 award made on 1 November 2022.

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 three external appointments.

Shareholder approval of our Directors' Remuneration Policy and Directors' Remuneration Report

The Directors' Remuneration Policy and the 2021 Directors' Remuneration Report were approved at the AGM held on 16 May 2022. Details of the voting outturns are set out below:

Resolution	Votes for	% of votes for	Votes against	% of votes against	Votes withheld
Approve the Directors' Remuneration Policy	115,852,581	99.1	1,056,964	0.9	0
Approve the 2021 Directors' Remuneration Report	116,909,445	100.0	100	0.0	0

Implementation of Policy in 2023

Information on how the Policy will be implemented in 2023 for the Company's Executive Directors is set out in the statement from the Remuneration Committee Chair and on pages 70 to 72.

No changes will be made to the Chair and Non-Executive Director fees for 2023. A breakdown of the fee components for the Chair and Non-Executive Directors in 2023 is as follows:

Role	Fee (per annum) 2023	Fee (per annum) 2022
Chair	**£120,000**	£120,000
Non-Executive Director base fee	**£50,000**	£50,000
Additional fees		
Senior Independent Director fee	**£15,000**	£15,000
Chair of the Remuneration Committee	**£10,000**	£10,000
Member of the Remuneration Committee	**£5,000**	£5,000
Chair of the Audit & Risk Committee	**£10,000**	£10,000
Member of the Audit & Risk Committee	**£5,000**	£5,000
Chair of the Nomination Committee	**£7,500**	£7,500
Member of the Nomination Committee	**£3,750**	£3,750

On behalf of the Board

Nicola Bruce
Chair of the Remuneration Committee
13 March 2023

Directors' Report

The Directors present their report and audited financial statements of the Group for the year ended 31 December 2022. 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 56 of this Annual Report.

The Directors' Report for the year ended 31 December 2022 comprises pages 84 to 87 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 57.
- Information relating to future business developments can be found throughout the Strategic Report on pages 1 to 56.
- Information on how the Directors have had consideration for the Company's stakeholders can be found on pages 22 to 25 of the Strategic Report.
- Information relating to risk management can be found on pages 48 to 54.
- The going concern and long-term viability statements can be found on page 55.
- The Group's global greenhouse gas emissions during the year can be found on page 33 of the Sustainability 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 34 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 70 to 83.
- As required by Listing Rule 9.8.4R, details of the Relationship Agreement with the Controlling Shareholder can be found on page 85.

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 56. 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 £4.3 million (2021: £14.7 million).

An interim dividend of 2.92 pence per share was paid to shareholders on 28 October 2022 and the Board is recommending a final dividend in respect of the year ended 31 December 2022 of 4.72 pence per share (2021: final dividend of 0.96 pence per share pro rata from 10 November 2021 to 31 December 2022). Subject to shareholder approval, the final dividend will be paid on 26 May 2023 to shareholders on the register on 28 April 2023. The total dividend paid and proposed for the year ended 31 December 2022 amounts to 7.64 pence per share.

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 2022, the Company has one class of ordinary share with a nominal value of £0.001. The shares are listed for trading on the Main Market of the London Stock Exchange, and at 31 December 2022, 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.

At the Annual General Meeting held on 16 May 2022 shareholders passed a resolution allowing the Company to make market purchases of ordinary shares of £0.001 each in the capital of the Company up to a maximum aggregate amount of 10% of the Company's issued share capital. No shares have been purchased as at the date of this report. This authority is due to expire at the AGM to be held on 22 May 2023 and the Board will seek to renew this authority.

Substantial shareholdings

As at 31 December 2022, 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	6,900,000	5.4%
George Letham	5,727,564	4.5%
Janus Henderson Investors	5,233,114	4.1%
Tellworth Investments	5,161,051	4.1%
Unicorn Asset Management	4,664,720	3.7%
Charles Stanley	4,499,616	3.5%
Lombard Odier Asset Management	4,188,477	3.3%

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 2022 can be found on pages 58 and 59.

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 80. Details of the Executive Directors' service agreements and Non-Executive Directors' letters of appointment are available in the Remuneration Report on page 77.

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 2022 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.

Change of control provisions continued

Bank agreement

The multicurrency facilities agreement originally dated 2 November 2021, and subsequently amended and restated by an amendment and restatement agreement dated 8 July 2022, 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

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. During the year, an employee engagement survey was carried out in the UK and a programme of employee engagement surveys will continue to be rolled out across the Group.

The Board has elected to continue to use a combination of approaches to gather the views of the workforce, rather than to adopt one of the three measures set out in the Code.

The majority of employees are located in manufacturing and distribution facilities in the UK, Turkey, the Netherlands, Denmark, Poland and Italy, with sales personnel in seven other countries. Given the relatively small number of employees in each location, the diversity of cultural norms and the differing statutory requirements for each location, a decentralised and tailored approach to employee engagement has been adopted. This encompasses engagement with our employees through our long-established collective forums, through our trade union bodies, and directly with our workforce. The Board believes that this, combined with the flat structure of our business, which enables close working relationships across the Group, is effective and meaningful in representing the voice of our employees.

The Board reviews employee engagement using a range of data. A formal annual review of employee engagement is undertaken by the Board, and this session is attended by the Chief People Officer.

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.

Further examples of employee engagement across the Group can be found in the Sustainability Report on pages 26 to 41.

Equality, diversity and inclusion

During the year, the Board has approved a new Equality, Diversity and Inclusion Policy. The Group is a committed equal opportunities employer and we aim to:

- prevent discrimination, eliminate prejudice, promote inclusion and celebrate diversity within the organisation;
- be fair in our dealings with all people, internally or externally, with whom we have relationships, taking into account the diverse nature of their culture and backgrounds; and
- ensure that equality, diversity and inclusion is embedded in everything we do.

The Equality, Diversity and Inclusion Policy covers all aspects of equality including race, religion or belief, sex, gender reassignment, marriage and civil partnership, pregnancy, maternity and other matters relating to parental responsibility, sexual orientation, disability and age.

It underlines our commitment to develop as an open and inclusive organisation, in keeping with our values and our Code of Conduct.

During the year, the Board has also approved a new Board Diversity and Inclusion Policy.

Research and development expenditure

Research and development costs of £1.1 million (2021: £1.0 million) 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 (2021: £nil) and no political expenditure was incurred during the year (2021: £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.

At the Annual General Meeting of the Company held on 16 May 2022, 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 22 May 2023 and therefore the Company will seek to renew the authority in line with the above considerations. The resolution to be proposed at the 2023 AGM, authorising political donations and expenditure, is to ensure that the Group does not commit any technical breach of the Companies Act 2006.

Important developments since 31 December 2022

There have been no material events or developments affecting the Company or any of its operating subsidiaries since 31 December 2022.

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 is fair, balanced and understandable. The Directors consider, on the advice of the Audit & Risk Committee, that the Annual Report, 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 22 May 2023 at 4 pm. 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 financial statements

The Directors are responsible for preparing the Annual Report 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 Group and the Company financial statements in accordance with UK-adopted international accounting standards.

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 and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the 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 also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider 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 and Company's position and performance, business model and strategy.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order 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.

The responsibility statement was approved by the Board of Directors on 13 March 2023 and is signed on its behalf by:

George Letham
Chief Financial Officer
13 March 2023

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 Group 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 2022 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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 2022; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statements of changes in equity and the Consolidated statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

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 the Audit and Risk Committee Report and note 10, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- Significant components being the UK, Turkey and the Continental division, with DL Radiators SpA also being in full scope.
- This provides coverage of 93% of the Group's revenue.
- Tested large balances in non-financially significant components and large adjustments arising on consolidation.
- 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).
- Completeness and valuation of assets and liabilities in the business combination (Group).
- Completeness and accuracy of IAS 29 accounting (Group).
- Carrying value of investments (Parent).

Materiality

- Overall group materiality: £1,053,950 (2021: £1,000,000) based on 2.5% of Group adjusted EBITDA (EBITDA adjusted for exceptional items, foreign exchange differences and the impact of IAS 29).
- Overall company materiality: £1,321,500 (restricted to £967,000 for Group reporting purposes) (2021: £1,375,000 (restricted to £400,000 for Group reporting purposes) based on 1% of total assets.
- Performance materiality: £790,460 (2021: £750,000) (group) and £991,125 (restricted to £725,250 for Group reporting purposes (2021: £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.

