Lucy Group Ltd

2016 Annual Report & Accounts

Cover page illustration represents Smart City technology being developed by Lucy Zodion.

Contents

See this report at www.lucygroup.com

Chairman's Introduction

A year of steady progress

Results overview

The Group delivered a better than expected set of results in 2016 despite difficult market conditions. Group sales decreased by 11% to £192.0 million, whereas rental income increased during the year by 4% to £7.1m. The combination of downward price pressure and reduced sales volumes, set against our ongoing investment plan, led to an 18% decrease in operating profit before valuation gains, to £11.9m. We commenced a programme of cost control and restructuring measures to mitigate these headwinds and ensure continuous improvements in our operations. Group profit before tax increased to £20.8m from £18.7m, because the £9.3 million increase (2015: £4.5 million) in the fair value of the Group's investment properties more than offset the decreased operating profit. Cash generation was £8.7million (2015: £2.0 million) and net assets increased during the year by £15.9 million or 10% to £178.9 million (2015: £163.0 million).

Dividend

The Board is recommending that the final dividend be increased by 5% to 115 pence per share (2015: 110 pence per share) paid on 28th April 2017 to shareholders on the register on 31st March 2017. The total dividend for the year will therefore be 203p, excluding the special dividend of 100p, an increase of 4% over last year's 195p.

Name change

We have a long corporate history but we continue looking forward, embracing change where necessary. We asked shareholders to approve a resolution to rename the Group parent company from W. Lucy & Co. Ltd, to Lucy Group Ltd in February 2017 and I am pleased that they fully endorsed this change. Although the W. Lucy & Co. Ltd name had been in continuous existence since incorporation 120 years ago and held some nostalgia, our evolution into a global group with four distinct operating divisions rendered it rather outdated and no longer representative of our modern corporate identity. Feedback from customers, employees and key stakeholders has been very positive.

Strategic developments

We made steady progress towards the Group's strategic objectives throughout the year and continue to pursue opportunities to grow market share whether via new products, services or technologies that offer customers compelling solutions to the challenges they face.

Lucy Electric's integration of the two acquisitions undertaken last year has progressed as planned, with both performing at or above expectations during the year. In Lucy Real Estate, the residential property development pipeline has been expanded to support the business' growth plan.

It continues to be most rewarding to see how individuals and teams respond to the many and varied challenges they confront on a daily basis within our businesses, whether they be of a technical or commercial nature. A dogged determination to succeed is often required, particularly where external bodies are involved and decision taking often frustrated. There is also increasing awareness of the support we should give to local communities and many employees have embraced enthusiastically this aspect of corporate life.

Board change

From 1 May 2017 my elder son Jonathan will become a full-time Executive Director of the Company. Jonathan brings with him a wealth of experience from both within the Group and outside industry, having spent 12 years with the global real estate advisory firm CBRE, most recently as a senior director of their London development team. Jonathan has also been a key part of the Lucy Group Board for the past three years as a Non-Executive Director and has served on the Lucy Real Estate Management Board for the past seven years. I am sure his business experience and knowledge of the Group will stand us in good stead for our future.

Our people

We depend on high calibre people to drive our business forward and turn strategic plans into reality. To this end we have continued investing in people, skills, training and the resources to support their development. During the year we re-vitalised and strengthened our human resources capabilities with an increased focus on employee development and by bringing talent resourcing in house. Such initiatives are already showing benefits and I would like to take this opportunity to thank all our employees for their commitment and hard work over the past 12 months.

Achievements

Recognition for our achievements is always pleasing and we collected a number of awards during the year, a measure of our success and the dedication of employees in all our businesses. Our commitment to research & development was recognised, with the Group named amongst the top 1,000 R&D spending companies in the EU (based on 2014 published spend) and in July we were delighted to receive the Thames Valley 250 International Business Award, achieving a ranking as 18th largest privately owned business in the region by turnover. Lucy Zodion won the Manufacturer of the Year award at the Highways Electrical Association Awards, which recognise leading companies in the street lighting and highways communications industries. The accolade is testament to Lucy Zodion's commitment to customer service and market-leading expertise in providing innovative, energy efficient products, such as the new ZCELL photocell which can reduce energy costs by up to 75%.

Brexit

The terms of the UK's exit from the EU and its wider impact on business remain uncertain, and therefore we will continue to monitor the potential implications, ensuring we implement appropriate strategies to deal with the challenges and opportunities that lie ahead. The Board and Audit Committee will maintain close oversight of the key risks relating to Brexit, ensuring mitigating actions are sufficiently robust to safeguard the Group's commercial interests.

Outlook

The Board is committed to driving forward the Group's strategic priorities and our core strategy remains unchanged. We continue to invest with confidence to support long-term growth and shareholder value.

Our key markets continue to be characterised by uncertainty with weakness in the oil price, political instability and a slowdown in the global economy. Despite these challenges, the Board is encouraged by the progress of our restructuring and cost control programmes in 2016 and actions to reduce the effect of market weaknesses will remain a key focus for the Group. We continue to seek opportunities to gain market share by both organic and acquisitive means as well as expanding our product portfolio. The Board considers we are well positioned to trade through these challenging times whilst working towards our strategic objectives.

Richard Dick
Executive Chairman
14 March 2017

Financial Highlights

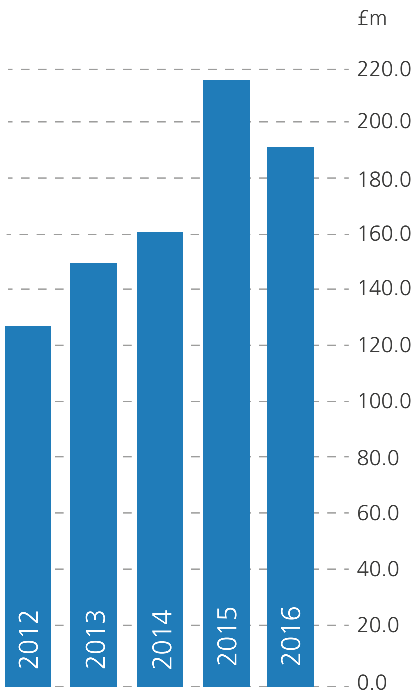
Turnover

£192.0m

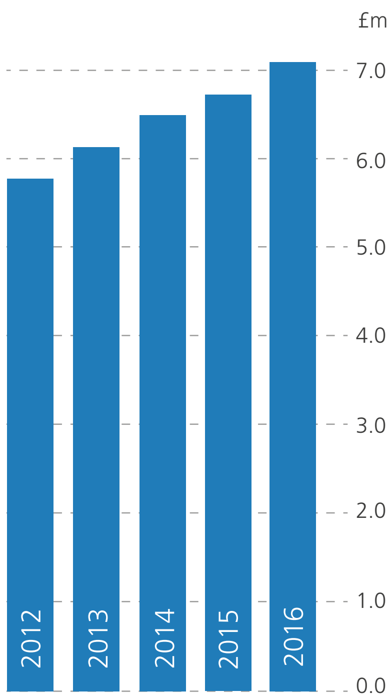
£217.1m in 2015

Turnover	Rental income	Net assets
£192.0m	£7.1m	£178.9m
£217.1m in 2015	£6.8m in 2015	£163.0m in 2015

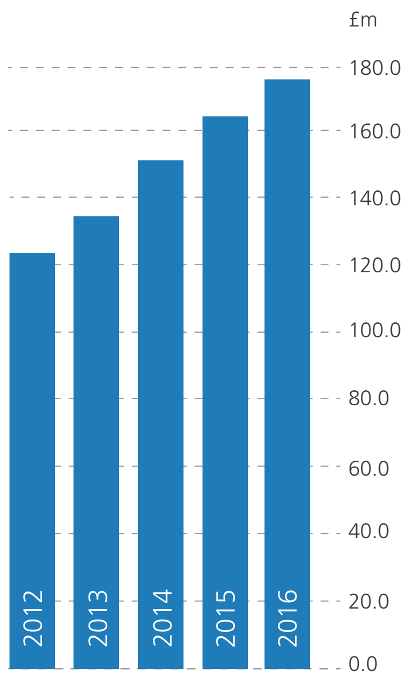
Turnover



Rental income



Net assets



Profit before tax

£20.8m

£18.7m in 2015

Operating profit **before net valuation gains** on investment property

£11.9m

£14.5m in 2015

Operating profit **after net valuation gains** on investment property

£21.2m

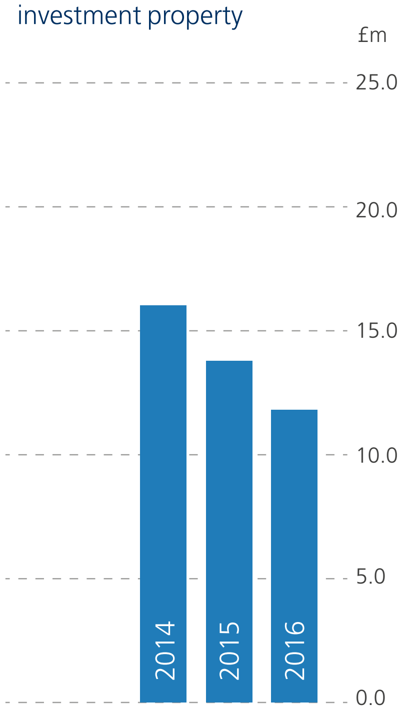
£19.0m in 2015

Total comprehensive income for the year

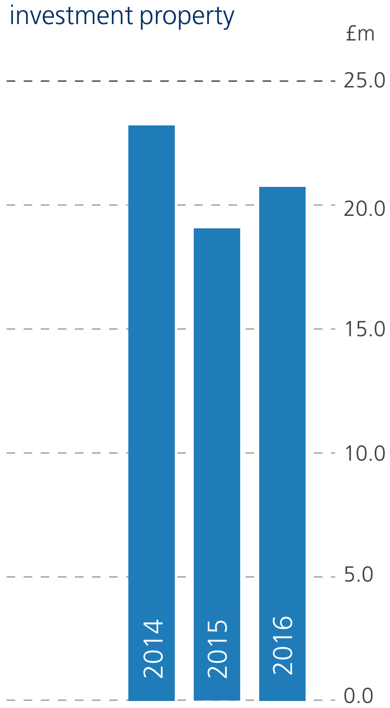
£17.2m

£16.0m in 2015

Operating profit **before net valuation gains** on investment property



Operating profit **after net valuation gains** on investment property



Earnings per share

4,121p

3,401p in 2015

Dividends per share
(paid and proposed)

303p

295p in 2015

Business Model and Strategy

Business Strategy

Lucy Group is focused on delivering shareholder value over the long-term via four distinct business units: Lucy Electric, Lucy Zodion, Lucy Castings and Lucy Real Estate. A balanced risk profile, encompassing a strong underlying asset base, coupled with targeted investment in these diversified businesses, provides investors with stability and opportunity.

Business Objective

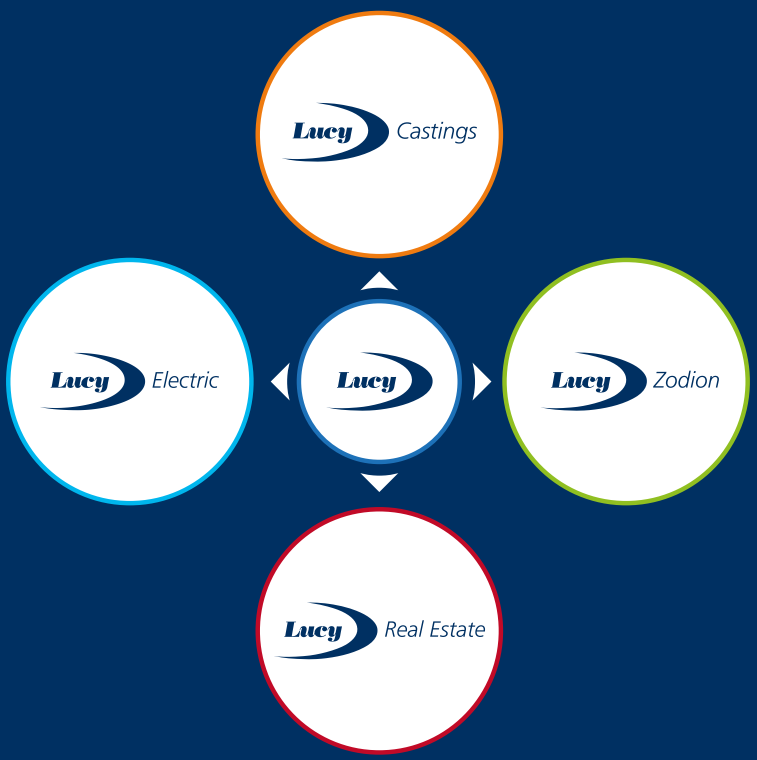
Lucy's vision is for its businesses to be the leader in their targeted market segments.

This long-term value has been created through the pursuit of the following strategies:

- Improving and developing our product ranges, through which success is measured by sales performance.
- Focusing on customer service and satisfaction levels.
- Managing margins through efficient material sourcing, product manufacturing, stock management and cost control.
- Maintaining the Group's financial strength through a strong asset base and secure financing structure.

Business Model

Lucy is a privately owned Group offering innovatively designed and high quality switchgear, lighting, casting and real estate products and services. The Group is comprised of four distinct and diverse business units.



Lucy Electric, a leader in secondary power distribution solutions specialising in high-performance medium voltage switchgear for utility, industrial and commercial applications.

Lucy Castings, a niche producer of iron and aluminium castings for UK and European engineering businesses.

Lucy Zodion, the UK market leader in the design and manufacture of street lighting control systems.

Lucy Real Estate, owns, lets and manages a substantial property portfolio and develops residential property for sale in Oxfordshire.

Although the W. Lucy & Co. Ltd name had been in existence since incorporation 120 years ago and held some nostalgia, our new name, Lucy Group Ltd, more appropriately reflects our corporate identity as a modern global business.

Financial Review

Strong results in a challenging year

International Financial Reporting Standards

The consolidated financial statements of the Group have been prepared under EU adopted International Financial Reporting Standards (IFRS) to represent the international nature of the Group's business activities. The parent company has elected to prepare its financial statements in accordance with FRS 101.

