

Principal Risks and Uncertainties

COVID-19

As the COVID-19 pandemic swept across the globe, FW Thorpe, like the majority of manufacturing organisations, faced significant operational challenges.

The directors are proud that the Group reacted quickly to the possible pandemic, as early as February, restricting visitor entry into its factories and offices, cancelling some foreign travel and keeping a log of employee movements. The health and well-being of employees has been paramount throughout, and the focus on keeping employees safe will continue.

As the crisis worsened and lockdown commenced, the management teams of all Group companies took actions as appropriate for their different operations, depending upon each company's ability to handle precautionary measures such as social distancing, and to try to match capacity to the demands of customers, especially for ongoing critical healthcare and infrastructure projects.

The Netherlands

In the Netherlands, lockdown of manufacturing businesses was, in general, less intense compared with that in the UK; Lightronics and Famostar continued trading at near-normal revenue levels throughout. Their employee councils met and proved to be effective at planning to create flexibility during the early stages of the pandemic; through a series of measures such as split shifts and home working, production was maintained near capacity throughout.

The UK

In the UK, lockdown was far more widespread than in the Netherlands and most other countries in which Group companies trade. Worst affected was Portland Lighting, where orders almost stopped overnight. Other companies, such as Thorlux, continued to receive a good level of orders, although demand for delivery on non-critical projects slowed significantly.

During the early days of the pandemic, very little government guidance was available for businesses; however, it was critical to prioritise employee health and safety when implementing the Group's decision to keep factories working to meet customer demand.

Thorlux

At Thorlux, for risk-mitigation reasons, the senior management team split: several directors worked from home whilst others remained full time at Thorlux in Redditch.

Initially, Thorlux operated a skeleton production staff, with several hundred employees sent home; many, being factory based, were unable to work.

Thorlux has invested appropriately in recent years to keep its IT infrastructure up to date, and it came to the fore in the early days of lockdown. Thorlux office employees were all able to connect into the office network securely from home, via VPN (virtual private network), and calls to their desk phones were seamlessly transferred to their home/mobile phones via VOIP (Voice over Internet Protocol) technology. All stakeholders were able to make effective contact with employees without knowing whether employees were at home or in the office.

The Thorlux management team has met twice daily via video conferencing throughout the pandemic, and the Group's senior team has met regularly too. To keep employees informed, a dedicated web portal was created on Thorlux.com, which initially was updated daily.

In early April, Thorlux completed the primary reorganisation of its factory with one-way "streets" throughout, 2m separation markings (by painting the floor, as signs were not available at that time), appropriate signage and video information screens, sanitiser gels throughout, and PPE for certain operations. Risk assessments were created for all operations, broken down into subcategories pertinent to specific tasks. These actions were followed throughout the Group, with directors visiting all UK sites to tour the facilities and sign off the phased re-opening to increase factory numbers significantly beyond the skeleton staff levels. Risk assessments have been inspected by Thorlux's insurers, and the company also paid for a third party audit of its "COVID secure" measures as verification of management's actions.

As demand has recovered, protective measures and controls have been further increased. Thorlux, like several other Group companies, has invested in automatic employee and visitor fever-scanning equipment which checks whether any people entering the building have a body temperature exceeding 37.5°C.

To enable Thorlux to reach full capacity, an old TRT "mothballed" factory a few miles away from Thorlux in Redditch has been re-opened, releasing a further 10,000 square feet of space. A whole factory department (which produces small, easily transported sub-assemblies) has moved there for the time being.

In mid-August, Thorlux still had 109 office staff working from home; however, gradually, more return each week. Internal communication is vitally important, including regular sharing of information regarding the company's evolving knowledge of the crisis and how it is using that knowledge to protect employees and the organisation.

The Group

Protecting employees' mental health has emerged as a high priority. The Group has therefore introduced a well-being policy for all employees, which includes regular contact with management, an online wellness questionnaire to complete, and a telephone call from the personnel department every few weeks. Managers have also been given access to additional training resources.

All Group companies now have full capacity available in their factories, although some are still experiencing reduced order intake due to the pandemic. The capacity from such factories has been shared; for example, Portland Lighting has been making gear tray assemblies for TRT Lighting, which has seen a good

increase in orders in recent months. Cooperation between Group companies has been excellent.