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.

Completeness and valuation of assets and liabilities in the business combination, Accuracy and completeness of IAS 29 accounting and Carrying value of investments (Parent) are new key audit matters this year. Otherwise, the key audit matters below are consistent with last year.

Our audit approach continued

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
Completeness and accuracy of indirect rebates (Group) Refer to Accounting policies on revenue recognition and note 6 – Significant accounting judgements, estimates and assumptions. The UK sales arrangements include installer rebates. Determining the accrual for 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 at the time the accrual needs to be determined. As such, historical rates in relation to take up (number of radiators for which a rebate has been claimed) and poundage (the rebate value claimed per radiator), as well as management judgement, are used in calculating the accrual for indirect rebates. We identified this as a key audit matter due to the subjectivity involved, the potential for manipulation and because of the impact it has on revenue recognised.	To get comfortable with the indirect rebates accrual we have: • Corroborated the sales volumes data included in management's calculations of historic take up and poundage rates to sales during the period; • Corroborated the volume and value of rebate claims on radiators sold included in management's calculation of historic take up and poundage rates to settled rebate claims; and • Performed sensitivity analysis over management's take up and poundage assumptions taking into account historic actuals to challenge the reasonableness of any management overlay to the assumptions. Through our work performed we did not identify any issues.
Completeness and valuation of assets and liabilities in the business combination (Group) Refer to note 21 – Business Combinations. On 13 July 2022, Stelrad Radiator Holdings Limited, a wholly owned subsidiary of the Group, acquired 100% of DL Radiators SpA, a radiator manufacturer incorporated in Italy, for a consideration of £23,974,000. This met the definition of a business combination under IFRS 3 Business combinations which required management to undertake an acquisition accounting exercise. Management obtained support from external experts in determining the fair value of intangible and tangible assets acquired. We identified this as a key audit matter due to the risk that not all assets and liabilities acquired are identified and due to the judgement involved in determining fair values for the intangible and tangible assets acquired.	We addressed the risk that not all assets and liabilities acquired had been identified through: • considering what assets and liabilities were identified by management against the requirements of IFRS 3 Business combinations and IAS 38 Intangible assets; and • considering the results of our audit work over the DL Radiators component to determine whether or not any assets or liabilities existed that had not been recognised by management as part of the acquisition accounting exercise. To address the risk that the fair values determined for the intangible and tangible assets were not reasonable we have: • Engaged our internal valuation experts to challenge the methodology and assumptions used by management in determining their fair values; and • Tested key inputs into the valuation models including future cash flow forecasts that support the customer relationship intangible and the existence of land, buildings and equipment. In performing these procedures, we did not identify any issues.
Completeness and accuracy of IAS 29 accounting (Group) Refer to note 32 – IAS 29 Financial Reporting in Hyperinflationary Economies. On 19 April 2022, the International Monetary Fund published its World Economic Outlook Report and confirmed that entities with Turkish lira as their functional currency should start to apply IAS 29 Financial reporting in hyper-inflationary economies from June 2022 onwards. IAS 29 requires management to restate the financial statements, including the cash flow statements, into the current purchasing power at the end of the reporting period. This requires a number of steps, and the application of judgement. There is an increased risk on the accuracy and completeness of the entity's balances due to the potential use of an incorrect price index or incorrect computation.	We performed the following to determine if IAS 29 had been applied appropriately: • Checked that management had correctly distinguished between monetary and non-monetary assets and liabilities and remeasured all non-monetary items; • Corroborated the price index being used by management as a reasonable index; • Tested management's remeasurement calculations including key inputs; • Reperformed management's monetary gain or loss proof calculation; • We verified the adjustments being posted to key financial statement line items, including the cash flow statement, as a result of IAS 29; and • We assessed the disclosures included within the financial statements in relation to IAS 29. In performing these procedures we did not identify any issues.
Carrying value of investments (parent) Within the parent company (note 9) there are investments in subsidiaries of £115,908,000. The quantum of these investments is significant to the Parent Company's balance sheet and it is necessary for management to consider whether or not there are any indications of impairment. Due to the quantum of the investments in subsidiaries and the judgement involved in assessing impairment indicators we identified this as a key audit matter.	We obtained management's impairment indicator assessment and independently performed the following to challenge management's assessment that there were no indicators: • The trading performance of trading subsidiaries in the year and how this compared to historic trading; • Reviewed board minutes for anything which might indicate there could be an impairment; • Considered the audit work carried out over subsidiary companies in the Group; and • Considered the impairment test carried out by management over the DL Radiators cash-generating unit. In performing these procedures we did not identify any issues.

Independent auditors' report to the members of Stelrad Group plc *continued*

Report on the audit of the financial statements continued

Our audit approach continued

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). The Group also acquired a trading subsidiary in the year, DL Radiators SpA. The trading entities are in scope for the Group audit given the size of each operation. The trading entities in the UK, Turkey and Continental are considered to be significant components, with DL Radiators SpA also being in full scope. Furthermore, all UK entities receive a statutory audit.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Group's and Company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Group's and Company's financial statements.

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 – Group	Financial statements – Company
Overall materiality	£1,053,950 (2021: £1,000,000).	£1,321,500 (restricted to £967,000 for Group reporting purposes) (2021: £1,375,000 (restricted to £400,000 for Group reporting purposes).
How we determined it	2.5% of Group adjusted EBITDA (EBITDA adjusted for exceptional items, foreign exchange differences and the impact of IAS 29)	1% of total assets
Rationale for benchmark applied	EBITDA is used by management and shareholders in assessing performance of the Group.	Total assets is applicable as the 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 £967,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

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% (2021: 75%) of overall materiality, amounting to £790,460 (2021: £750,000) for the Group financial statements and £991,125 (restricted to £725,250 for Group reporting purposes (2021: £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 in the middle 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 £52,700 (group audit) (2021: £50,000) and £48,350 (company audit) (2021: £20,000) 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's forecasts for the period of at least 12 months from the date of signing the Annual Report 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 2022 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.

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 and Company 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.

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

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 health and safety regulations and employment laws, 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 Listing Rules, Companies Act and tax legislation. 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 EBITDA 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 and the Audit and Risk Committee;
- 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 journals posted with unusual account combinations with a particular focus on revenue and EBITDA.

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. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2021 to 31 December 2022.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will 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 will be prepared using the single electronic format specified in the ESEF RTS.

Paul Cheshire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
13 March 2023

Consolidated income statement
for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Continuing operations			
Revenue	7	**316,315**	272,285
Cost of sales (excluding exceptional items)		**(235,194)**	(192,279)
Exceptional items	7	**(1,054)**	—
Cost of sales		**(236,248)**	(192,279)
Gross profit		**80,067**	80,006
Selling and distribution expenses		**(40,800)**	(35,478)
Administrative expenses (excluding exceptional items)		**(12,811)**	(11,584)
Exceptional items	7	**(755)**	(9,589)
Administrative expenses		**(13,566)**	(21,173)
Other operating income	8	**373**	3,204
Other operating expenses	9	**(3,446)**	—
Operating profit	10	**22,628**	26,559
Finance income	14	**50**	141
Finance costs	15	**(4,573)**	(10,379)
Monetary losses – net	32	**(7,860)**	—
Profit before tax		**10,245**	16,321
Income tax expense	16	**(5,936)**	(1,661)
Profit for the year		**4,309**	14,660

	Note	2022	2021
Earnings per share			
Basic	17	**3.38p**	11.51p
Diluted	17	**3.38p**	11.51p
Adjusted earnings per share			
Basic	17	**19.11p**	16.92p
Diluted	17	**19.11p**	16.92p