Revenue

In 2016, market conditions were challenging with Group sales of £192.0 million, 11% below last year. On an organic constant currency basis Group sales reduced by 24% compared to the same period last year as acquisitions and favourable foreign exchange impacts were more than offset by lower selling prices and volumes. Despite this environment we continued to seek growth opportunities investing in both new products and new sales channels.

Rental income increased during the year by 4% from £6.8 million to £7.1 million, reflecting higher rents combined with the addition of seven new flats at Castle Mill House and the on-going refurbishment programme.

Gross margin and costs

Gross margin at 30.6% increased by 3.4 percentage points compared to last year from a changing product mix and reduced material costs from lower commodity prices and sourcing initiatives. This year also saw more focus on measures to contain costs and to accelerate cost reductions in some areas in response to market conditions.

Overhead costs increased due to the decline in sterling post Brexit and from the full year impact of last year's acquisitions. Selling and marketing costs increased by 1% and development expenditure increased by 15% to £10.4 million, reflecting the substantive product development programs in both Lucy Electric and Lucy Zodion. Administration costs increased by 14% due to the Microsoft Dynamics AX ERP rollout program in Lucy Electric, investments in cyber security to upgrade and improve the Group's IT infrastructure and the strengthening of our HR capabilities.

Operating Profit

Operating profit before net valuation gains on investment properties decreased to £11.9 million (2015: £14.5 million) due to lower profits in Lucy Electric. There was a net valuation gain on the Group's investment property assets for the year of £9.3 million (2015: £4.5 million) reflecting a broad increase in market prices, reduced market yields for certain property categories, and ongoing activities to develop and improve the portfolio. Operating profit after net valuation gains for the year increased to £21.2 million (2015: £19.0 million).

Profit before tax

Profit before tax for the year was £20.8 million (2015: £18.7 million) after charging net finance costs of £0.4 million.

Taxation

The Group has an overall tax charge of £0.5 million for the year, comprising an overseas tax charge of £0.7 million and a UK tax credit of £0.2 million. In the UK, the Group benefitted from the change in the enacted corporation tax rate to 17% (2015: 20%), reducing the opening deferred tax liability by £2.0m. The Group's tax strategy seeks to ensure that key tax risks are appropriately mitigated and that the Group's reputation as a responsible taxpayer is safeguarded.

Dividends

The Board recommends a final dividend of 115p per share (2015: 110p per share) which taken with the 2016 interim dividend of 88p per share gives a total payment of 203p per share (2015: 195p per share) representing a 4% increase for the year. Additionally a special dividend of 100p per share (2015: 100p per share) was paid in December.

Cash flow

The Group delivered a free cash inflow of £8.7 million compared to an inflow of £2.0 million last year. This strong inflow shows a conversion of 128% of operating profit into operating cash.

Control of working capital provided a £2.4 million inflow as volume declined in the second half of the year. Balance sheet figures show inventory increasing by £1.6 million and receivables by £2.4 million to £31.4 million and £36.4 million respectivley. These increases were more than offset by increased trade payables of £4.0 million to £30.5 million, increases in provisions of £0.3 million and changes in the value of derivative financial instruments of £2.1 million. On an organic constant currency basis inventory decreased by £1.0 million and trade receivables decreased by £1.9 million compared to last year.

Capital expenditure of £6.8 million (2015: £8.2 million) included £1.6 million by Lucy Real Estate for the construction of 7 flats at Castle Mill House in Oxford, otherwise expenditure was marginally below the annual depreciation charge. Capital commitments at the end of the year were £2.7 million (2015: £3.6 million) reflecting a number of capital expenditure programmes underway.

Financial position

At 31st December 2016, the Group had committed bank facilities of £28.0 million, while actual borrowings were £12.2 million. The Group's financial metrics strengthened with gearing reduced to 7% (2015: 9%) and interest costs covered 24 times. The Group had net cash of £5.2 million compared to £0.4 million last year and net assets increased during the year by 10% to £178.9 million.

Return on net assets

The Group made a return on net assets before valuation gains of 6% during the year and a return after including valuation gains of 11% (2015: 11%).

Post-employment benefits

The Group accounts for post-employment benefits in accordance with IAS 19 Employee Benefits. The balance sheet reflects the net deficit of the W. Lucy defined benefit pension scheme as at 31st December 2016 based on the market value of the assets at that date, and the valuation of the liabilities using AA corporate bond yields adjusted to reflect the duration of the scheme's liabilities. This scheme was closed in 2002 to new entrants in order to reduce the risk of volatility of the Group's liabilities.

The most recent triennial valuation of the scheme was performed as at 6th April 2014 and revealed a deficit of £1.0 million. As a consequence of this valuation, the Company made a lump sum payment to clear the deficit and increased its contributions to the scheme from 17.3% to 19.7% of pensionable salaries from 1st January 2015.

The separate IAS 19 valuation performed as at 31st December 2016 showed that the Group's pension deficit increased during the year by £2.3 million to £10.0 million and the funding level decreased to 85%. This increase in the scheme deficit was attributable to a significant decrease in bond yields that was to some extent offset by an increase in the fair value of the scheme's assets and additional voluntary Company contributions of £1.7 million paid during the year. The related deferred tax asset increased by £0.2 million after a reduction in the enacted deferred tax rate to 17% (2015: 20%) resulting in a net pension liability of £8.3 million at the end of the year. The amount of the deficit is sensitive to changes in the main financial assumptions, particularly the rate used to discount the liabilities (the discount rate). A change in the discount rate of 0.1% would increase/decrease the deficit by £1.1 million.

Gary Ashton
Group Finance Director
14 March 2017

Lucy Electric

Making networks intelligent

Engineering intelligent solutions

Serving an international customer base, Lucy Electric has an enviable reputation in the secondary power distribution industry.

Across an international network of engineering and technology centres, Lucy Electric designs and supplies intelligent solutions and services for electrical distribution systems.

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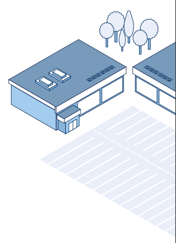


Our vision

To be the leader in engineering intelligent switchgear solutions through excellence in customer service and innovation.

A year of challenge and opportunity

Lucy Electric has risen to a number of challenges during the year as trading conditions in some of our markets toughened. Macro-economic uncertainty and political instability, allied to a slowdown in some key territories impacted sales, although thanks to effective control of costs and margins, such effects were minimised. Whilst we saw an underlying decrease in sales by 24% on an organic constant currency basis, the benefit of recent acquisitions and their complimentary nature to Lucy Electric's existing portfolio of products and services, enabled the business to innovate and re-focus in a number of exciting new areas.

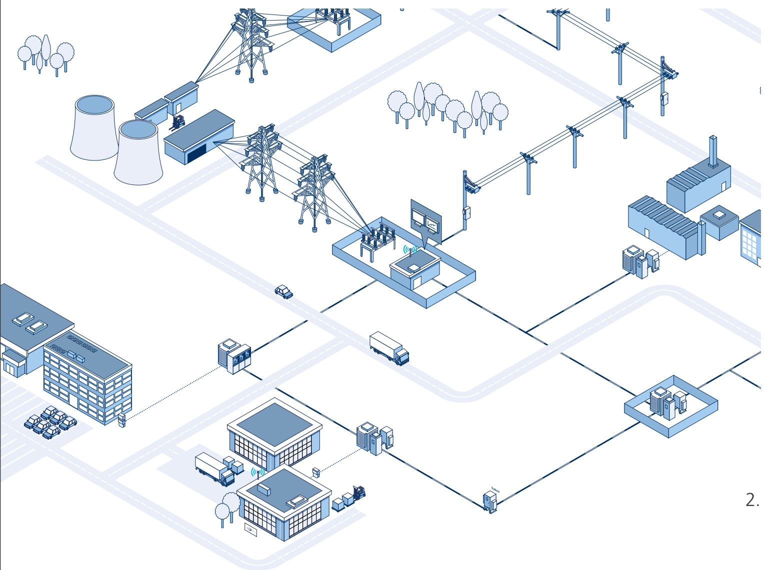
Acquisitions deliver results and opportunities

As our customers' priorities evolve and with it the demand for intelligent networks, our in-house expertise in Smart Grid automation projects has seen us win new business.

The acquisition of GridKey in late 2015 proved beneficial to Lucy Electric and our customers, as we saw growing interest in GridKey's award-winning low voltage monitoring system during the year, creating new opportunities for our existing customers to effectively manage their networks. The GridKey business, a collaboration with Smart Grid and metering specialists Sentec, also relocated its engineering team to a new office and technology centre in Basildon, Essex, following the acquisition and refurbishment of a dedicated site during the year.

Amongst the advantages of the GridKey offering is the potential range of applications and opportunities it opens up for Lucy Electric. In September we announced our involvement with the Electric Nation project, which will see GridKey sensors utilised to assess the load profile of various types of electric vehicles ('EVs'), with the aim of developing an algorithm to automatically detect the presence of EVs charging on a network and manage loadings accordingly, reducing unplanned outages. During the fourth quarter a new Metrology and Communications Unit, the MCU318, which targets low voltage measurement in substation applications, was successfully launched in the UK.

We are pleased to report that the other key acquisition reported on last year, Lucy Electric India (Pvt.) Ltd ("LEI"), has bedded in well. Its integration following the purchase of the remaining 50% of the business from Crompton Greaves in 2015 has proved successful, and LEI achieved a healthy increase in turnover during the year thanks to the growing market in India and a strengthened sales team. We also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overhauled LEI's IT infrastructure, integrating it with group reporting systems and launching a dedicated website **www.lucyelectric.in** to serve the local market.

Positioned for growth

We made significant progress towards our strategic objectives during 2016, investing in the technology infrastructure, systems and processes required to enable us to operate in the most effective and efficient way across all our global locations.

One of our most significant projects was the launch of a new Microsoft Dynamics AX ERP system, which marks a step change in management of data across our business units. The new system has the capability to harvest, manage and distribute accurate and consistent information more easily and efficiently, rendering inefficient and sometimes erroneous manual data entry a thing of the past. Our businesses in the UAE and Thailand successfully went live during the year and a wider roll out to our UK, Indian, South African and Malaysian businesses will follow during 2017.

The successful launch of Dynamics AX without disruption to the business is a significant achievement and testament to the hard work of our employees around the Group.

Engineering talent

Our people strategy remains a perpetual driver of Lucy Electric's international success. We carried out another employee engagement survey during the year, the insights from which were closely reviewed by the leadership team and acted upon via regional action plans. Our apprenticeship, internship and graduate schemes also continue to thrive, offering talented young people the opportunity to pursue a defined and rewarding career path into engineering and, crucially, ensuring Lucy Electric invests in the engineering skills necessary to secure future innovation and growth.

We're also committed to nurturing engineering talent from school age and during the year launched our STEM (Science, Technology, Engineering and Mathematics) Young Engineers project, engaging with pupils from a number of local schools, with the aim of teaching them practical engineering skills in a fun, collaborative environment. As part of the project, Lucy Electric sent a cross-departmental team, including young engineers and apprentices, who were involved in showing students how to wire a basic electrical circuit and how to use industry standard coding languages. The initiative culminated in students building a working model of a network to simulate how they react to power outages and faults. Lucy Electric's involvement in the project also entailed providing technical support to students and visiting participating schools during the 12 week programme.

1. New website for Lucy Electric India
2. Illustration of a smart grid
3. STEM Young Engineers project
4. Aegis unit testing, South Africa
5. GridKey's new MCU318 controller

Lucy Castings

Over 200 years of expertise

With over two centuries of proven experience, Lucy Castings is a niche manufacturer of specialist aluminium and iron-based castings, fusing traditional craftsmanship with the latest technology to deliver bespoke solutions to its customers.

Traditional industry, modern techniques

Our vision

To be a leading niche castings manufacturer.

Stable performance in a challenging market

Lucy Castings has weathered a number of significant challenges during the year as we continued restructuring and streamlining the business to adapt in the face of tough, albeit improving, market conditions. In December we closed down the loss-making centrifugal bronze making facility at Truscanian Foundries, which has provided the business with a better footing to move forward into 2017 with a lower cost base, although inevitably the decision involved some restructuring costs.

Whilst the uncertainty surrounding Brexit created a degree of turbulence across some of the Group's markets, it has created opportunities for Lucy Castings to benefit from the beleaguered pound as some of our key customers' exports become more competitive internationally. Indeed Sandawana put in a robust performance during the second half of the year, with increased orders secured from both long-standing and new customers, whilst more enquiries were in evidence at Truscanian in the last quarter of 2016. We are now well placed to take advantage of steadily improving market conditions, having significantly strengthened our sales teams over the past year and re-focused our strategy to achieve further sales growth.

Notwithstanding considerable progress during the year and positive indicators for 2017, there is no 'quick fix' solution to move the business back into profit. Results therefore reflect the commercial challenges faced during 2016 and Lucy Castings made a loss for the year of £0.8million, including £0.1 million relating to restructuring costs.

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1. Sand mould for an aluminium casting
2. Aluminium casting process
3. Truscanian Foundries office building, Oldbury
4. Iron casting

Improving operational performance

To meet the challenge of bringing Lucy Castings back into profit, the ongoing drive to improve operating performance continues and 2016 saw our production team deliver on a number of strategic priorities; namely reducing levels of scrap and returns, ensuring wastage is minimised and quality remains paramount. Similarly, we maintained our focus on closely controlling costs, margins and inventories in order to ensure both sites operate at maximum efficiency.

Outlook

Lucy Castings' niche capabilities lie in providing bespoke solutions to the aluminium and iron castings market and as such we continue investing to support future growth by ensuring production facilities are best-in-class. A key strategic priority for 2017 is to introduce aluminium die-casting facilities at Truscanian which will enable us to serve a broader customer base and offer a wider range of specialist precision castings following an investment in new plant and machinery.

We made a number of changes to our organisation structure during the year to ensure Lucy Castings has the right mix of skills and managerial capability on hand at both sites to move the business forward. A new site manager was appointed at Truscanian, along with new additions to the quality and technical teams, in order to drive improvements in production efficiency and product quality.