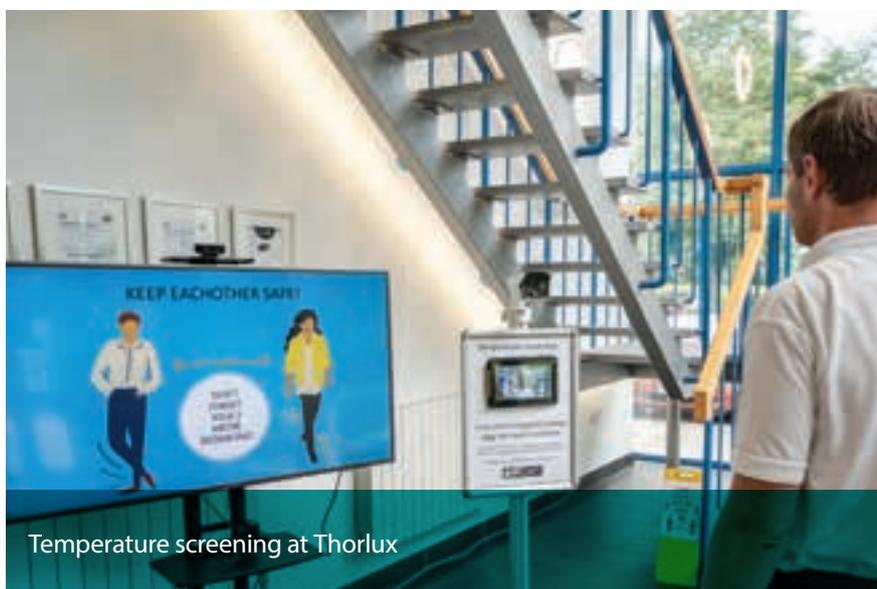
Through prudent management of the business over many successful years, FW Thorpe has a strong balance sheet, with sufficient reserves. At the start of the crisis, Group companies were showing good levels of orders.

The UK government introduced the Job Retention Scheme intending to save the jobs of people who, during the COVID-19 lockdown, would otherwise have been made redundant because of a company's inability to stay afloat, thus keeping people and critical skills within a business. The directors believe that the scheme is not intended to support businesses that otherwise have sufficient resources to pay their employees and intend to bring their employees back to work after a reasonable period when the crisis ends. The directors therefore decided not to apply for compensation for furloughed employees during lockdown, and all employees received their normal pay whilst they were not working. This decision leaves the Group free

of debt to external support and gives the directors ongoing freedom to make choices for the good of the business and its shareholders. It also enables the government to target its funds to those areas where they are required the most.

The Group prides itself on being a responsible corporate employer, and during this time the directors think it important that Group companies contribute to supporting the national effort. This can be done by the Group continuing to provide goods and services where they are needed, such as to the NHS – for example by the Group supplying luminaires to the Birmingham Nightingale Hospital in April.

The directors would like once again to sincerely thank all employees for their wonderful support and flexibility throughout this crisis. Special thanks must go to those who have continued to work at facilities around the Group. We are not, however, out of the woods yet, and must remain focussed on maintaining all the measures that have been put in place to protect employees and the company.



Temperature screening at Thorlux



Social distancing measures at Thorlux

Principal Risks and Uncertainties continued

Risk management process

The Board is responsible for the identification and effective management of risks posed to the Group. Due to the impact certain risks could pose, the Board regularly reviews the likelihood of risks occurring and the potential impact they could have on the business. Detailed below is a list of the principal risks facing the business, and the corresponding actions the Board is currently taking in order to manage them.