Consolidated statement of comprehensive income

for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Profit for the year		**4,309**	14,660
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		**1,691**	5,192
Income tax effect	16	**(631)**	(1,235)
Exchange differences on translation of foreign operations		**(5,941)**	(26,072)
Net other comprehensive expense that may be reclassified to profit or loss in subsequent periods		**(4,881)**	(22,115)
Other comprehensive expense not to be reclassified to profit or loss in subsequent periods:			
Remeasurement losses on defined benefit plans	30	**(1,932)**	(141)
Income tax effect	16	**423**	35
Net other comprehensive expense not to be reclassified to profit or loss in subsequent periods		**(1,509)**	(106)
Other comprehensive expense for the year, net of tax		**(6,390)**	(22,221)
Total comprehensive expense for the year, net of tax attributable to owners of the parent		**(2,081)**	(7,561)

Consolidated balance sheet
as at 31 December 2022

(Registered Number 13670010)

	Note	2022 £'000	2021 £'000
Assets			
Non-current assets			
Property, plant and equipment	19	**91,604**	53,694
Intangible assets	20	**3,855**	—
Trade and other receivables	24	**317**	10
Deferred tax assets	16	**5,397**	6,284
		101,173	59,988
Current assets			
Inventories	23	**77,851**	56,781
Trade and other receivables	24	**60,497**	46,731
Income tax receivable		**235**	104
Cash and cash equivalents	25	**22,641**	15,563
		161,224	119,179
Total assets		**262,397**	179,167
Equity and liabilities			
Equity			
Share capital	28	**127**	127,353
Share premium	28	**—**	13,391
Merger reserve		**(114,469)**	(114,469)
Retained earnings		**227,849**	57,814
Foreign currency reserve		**(62,058)**	(57,177)
Total equity		**51,449**	26,912
Non-current liabilities			
Interest-bearing loans and borrowings	22	**98,513**	62,865
Deferred tax liabilities	16	**2,611**	126
Provisions	27	**1,799**	158
Net employee defined benefit liabilities	30	**4,542**	1,728
		107,465	64,877
Current liabilities			
Trade and other payables	26	**99,214**	83,883
Interest-bearing loans and borrowings	22	**1,520**	1,794
Income tax payable		**1,829**	1,522
Provisions	27	**920**	179
		103,483	87,378
Total liabilities		**210,948**	152,255
Total equity and liabilities		**262,397**	179,167

The financial statements on pages 93 to 130 were approved by the Board of Directors on 13 March 2023 and signed on its behalf by:

George Letham
Chief Financial Officer

Consolidated statement of changes in equity
for the year ended 31 December 2022

	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 2021	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
IAS 29 adjustment (note 32)	—	—	—	8,327	—	8,327
At 31 December 2021 (restated)	127,353	13,391	(114,469)	66,141	(57,177)	35,239
Profit for the year	**—**	**—**	**—**	**4,309**	**—**	**4,309**
Other comprehensive expense for the year	**—**	**—**	**—**	**(1,509)**	**(4,881)**	**(6,390)**
Total comprehensive income/ (expense)	**—**	**—**	**—**	**2,800**	**(4,881)**	**(2,081)**
Capital reduction	**(127,226)**	**(13,391)**	**—**	**140,617**	**—**	**—**
IAS 29 adjustment to retained earnings in the year (note 32)	**—**	**—**	**—**	**22,982**	**—**	**22,982**
Share-based payment charge (note 13)	**—**	**—**	**—**	**250**	**—**	**250**
Dividends paid (note 18)	**—**	**—**	**—**	**(4,941)**	**—**	**(4,941)**
At 31 December 2022	**127**	**—**	**(114,469)**	**227,849**	**(62,058)**	**51,449**

Consolidated statement of cash flows
for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Operating activities			
Profit before tax		**10,245**	16,321
Adjustments to reconcile profit before tax to net cash flows:			
– Depreciation of property, plant and equipment	19	**9,700**	7,409
– Amortisation of intangible assets	20	**163**	—
– Gain on disposal of property, plant and equipment		**(220)**	(213)
– Monetary loss IAS 29	32	**7,860**	—
– Monetary loss IAS 29 income statement element		**3,530**	—
– Share-based payments		**250**	—
– Finance income	14	**(50)**	(141)
– Finance costs	15	**4,573**	10,379
Working capital adjustments:			
– Decrease/(increase) in trade and other receivables		**1,632**	(17,380)
– Decrease/(increase) in inventories		**5,831**	(31,695)
– (Decrease)/increase in trade and other payables		**(11,528)**	40,291
– (Decrease)/increase in provisions		**(1,297)**	158
– Decrease in other pension provisions		**(23)**	(59)
– Difference between pension charge and cash contributions		**(319)**	(22)
		30,347	25,048
Income tax paid		**(3,801)**	(3,734)
Interest received		**50**	141
Net cash flows generated from operating activities		**26,596**	21,455
Investing activities			
Proceeds from sale of property, plant, equipment and intangible assets		**316**	487
Purchase of property, plant and equipment	19	**(9,671)**	(8,646)
Purchase of intangible assets	20	**(164)**	—
Business combination of subsidiaries, net of cash acquired	21	**(20,484)**	—
Net cash flows used in investing activities		**(30,003)**	(8,159)
Financing activities			
Transaction costs related to refinancing		**(429)**	(1,171)
Proceeds from external borrowings		**34,122**	56,500
Repayment of external borrowings		**(1,250)**	(11,001)
Repayment of borrowings acquired with subsidiary		**(10,746)**	—
Repayment of shareholder loans		**—**	(76,528)
Settlement of deferred consideration		**—**	(202)
Payment of lease liabilities		**(2,049)**	(1,666)
Share capital issued		**—**	25,085
Share capital repaid – "C" shares		**—**	(13)
Interest paid		**(3,269)**	(779)
Dividends paid	18	**(4,941)**	—
Net cash flows generated from/(used in) financing activities		**11,438**	(9,775)
Net increase in cash and cash equivalents		**8,031**	3,521
Net foreign exchange difference		**(953)**	(8,041)
Cash and cash equivalents at 1 January	25	**15,563**	20,083
Cash and cash equivalents at 31 December	25	**22,641**	15,563

Notes to the consolidated financial statements
for the year ended 31 December 2022

1 Corporate information
The consolidated financial statements of Stelrad Group plc and its subsidiaries (collectively, the "Group") for the year ended 31 December 2022 were authorised for issue by the Board of Directors on 13 March 2023.

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.

3 Basis of preparation
The consolidated financial statements of Stelrad Group plc have been prepared in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and the disclosure guidance and transparency rules sourcebook of the United Kingdom's Financial Conduct Authority.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments which, where used, are 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. Details of the going concern assessment can be found in the Strategic Report on page 55.

4 Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2022 and 31 December 2021. 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 34.

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 (except when the functional currency is a hyperinflationary currency and the closing rate is used – see note 5(R)); 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(O)(i) for the accounting policy related to right-of-use assets.

5 Summary of significant accounting policies continued

G. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the consideration transferred measured at acquisition date. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the fair values of net identifiable assets acquired, liabilities assumed and contingent liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

H. Intangible assets – other

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the business combination date.

The fair value of customer relationships acquired and recognised as part of a business combination is determined using the multi-period excess earnings method.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

Research and development

Research costs are expensed as incurred. Other intangible assets purchased or produced internally are recorded as assets when the use of the asset is likely to generate future economic benefits and when the cost of the asset can be determined in a reliable manner. These assets are valued at the cost of purchase or production and amortised at constant rates over their estimated useful life.

Subsequent measurement of intangible assets

Intangible assets with a finite life are amortised on a straight-line basis over their estimated useful lives as follows:

Technology and software costs	–	4 years
Customer relationships	–	13 years

The estimated useful life and amortisation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

I. 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.

5 Summary of significant accounting policies continued

I. Financial instruments – initial recognition and subsequent measurement continued

i) Financial assets continued

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.

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.

5 Summary of significant accounting policies continued

I. Financial instruments – initial recognition and subsequent measurement continued

iii) Financial liabilities continued

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.

J. 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; and
- 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.

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.

K. 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.

5 Summary of significant accounting policies continued

L. Impairment of non-financial assets

Intangible assets, including goodwill, that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

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.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, where the recoverable amount is the higher of the asset's fair value less costs of disposal and value in use. 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.

M. 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.

N. 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.

O. 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 (L) Impairment of non-financial assets.

5 Summary of significant accounting policies continued

O. Leases continued

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 22).