Leading the way in lighting

Lucy Zodion is an innovator in the specialist field of energy efficient street lighting control products designed to reduce the energy consumption and carbon footprints of its customers.

A leader in its niche market, Lucy Zodion designs and manufactures street lighting equipment including photocells, LED drivers, electronic ballasts and central management systems, as well as feeder pillars and cut-outs. Our bespoke, environmental products focus on delivering the most durable and sustainable solutions to customers for whom cost and efficiency is paramount.

Our vision

To have our products on every street around the world.

Lucy Zodion has received the Manufacturer of the Year award from the Highway Electrical Association (HEA). The awards recognise best practice and excellence from the industry's top performers.

Sales growth

Despite the ongoing challenges brought on by the continued squeeze on public sector spending, Lucy Zodion's performance during the year was encouraging, with 9% sales growth and increased profits, driven by the continued shift to LED street lights and a number of successful new product launches. Meanwhile, cost reduction and energy efficiency remain the industry watchwords and continue to drive our customers' purchasing decisions, as well as informing our product development pipeline and investment programme.

Constant innovation

Bright solutions for an efficient future

As the march towards ever more efficient lighting solutions, central management systems (CMS) and smart cities continues unabated, Lucy Zodion continues to invest in design and product development to remain at the forefront of its industry. Amongst the new products launched during the year was ZCELL, a new clean-sheet design of photocell developed in-house and employing automotive-grade components to give it the lowest power consumption, highest power factor and highest ingress protection rating of any photocell currently on the market.

Industry response has been very positive and during the year, ZCELL was adopted by Nottinghamshire County Council across its network of 40,000 street lights, leading to estimated cost savings of £900,000 per annum. It was also nominated for controls product of the year at the Lux Lighting Awards, which celebrate the best and brightest in the world of lighting.

1. Photocell inspection
2. New ZCELL product
3. New CitiHorizons website

CitiHorizons hub launched

Cementing its reputation as an innovator at the forefront of emerging technologies, during the year Lucy Zodion launched CitiHorizons, a smart cities information hub. With a dedicated website **www.citihorizons.com**, the hub provides a shared space for visitors to access a wealth of information and useful resources surrounding smart cities, as well as a discussion forum and links to external resources and white papers. As the conversation around smart cities develops, Lucy Zodion's thought leadership in this emerging sphere will ensure street lighting technology remains at the core of smart cities strategy.

Expansion at Sowerby Bridge gathers pace

To align the business with future growth plans, the redevelopment and expansion of the Sowerby Bridge site started during the year. We anticipate the redevelopment of the site, which will result in our facilities increasing to 1,700sq m, will be completed in 2017. The newly enlarged facilities will provide a dedicated customer product demonstration area, new technical facilities and increased production and warehousing space.

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Lucy Real Estate

Solid returns in an uncertain market


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Building value over the long-term

Three separate income streams define the Lucy Real Estate business. Lucy Properties, one of Oxford's largest private residential landlords, has built a strong reputation by providing quality residential accommodation. The dedicated property development business, Lucy Developments, specialises in the construction of quality energy efficient homes, at carefully selected sites in Oxfordshire. Lucy Block Management provides bespoke services to residents' management companies.

Our strategy

To be a leader in the Oxford residential property market, delivering sustainable long-term returns to our stakeholders.

Our core business

To provide quality residential property in Oxford, to undertake development of quality homes in Oxfordshire and provide bespoke services to residents' management companies. The business will continue to actively acquire assets when available and provide appropriate levels of return.

Our long-term vision

To be the leading provider of high quality residential property in Oxford that enables people to increase their housing choices. This entails recognised lettings and residential development brands which are synonymous with high quality and service.

Building returns in Lucy Real Estate

Lucy Real Estate delivered a good set of results in 2016, despite the uncertainties in the market brought on by Brexit and increased government taxation on private landlords. An increased total return of 10% (2015: 8%) highlights the strength of our underlying asset base, although pre-tax profits declined by £0.6m (13%) as a result of reduced sales within Lucy Developments, due in part to the sometimes inconsistent nature of development cycles. The value of our property portfolio increased by £9.3m to £135.7m.

Lucy Properties remains the 'go to' name for high quality lettings in Oxford and steady demand across the year saw rental income exceed £7m per annum in 2016, with a 2.6% increase in profit. The growth of the rent roll over the last five years is shown in the chart opposite. We also continued to invest heavily across Lucy Properties' portfolio of rental properties, ensuring the quality and standards which underpin our reputation are maintained. In September we completed the refurbishment and extension of Castle Mill House , a £1.9m scheme which involved sympathetically grafting an additional seven apartments onto the existing block of flats and refurbishing common areas. The result, completed on time and to budget, is a seamless, high quality enhancement to one of our flagship properties and testament to our skilled team of project managers and contractors. All new units were let quickly, and occupancy levels remained high across the portfolio as a whole, at 98%.

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1. Ian Ashcroft, CEO, Lucy Real Estate
2. 522 Banbury Road, Oxford development
3. 61 Oxford Road, Abingdon development
4. Castle Mill House extension

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Location, Location…

Lucy Developments completed a variety of different schemes during the year across a range of sites and price points. Despite some uncertainty at the upper end of the market, underlying confidence in bricks and mortar as a home or investment, proved robust in 2016. Not for the first time a number of sales were contracted pre-completion, as well as nine flats being sold off plan to a single investor, underlining the confidence that purchasers and introductory agents have in our product and service.

Lucy Developments' established capabilities in residential development have ensured we maintain a stronghold in this competitive market. Our edge is borne out of a portfolio of strengths, ranging from intimate local market knowledge required to source Oxfordshire's best development sites, to the expert design skills and market reach needed to serve a range of price points. Common to all our developments, from barn conversions in prime villages to four bedroomed townhouses on the Banbury Road, are market leading quality, sensitive design and the best locations

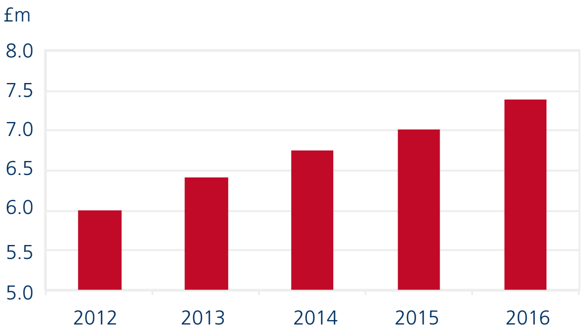
Finding the space to grow

Critical to delivering year on year growth in Lucy Developments is the ability of in-house expertise and a trusted network of partners to identify and secure land on which to build out these ambitions.

During the year we either purchased or acquired options on a further three development sites, and in 2017 will drive forward our strategy to expand our land bank in one of the South East's most sought after regions.

Lucy Real Estate also invested in strengthening its human resources and made a number of key appointments during the year, including a dedicated in-house project manager to provide more efficient insourced management to our construction and refurbishment activities, as well as recruiting additional office administrative support.

Rent Roll - 5 year growth



Statement of Principal Risks and Uncertainties

The assessment and management of risk is the responsibility of the Board, and the development and execution of a comprehensive and robust system of risk management is a high priority. The Board receives regular reports covering risks and mitigating actions arising from external and corporate factors.

Key business risks are currently identified as follows:

Risk and Impact	Mitigation
Group strategy development and implementation	
There is a risk that the Group strategy does not deliver sustainable business growth and profits.	The Board reviews business strategy on a regular basis to determine how sales and profit budgets can be achieved or bettered and business operations made more efficient. The process involves the setting of annual budgets and longer term financial plans to identify ways in which the Group can increase shareholder value. Critical to these processes are the consideration of the wider political, economic and industry specific trends that affect the Group's businesses.
Treasury and financial risk management	
The main risk for the Group is the availability of funds to meet business needs. Higher debt levels would result in an increase in the proportion of cash flow dedicated to servicing debt and potentially increase its exposure to interest rate fluctuations. The geographic spread of the Group means that its financial results can be affected by movements in foreign exchange rates. The uncertainty surrounding the terms of the UK's exit from the EU means these currency fluctuations could be more pronounced.	The Group has a proportion of its borrowing denominated in foreign currencies to mitigate the risk of movements in foreign exchange rates on underlying assets. The Group operates a centralised treasury function which is responsible for managing its liquidity, interest rate and foreign currency risks. The Group's treasury policy allows the use of derivative products provided they are not entered into for speculative purposes. The effectiveness of the hedging is tested and accounted for under IFRS 39.
Credit risk and liquidity	
The Group is exposed to credit risk from its business customers and key suppliers whose services are essential to the business and who also face credit risk.	Credit risk procedures are in place and are regularly reviewed. The Group's risk assessment procedures for key suppliers enable it to identify alternatives and develop contingency plans in the event that any of these suppliers fail. The Group has adequate medium term financing in place to support its business operations for the foreseeable future.

Lucy Electric awarded 'best stand design' at Middle East Electricity Exhibition 2016

Statement of Principal Risks and Uncertainties

Risk and Impact	Mitigation
People The expertise, commitment and support of Group employees are central to continued business success. Ensuring the Group maintains the right mix of skills, knowledge and experience to support a high performing organisational culture is a key ongoing challenge for the business.	The Group continually seeks to supplement existing capabilities by both attracting new talent and by developing employee skills. The Group's talent management programme, along with apprentice and graduate schemes are a key example of how these challenges are being met.
Product design The success of the Group depends on providing high quality products that meet our customers' needs. There are always inherent risks in the introduction of new technologies and the entry into new markets.	Executive Directors and Senior Management continually review product development programmes to ensure, as far as possible, that they will successfully meet business objectives and customer requirements.
Key suppliers and supply chain management The Group relies on its supplier base to deliver products on time and to the standard it specifies. Supply chain risks include failure of a key supplier resulting in interruptions to manufacturing or product delivery schedules, which could impact our relationships with customers.	The Group continually seeks ways to develop and extend its supplier base so as to reduce any over-reliance on particular suppliers of products and services and to improve the competitiveness of its product offering.
IT systems and business continuity The Group is dependent upon the continued availability and integrity of its computer systems. Each of its businesses must record and process a substantial volume of data accurately and quickly. The Group expects that its systems will require continuous enhancements and ongoing investment to prevent obsolescence and maintain responsiveness to business needs.	The Group continues to review and develop its disaster recovery and business continuity plans. A Senior Executive is responsible for the IT systems and has a suitably qualified team in support. Critical areas are subject to testing and include rapid recovery as well as sound data back-up procedures. The business invests in new systems to meet users and business requirements and ensure that the IT environment remains resilient.

Risk and Impact	Mitigation
Subcontractors, licence agreements and joint ventures	
When entering new markets, the Group has used subcontractors, licences and joint ventures with local partners. This provides the Group with local knowledge, expertise and better market access. With these benefits comes the risk that the interests of the parties will not always remain aligned. This can lead to business disruption, dispute and ultimately litigation.	The Group seeks to ensure that Group companies are not over-reliant on any one subcontractor, partner or joint venture party. The Group also undertakes financial monitoring of subcontractors and partners and endeavours to maintain a dialogue with them in order to identify any issue or cause for concern.
Pensions	
The Group has to fund its defined benefit pension scheme and ensure that sufficient contributions are made to meet outstanding liabilities as they fall due.	The Group reviews the options regarding the actions it can take to mitigate its long-term risk and consults professional advisers as necessary.
Cyber security	
A third party may seek to penetrate business systems to access sensitive or valuable information or disrupt services. A prolonged systems outage could lead to significant business disruption. A significant loss of key data could erode competitive advantage through the loss of IP and its recovery could consume significant management resources.	Measures have been taken to secure business systems, and test the recovery of systems. The cyber security risks evolve as the protagonist's motivations and methodologies change frequently. The business keeps abreast of these changes to ensure the security and integrity of its systems remains robust and appropriate to the risks posed, and employs suitably experienced individuals to manage these risks.
Bribery and corruption	
The business works in a number of complex overseas territories where there is a perceived risk of stakeholders not fulfilling the far reaching requirements of the Bribery Act 2010, or other local legislation.	Training is provided for all relevant employees to help them understand transactions and behaviour that may fall foul of the UK Bribery Act 2010 and other legislative regimes the company operates under. Relevant employees are trained how to identify behaviour such as the solicitation of improper payments and how to avoid these without causing offence or increasing the risk of physical harm or detention. Commission payments which fall outside contractually or commercially agreed parameters are subject to review by management to ensure they are commensurate with the activities undertaken by the associated parties and agreements that we have in place. Agreements with key agents and third parties set out the Group's requirements of compliance with UK Anti-Bribery and Corruption Legislation.

Statement of Principal Risks and Uncertainties

Risk and Impact	Mitigation
Terrorism As the reach of terrorist organisations expands across the Middle Eastern and North African (MENA) region, and targeted attacks against western interests across the globe increase, there is a risk that terrorism could disrupt the business, whether through employees being caught up in an attack, or disruption to governing of countries within MENA. This could result in a decline in demand for products being sold into these markets, or the risk of operating in key markets becoming unacceptably high such that the business is unable to fulfil key contracts.	Prior to travel in high risk countries, risk assessments are undertaken to manage risks appropriately. The business continues to appraise security and the political situations in the key countries it sells to and considers the viability of contracts or opportunities presented by these changes.
Political retrenchment on globalization Results of recent elections and referendums show an increasing desire by the various electorates to become more inward looking and by extension adopt protectionist measures to protect local industries and jobs from the wider global market. This could give rise to a number of changes to legislation regarding the import of goods and services, and already in some territories there are certain barriers to entry which could become more common across the regions we are looking to trade within.	The Group has a strategic network of entities within differing regions which allows it access into these markets. The Group continues to assess differing compliance requirements within the markets it operates in and ensures that it complies with all regulations. Group management regularly reviews its strategy and adapts the structure of the business to reflect its long term outlook on these matters.

Lucy Electric GridKey
New office and technology centre
Basildon, Essex

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pporting ou
ols for a brighter futu
New classrooms sponsored by
" Lucy Electric"
inaugurated by
Mr Richard Dick
Chairman of W Lucy & Co Ltd
on
7thJuly 2016

2.