| Area of risk | Type of risk | Description of risk | Mitigation of risk | Possible impact on performance | Strategic priorities impacted upon | Change in period |
|---|---------------|--|---|--------------------------------|------------------------------------|------------------|
| A Adverse economic conditions | Strategic | Deferred or reduced capital investment plans in market sectors, which our products are supplied into and are key sources of revenue for the Group Impact of COVID-19 on domestic and global economies | <ul style="list-style-type: none"> Broad range of customers in differing sectors High quality, technically advanced products to differentiate the Group from competitors Actively seek to identify new opportunities to ensure we maximise our potential of winning new business | High | 1 2 4 | |
| B Changes in government legislation or policy | Strategic | Reduction in public sector expenditure and changing policy increases risk to our order book Uncertainty of free access to EU markets | <ul style="list-style-type: none"> Continue to seek to diversify our customer portfolio to ensure we have an appropriate spread, mitigating the risk of any industry or specific sector spending issues Develop sales in new markets | Medium | 2 4 | |

| Area of risk | Type of risk | Description of risk | Mitigation of risk | Possible impact on performance | Strategic priorities impacted upon | Change in period |
|--|--|--|---|--------------------------------|------------------------------------|---|
| C Competitive environment |  Strategic | Existing competitors, powerful new entrants and continued evolution of technologies in the lighting industry eroding our revenue and profitability | <ul style="list-style-type: none"> Offering innovative products and service solutions that are technologically advanced products to enable us to differentiate ourselves from our competitors Investing in research and development activities to produce new and evolving product ranges Investing in new production equipment to ensure we can keep costs low and maintain barriers to new market entrants | Medium | 1 2 3 4 |  |
| D Price changes |  Operational | Erosion of revenue and profitability | <ul style="list-style-type: none"> Management reviews prices, at least annually, to take into account fluctuations in costs, in order to minimise the risk of reduction in gross margin, or the loss of market share from a lack of competitiveness | Medium | 1 2 |  |
| E Business continuity |  Operational | The majority of the Group's revenues are from products manufactured in the Redditch facility | <ul style="list-style-type: none"> High level of importance attached to environmental management systems, health and safety and preventative maintenance Insurance cover is maintained to provide financial protection where appropriate Increased production flexibility with the ability to build products in more than one manufacturing facility | High | 2 3 |  |
| F Credit risk |  Financial | The Group offers credit terms which carry risk of slow payment and default | <ul style="list-style-type: none"> Credit policy includes an assessment of the bad debt risk and management of higher risk customers The Group maintains a credit insurance policy for a significant proportion of its debtors | Low | 2 |  |
| G Movements in currency exchange |  Financial | The Group is exposed to transaction and translation risks. With some natural hedging in EUR this risk is primarily with changes in the GBP:USD rates | <ul style="list-style-type: none"> The Group has increased its sourcing of materials to maintain a natural hedge to offset its currency risk from EUR receivables, whilst at the same time buying EUR and USD when the exchange rate is favourable, compared to our operational rates, to minimise the risk | Low | 2 |  |

Principal Risks and Uncertainties continued

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|--|--|--|--|--------------------------------|------------------------------------|---|
| H Cyber security |  Operational | A breach of IT security could result in the inability to operate systems effectively and efficiently or the release of inappropriate information | <ul style="list-style-type: none"> Continual review and monitoring of potential risks Computers encrypted where necessary to protect data Cyber security awareness training currently being rolled out to employees | Medium | 1 3 4 |  |
| I Exit from the European Union |  Strategic | Significant uncertainty remains over how the economic landscape might be affected in the next few years | <ul style="list-style-type: none"> With the Group having a manufacturing presence in two EU countries, the Netherlands and Spain, this leaves us ideally placed to react to any negative trade barriers that may be imposed on the UK Continue to develop closer working relationship with these entities, sharing product development, market knowledge and operational expertise to ensure we have the flexibility to adapt to any changes in the future As more details emerge we will assess the impact; in the short term the Group will review the implications based on potential outcomes | Medium | 2 4 |  |
| J Global pandemic – COVID-19 |  Operational | Potential disruption to operations from further outbreak of COVID-19 | <ul style="list-style-type: none"> Risk assessments, preventative measures including temperature screening, distancing and hygiene measures in place Additional component stock held to mitigate any supply chain disruption Potential to utilise manufacturing facilities at other Group companies | High | 2 3 |  |

Strategic Priorities key

- 1** Focus on high quality products and good leadership in technology
- 2** Continue to grow the customer base for Group companies
- 3** Focus on manufacturing excellence
- 4** Continue to develop high quality people

Risks key

-  Increase in risk
-  No change in risk
-  Decrease in risk