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.

P. 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 steel panel radiators based on the very low claims history. The Group sells electrical radiators and a small volume of boilers 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.

Q. Pensions and other post-employment benefits

The Group has an obligation to provide lump sum termination payments to certain employees in Turkey and also in Italy; these schemes are accounted for under IAS 19.

The cost of providing benefits under the schemes are 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.

5 Summary of significant accounting policies continued

R. Financial reporting in hyperinflationary economies (IAS 29)

The financial statements of any subsidiary entity whose functional currency is the currency of a hyperinflationary economy have been restated for changes in the general purchasing power of that currency. The financial statements of entities whose functional currency is the Turkish Lira have been restated from 1 January 2022 by applying a general price index. As a result, the financial statements are stated in terms of the measuring unit current at the balance sheet date. In summary:

- non-monetary assets and liabilities (other than those that are carried at current amounts at the end of the reporting period, such as net realisable value and fair value) have been restated for the change in purchasing power caused by inflation from the date of initial recognition to the balance sheet date;
- monetary assets and liabilities have not been restated;
- all items in the statement of comprehensive income have been expressed in terms of the measuring unit current at the end of the reporting period and have therefore been restated for inflation from the dates when the items of income and expenses were initially recorded in the financial statements; and
- a gain or loss on the net monetary position has been included in profit or loss for the period from 1 January 2022 to the end of the reporting period to reflect the impact of inflation on holding monetary assets and liabilities in local currency.

The general price index used at the balance sheet date is the TUIK Index provided by the Turkish Statistical Institute. The movement in the index during the current reporting period was 64%.

One of the indicators of a hyperinflationary currency is cumulative inflation over a three-year period in excess of 100%. This became the case for the Turkish Lira at 31 March 2022 and, as such, the use of inflation accounting is required in respect of Turkish Lira functional operations for periods ending on or after 30 June 2022 using the published consumer price index.

In the process of applying IAS 29, 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.

The financial statements of a subsidiary entity that has the functional currency of a hyperinflationary economy are restated in accordance with IAS 29, as outlined above, before being included in the consolidated financial statements. All amounts in the subsidiary's financial statements, including all items in the statement of comprehensive income (which would usually be translated at average exchange rate), have then been translated at the closing exchange rate.

Comparative amounts presented previously in a stable currency have not been restated.

The difference between the closing equity of the previous year and the opening equity of the current year has been recognised as an IAS 29 adjustment in the consolidated statement of changes in equity.

The combined effect of restating in accordance with IAS 29 and translation in accordance with IAS 21 have been presented as a net change in other comprehensive income.

Further details on the application of IAS 29 are presented in note 32.

S. Share-based payments (IFRS 2)

The fair value of equity-settled share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured as at the date the options are granted and the charge is only amended if vesting does not take place due to non-market conditions not being met. Various option pricing models are used according to the terms of the option scheme under which the options were granted. The fair value is spread over the period during which the employees become unconditionally entitled to the options. At the balance sheet date, if it is expected that non-market conditions will not be satisfied, the cumulative expense recognised in relation to the relevant options is reversed.

With respect to share-based payments, a deferred tax asset is recognised on the relevant tax base. The tax base is then compared to the cumulative share-based payment expense recognised in the income statement. Deferred tax arising on the excess of the tax base over the cumulative share-based payment expense recognised in the income statement has been recognised directly in equity outside the SOCI as share-based payments are considered to be transactions with shareholders.

Where the Company grants options over its own shares to employees of its subsidiaries, it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements, with the corresponding credit being recognised in equity.

T. 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.

U. 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.

5 Summary of significant accounting policies continued

V. New standards applied in the year

Several amendments and interpretations apply for the first time in 2022, but do not have an impact on the consolidated financial statements of the Group. These include:

- Reference to the Conceptual Framework – Amendments to IFRS 3.
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16.
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37.
- IFRS 9 Financial Instruments – Fees in the "10%" Test for Derecognition of Financial Liabilities.

W. 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
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
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2024
Lease Liability in a Sale and Leaseback – Amendments to IFRS 16	1 January 2024
Non-current Liabilities with Covenants – Amendments to IAS 1	1 January 2024

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 has made judgements which would have a significant effect on the amounts recognised in the consolidated financial statements.

Business combinations

In July 2022, the Group acquired DL Radiators SpA, an Italian manufacturer of heat emitters, for €28.3m.

As a result, an exercise was undertaken to measure the fair value of assets and liabilities acquired as part of the business combination. This included ascertaining a fair value for all inventory acquired as part of the business combination. Management exercised judgement in determining whether any additional intangible assets, such as customer relationships, should be identified and the valuation assigned to these. Management engaged with experts in order to assist with the valuation of certain tangible and intangible assets, including customer relationships.

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.

Adjusted operating profit is earnings before interest, tax, amortisation of customer relationships, exceptional items, the impact of IAS 29 and foreign exchange differences. IAS 29 was applied for the first time in the year ended 31 December 2022. The impact of IAS 29 has been removed in arriving at revenue (pre-IAS 29) and adjusted operating profit, as management believe that the pre-IAS 29 results give a more meaningful presentation of the Group's underlying performance.

Revenue (pre-IAS 29) by geographical market

	2022 £'000	2021 £'000
UK & Ireland	138,874	130,405
Europe	147,909	118,063
Turkey & International	25,335	23,817
Revenue (pre-IAS 29)	312,118	272,285
Impact of IAS 29	4,197	—
Total revenue	316,315	272,285

Adjusted operating profit by geographical market

	2022 £'000	2021 £'000
UK & Ireland	22,716	21,589
Europe	13,877	12,929
Turkey & International	2,055	2,898
Central costs	(4,668)	(4,247)
Adjusted operating profit	33,980	33,169
Exceptional items	(1,809)	(9,589)
Amortisation of customer relationships	(57)	—
Foreign exchange differences	(3,446)	2,979
Impact of IAS 29	(6,040)	—
Operating profit	22,628	26,559

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

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.

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

No customer has revenues in excess of 10% of revenue (2021: one).

Non-current operating assets

	2022 £'000	2021 £'000
UK	18,823	20,237
The Netherlands	22,757	23,606
Turkey	26,854	8,362
Italy	22,686	—
Other	1,239	1,489
Total	92,359	53,694

Notes to the consolidated financial statements *continued*
for the year ended 31 December 2022

8 Other operating income

	2022 £'000	2021 £'000
Net gain on disposal of property, plant and equipment	**220**	213
Foreign currency gains	**—**	2,575
Net gains on forward derivative contracts	**—**	404
Sundry other income	**153**	12
	373	3,204

9 Other operating expenses

	2022 £'000	2021 £'000
Foreign currency losses	**3,446**	—

10 Operating profit
Operating profit is stated after charging/(crediting):

	2022 £'000	2021 £'000
Auditors' remuneration:		
– Audit of the Company and consolidated financial statements	**133**	79
– Audit of subsidiaries	**265**	193
	398	272
– Non-audit services: UK – tax compliance	**—**	14
– Non-audit services: UK – tax advisory	**—**	30
– Non-audit services: overseas – tax compliance	**—**	10
– Non-audit services: services related to the IPO	**—**	523
– Non-audit services – interim review fee	**35**	—
– Non-audit services – other	**7**	—
	42	577
Total auditors' remuneration	**440**	849
Depreciation of owned assets	**7,672**	5,730
Depreciation of right-of-use assets	**2,028**	1,679
	9,700	7,409
Amortisation of customer relationships	**57**	—
Amortisation of other intangibles	**106**	—
	163	—
Profit on sale of property, plant and equipment	**(220)**	(213)
Other exchange losses/(gains)	**3,446**	(2,979)
Research and development costs	**1,083**	1,047

11 Employee benefits expense

	2022 £'000	2021 £'000
Wages and salaries	**34,546**	32,489
Social security costs	**5,397**	4,079
Other pension costs	**2,732**	2,411
Share based payment charge (note 13)	**250**	—
	42,925	38,979

The average monthly number of employees during the year was made up as follows:

	2022 Number	2021 Number
Direct	**772**	806
Indirect	**478**	316
Sales, service and administration	**233**	204
	1,483	1,326

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 70 to 83.