Corporate Responsibility

The Lucy Group seeks to contribute to the well-being of all communities affected by our operations. The Group has recently refreshed its Principles of Business, now published on the website, underpinning our belief that responsible business practice creates wider benefits for society while contributing to our commercial success. The Group's commitment to doing business responsibly is evidenced by the attainment of various internationally recognised accreditations and also in the way we conduct our day-to-day relationships with our customers, suppliers, employees and communities.

Doing business the right way

A few important activities undertaken during the year are shown below;

• The establishment of a steering committee comprising representatives from all four business units to ensure compliance with the UK's Modern Slavery Act 2015. Initial questionnaires have been sent to key suppliers so we can evaluate their compliance. The Committee will publish its first Transparency in Supply Chain statement in 2017.

• The Group updated its transfer pricing policy during the year to comply with recent legislative changes. Arm's length principles are applied in the pricing of all intra-group transactions of goods and services in accordance with the Organisation for Economic Co-operation and Development Guidelines. Whilst the Group aims to maximise tax efficiency of its business transactions, it does not use structures in its tax planning that are against the spirit of the law and considers the implications of any planning for the Group's wider corporate reputation.

1. Lucy Middle East team building event
2. Richard Dick opening new classrooms, Kota Maida School, India

Environment and Sustainability

The Lucy Group not only seeks to comply with all applicable legal standards but tries to go the extra mile to enhance environmental sustainability. We are especially pleased that the products sold by our Lucy Zodion business are designed to reduce our customers' energy consumption and carbon footprint. The Group has relevant policies in place to cover all of the major environmental aspects of its business such as energy use, waste production, air emissions, deleterious materials and resource use. The Group manages and implements this through its co-ordinated Environmental Management System which enables the Group to minimise the effect of its operations and processes on the environment, comply with applicable laws and other environmental requirements and to continually improve with the following core aims: Remove, Reduce, Reuse, and Recycle.

• Electricity and water consumption is monitored throughout the Group to ensure the lowest possible waste. All the Group's UK sites use energy efficient light bulbs. Within Lucy Electric, Passive Infra-Red lights are used across both UAE sites, and in Thailand Lucy Electric works with the Industrial Estate Authority to monitor and conserve their energy use.

• The Group recycles its paper, cardboard, pallets, wood and plastics used to build and transport its products, reducing waste and cost and adheres to packaging regulations.

• Group sites regularly implement various initiatives to support the environment. Lucy Electric's Dubai Sales and Marketing office launched a 'Think and Act Green' initiative to highlight the environmental impact of their activities. Lucy Electric's Vadodara facility planted trees around its factory and have undertaken a pilot solar power project. These initiatives have resulted in a reduction in carbon fuels, water and paper usage.

• Lucy Zodion supplies cutting-edge products offering significant energy savings which are innovatively designed to be highly functional yet very robust. Its eco vision is building and bringing to market environmentally friendly products, with a key component being efficiency with low energy or electricity consumption and exceptional control. Lucy Zodion has also been recognised in the Industry for best practice and excellence and was recently awarded 'Manufacturer of the Year' by the industry body, the Highway Electrical Association. The award recognises the investment Lucy Zodion has made in being at the forefront of street lighting and supporting local authorities to improve energy efficiency and reduce costs.

• Lucy Real Estate is coming to the end of a 5 year £400k sustainability programme for its residential properties to replace inefficient heating sources with A-rated efficient gas boilers and to install double or secondary glazing on windows for better insulation.

Corporate Responsibility


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Disposal of waste

• The Group is committed to minimising waste and controlling hazardous waste. This means controlling stock levels, and disposing of all waste through safe and responsible means. The Group has started to utilise waste management processes to minimise land fill.

• Last year Lucy Zodion launched a 'Rethink Waste' initiative to reduce the amount of waste going into landfill. Working closely with an external provider, waste streams were diverted from landfill and sent either for recycling or use as a refuse-derived fuel. In 2016 Lucy Zodion diverted 14 tonnes of waste from landfill; 83% recycled and 17% converted to refuse derived fuel and continues its commitment to 'Zero Waste to Landfill'.

• In 2016 Lucy Electric achieved 0% landfill in its Thame and Banbury sites.

Health & Safety

The Group provides resource to manage the Health & Safety risk arising from its business activities. Our goal is to ensure that all employees think 'safety first'.

• To complement the Group's Health and Safety policy, the Health and Safety department circulates regular bulletins with practical advice and guidance on Health & Safety issues.

• The Group provides and maintains safe plant and equipment and ensures safe handling, use and storage of substances.

• The Group ensures all employees are competent to do their tasks and gives them opportunities for training and supervision, endeavours to prevent accidents and cases of work-related ill health and maintains safe and healthy conditions for all employees and visitors at all its sites.

Supply Chain and Logistics

• The Groups' factories are located close to customers to avoid unnecessary transport and work closely with suppliers to reduce the environmental impact of their products.

• In compliance with the UK's Modern Slavery Act, the Group is taking the opportunity to review and refresh its purchasing terms, policies and procedures to ensure slavery does not exist in its operations or that of its supply chain.

• Lucy Electric has introduced a robust Code of Conduct for all suppliers and assesses them annually to ensure compliance, encouraging them to adopt responsible business policies and practices. It also works with suppliers to ensure they adopt continuous improvement measures to look after the environment to the latest standards.

Taking care of our employees

The Group complies with all relevant labour laws to provide fair and equitable terms and conditions for employees and is committed to embedding equality and diversity across its operations. We promote a positive culture for working to which each employee contributes and is able to develop to their full potential.

• All employees are asked to treat each other with respect, regardless of their race, disability, ethnicity, gender, beliefs or age.

• All employees are encouraged to raise any concerns.

• The Group complies with relevant government programmes for the recruitment of staff locally. In Saudi Arabia, we employ a high percentage of Saudi Nationals within the workforce and in South Africa, we are certified under the black empowerment legislation covering the employment and development of staff.

Employee Development and Welfare

• On joining, employees receive induction training.

• Training is delivered via internal, external and e-learning programmes e.g. Think Secure, an IT security awareness programme was delivered to all employees.

• English lessons are provided for those employees working on sites around the world and we also provide staff with career development opportunities by supporting extra studies.

1. STEM ambassadors and students
2. Lucy Electric South Africa team
3. Daniel Bradford dancing in Strictly Oxford 2016 for Vale House Dementia Care
4. Merit making ceremony, Thailand factory, Rayong
5. Lucy Real Estate team at the Blenheim Palace Triathlon 2016 in aid of Vale House


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• The Group has an Employee Assistance Programme in the UK that provides information and advice on a range of issues both personal and work related.

• Our Businesses organise social, cultural and sport activities for employees.

Youth Development and Education

• The Group is keen to support the development of young people in the countries where it operates and actively supports various apprentice schemes, to train our next generation of electricians, engineers and service staff.

• The Group has links to universities and engineering colleges world-wide and provides graduates with the opportunity of work placement and employment.

• Lucy Electric's STEM (Science, Technology, Engineering & Mathematics) ambassadors seek to encourage and support young people to study in an interdisciplinary and applied approach. They are working on a collaborative project with STEMNET and the Royal Academy of Engineering to encourage young people into Electrical Engineering.

• In South Africa, the Group established 'The Lucy Education Trust' to support the advancement and education of black people. It has become a minority shareholder of Lucy Electric South Africa Proprietary Limited.

Lucy Group in the Community

The Group is committed to all our local communities and regularly donates to charities and employees are encouraged to participate in fundraising events throughout the year. Some examples are listed below;

• UK employees participate in a number of charity fundraising days and contribute to various charities.

• The Group continues to support the Strictly Come Dancing Oxford competition and Blenheim Palace Triathlon both in which our employees participate. In 2016 these events raised almost £8,000 for Vale House Dementia Care Oxford.

• Lucy Electric's Dubai staff participated in a "Go Green Run" to increase awareness of global warming. In India we provide financial support to over 50 local patients suffering from Thalassema, requiring regular blood transfusions, and employees have also donated blood to the Indu Blood bank as part of their annual Health and Safety day.

• A Family Fun day was held in Thame, UK to celebrate the Queen's 90th birthday. The proceeds were sent to support Kota Maida primary school located near one of the Lucy Electric Indian businesses. This business is working in partnership with the school and funded the construction of two new class rooms during the year.

Accreditations

The Group has a wide number of accreditations to independent regulatory organisations with some of the key ones set out below:

• The Group holds ISO14001 and ISO9001 environmental and quality certifications.

• Lucy Electric measures its Carbon Footprint using the world-class CEMARS (Certified Emissions Measurement and Reduction Scheme) standard and has been awarded CEMARS certification having demonstrated its commitment to measuring, managing and reducing greenhouse gas emissions in a robust and credible way.

• Following an external audit in August, Lucy Electric's South African business was certified as a Level 3, empowering supplier, embracing Black Economic Empowerment.

• Lucy Real Estate is a member of the Oxford City Landlord Accreditation Scheme. This reflects the quality of our property portfolio, the level of service that we offer our tenants and our adherence to landlord and tenant legislation.

• Lucy Real Estate is also a member of the Association of Residential Management having been granted ARMA-Q, self-regulatory regime status. This gives customers confidence that they will receive a high standard of customer service.

Directors' Responsibilities

The Directors are responsible for preparing the strategic report, Directors' report and the financial statements in accordance with the applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

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

• Select suitable accounting policies and then apply them consistently;

• Make judgements and estimates that are reasonable and prudent;

• Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

• In respect of the Group financial statements, provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and performance;

• State that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements;

• In respect of the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

• Prepare the financial statements on a going concern basis, unless they consider that to be inappropriate.

The Directors confirm that the financial statements comply with the above requirements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006, and as regards the Group financial statements Article 4 of the IAS Regulations. They are responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibilities Statement

We confirm to the best of our knowledge that;

a) the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and results of the Group; and

b) the strategic report contained in this annual report includes a fair review of the developments and performance of the business and the position of the company and the Group, together with a description of the principal risks and uncertainties that they face; and

c) the annual report and accounts taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

On behalf of the Board

C R Dick
Executive Chairman

G D Ashton
Group Finance Director

14 March 2017

THAMES VALLEY®
250

Mike McAllister, Moore Stephens presenting Gary Ashton on behalf of Lucy Group Ltd with the Thames Valley 250 International Business Award

Directors' Report

The Directors present their report on the affairs of the Group, together with the audited accounts for the year ended 31 December 2016.

Change of name

The name of the Company was changed to Lucy Group Ltd on 17 February 2017.

Directors

The present membership of the Board is set out below:

C R Dick	Executive Chairman
G D Ashton	Group Finance Director
M Laxton	Executive Director and Company Secretary
R I Dick	Non - Executive Director
P A J Latham	Non - Executive Director
J C Finch-Dick*	Non - Executive Director

*From 1 May 2017 Jonathan Finch-Dick will become a full-time Executive Director of the Company.

Balance of Directors

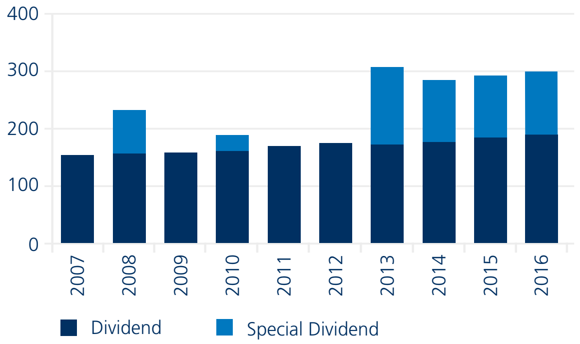
Financial Results

The financial results can be found in the Consolidated Accounts and Parent Company Accounts sections of this report.

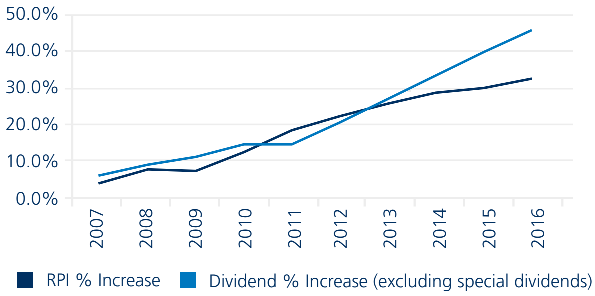
Dividends

The Board recommends a final dividend of 115p per share which, taken together with the 2016 interim dividend, gives a payment of 203p per share (2015: 195p), representing a 4% increase for the year. This dividend will be payable on 28 April 2017 to shareholders on the register on 31 March 2017. In December 2016, a special dividend of 100p per share (2015: 100p) was paid to shareholders. The following charts show dividend payments paid and proposed over the last 10 years and dividend performance (excluding special dividends) compared with the retail price index over the same time period.

Dividends paid and proposed



Dividend Performance
RPI vs Dividend YoY Growth



Investment Property

The Group's investment property is included in the statement of financial position at fair value, after taking independent professional advice.

Property occupied by the Group

Properties that are occupied by the Group for its trading purposes are included in the balance sheet at book value, except for properties acquired in business combinations which are included at fair vale. The Directors are of the opinion that the fair value of these properties is similar to their book value.

Future Developments

No significant events have occurred since the year end.

Employee Policies

The Group values the commitment of its employees and has maintained its practice of communicating with them regarding the development of the business.

Employment policies are designed to respect employees' human rights, ensure equal opportunity and promote diversity. Employees are actively encouraged to undertake relevant training and to develop their careers. Staff appraisals are also conducted with individual employees. The Group remains supportive of the employment and advancement of disabled persons.

Health and Safety

The Group is committed to health and safety best practice as an integral part of its business activities. Good health and safety management safeguards our employees and those who may be affected by our activities and supports the Group in achieving its business objectives.

Corporate Governance

The section on Corporate Governance is elsewhere in this report. The Board sets the tone for the way in which the Group operates and is committed to running the business in a responsible way. The Board considers current performance, strategy and acquisitions, risk management and internal controls throughout the year. The executive management disseminates the values and standards of the Board throughout the Group.

Research and Development

The Group's policy is to invest in innovation and development at a level that ensures it retains and enhances its market position.