The comparative 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.

	2022 £'000	2021 £'000
Aggregate remuneration	**1,289**	1,911

The amounts in respect of the highest paid Director are as follows:

	2022 £'000	2021 £'000
Aggregate remuneration	**569**	1,083

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 (2021: £nil). Further details on Directors' remuneration can be found in the Remuneration Report on pages 70 to 83.

13 Share-based payments

Long Term Incentive Plans

The Executive Directors and selected members of the senior management team across the Group participate in the Stelrad Group plc Long Term Incentive Plan (the "LTIP"), which was set up and launched during the year ended 31 December 2022. The LTIP provides for the Executive Directors and selected members of the senior management team to be awarded nil-cost shares in the Group, conditional on specified performance conditions being met over a period of three years. The LTIP is based on the achievement of two performance conditions, and the awards granted are split equally between the two conditions – adjusted EPS (a non-market condition) and relative TSR as compared to the selected benchmark index (a market condition). Refer to the Remuneration Report on pages 70 to 83 for further details of the LTIP.

The expense recognised for the LTIP during the year ended 31 December 2022 was £250,000 (2021: £nil).

13 Share based payments continued

Long Term Incentive Plans continued

The fair value of LTIP awards granted (based on market conditions) is estimated as at the date of grant using a Monte Carlo model, taking into account the terms and conditions upon which the awards were granted. The inputs to the model used for the awards granted in the year ended 31 December 2022 and 31 December 2021 were:

	2022	2021
Stelrad Group plc:		
Share price at date of grant	£2.15	n/a
Dividend yield	0.0%	n/a
Risk free rate	1.6%	n/a
Future share price volatility	25.0%	n/a
Selected comparator group:		
Future share price volatility	47.9%	n/a
Correlation between companies	1.0%	n/a

The fair value of the LTIP awards granted (based on non-market conditions) is equal to the share price at the date of grant.

The following table shows the number of share awards for the LTIP:

	2022	2021
Outstanding at the beginning of the year	—	—
Granted during the year	1,011,180	—
Forfeited during the year	(25,451)	—
Exercised during the year	—	—
Outstanding at the end of the year	985,729	—

The weighted average share price of the share awards at the year end was £1.25 (2021: £nil). The weighted average fair value of awards granted during the year was £1.75 (2021: £nil). The weighted average remaining contractual life of the awards was 2.39 years (2021: nil). There were no awards exercised in the year (2021: nil).

Deferred Share Bonus Plan

The Deferred Share Bonus Plan (the "DSBP") provides for the Executive Directors of the Group to be awarded shares in the Group conditional on the achievement of financial and strategic targets. The shares are deferred over a two-year period. The DSBP awards are not subject to any market-based conditions. Therefore, the fair value of the awards is equal to the share price at the date of grant. Refer to the Remuneration Report on pages 70 to 83 for further details of the DSBP.

The expense recognised for the DSBP during the year ended 31 December 2022 was £nil (2021: £nil).

No share awards have been granted under the DSBP during the year ended 31 December 2022 (2021: nil).

14 Finance income

	2022 £'000	2021 £'000
Interest on cash deposits	50	141

15 Finance costs

	2022 £'000	2021 £'000
Interest on bank loans	2,564	370
Interest on ultimate shareholder loans	—	9,117
Amortisation of loan issue costs	492	178
Interest expense on defined benefit liabilities	481	260
Finance charges payable on lease liabilities	124	127
Other finance charges	912	327
	4,573	10,379

16 Income tax expense

The major components of income tax expense are as follows:

	2022 £'000	2021 £'000
Consolidated income statement		
Current income tax:		
Current income tax charge	**4,090**	4,179
Adjustments in respect of current income tax charge of previous year	**(290)**	(68)
Deferred tax:		
Relating to origination and reversal of temporary differences	**2,802**	(2,095)
Relating to change in tax rates	**(666)**	(355)
Income tax expense reported in the income statement	**5,936**	1,661

	2022 £'000	2021 £'000
Consolidated statement of comprehensive income		
Tax related to items recognised in other comprehensive income/(expense) during the year:		
Deferred tax on actuarial loss	**(423)**	(35)
Current tax on monetary items forming part of net investment and on hedges of net investment	**631**	1,235
Income tax expensed to other comprehensive income	**208**	1,200

Reconciliation of tax expense and the accounting profit at the tax rate in the United Kingdom of 19% (2021: 19%):

	2022 £'000	2021 £'000
Profit before tax	**10,245**	16,321
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%):	**1,947**	3,101
Adjustments in respect of current income tax charge of previous year	**(290)**	(68)
Non-deductible expenses	**147**	2,715
Adjustments due to IAS 29 – non-tax deductible expenses	**4,779**	—
Differences arising due to tax losses	**(321)**	(3,052)
Other timing differences	**(161)**	(271)
Benefit of overseas investment incentives	**(1,042)**	(1,723)
Withholding tax on dividend income	**527**	—
Effect of changes in overseas tax rates	**(127)**	(102)
Effect of different overseas tax rates	**1,016**	1,314
Effect of changes in UK deferred tax rate	**(539)**	(253)
Total tax expense reported in the income statement	**5,936**	1,661

16 Income tax expense continued

Deferred tax

Deferred tax relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Capital allowances	**204**	579	**(730)**	(42)
Pension	**806**	414	**10**	134
Fixed asset fair value adjustments	**(1,711)**	(491)	**116**	(41)
Losses available for offsetting against future income	**5,471**	4,440	**572**	1,659
Other temporary differences (including IAS 29)	**(1,984)**	1,216	**(2,104)**	740
Deferred tax (charge)/credit			**(2,136)**	2,450
Net deferred tax assets	**2,786**	6,158		
Reflected in the balance sheet as:				
Deferred tax assets	**5,397**	6,284		
Deferred tax liabilities	**(2,611)**	(126)		
Deferred tax assets, net	**2,786**	6,158		

Reconciliation of deferred tax assets, net

	2022 £'000	2021 £'000
Opening balance as at 1 January	**6,158**	4,342
On business combination	**315**	—
IAS 29 opening balance sheet adjustment	**(2,284)**	—
Tax (charge)/income recognised in income statement	**(2,136)**	2,450
Tax income recognised in other comprehensive income/(expense)	**423**	35
Exchange adjustment	**310**	(669)
Closing balance as at 31 December	**2,786**	6,158

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 £1,821,000 (2021: £581,000) have been recognised in respect of two (2021: one) loss making subsidiary companies; these are recognised on the grounds of future projected performance.

Deferred tax asset recognition

During the year ended 31 December 2021, the Group chose 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.

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

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

Unrecognised deferred tax balances

	2022 £'000	2021 £'000
Capital allowances	**17**	29
Losses available for offsetting against future income	**2,810**	1,904
	2,827	1,933

The Group has tax losses which arose in the United Kingdom of £11,240,000 (2021: £8,653,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they either relate to CIR losses which cannot be reliably utilised in the short-term or they arose prior to April 2017 in subsidiaries that are not profit making and where there is no evidence of recoverability in the near future.

16 Income tax expense continued

Changes in the corporate income tax rate

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

17 Earnings per share

	2022 £'000	2021 £'000
Net profit for the year attributable to owners of the parent	**4,309**	14,660
Exceptional items	**1,809**	9,589
Amortisation of customer relationships	**57**	—
Foreign exchange differences	**3,446**	(2,979)
Impact of IAS 29	**13,906**	—
Tax on exceptional items, foreign exchange differences, amortisation and IAS 29	**806**	282
Adjusted net profit for the year attributable to owners of the parent	**24,333**	21,552

	2022 Number	2021 Number
Basic weighted average number of shares in issue	**127,352,555**	127,352,555
Diluted weighted average number of shares in issue	**127,352,555**	127,352,555
Earnings per share		
Basic earnings per share (pence per share)	**3.38**	11.51
Diluted earnings per share (pence per share)	**3.38**	11.51
Adjusted earnings per share		
Basic earnings per share (pence per share)	**19.11**	16.92
Diluted earnings per share (pence per share)	**19.11**	16.92

18 Dividends paid

The Board is recommending a final dividend of 4.72 pence per share (2021: 0.96 pence per share), which, if approved, will mean a final dividend payment of £6,011,000 (2021: £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.