Top, from left to right

G D Ashton, C R Dick, M Laxton, R I Dick, P A J Latham, J C Finch-Dick

Financial Instruments

For information on the Group's use of financial instruments, including financial risk managements, objectives and policies of the Group, and the exposure of the Group to certain financial risks, see note 27 on page 68.

Donations

Total charitable donations during the year were £68.0k (2015: £83.4k). These comprised £63.5k for community projects (2015: £69.8k), £0.3k for educational projects (2015: £3.5k) and £4.2k for other projects (2015: £10.1k). No political contributions were made (2015: Nil).

Close Company Provisions

The company is a close company within the meaning of the Income and Corporation Taxes Act 1988.

Disclosure of Information to Auditor

In so far as the Directors are aware:

• There is no relevant audit information (information needed by the Company's Auditors in connection with preparing their report) of which the Company's Auditor is unaware, and;

• The Directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Auditor

Wenn Townsend have expressed their willingness to continue in office as Auditor of the Company and a resolution proposing their re-appointment will be put to the members at the Annual General Meeting.

By order of the Board

Madeline Laxton
Company Secretary
14 March 2017

Corporate Governance

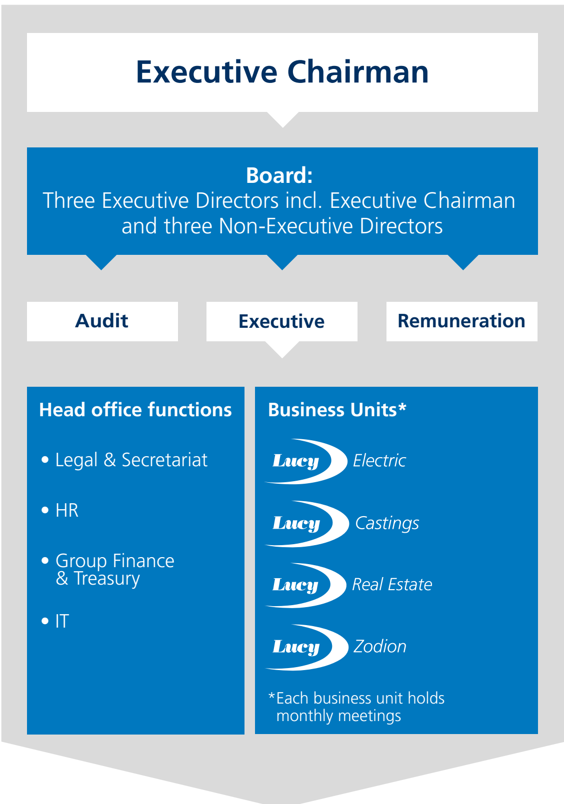
Guiding principle

The Board recognises that sound corporate governance principles help to safeguard the business and its long-term success by embedding best practice in transparency, internal control and risk management across the Group's businesses, and engendering trust between the management and our stakeholders.

The Board of Directors

The Board of Directors has a duty to promote the long-term success of the Company for its shareholders. It is responsible for major policy decisions and setting the Group's strategy, whilst delegating more detailed matters to its committees and the Executive Directors. The Board is responsible for the Group's system of internal control and for monitoring implementation of its policies.

Governance Framework



Board Committees

The Board has an Audit Committee and a Remuneration Committee with formal written terms of reference which are reviewed periodically. Each committee is comprised of Non-Executive Directors and the Company Secretary advises and acts as Secretary to the committees according to the terms of reference for each committee.

The Audit Committee comprises two Non-Executive Directors and meets on at least two occasions per year and consults with external auditors, senior management and Internal Audit. The committee considers the effectiveness of the risk management and internal audit process, and significant risk issues are reported to the Board for consideration. The committee also considers financial reporting and reviews the Group's accounting policies relating thereto. In particular, major accounting issues of a subjective nature are discussed by the committee.

The Remuneration Committee comprises two Non-Executive Directors and the Executive Chairman. The committee's objective is to review and set a competitive level of remuneration for the Executive Directors.

Information and Development

Directors are encouraged to update and refresh their skills, knowledge and familiarity with the Group by attending external seminars and through participation at meetings and through visits to operating units both in the UK and overseas as well as receiving presentations from senior management. This is in addition to the access that every Director has to the Company Secretary.

Board committees and Directors are given an access to independent professional advice at the Group's expense if they deem it necessary in order for them to carry out their responsibilities.

Directors receive a pack of relevant and timely information on the matters to be discussed at each meeting. The Board uses third party software which enables faster and more secure distribution of information whilst avoiding the need to circulate paper copies, minimising our impact on the environment. The Company Secretary ensures timely information flows within the Board and its committees and between the Executive management and the Non-Executive Directors.

At Board meetings:

- The Executive Chairman presents an update on the business issues across the Group

- The Group Finance Director presents a detailed analysis on financial performance

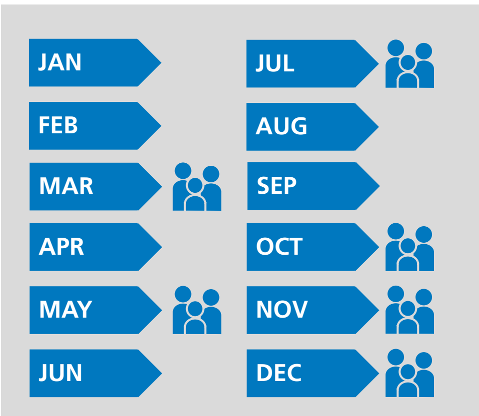
- Business unit heads and other senior managers attend relevant parts of Board meetings in order to make presentations on their area of responsibility, providing updates on the developments and changes to the business

- The Company Secretary reports on the key regulatory and legal issues that affect the Group

Between Board meetings Directors also meet with business unit management and are provided with information in a timely manner on matters affecting the business as and when relevant.

The table below sets out the number of meetings of the Board during the year.

Board Meeting dates 2016



Internal Control and Risk Management

The system of internal control is designed to manage rather than eliminate risk of failure to achieve business objectives, and can only provide reasonable, not absolute, assurance against material misstatement or loss. The Board holds regular meetings where it approves major decisions, including significant items of capital expenditure, investments, treasury and dividend policy. The Board is responsible for approving annual Group budgets.

Performance against budget is reported to the Board and substantial variances investigated. Forecasts of each quarter are prepared and reviewed by the Board. In addition, open and frequent discussions are held and a considerable amount of information is provided to Non-Executive Directors.

The Company has a formal Whistleblowing Policy in place through which employees can raise genuine concerns of possible wrongdoing in confidence, to the Company Secretary.

External Auditors

Wenn Townsend have reported to the Audit Committee that, in their professional judgement, they are independent within the meaning of regulatory and professional requirements, and the objectivity of the audit engagement partner and audit staff is not impaired. The Audit Committee has reviewed this statement and concurs with its conclusion.

Going Concern

The Directors report that, having reviewed current performance and forecasts, the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they have continued to adopt the going concern basis in preparing the accounts.

Relations with Shareholders

The Board acknowledges that its primary role is to represent and promote the interests of shareholders. The Board is accountable to shareholders for the performance and activities of the Group.

The Board communicates with its shareholders in respect of the Group's business activities through its Annual Report and Accounts, and half-yearly announcement. The Company makes effective use of its Annual General Meeting, and shareholders attending in person or via web link have an opportunity to ask questions or represent their views at the meeting.

By order of the Board

Madeline Laxton
Company Secretary
14 March 2017

Independent Auditors' Report to the Shareholders of Lucy Group Ltd

We have audited the financial statements of Lucy Group Ltd for the year ended 31 December 2016 which comprise the Group and Parent Company Statements of Financial Position, the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Cash Flows, the Group and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS101 'Reduced Disclosure Framework'.

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

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' responsibilities statement set out on page 30, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

• The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016, and of the Group's profit for the year then ended;

• The Group's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

• The Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS101 'Reduced Disclosure Framework'; and

• The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

• The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

• The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

• Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

• The parent company financial statements are not in agreement with the accounting records and returns; or

• Certain disclosures of Directors' remuneration specified by law are not made; or

• We have not received all of the information and explanations we require for our audit.

Anthony Haines BSc, FCA (Senior Statutory Auditor)
For and on behalf of Wenn Townsend
Chartered Accountants and Statutory Auditors
30 St. Giles
Oxford
OX1 3LE

14 March 2017

Consolidated Income Statement

For the year ended 31st December 2016

	Note	2016	2015
		£000	£000
Revenue	3	**192,028**	**217,057**
Cost of sales		(133,260)	(158,050)
Gross profit		**58,768**	**59,007**
Selling and distribution costs		(29,178)	(29,002)
Administrative expenses		(11,084)	(9,734)
Research and development costs		(10,395)	(9,016)
Other operating income/expenses		4,795	4,439
Exceptional items	5	(959)	(1,147)
Operating profit before net valuation gains on investment property	4	**11,947**	**14,547**
Net valuation gains on investment property		9,298	4,488
Operating profit after net valuation gains on investment property		**21,245**	**19,035**
Share of profit from equity accounted investments		-	657
Finance income	7	565	257
Finance costs	7	(983)	(1,282)
Profit before taxation		**20,827**	**18,667**
Tax expense	8	(541)	(1,934)
Profit for the year		**20,286**	**16,733**
Dividends	10	(1,466)	(1,426)
Retained profit for the year		**18,820**	**15,307**
Profit for the year attributable to:			
Non-controlling interest		17	-
Owners of the parent		18,803	15,307
		18,820	**15,307**
Earnings per share	9	**4,121p**	**3,401p**

All of the profit for the above two financial periods has arisen from continuing activities.

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2016

	2016	2015
	£000	£000
Profit for the year	**20,286**	**16,733**
Other comprehensive income:		
Items that will not be reclassified subsequently to the Income Statement:		
Remeasurement of defined benefit pension scheme	(3,408)	91
Taxation relating to remeasurement of pension scheme	168	(195)
Items that will subsequently be reclassified to the Income Statement:		
Change in cash flow hedges	(68)	(397)
Fair value change in net investment hedge	(1,353)	(39)
Currency translation differences	1,330	(193)
Gain / (loss) on revaluation of available for sale investments	222	(1)
Total comprehensive income for the year, net of tax	**17,177**	**15,999**
Total comprehensive income for the year attributable to:		
Non-controlling interest	17	-
Owners of the parent	17,160	15,999
	17,177	**15,999**

Consolidated Statement of Financial Position

As at 31st December 2016

	Note	2016	2015
		£000	£000
Assets			
Non-current assets			
Goodwill	11	2,717	2,717
Other intangible assets	12	1,043	1,375
Property, plant and equipment	13	33,388	31,993
Investment property	14	136,049	124,787
Other long-term financial assets	16	1,617	1,412
Other receivables	19	1,261	874
Deferred tax assets	19	1,495	700
Non-current assets		**177,570**	**163,858**
Current assets			
Inventories	18	31,431	29,811
Trade and other receivables	19	36,439	33,959
Cash and cash equivalents		17,366	17,084
Current assets		**85,236**	**80,854**
Total assets		**262,806**	**244,712**
Liabilities			
Non-current liabilities			
Provisions	21	9,288	9,013
Pension and other employee obligations	25	8,335	6,156
Borrowings	26	12,185	16,408
Trade and other payables	23	3,763	2,763
Deferred tax liabilities	24	13,319	13,861
Non-current liabilities		**46,890**	**48,201**

	Note	2016	2015
		£000	£000
Current liabilities			
Trade and other payables	22	30,577	29,989
Current tax liabilities	22	2,507	1,675
Derivative financial instruments	20	3,936	1,843
Current liabilities		**37,020**	33,507
Total liabilities		**83,910**	81,708
Net assets		**178,896**	163,004
Equity			
Share capital	28	492	492
Other reserves	29	557	764
Profit and loss account		177,551	161,748
Equity attributable to owners of the parent		178,600	163,004
Non-controlling interest	15	296	-
Total equity		**178,896**	163,004

Approved by the Board of Directors on 14 March 2017 and signed on its behalf.