	2022 £'000	2021 £'000
Declared and paid during the period		
Equity dividend on ordinary shares:		
Final dividend for 2021: 0.96p per share (2020: nil p per share)	**1,223**	—
Interim dividend for 2022: 2.92p per share (2021: nil p per share)	**3,718**	—
	4,941	—

	2022 £'000	2021 £'000
Dividend proposed (not recognised as a liability)		
Equity dividend on ordinary shares:		
Final dividend for 2022: 4.72p per share (2021: 0.96p per share)	**6,011**	1,223

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2022

19 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 2021	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
IAS 29 opening adjustment	7,282	—	31	14,517	1,005	22,835
At 1 January 2022	**29,110**	**11,019**	**4,799**	**62,423**	**7,924**	**115,275**
On business combination	**10,608**	**127**	**974**	**4,321**	**1,498**	**17,528**
Additions	**228**	**427**	**7,773**	**1,577**	**1,276**	**11,281**
Transfers	**1,820**	**—**	**(6,183)**	**4,068**	**295**	**—**
Disposals	**—**	**—**	**—**	**(94)**	**(488)**	**(582)**
IAS 29 adjustment	**5,528**	**—**	**—**	**13,853**	**922**	**20,303**
Exchange adjustment	**(821)**	**649**	**(94)**	**(2,760)**	**(193)**	**(3,219)**
At 31 December 2022	**46,473**	**12,222**	**7,269**	**83,388**	**11,234**	**160,586**
Accumulated depreciation and impairment						
At 1 January 2021	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
IAS 29 opening adjustment	1,845	—	—	10,748	847	13,440
At 1 January 2022	**11,147**	**3,123**	**—**	**32,064**	**5,852**	**52,186**
Depreciation charge	**1,289**	**1,330**	**—**	**5,785**	**1,296**	**9,700**
Transfers	**—**	**—**	**—**	**(101)**	**101**	**—**
Disposals	**—**	**—**	**—**	**(87)**	**(457)**	**(544)**
IAS 29 adjustment	**1,180**	**—**	**—**	**7,502**	**575**	**9,257**
Exchange adjustment	**(241)**	**230**	**—**	**(1,399)**	**(207)**	**(1,617)**
At 31 December 2022	**13,375**	**4,683**	**—**	**43,764**	**7,160**	**68,982**
Net book value						
At 31 December 2022	**33,098**	**7,539**	**7,269**	**39,624**	**4,074**	**91,604**
At 31 December 2021	12,526	7,896	4,768	26,590	1,914	53,694
At 1 January 2021	14,721	9,047	3,412	31,903	1,941	61,024

19 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:

	2022 £'000	2021 £'000
Leasehold buildings	**7,466**	7,814
Plant and equipment	**896**	911
Fixtures and fittings	**1,672**	638
	10,034	9,363

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

	2022 £'000	2021 £'000
Leasehold buildings	**418**	543
Plant and equipment	**153**	79
Fixtures and fittings	**1,039**	382
	1,610	1,004

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

	2022 £'000	2021 £'000
Leasehold buildings	**1,307**	1,127
Plant and equipment	**282**	348
Fixtures and fittings	**439**	204
	2,028	1,679

Land and buildings with a carrying amount of £21,547,000 (2021: £10,890,000) 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.

20 Intangible assets

	Goodwill £'000	Customer relationships £'000	Technology and software costs £'000	Total £'000
Cost				
At 1 January 2022	**—**	**—**	**—**	**—**
On business combination	**1,222**	**1,761**	**713**	**3,696**
Additions	**—**	**—**	**164**	**164**
Disposals	**—**	**—**	**(58)**	**(58)**
Exchange adjustment	**72**	**104**	**46**	**222**
At 31 December 2022	**1,294**	**1,865**	**865**	**4,024**
Accumulated amortisation and impairment				
At 1 January 2022	**—**	**—**	**—**	**—**
Depreciation charge	**—**	**57**	**106**	**163**
Exchange adjustment	**—**	**2**	**4**	**6**
At 31 December 2022	**—**	**59**	**110**	**169**
Net book value				
At 31 December 2022	**1,294**	**1,806**	**755**	**3,855**
At 31 December 2021	—	—	—	—

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2022

20 Intangible assets continued

Included in technology and software costs are assets under construction of £345,000 (2021: £nil), which are not amortised.

The remaining amortisation period of the customer relationships, being those acquired upon the acquisition of DL Radiators SpA, is twelve years and seven months.

Impairment assessment of goodwill

All of the goodwill recognised is allocated to a single cash-generating unit, being the DL Radiators SpA division.

Given the proximity of the year end to the acquisition date of DL Radiators SpA on 13 July 2022, the impairment assessment of goodwill has been calculated using fair value at acquisition less costs of disposal. Using this approach confirms that no impairment charge is required.

21 Business combinations

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

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

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

Goodwill of £1,222,000 reflects certain intangibles that cannot be individually separated and reliably measured due to their nature. These items include the value of expected synergies arising from the business combination and the experience and skill of the acquired workforce. The fair value of the customer relationships was identified and included in intangible assets.

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

21 Business combinations continued

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

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

22 Interest-bearing loans and borrowings

	Effective interest rate %	Maturity	**2022 £'000**	2021 £'000
Current interest-bearing loans and borrowings				
Lease liabilities			**1,520**	1,794
			1,520	1,794
Non-current interest-bearing loans and borrowings				
Lease liabilities			**8,516**	7,524
Revolving credit facility – GBP	SONIA + 2%	9 Nov 2024	**55,250**	56,500
Revolving credit facility – Euro	Euribor + 2%	9 Nov 2024	**10,647**	—
Term loan	Euribor + 2%	9 Nov 2024	**25,150**	—
Unamortised loan costs			**(1,050)**	(1,159)
			98,513	62,865
Total interest-bearing loans and borrowings			**100,033**	64,659

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

On 8 July 2022, the £80 million revolving credit facility was increased by £20 million by means of an accordion option. The facility consists of a £76.027 million revolving credit facility and a €28.346 million term loan facility.

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

23 Inventories

	2022 £'000	2021 £'000
Raw materials – cost	**32,111**	18,647
Work in progress – cost	**3,530**	1,293
Finished goods – lower of cost and net realisable value	**38,974**	34,181
Other consumables	**3,236**	2,660
	77,851	56,781

The cost of inventories recognised as an expense in the year was £236,248,000 (2021: £192,279,000). The provision for the impairment of stocks increased in the year, giving rise to a cost of £138,000 (2021: credit of £127,000). At 31 December 2022, the provision for the impairment of stocks was £2,640,000 (2021: £1,534,000).

Notes to the consolidated financial statements *continued*

for the year ended 31 December 2022

24 Trade and other receivables

	2022 £'000	2021 £'000
Current		
Trade receivables	**55,739**	42,749
Other receivables	**4,197**	3,314
Prepayments	**561**	668
	60,497	46,731
Non-current		
Trade receivables	**—**	10
Other receivables	**317**	—
	317	10

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

	2022 £'000	2021 £'000
At 1 January	**204**	130
On business combination	**844**	—
Charge for the year	**—**	108
Utilised	**(223)**	(23)
Unused amounts reversed	**(122)**	—
Exchange adjustment	**60**	(11)
At 31 December	**763**	204

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
2022					
Gross carrying amount	**56,502**	**49,403**	**3,217**	**3,056**	**826**
Expected credit loss rate (%)	**1**	**—**	**1**	**3**	**77**
Expected credit loss	**763**	**—**	**32**	**92**	**639**
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

25 Cash and cash equivalents

	2022 £'000	2021 £'000
Cash at bank and on hand	**22,641**	15,563

26 Trade and other payables

	2022 £'000	2021 £'000
Current		
Trade payables	**73,903**	57,751
Other payables and accruals	**18,860**	22,198
Other taxes and social security	**6,045**	3,858
Interest payable	**406**	76
	99,214	83,883

27 Provisions

	Warranty £'000	Compensation fund £'000	Restructuring £'000	Unused vacation £'000	Total £'000
At 1 January 2021	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
On business combination	**587**	**1,125**	**1,868**	**—**	**3,580**
Arising during the year	**218**	**12**	**—**	**537**	**767**
Utilised	**(274)**	**(5)**	**(1,184)**	**(557)**	**(2,020)**
Unused amounts reversed	**—**	**—**	**(27)**	**(16)**	**(43)**
Exchange adjustment	**27**	**67**	**62**	**(58)**	**98**
At 31 December 2022	**593**	**1,199**	**719**	**208**	**2,719**
Current	162	—	719	39	920
Non-current	431	1,199	—	169	1,799

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

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

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

28 Share capital and reserves

	2022 Number	2022 £	2021 Number	2021 £
Authorised, called up and fully paid				
Ordinary shares of £0.001 each	**127,352,555**	**127,353**	—	—
Ordinary shares of £1 each	**—**	**—**	127,352,555	127,352,555
		127,353		127,352,555

28 Share capital and reserves continued

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.

During the year ended 31 December 2021, 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.

The movements in the ordinary share capital during the year ended 31 December 2021 and 31 December 2022 were as follows:

	Shares Number	Share capital £
At 1 January 2021	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
Capital reduction	—	(127,225,202)
At 31 December 2022	**127,352,555**	**127,353**

Transactions in the year ended 31 December 2022

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.

Transactions in the year ended 31 December 2021

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.

29 Commitments and contingencies

Commitments

Amounts contracted for but not provided in the financial statements amounted to £433,000 (2021: £1,389,000) 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 $22,685,000 (2021: $30,089,000) and $11,175,000 (2021: $40,518,000) respectively. Termo Teknik Ticaret ve Sanayi A.S. has also issued letters of guarantee denominated in Turkish Lira totalling TL13,220,000 (2021: TL9,497,000).

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 2022 is £nil (2021: £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 (2021: £nil).

29 Commitments and contingencies continued

Contingent liabilities continued

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

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

30 Pensions and other post-employment plans

	2022 £'000	2021 £'000
Net employee defined benefit liability		
Turkish scheme	**3,546**	1,655
Italian scheme	**944**	—
Other retirement obligations – non-IAS 19	**52**	73
	4,542	1,728

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 £3,546,000 (2021: £1,655,000). There are no assets held in this plan (2021: £nil). The expected contributions to the plan for the next reporting period to cover benefits paid are £1,342,000. The service cost in the year was £269,000 (2021: £211,000).

Italian scheme

The Italian pension scheme, the Trattamento di Fine Rapporto, is a deferred compensation scheme established by Italian law. Employers are required to provide a benefit to employees when, for any reason, their employment is terminated. The IAS 19 valuation gives a net liability of £944,000. The expected contributions to the plan for the next reporting period to cover benefits paid are £67,000. The service cost in the year was £nil.

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 £1,077,000 (2021: £1,020,000). There were outstanding contributions totalling £nil (2021: £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 £8,000 (2021: £39,000). 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 £1,369,000 (2021: £1,180,000).

IAS 19 accounting – Turkish and Italian schemes

Amounts recognised in the balance sheet

	Italian scheme 2022 £'000	Turkish scheme 2022 £'000	Turkish scheme 2021 £'000
Defined benefit obligation	**944**	**3,546**	1,655
Net pension liability	**944**	**3,546**	1,655

Notes to the consolidated financial statements *continued*
for the year ended 31 December 2022

30 Pensions and other post-employment plans continued
IAS 19 accounting – Turkish and Italian schemes continued
Movement in defined benefit obligation

	Italian scheme 2022 £'000	Turkish scheme 2022 £'000	Turkish scheme 2021 £'000
At 1 January	—	1,655	2,390
On acquisition	1,033	—	—
Current service cost	—	216	211
Interest cost	9	377	260
Plan curtailments – service cost	—	53	—
Plan curtailments – interest cost	—	95	—
Actuarial (gains)/losses	(118)	2,050	141
Benefits paid	(39)	(548)	(233)
Exchange differences	59	(352)	(1,114)
At 31 December	944	3,546	1,655

Amounts recognised in the income statement

	Italian scheme 2022 £'000	Turkish scheme 2022 £'000	Turkish scheme 2021 £'000
Current service cost	—	216	211
Interest cost	9	377	260
Plan curtailments – service cost	—	53	—
Plan curtailments – interest cost	—	95	—
At 31 December	9	741	471

Amounts recognised in other comprehensive income/(expense)

	Italian scheme 2022 £'000	Turkish scheme 2022 £'000	Turkish scheme 2021 £'000
Experience adjustments – obligation	(72)	(969)	(143)
Changes in demographic assumptions – obligation	—	(197)	1
Changes in financial assumptions – obligation	190	(884)	1
At 31 December	118	(2,050)	(141)

Principal actuarial assumptions

	Italian scheme 2022	Turkish scheme 2022	Turkish scheme 2021
Discount rate (per annum)	3.70%	10.60%	19.00%
Future salary increases (per annum)	n/a	10.10%	14.25%

Quantitative sensitivity analysis

	2022 Discount rate (per annum)		2022 Future salary increases (per annum)	
	+1% £'000	-1% £'000	+1% £'000	-1% £'000
(Decrease)/increase in defined benefit obligation – Italian scheme	(75)	83	—	—
(Decrease)/increase in defined benefit obligation – Turkish scheme	(276)	321	319	(279)

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.

31 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 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.

At 31 December 2021, the Group owed deferred consideration to shareholders related to the sale of a business of £nil as the deferred consideration to shareholders was repaid on 15 October 2021.

During 2021, interest was accrued totalling £9,117,000 (The Bregal Fund III LP: £7,700,000; managers: £1,417,000).

During 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.

During the year, the Group spent £6,000 (2021: £9,000) 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 (2021: £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:

	2022 £'000	2021 £'000
Short-term employment benefits	**1,466**	2,175

32 IAS 29 Financial Reporting in Hyperinflationary Economies

The Turkish economy was designated as hyperinflationary from 19 April 2022. As a result, application of IAS 29 Financial Reporting in Hyperinflationary Economies has been applied to all Stelrad Group plc entities whose functional currency is the Turkish Lira. IAS 29 requires that adjustments are applicable from the start of the relevant entity's reporting period. For Stelrad Group plc that is from 1 January 2022. The application of IAS 29 includes:

- adjustment of historical cost non-monetary assets and liabilities for the change in purchasing power caused by inflation from the date of initial recognition to the balance sheet date;
- adjustment of the income statement for inflation during the reporting period;
- the income statement is translated at the period-end foreign exchange rate instead of an average rate; and
- adjustment of the income statement to reflect the impact of inflation and exchange rate movement on holding monetary assets and liabilities in local currency.

Reconciliation of opening equity at 1 January 2022

The differences between the closing equity of the prior year at 31 December 2021 and the opening equity of the current year at 1 January 2022 have been recognised as an IAS 29 adjustment in the consolidated statement of changes in equity.

	£'000
Retained earnings at 31 December 2021	57,814
IAS 29 adjustment	8,327
Retained earnings at 31 December 2021 (restated)	66,141

The IAS 29 adjustment at 1 January 2022 is made up as follows:

	At 1 January 2022 £'000
Property, plant and equipment	**9,395**
Inventories	**1,183**
Prepayments	**33**
Deferred tax liability	**(2,284)**
IAS 29 adjustment	**8,327**

32 IAS 29 Financial Reporting in Hyperinflationary Economies continued

Statement of changes in equity for the year ended 31 December 2022

The impact of the restatement of the opening reserves of entities whose functional currency is the Turkish Lira was £22,982,000; this is credited to the statement of changes in equity in the period and subsequently reversed through the "monetary losses – net" line in the income statement.

	Year ended 31 December 2022 £'000
Retained earnings credit	22,982

Monetary losses – net for the year ended 31 December 2022

The monetary loss for the year ended 31 December 2022 is made up as follows:

	Year ended 31 December 2022 £'000
Retained earnings	(22,982)
Property, plant and equipment	11,046
Inventories	234
Prepayments	(16)
Income statement	3,858
Monetary losses – net	(7,860)

33 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 28. Details of interest-bearing loans and borrowings are shown in note 22.