C R Dick
Executive Chairman

G D Ashton
Group Finance Director

Consolidated Statement of Cash Flows

	2016	2015
	£000	£000
Cash flows from operating activities		
Operating profit before net valuation gains on investment property	11,947	14,547
Depreciation and amortisation	6,901	4,975
Other expense	(29)	(520)
Currency revaluation	(4,033)	(553)
Operating cash flow before changes in working capital, interest and taxes	**14,786**	**18,449**
Increase in inventories	(1,620)	(2,204)
(Increase) / decrease in trade and other receivables	(2,380)	1,925
Increase / (decrease) in trade and other payables	4,037	(5,383)
Increase in provisions	275	1,610
Change in derivative financial instruments	2,093	740
Cash generated from operating activities	**17,191**	**15,137**
Interest received	145	112
Interest paid	(534)	(617)
Tax	(1,533)	(1,009)
Net cash from operating activities	**15,269**	**13,623**
Investing activities		
Capital Expenditure	(6,817)	(8,235)
Proceeds from disposal of property, plant and equipment	245	33
Acquisition of subsidiaries, net of cash acquired	-	(3,331)
Proceeds from disposal and redemption of non-derivative financial assets	56	115
Purchase of non-derivative financial assets	(42)	(173)
Net cash used in investing activities	**(6,558)**	**(11,591)**
Free cash flow	**8,711**	**2,032**
Financing activities		
Cash (outflow) / inflow from borrowings	(6,963)	2,339
Dividends paid	(1,466)	(1,426)
Net cash (used in) / from financing activities	(8,429)	913
Net change in cash and cash equivalents	**282**	**2,945**
Cash and cash equivalents, beginning of year	17,084	14,139
Cash and cash equivalents, end of year	**17,366**	**17,084**

Consolidated Statement of Changes in Equity

	Share capital	Capital reserve	Currency reserve	Net investment hedge reserve	Cash flow hedge reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interests	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1st January, 2016	492	69	2,024	(735)	(594)	161,748	163,004	-	163,004
Opening balance adjustments	-	-	-	-	-	36	36	-	36
Profit for the year	**-**	**-**	**-**	**-**	**-**	**20,269**	**20,269**	**17**	**20,286**
Other comprehensive income									
Foreign currency translation	-	-	1,269	-	-	-	1,269	61	1,330
Gain /(loss) on revaluation of available for sale investments	-	-	-	-	-	222	222	-	222
Change in cash flow hedges	-	-	-	-	(68)	-	(68)	-	(68)
Fair value change in investments	-	-	-	(1,353)	-	-	(1,353)	-	(1,353)
Actuarial loss on post retirement liability, net of deferred tax	-	-	-	-	-	(3,240)	(3,240)	-	(3,240)
Total comprehensive income	**-**	**-**	**1,269**	**(1,353)**	**(68)**	**17,251**	**17,099**	**78**	**17,177**
Dividends	-	-	-	-	-	(1,466)	(1,466)	-	(1,466)
Change in partial interest in subsidiary	-	-	-	-	-	(73)	(73)	218	145
Reclassifications	-	(55)	-	-	-	55	-	-	-
At 31st December, 2016	**492**	**14**	**3,293**	**(2,088)**	**(662)**	**177,551**	**178,600**	**296**	**178,896**
At 1st January, 2015	492	69	2,217	(696)	(197)	144,969	146,854	-	146,854
Change in reserves on acquisition	-	-	-	-	-	1,576	1,576	-	1,576
Profit for the year	**-**	**-**	**-**	**-**	**-**	**16,733**	**16,733**	**-**	**16,733**
Other comprehensive income									
Foreign currency translation	-	-	(193)	-	-	-	(193)	-	(193)
Change in cash flow hedges	-	-	-	-	(397)	-	(397)	-	(397)
Fair value change in investments	-	-	-	(39)	-	-	(39)	-	(39)
Actuarial loss on post retirement liability, net of deferred tax	-	-	-	-	-	(104)	(104)	-	(104)
Total comprehensive income	**-**	**-**	**(193)**	**(39)**	**(397)**	**16,629**	**16,000**	**-**	**16,000**
Dividends	-	-	-	-	-	(1,426)	(1,426)	-	(1,426)
At 31st December, 2015	**492**	**69**	**2,024**	**(735)**	**(594)**	**161,748**	**163,004**	**-**	**163,004**

Principal Accounting Policies

Basis of preparation

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'), and also comply with IFRSs as issued by the International Accounting Standards Board (IASB).

They are prepared on a historical cost basis, except that assets and liabilities of certain financial instruments, defined benefit pension plans, value of assets acquired in business combinations and investment property are valued at fair value.

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarised below;

Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2016. Subsidiaries are entities controlled by the Group. Subsidiary companies that have an accounting reporting date other than 31 December prepare additional financial statements to 31 December for consolidation purposes. Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used in line with those used in the Group. All transactions and balances between Group companies are eliminated on consolidation.

Business combinations are accounted for using the acquisition method, as at the acquisition date, being when control is transferred to the Group. Goodwill is measured at the acquisition date as the fair value of consideration transferred less the net recognised amount of the identifiable assets acquired and liabilities assumed. Where the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquired is added to the fair value of consideration in calculating goodwill. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Investments in associates and joint ventures

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity unless if an ability, or lack of ability, to exercise significant influence is clearly demonstrated.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs.

The Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

Foreign currency translation

The consolidated financial statements are presented in currency £ Sterling, which is also the functional currency of the parent company.

Overseas companies' profits, losses and cash flows are translated at average exchange rates for the year, and assets and liabilities at rates ruling at the balance sheet date. Exchange differences arising on foreign currency net investments are taken to reserves. The portion of the gain or loss on an Instrument used to hedge a net Investment in an overseas company that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the income statement. Exchange differences arising in the normal course of trading are taken to the income statement.

Revenue

Revenue arises from the sale of goods and services. It is measured at the fair value of consideration received or receivable, excluding sales taxes and net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of consideration is probable and the amount of revenue can be measured reliably.

Profit is recognised on long term contracts, if the final outcome can be estimated reliably, in proportion to the stage of completion of the contract. Otherwise, contract revenue is recognised only to the extent of contract costs that are likely to be recovered.

The Group earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.

Revenue from the sale of residential properties is recognised when the significant risks and rewards of ownership of the property is transferred, typically when legal title is transferred, at fair value of consideration received.

Operating Expenses

Operating expenses are recognised in profit or loss as incurred and are classified according to their nature.

Cost of sales comprises material, labour, manufacturing and service expenses, sub contract services, installation, commissioning, warranty and rectification costs. Expenditure for warranties is recognised when the Group incurs an obligation, which is typically when the related goods are sold.

Selling and distribution expenses include logistics, information systems, contract engineering, selling and marketing expenses.

Research and development expenditure comprises all product design and development costs.

Administration expenses comprise finance, legal and human resources expenses together with the costs of each business's General Manager and the board.

Borrowing Costs

Interest costs that are directly attributable to the development of investment properties are capitalised as part of the cost of those assets. Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses.

Goodwill is assessed for impairment annually or as a relevant triggering event occurs. For impairment testing purposes goodwill is allocated to those cash-generating units that are expected to benefit from the synergies of the combination. Goodwill is impaired when its carrying amount exceeds its recoverable amount, the recoverable amount being the higher of the value in use and the fair value less cost to sell.

Goodwill arising on acquisition prior to 31st December 1998 has been written off to consolidated reserves. The cumulative amount of positive goodwill written off is £630.2k. On disposal of a business, the gain or loss on disposal includes the goodwill previously written off on acquisition.

Impairment loses are recognised in the income statement.

Intangible assets

Intangible assets, other than goodwill, are stated at cost less accumulated amortisation. Amortisation is calculated to write off the cost of the asset on a straight line basis over the life of the asset. The residual value, if significant, is reassessed annually.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in the income statement within other income or other expenses.

Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, should only be capitalised if the following criteria is satisfied;

• It is technically feasible that the development can be completed and the resulting intangible asset be available for use or sale

• It is intended to complete the development and use or sell the resulting intangible asset

• It is possible to use or sell the intangible assets

• The intangible asset will generate future economic benefits

• Adequate technical, financial and other resources are available to complete the intangible asset and use or sell it

• The benefits derived from the intangible asset are expected to last more than 2 years

• The cost of development of the intangible asset is greater than £500k

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Principal Accounting Policies

Property, Plant and Equipment

Property, plant and equipment is carried at cost, less any accumulated depreciation and accumulated impairment losses. Cost includes purchase price and construction costs, together with borrowing costs for qualifying assets. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost, less estimated residual value, over their estimated useful lives, using the straight-line method, for the following class of assets:

Freehold buildings	Straight line over expected useful life
Leasehold premises	Term of lease, not exceeding 50 years
Leasehold improvements	Not exceeding the term of the lease
Plant and equipment	4 - 15 years
Fixtures and fittings	3 – 10 years
Computer equipment	4 years
Computer software	3 years
Motor vehicles	4 years

The estimated useful lives of property, plant and equipment and their residual values are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement for the relevant period.

Assets under £1,000 (or foreign currency equivalent) are expensed as incurred.

Finance leases

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Group obtains ownership of the asset at the end of the lease term.

For leases of land and buildings, the minimum lease payments are first allocated to each component based on the relative fair values of the respective lease interests. Each component is then evaluated separately for possible treatment as a finance lease, taking into consideration the fact that land normally has an indefinite economic life.

The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

Operating leases

All other leases are treated as operating leases. Costs are recognised as an expense on a straight-line basis over the lease term. The leasehold premises are depreciated over the term of the lease, not exceeding 50 years.

Investment Property

Investment property is valued annually and is included in the financial statements at fair value after taking appropriate professional advice. Changes in fair value are recognised in the income statement.

No depreciation is provided in respect of investment property.

Financial Instruments

Financial assets and financial liabilities are recognised when the Group becomes party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are stated at their cost less any provision for bad and doubtful debts. They are assessed by the Group at each reporting date to determine whether there are any indicators of impairment.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequently they are carried at amortised cost. Any difference between the proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Investments

Other investments are measured at cost and are subject to impairment. Investments in equity securities are classified as available-for-sale financial assets and are initially measured at cost which is considered to equal fair value. Subsequently such investments are measured at fair value and changes therein are recognised in other comprehensive income.

Trade payables

Trade payables are measured at fair value and subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments and hedge accounting

All derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative financial instruments are accounted for as hedges when designated as hedges at the inception of the contract and when the financial instruments provide an effective hedge of the underlying risk. Gains and losses on hedging instruments are not recognised in the income statement until the hedged risk is recognised. The ineffective portion is recognised immediately in the income statement.

The portion of the gain or loss on an instrument used to hedge a net investment in an overseas company that is determined to be an effective hedge is recognised in other comprehensive income in the consolidated accounts that contain both the investments and the hedging instrument.

Cash flow hedging
Derivative financial instruments are classified as cash flow hedges that hedge the Group's exposure to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. These include interest rate swaps, commodity (copper) swaps, forward foreign exchange transactions and options.

Net Investment hedging
A net investment hedge is a hedge of the foreign currency exposure arising from a net investment in a foreign operation using a derivative and/or non-derivative financial item as the hedging instruments.

Non Current Assets Held for Sale

Non-current assets or disposal groups comprising assets and liabilities that are highly probable to be recovered primarily through sale or distribution rather than through continuing use are classified as held for sale.

Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Group's other accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

Financial assets and financial liabilities are recognised when the Group becomes party to the contractual provisions of the instrument.

Inventories

Stocks are valued at the lower of cost and net realisable value.

Work in progress, including long term contracts and goods for resale include attributable overheads.

Net realisable value is the estimated selling price reduced by all costs of completion, marketing and distribution.

Residential trading properties are carried in the balance sheet at the lower of cost and net realisable value. In assessing net realisable value the group uses valuations carried out by its own in-house surveying team based on information supplied by local property consultants.

Income Taxes

Corporation tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted at the balance sheet date, and any adjustment to tax payable In respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which these temporary differences can be utilised.

Cash

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months. Short-term highly liquid investments are measured at fair value.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Equity and Reserves

Share capital represents the nominal (par) value of shares that have been issued.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

Principal Accounting Policies

Post Employment Benefits

The Group provides post-employment benefits through various defined contribution and defined benefit plans.

In the United Kingdom the Group operates a pension scheme providing benefits based on final pensionable pay for eligible employees who joined on or before 10th April 2002. The pension cost of the defined benefit scheme is charged to the income statement so as to spread the cost of pensions over employees' working lives with the Group.

Defined contribution schemes include a Group Personal Pension plan, including auto enrolment, managed by Zurich. The pension costs of these schemes are charged as incurred.

Employee benefits are provided elsewhere in the Group through defined benefit schemes in accordance with local labour laws. In the UAE and Saudi Arabia, unfunded end of service plans are made available for eligible employees. In India, contributions are made to a fund administered and managed by the Life Insurance Company of India.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Significant Management Judgement in Accounting Policies

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Significant Management Judgement

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements.

Development expenditure
Distinguishing the research and development phases of a new customised software project and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

Deferred Tax
The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

Estimation Uncertainty
Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment of non-financial assets and goodwill
In assessing impairment, management estimates the recoverable amount of each asset or cash-generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Useful lives of depreciable assets
Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and equipment.

Inventories
Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Defined benefit obligation
Management's estimate of the defined benefit obligation is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the defined benefit obligation amount and the annual defined benefit expenses.

Fair value measurement
Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Investment properties are valued using appropriated professional advice.

Energy Services technician maintaining customer network infrastructure

Notes to the Accounts

1. Accounting policies and presentation

Basis of preparation
The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'), and also comply with IFRSs as issued by the International Accounting Standards Board (IASB).

New and amended standards which became effective during the year
In the current year, a number of amendments to IFRSs were issued by the International Accounting Standards Board that are mandatorily effective for accounting periods that begin 1st January 2016. These include IFRS 11; Accounting for acquisitions of interests in joint operations, IAS 16; Clarification of acceptable methods of depreciation and amortisation and IAS 1; Disclosure initiative. The amendments to these standards have had no impact on the Group's reported results.

The various amendments to IFRS through the annual improvements cycle 2012-14 have been considered and do not have a material impact on the Group in the current period.

Standards issued by the International Accounting Standards Board (IASB) not effective for the current year and not early adopted by the Group
The following standards and interpretations, which have been issued by the IASB and are relevant for the Group, subject to EU ratification, became effective after the current year-end and have not been early adopted by the Group.

IFRS 9 - Financial Instruments

This standard will replace IAS 39 and covers the classification, measurement and de-recognition of financial assets and liabilities, and new hedge accounting models. The standard is effective for accounting periods beginning on or after 1st January 2018, with early adoption permitted.
The Group will adopt this standard effective from 1st January 2017.

IFRS 15 - Revenues from Contracts with Customers

This standard will replace IAS 18 and includes a five step approach to recognising revenue, based around the principle that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services. The proposed effective date, subject to EU endorsement is for accounting periods beginning on or after 1st January 2018.

IFRS 16 – Leases

This standard provides a single lessee accounting model, requiring assets and liabilities to be recognised for all leases over 12 months in duration.
This standard is effective for accounting periods beginning on or after 1st January 2019, but has not yet been endorsed for use in the EU.

A number of amendments and improvements to various standards have also been issued but are not yet effective, including IFRIC 22; foreign currency transactions and advance consideration, IAS 12; Recognition of deferred tax assets for unrealised losses and IAS 40; Transfers of investment property

The impact on the Group's financial statements of the future adoption of these standards is still under review.

2. Profit for the financial year

The Group profit for the year after taxation includes a profit of £15.6m (2015: £23.3m) which is dealt with in the financial statements of the Company.

3. Analysis of turnover and profit between activities and markets

The total turnover of the Group was £192.0m (2015: £217.1m) of which £6.2m (2015: £9.7m) related to UK exports. In the opinion of the Directors it would be prejudicial to the interests of the Group to disclose a detailed analysis of turnover or profit.