34 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. The Group did not use any foreign exchange forward contracts during the year ended 31 December 2022.

Hedge of net investments in foreign operations

Included in subsidiary loans at 31 December 2022 and at 31 December 2021 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 2022 and 31 December 2021.

B. Fair value of financial instruments at amortised cost

	Carrying amount		Fair value	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Financial liabilities				
Lease liabilities	**10,036**	9,318	**10,036**	9,318
Revolving credit facility – GBP	**55,250**	56,500	**55,250**	56,500
Revolving credit facility – Euro	**10,647**	—	**10,647**	—
Term loan	**25,150**	—	**25,150**	—
	101,083	65,818	**101,083**	65,818

The external loan balances are stated gross of any issue costs.

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 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.

34 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 2022, no interest rate swaps are in place. Approximately 10% (2021: 14%) 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 2022	Increase/ decrease	Effect on profit before tax £'000
SONIA/Euribor	**+0.5%**	**(384)**
SONIA/Euribor	**-0.5%**	**384**

Year ended 31 December 2021	Increase/ decrease	Effect on profit before tax £'000
SONIA/Euribor	+0.5%	(79)
SONIA/Euribor	-0.5%	16

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 2022 or 31 December 2021.

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.

34 Financial instrument disclosures continued

C. Financial risk management objectives and policies continued

Market risk continued

Foreign currency risk – sensitivity continued

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.

	Change in Euro rate[1]	Effect on profit before tax £'000
2022	**+10%**	**(336)**
	-10%	**411**
2021	+10%	(915)
	-10%	1,118

	Change in USD rate[1]	Effect on profit before tax £'000
2022	**+10%**	**1,869**
	-10%	**(2,285)**
2021	+10%	2,371
	-10%	(2,898)

(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 24 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 2022.

34 Financial instrument disclosures continued

C. Financial risk management objectives and policies 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 1.5% of the Group's debt will mature in less than one year at 31 December 2022 (2021: 2.7%) 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 2022, the Group had available £10,130,000 (2021: £23,500,000) 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 2022	<1 year £'000	1 to 5 years £'000	>5 years £'000	Total £'000
Lease liabilities	**1,627**	**6,773**	**1,911**	**10,311**
Interest-bearing loans	**4,829**	**94,462**	**—**	**99,291**
Trade and other payables	**93,169**	**—**	**—**	**93,169**
	99,625	**101,235**	**1,911**	**202,771**

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

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 2022

	Note	2022 £'000	2021 £'000
Assets			
Non-current assets			
Investments	9	**115,908**	115,908
Amounts due from subsidiary undertakings	10	**16,247**	21,553
		132,155	137,461
Current assets			
Other receivables	11	**—**	98
Total assets		**132,155**	137,559
Equity and liabilities			
Equity			
Called up share capital	13	**127**	127,353
Share premium		**—**	13,391
Retained earnings/(accumulated losses)		**132,028**	(4,135)
Total equity		**132,155**	136,609
Current liabilities			
Other payables	12	**—**	950
Total liabilities		**—**	950
Total equity and liabilities		**132,155**	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 realised a profit of £237,000 for the year ended 31 December 2022 (loss of £4,135,000 for the period from 8 October 2021 to 31 December 2021).

The financial statements on pages 131 to 136 were approved by the Board of Directors on 13 March 2023 and signed on its behalf by:

George Letham
Chief Financial Officer

Company statement of changes in equity

for the period ended 31 December 2022

	Attributable to the owners of the parent			
	Called up share capital £'000	Share premium £'000	(Accumulated losses)/retained earnings £'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
Profit for the year	**—**	**—**	**237**	**237**
Total comprehensive income	**—**	**—**	**237**	**237**
Capital reduction	**(127,226)**	**(13,391)**	**140,617**	**—**
Share based payment charge	**—**	**—**	**250**	**250**
Dividends paid (note 8)	**—**	**—**	**(4,941)**	**(4,941)**
At 31 December 2022	**127**	**—**	**132,028**	**132,155**

Notes to the Company financial statements
for the period ended 31 December 2022

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 comparative 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 2024, with a two-year extension option, comprising a £76.027 million revolving credit facility and a €28.346 million term loan facility. At the year-end date, the whole term loan was drawn along with £65.897 million of the revolving credit. The remainder of the facility and significant cash balances of £22.641 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 55.

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-based payments
The Company provides benefits to certain employees (including Executive Directors) in the form of share-based payment transactions, whereby employees render services as consideration in exchange for equity instruments (equity-settled transactions). Further details of the share-based payments accounting policy can be found in note 13 of the consolidated financial statements.

Notes to the Company financial statements *continued*

for the year ended 31 December 2022

3 Summary of significant accounting policies continued

F. 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 70 to 83.

7 Auditors' remuneration

The Company has incurred audit fees of £8,000 (2021: £8,000) which are borne by Stelrad Management Limited.

8 Dividends

The Board is recommending a final dividend of 4.72 pence per share (2021: 0.96 pence per share), which, if approved, will mean a final dividend payment of £6,011,000 (2021: £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 Company financial statements.

Declared and paid during the period	2022 £'000	2021 £'000
Equity dividend on ordinary shares:		
Final dividend for 2021: 0.96p per share (2020: nil p per share)	**1,223**	—
Interim dividend for 2022: 2.92p per share (2021: nil p per share)	**3,718**	—
	4,941	—

Dividend proposed (not recognised as a liability)	2022 £'000	2021 £'000
Equity dividend on ordinary shares:		
Final dividend for 2022: 4.72p per share (2021: 0.96p per share)	**6,011**	1,223

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 and 31 December 2022	**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

	2022 £'000	2021 £'000
Amounts due from subsidiary undertakings	**16,247**	21,553

11 Other receivables

	2022 £'000	2021 £'000
Other receivables	**—**	98

12 Other payables

	2022 £'000	2021 £'000
Other payables	**—**	950

13 Called up share capital

	2022 Number	2022 £	2021 Number	2021 £
Authorised, called up and fully paid				
Ordinary shares of £0.001 each	**127,352,555**	**127,353**	—	—
Ordinary shares of £1 each	**—**	**—**	127,352,555	127,352,555
	127,352,555	**127,353**	127,352,555	127,352,555

The movements in the ordinary share capital during the year ended 31 December 2022 and 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
Capital reduction	—	(127,225,202)
At 31 December 2022	**127,352,555**	**127,353**

For full details of share transactions during the period, see note 28 of the consolidated financial statements.

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 2022 %	Voting rights held 2021 %	Nature of business
Stelrad Radiator Group Limited(1)	United Kingdom	Ordinary	**100**	100	Holding company
*Stelrad Radiator Holdings Limited(1)	United Kingdom	Ordinary	**100**	100	Holding company
*Stelrad Management Limited(1)	United Kingdom	Ordinary	**100**	100	Management services
*Stelrad Limited(1)	United Kingdom	Ordinary	**100**	100	Radiator manufacturer
*Caradon Polska Sp ZOO(2)	Poland	Ordinary	**100**	100	Radiator distributor
*Caradon Stelrad B.V.(3)	The Netherlands	Ordinary	**100**	100	Radiator manufacturer
*Henrad NV(4)	Belgium	Ordinary	**100**	100	Radiator distributor
*Termo Teknik Holdings Limited(1)	United Kingdom	Ordinary	**100**	100	Holding company
*Termo Teknik Ticaret ve Sanayi A.S.(5)	Turkey	Ordinary	**100**	100	Radiator manufacturer
*ISG Heating Equipment (Shanghai) Co, Ltd(6)	China	Ordinary	**100**	100	Radiator distributor
*Caradon Heating CZ SRO(7)	Czech Republic	Ordinary	**100**	100	Radiator distributor
*Hudevad Radiator Design A/S(8)	Denmark	Ordinary	**100**	100	Radiator distributor
Noosa Holdings Jersey Limited(9)	Jersey	Ordinary	**100**	100	Holding company
*DL Radiators SpA(10)	Italy	Ordinary	**100**	—	Radiator manufacturer

* 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.
(10) Registered office is Strada Statale, 54 Km 21 Snc, Moimacco (UD), Italy.

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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Company number: 13670010

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Produced by
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