4. Operating profit

	2016	2015
	£000	£000
a) Operating profit is stated after charging :		
Depreciation of tangible fixed assets	5,273	4,572
Amortisation of intangible fixed assets	534	403
Operating lease rentals		
Plant & machinery	199	129
Land & buildings	2,780	2,732
Research and development	10,395	9,016
Directors' remuneration (see note 32)	1,038	984
Auditors' remuneration (see note 4c)	145	128
Hire of plant	22	20
(Loss) / gain on translation of foreign currency	(108)	1,863
b) Operating profit is stated after crediting:		
Rental income	7,082	6,813
Less related expenses	(3,129)	(2,992)
	3,953	**3,821**
c) Auditors' remuneration		
Audit of these financial statements	26	27
Amounts received by auditors and subsidiary auditors in respect of:		
Audit of financial statements of subsidiaries	106	88
Other services	13	13
	145	**128**
Fees in respect of and borne by the W Lucy Pension Scheme	4	4

5. Exceptional items

	2016	2015
Integration and systems implementation costs	54	1,017
Restructuring	905	130
	959	**1,147**

Notes to the Accounts

6. Employee Remuneration

	2016	2015
	£000	£000
Wages and salaries	33,875	31,269
Social security costs	2,389	1,963
Pension costs	2,323	2,180
	38,587	**35,412**

The average number of employees during the year was 1,363 (2015: 1,322) of which 144 were administrative (2015: 127).

7. Finance income and costs

	2016	2015
Finance revenue		
Income from investments	32	23
Other interest receivable	145	112
Exchange gain on overseas assets	236	-
Ineffective portion of changes in fair value of cash flow and net investment hedges	-	79
Other income	152	43
	565	**257**
Finance cost		
Bank interest	534	617
Exchange loss on overseas assets	-	34
Ineffective portion of changes in fair value of cash flow and net investment hedges	192	354
Pension finance cost	257	277
	983	**1,282**

8. Tax on profit on ordinary activities

	2016	2015
	£000	£000
Current year UK tax	545	574
Current year overseas tax	1,393	261
Group current tax	1,938	835
Over provision in previous years	(166)	(125)
	1,772	710
Share of associates' current tax	-	248
Total current tax	**1,772**	**958**
Deferred tax		
Capital allowances	77	80
Other timing differences and allowances	(847)	28
Effect of decreased tax rate on opening liability	(1,988)	-
Investment properties	1.527	868
Total deferred taxation	**(1,231)**	**976**
Total tax on profit on ordinary activities	**541**	**1,934**

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK Corporation Tax to the profit before tax is as follows:

	2016	2015
Profit on ordinary activities before tax	20,827	18,667
Less: share of joint venture profit before tax	-	(409)
Group profit on ordinary activities before tax	**20,827**	**18,258**
Tax charge at average UK Corporation Tax rate of 20.00% (2015: 20.25%)	4,165	2,788
Adjustments in respect of prior years	(166)	(365)
Effect of change in non-allowable general provisions	61	(32)
Net effect of differing overseas tax rates	(1,326)	(1,961)
Other non-allowable expenses	(84)	(411)
Depreciation in excess of capital allowances	63	215
Utilisation of tax losses	415	380
Utilisation of group relief	(49)	-
Other	(1,307)	344
Group current tax charge for the period	**1,772**	**958**

Notes to the Accounts

9. Earnings per share

The earnings per share have been calculated using the profit attributable to shareholders of Lucy Group Ltd as the numerator. Profit has been adjusted by £17k in 2016 (2015: nil) to remove that attributable to the non-controlling interest.

	2016	2015
	£000	£000
Profit on ordinary activities after taxation attributable to Lucy Group Ltd shareholders	20,269	16,733
Weighted average number of shares (000s)	492	492
Earnings per share	4,121p	3,401p

10. Dividends

	2016	2015
	£000	£000
Amounts recognised as distributions to shareholders in the year:		
Final dividend for the year to 31st December 2015: 110p (2014: 105p) per share	541	516
Interim dividend for the year to 31st December 2016: 88p (2015: 85p) per share	433	418
Special dividend for the year to 31st December 2016: 100p (2015: 100p) per share	492	492
	1,466	**1,426**
Proposed final dividend for the year to 31st December 2016: 115p (2015: 110p) per share	566	541

11. Goodwill

The movements in the net carrying amount of goodwill are as follows:

	2016	2015
	£000	£000
Gross carrying amount		
Balance 1st January	2,717	2,360
Additions	-	357
Balance 31st December	**2,717**	**2,717**

Impairment of Goodwill

Goodwill arising on business combinations is not amortised but is reviewed on an annual basis, or when there is an indicator that goodwill has been impaired. Goodwill acquired in a business combination is allocated to groups of cash generating units according to the level at which goodwill is monitored by management.

Recoverable amounts are based on value in use, which are calculated from cash flow projections using information from the Group's latest medium term plans, which are reviewed by the Directors. The medium term plans cover a five year period, the growth rate used to extrapolate beyond the medium term plans is zero.

The key assumptions used in the value in use calculations are the discount rates. Discount rates have been estimated based on current market assessment of the time value of money as well as future expectations for changes in market conditions.

Impairment reviews were performed as at December 2015 and 2016 by comparing the carrying amount of goodwill to recoverable amount of each asset. No impairment has been identified.

	2016
The components of goodwill are:	
Lucy Zodion Ltd	2,261
Truscanian Ltd	139
Lucy Electric India (Private) Ltd	155
Lucy Electric Gridkey Ltd	162
	2,717

Notes to the Accounts

12. Other intangible assets

	Licences and software
	£000
Gross carrying amount	
At 1st January, 2015	3,010
Additions	316
Acquisition of subsidiary undertaking	275
Disposals	(69)
Translation differences	328
At 1st January, 2016	3,860
Additions	390
Disposals	(50)
Translation differences	51
At 31st December, 2016	**4,251**
Amortisation	
At 1st January, 2015	2,143
Charge for year	403
Disposals	(69)
Translation differences	8
At 1st January, 2016	2,485
Charge for year	534
Disposals	(50)
Translation differences	239
At 31st December, 2016	**3,208**
Net book value	
At 31st December, 2016	**1,043**
At 31st December, 2015	**1,375**
At 31st December, 2014	**867**

13. Property, plant and equipment

	Freehold land and buildings	Plant and equipment	Fixtures and fittings	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1st January, 2015	17,143	23,815	16,562	1,803	59,323
Additions	521	2,734	1,548	213	5,016
Transfer in	75	-	-	-	75
Aquisition of subsidiary undertaking	3,902	376	63	6	4,347
Disposals	-	(696)	(2,889)	(146)	(3,731)
Impairment	-	(121)	-	-	(121)
Translation differences	1,048	423	(2,676)	(16)	(1,221)
At 1st January, 2016	22,689	26,531	12,608	1,860	63,688
Additions	851	1,788	1,527	297	4,463
Disposals	(215)	(1,090)	(207)	(187)	(1,699)
Impairment	-	(10)	-	-	(10)
Translation differences	1,020	4,069	1,839	101	7,029
At 31st December, 2016	**24,345**	**31,288**	**15,767**	**2,071**	**73,471**
Depreciation					
At 1st January, 2015	5,277	14,735	11,309	1,026	32,347
Charge for year	686	1,999	1,580	307	4,572
Disposals	-	(691)	(2,886)	(121)	(3,698)
Translation differences	(20)	338	(1,838)	(6)	(1,526)
At 1st January,2016	5,943	16,381	8,165	1,206	31,695
Charge for year	727	2,605	1,648	293	5,273
Disposals	(127)	(1,049)	(137)	(141)	(1,454)
Impairment	49	796	223	26	1,094
Translation differences	710	1,851	878	36	3,475
At 31st December, 2016	**7,302**	**20,584**	**10,777**	**1,420**	**40,083**
Net book value					
At 31st December, 2016	17,043	10,704	4,990	651	**33,388**
At 31st December, 2015	16,746	10,150	4,443	654	**31,993**
At 31st December, 2014	11,866	9,080	5,253	777	**26,976**

The CG Lucy Switchgear Ltd (Lucy Electric India (Private) Ltd) property plant and equipment are included at fair value on acquisition in 2015. The carrying amount under the cost model would be £1.6m.

Notes to the Accounts

14. Investment property

Investment property includes residential, commercial, industrial and agricultural properties in the UK, which are owned, managed and let to earn rentals and for capital appreciation.

Note 27 'Financial instruments' sets out how the fair value of the investment properties has been determined.

Changes to the carrying amounts are as follows:

	2016	2015
	£000	£000
Carrying amount 1st January	124,787	117,471
Additions	1,964	2,903
Transfer out	-	(75)
Revaluation	9,298	4,488
Carrying amount 31st December	**136,049**	**124,787**

Freehold land and buildings which had a value when charged in 2013 of £35.4m (2015: £35.4m) have been pledged to secure borrowings of the company (see note 26).

15. Change in the Group's ownership interest in a subsidiary

During the year one of the Group's wholly owned subsidiaries, Lucy Electric South Africa Pty Ltd allotted 201,100 new ordinary shares to a third party, reducing the Group's continuing interest to 75%. An amount of £296k, being the proportionate share of the carrying amount of the net assets of Lucy Electric South Africa Pty Ltd has been transferred to non-controlling interests.

16. Other long-term financial assets

	2016	2015
	£000	£000
Equity securities: quoted	1,617	1,412
	1,617	**1,412**

Quoted investments are classified as available for sale and are recorded at the balance sheet date.

17. Principal Group undertakings

Company	Country of incorporation	Principal activity	Proportion of ownership interests held by the Group at year end % 2016	2015
Lucy Electric UK Limited	England	Manufacture and sale of switchgear	100	100
Lucy Zodion Limited	England	Manufacture and sale of lighting products	100	100
Lucy Electric (EMS) Limited	England	Engineering and management services	100	100
Sandawana Castings Limited	England	Manufacture and sale of iron castings	100	100
Lucy Developments Limited	England	Property development	100	100
Lucy Block Management Limited	England	Property management	100	100
Truscanian Foundries Limited	England	Manufacture and sale of aluminium castings	100	100
Lucy Electric Gridkey Limited	England	Supply of switchgear monitoring systems and services	100	100
Lucy Electric Beijing Company Limited	China	Marketing and sale of switchgear	100	100
Lucy Electric India (Private) Limited	India	Manufacture and sale of switchgear	100	100
Lucy Electric Manufacturing and Technologies India (Private) Limited	India	Manufacture and sale of switchgear and lighting products	100	100
Lucy Asia Pacific SDN BHD	Malaysia	Marketing and sale of switchgear	100	100
Lucy Switchgear Arabia Limited	Saudi Arabia	Manufacture and sale of switchgear	100	100
Lucy Electric South Africa Pty Limited	South Africa	Marketing and sale of switchgear	75	100
Lucy Electric (Thailand) Limited	Thailand	Manufacture and sale of switchgear	100	100
Lucy Switchgear FZE	UAE	Manufacture of switchgear	100	100
Lucy Middle East FZE	UAE	Marketing and sale of switchgear	100	100

Notes to the Accounts

18. Inventories

	2016	2015
	£000	£000
Raw materials and components	9,053	8,627
Work in progress	949	3,065
Long-term contract balances:		
Net cost less foreseeable losses and payments on account	103	642
Finished goods	12,838	9,167
Development land and buildings:		
Land	757	2,004
Developments in progress	6,857	5,489
Finished properties for sale	874	817
	31,431	**29,811**

19. Trade and other receivables

	£000	£000
Current receivables		
Trade receivables	28,926	29,548
Rent receivables	65	112
Amounts recoverable on long term contracts	781	563
Corporation Tax receivable	629	142
Prepayments and accrued income	5,668	3,249
Other receivables	370	345
Total current receivables	**36,439**	**33,959**
Non-current receivables		
Deferred tax asset	1,495	700
Other receivables	1,261	874
Total non-current receivables	**2,756**	**1,574**
Total receivables	**39,195**	**35,533**

20. Derivative financial instruments

	2016		2015	
	Asset	Liability	Asset	Liability
	£000	£000	£000	£000
Designated hedge relationships:				
Foreign exchange contracts	-	4,106	-	1,509
Commodity contracts	-	(170)	-	334
	-	**3,936**	**-**	**1,843**

These amounts are included within the disclosure in note 27 - Financial instruments and risk management.

21. Provisions

The carrying amounts and the movements in the provision account are as follows:

	Restructuring costs	Integration & systems implementation costs	Warranty provision	Other	Total
	£000	£000	£000	£000	£000
Carrying amount 1st January, 2016	3,770	1,312	3,539	392	9,013
Provided in year	1,054	977	860	272	3,163
Released in year	-	(522)	(60)	(33)	(615)
Reclassification	(681)	-	-	681	-
Charge in year	(149)	(923)	(1,104)	(97)	(2,273)
Carrying amount 31st December, 2016	**3,994**	**844**	**3,235**	**1,215**	**9,288**

22. Trade & other payables — current

	2016	2015
	£000	£000
Trade payables	14,558	15,567
Accruals and deferred income	13,072	11,477
Loans repayable within one year	-	270
Other payables	2,947	2,675
	30,577	**29,989**
Corporation Tax payable	1,818	1,253
Social security and other taxes	689	422
	2,507	**1,675**

Notes to the Accounts

23. Trade & other payables — non-current

	2016	2015
	£000	£000
Loans repayable after more than one year	12,185	16,408
Other payables	3,763	2,763
	15,948	**19,171**

Other payables represents a statutory gratuity payable to UAE and Saudi Arabia based employees on leaving the company.

24. Deferred tax liability

	2016	2015
	£000	£000
Investment Properties	13,259	13,391
Capital allowances	(364)	(484)
Other timing differences and allowances	424	954
	13,319	**13,861**

25. Pensions

Lucy Group Ltd (the Company) operates a defined benefit pension arrangement called the W Lucy Pension Scheme (the Scheme). The Scheme provides benefits based on final salary and length of service on retirement, leaving service or death. In addition the Company operates unfunded unapproved retirement benefit arrangements for certain employees. The details below relate to the costs and liabilities of the W Lucy Pension Scheme and the unfunded unapproved retirement benefit arrangements in aggregate, and to the assets of the W Lucy Pension Scheme; together these arrangements are referred to as "the Scheme" for the purposes of this note. The value of the liabilities as at 31 December 2016 in respect of the unfunded unapproved retirement benefit arrangements was approximately £1,314k (2015: £1,243k).

The Company also operates a defined contribution scheme but this is not included in these disclosures.

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective and contributions to pay for future accrual of benefits. The Statutory Funding Objective does not currently impact on the recognition of the Scheme in these accounts.

The Scheme is managed by a board of Trustees appointed in part by the Company and part from elections by members of the Scheme. The Trustees have responsibility for obtaining valuations of the fund, administering benefit payments and investing the Scheme's assets. The Trustees delegate some of these functions to their professional advisors where appropriate.

The Scheme exposes the Company to a number of risks:

Investment risk
The Scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility may cause additional funding to be required if a deficit emerges.

Interest rate risk
The Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds assets such as equities and diversified growth funds the value of the assets and liabilities may not move in the same way.

Inflation risk
A proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long term, movements over the short-term could lead to deficits emerging.

Mortality risk
In the event that members live longer than assumed a deficit may emerge in the Scheme.

Member options
Certain benefit options may be exercised by members without requiring the consent of the Trustees or the Company, for example exchanging pension for cash at retirement. In this example, if fewer members than expected exchange pension for cash at retirement then a funding strain will emerge.

There were no plan amendments, curtailments or settlements during the period.

Notes to the Accounts

25. Pensions (continued)

Explanation of amounts in the financial statements

	2016	2015
	£000	£000
a) Amounts recognised in the Statement of Financial Position at 31 December 2016		
Fair value of assets	55,194	47,861
Present value of funded obligations	(65,237)	(55,557)
Surplus/(deficit)	**(10,043)**	**(7,696)**
Deferred Tax	1,708	1,540
Net defined benefit liability at 31 December 2016	**(8,335)**	**(6,156)**

b) Reconciliation of net defined benefit liability / (asset)

	2016	2015
Net defined benefit liability at beginning of period	**7,696**	**8,673**
Service cost	587	602
Net interest expense (income)	257	277
Remeasurements	3,408	(91)
Administration Costs	189	168
Employer Contributions	(2,094)	(1,933)
Net defined benefit liability at end of period	**10,043**	**7,696**

c) Amounts recognised in the Income Statement account over the year

	2016	2015
Current service cost	587	602
Administration costs	189	168
Interest on liabilities	2,111	2,005
Interest on assets	(1,854)	(1,728)
Total	**1,033**	**1,047**

d) Remeasurements over the year

	2016	2015
Loss (gain) on scheme assets in excess of interest	(6,131)	1,851
Experience losses / (gains) on liabilities	(848)	3
Losses (gains) from change to demographic assumptions	(2,419)	-
Losses (gains) from changes to financial assumptions	12,806	(1,945)
Total remeasurements	**3,408**	**(91)**

e) Reconciliation of assets and Defined Benefit Obligation

The change in the assets over the period was:

	2016	2015
	£000	£000
Fair value of assets at the beginning of the period	**47,861**	**47,991**
Interest on assets	1,854	1,728
Company contributions	2,094	1,933
Contributions by Scheme participants	123	131
Benefits paid (net of expenses)	(2,680)	(1,903)
Administration Costs	(189)	(168)
Return on plan assets less interest	6,131	(1,851)
Fair value of assets at the end of the period	**55,194**	**47,861**

f) The change in the Defined Benefit Obligation over the period was:

	2016	2015
Defined Benefit Obligation at the beginning of the period	**55,557**	**56,664**
Current service cost	587	602
Contributions by Scheme participants	123	131
Interest cost	2,111	2,005
Benefits paid (net of expenses)	(2,680)	(1,903)
Experience (gain)/loss on defined benefit obligation	(848)	3
Changes to demographic assumptions	(2,419)	-
Changes to financial assumptions	12,806	(1,945)
Defined Benefit Obligation at the end of the period	**65,237**	**55,557**

g) Assets
The major categories of assets as a percentage of total assets are as follows:

Asset category	
UK Equities	28%
Overseas Equities	32%
Property	1%
Gilts	4%
Bonds	20%
Absolute/Target Return	14%
Cash	1%
Total	**100%**

The actual return on the Scheme's assets over the period to the Review Date was £7,985k.
The assets do not include any investment in shares of the Company.

Notes to the Accounts

25. Pensions (continued)

h) Actuarial assumptions
The principal assumptions used to calculate the Scheme's liabilities include:

	2016	2015
Discount rate	2.80% pa	3.90% pa
Inflation assumption (RPI)	3.10% pa	2.90% pa
Inflation assumption (CPI)	2.30% pa	2.10% pa
RPI max 5% pension increases	3.00% pa	2.80% pa
RPI max 2.5% pension increases	2.20% pa	2.10% pa
CPI max 3% pension increases	1.95% pa	1.80% pa
Revaluation in deferment	3.10% pa	2.90% pa
Salary Increases	3.75% pa	3.55% pa
Post retirement mortality assumption	112% S2PXA CMI 2013 [1.00%]	112% S2PXA CMI 2013 [1.00%]
Tax free cash	Members are assumed to take 20 percent of their pension as tax free cash	Members are assumed to take 15 percent of their pension as tax free cash

i) Under the adopted mortality tables, the future life expectancy at age 65 is as follows:
Life expectancy at age 65

	2016	2015
Male currently aged 45	22.8	22.7
Female currently aged 45	24.8	24.7
Male currently aged 65	21.4	21.3
Female currently aged 65	23.3	23.2

Sensitivity of the value placed on the liabilities
The present value of funded obligations under IAS19 totals £65,237k.

j) Adjustments to assumptions	Approximate effect on liabilities
Discount rate Minus 0.10% pa	+£1,130,000
Inflation Plus 0.10% pa	+£730,000
Salary Increase Plus 0.10% pa	+£200,000
Life Expectancy Increase long-term mortality improvement rate to 1.25%, rather than 1.0%	+£1,010,000

Note that the above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

Effect of the Scheme on Company's future cash flows

The Company is required to agree a Schedule of Contributions with the Trustees of the Scheme following a valuation which must be carried out at least once every three years. The next valuation of the Scheme is due as at 6 April 2017. In the event that the valuation reveals a larger deficit than expected the Company may be required to increase contributions above those set out in the existing Schedule of Contributions. Conversely, if the position is better than expected contributions may be reduced.

The Company expects to pay contributions of £525k in the year to 31 December 2017. The weighted average duration of the defined benefit obligation is 20 years.

26. Borrowings

The Group's committed loan facilities at the year end were £28.0m, and these were utilised as follows:

	Repayable	2016
Facilities		£000
Revolving facilities		
Secured £20m revolving multi-currency loan at 1.40% above LIBOR	30th September 2021	3,419
Secured £8m revolving multi-currency loan at 1.61% above LIBOR	23rd May 2018	5,712
Other		
Exchange loss on foreign currency borrowings		3,024
Sales tax deferral loan		30
Total Borrowings		**12,185**

Security

The two revolving loan facilities are secured against specific freehold properties valued at £35.4m in 2013.

Loan drawdown and interest	
The amount of loan drawdown at 31st December 2016 was £12.2m, split as follows:	
Sterling £3.2m loans at variable rates of interest	3,200
US Dollar $2.6m loans at variable rates of interest	2,104
Thai Baht THB303m loans at variable rates of interest	6,851
	12,155

	2016	2015
Maturity of borrowings	£000	£000
In more than one but no more than two years	5,786	12,981
In more than two but no more than five years	6,399	3,427
More than five years	-	-
	12,185	**16,408**

Notes to the Accounts

27. Financial instruments and risk management

a. Financial risk management objectives and policies
The Group's principal financial instruments, other than derivatives, comprise bank loans, cash, short–term deposits, trade receivables and trade payables. The Group's financial instrument policies can be found in the principal accounting policies. The Board agree policies for managing the financial risks summarised below:

Treasury and financial risk management
The main risk for the Group is the availability of funds to meet business needs. Higher debt levels would result in an increase in the proportion of cash flow dedicated to servicing debt and potentially increase its exposure to interest rate fluctuations. The geographic spread of the Group means that its financial results can be affected by movements in foreign exchange rates.

The Group has a significant proportion of its borrowing denominated in US Dollars to mitigate the risk of movements in foreign exchange rates.

The Group operates a centralised treasury function which is responsible for managing its liquidity, interest and foreign currency risks. The Group's treasury policy allows the use of derivative products provided they are not entered into for speculative purposes.

Credit risk
The Group is exposed to credit risk from its business customers and key suppliers, whose services are essential to the business, also face credit risk. Where recovery of trade receivables are identified as doubtful, provision for impairment is made. The Group's maximum exposure on its trade and other receivables is the varying amount as disclosed in Note 19.

Liquidity risk
The Group's risk assessment procedures for key suppliers enables it to identify alternatives and develop contingency plans in the event any of these suppliers fail.

The Group has adequate medium term financing in place to support its business operations for the foreseeable future. The Group ensures that it has sufficient undrawn committed borrowing facilities available to meet committed expenditure and to allow for operational flexibility. An analysis of the maturity of borrowings is disclosed in Note 26.

Commodity risk
Commodity cost risk arises on base metals used in the Group's electrical businesses. This risk is addressed, wherever possible, by increasing customer prices through contract variation clauses. Cash flow hedging is used to mitigate the risk, by using financial instruments, such as entering into forward contracts on commodities, when this is considered the most efficient way of protecting against price movements.

Foreign currency risk
The Group incurs foreign currency risk on transactions that are denominated in a currency other than UK Pound Sterling. The Group's policy is to hedge all material firm transactional exposures in order to protect it against currency fluctuations. These exposures are hedged via forward currency contracts which are designated as cash flow hedges.

US Dollars are used as a proxy for hedging exotic currencies pegged to the US Dollar, such as Saudi Riyals and UAE Dirhams, because a liquid financial derivative market is unavailable. In addition, negotiations with suppliers continue and will result in matching of currencies to allow increased netting of currency flows.

Where applicable, loans to non-UK subsidiaries are hedged via external borrowings in matching currencies. These are not formally designated as hedges, as gains and losses on hedged loans will naturally offset.

Net investment hedges, using foreign currency loans, forward currency contracts and options are used to translate exposure to currency movements in overseas net assets. This mitigates the currency risk arising from the subsidiary's net assets.

Interest rate risk
Interest rate risk arises on the Group's borrowings and, where applicable, is addressed by taking out forward cover up to a maximum of 60% of total borrowings for periods up to five years. This does not eliminate the risk but provides some certainty. The Group seeks to cash flow hedge account

forward cover when applicable.

b. Derivative financial instruments
The Group uses derivative financial instruments to hedge its exposure to foreign exchange, commodity and interest rate risks arising from the Groups' operating and financing activities. Forward contracts are used to hedge against foreign exchange rate changes over fixed terms.

In accordance with the Group treasury policies, derivative financial instruments are not held for trading purposes.

Certain derivative financial instruments are designated as hedges in line with the Group's risk management policies. Hedges are classified as follows:

• Cash flow hedges when they hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a forecast transaction
• Net investment hedges when they hedge the exposure to changes in the value of the Group's interests in the net assets of foreign operations.

All the Group's derivatives are recognised in the Statement of Financial Position at fair value, with any changes in fair value that do not meet the criteria for net investment or cash flow hedge accounting recognised in the Income Statement.

Cash flow hedges
Where a derivative financial instrument is designated as a cash flow hedge, the effective portion of any change in fair value of the instrument is recognised in other comprehensive income and included in the cash flow hedge reserve within equity. The ineffective portion of any change in fair value is recognised in the Income Statement immediately.

Net investment hedges
The effective portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation is recognised in other comprehensive income and included in the net investment hedge reserve within equity. The ineffective potion is recognised in the Income Statement immediately.

Notes to the Accounts

27. Financial instruments and risk management (continued)

The carrying value of financial assets and liabilities disclosed in the notes are considered to be reasonable approximations of their fair values.

Hierarchical classification of financial assets and liabilities measured at fair value
IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. The classification uses the following three–level hierarchy:

Level 1
Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2
Other techniques for which all inputs, which have a significant effect on the recorded fair value, are observable, either directly or indirectly.

Level 3
Techniques which use inputs, which have a significant effect on the recorded fair value, that are not based on observable market data.

The valuation techniques used for instruments categorised in Levels 1 and 2 are described below:

	2016		2015	
	Asset £000	Liability £000	Asset £000	Liability £000
Level 1				
Listed securities and debentures	1,617	-	1,412	-
	1,617	**-**	**1,412**	**-**
Level 2				
Forward contract swaps	-	4,106	-	1,509
Commodity swaps	-	(170)	-	334
Investment property	136,049	-	124,787	-
Acquired property, plant and equipment	-	-	2,667	-
	136,049	**3,936**	**127,454**	**1,843**

Quoted equities and securities (Level 1)
The fair value of the Group's quoted securities are derived from observable quoted market prices for the assets.

Investment property (Level 2)
The fair value of the Group's investment properties is estimated based on appraisals performed by independent and professionally qualified valuers. The valuation processes are reviewed by the Board of Directors at each reporting date. The significant assumptions used in the valuation relate to current rental yields.

Forward contract and commodity swaps (Level 2)
The fair value of forward contract and commodity swaps are determined by market values available from the markets on which the forward contracts are traded.

c. Categories of Financial Instruments

A summary of the classifications of the financial assets and liabilities held by the Group is set out in the following table:

2016	Loans and receivables/ cash and cash equivalents	Assets at fair value through profit and loss	Derivatives used for hedging	Available for sale	Total book value	Fair value
	£000	£000	£000	£000	£000	£000
Non - current assets						
Other long term financial assets	-	-	-	1,617	1,617	1,617
Current assets						
Trade and other receivables excluding prepayments	28,991	-	-	-	28,991	28,991
Cash and cash equivalents	17,366	-	-	-	17,366	17,366
	46,357	-	-	**1,617**	**47,974**	**47,974**
Non - current liabilities						
Interest bearing loans and borrowings	12,185	-	-	-	12,185	12,185
Current liabilities						
Interest- bearing loans and borrowings	-	-	-	-	-	-
Trade and other payables	14,558	-	-	-	14,558	14,558
Derivative financial instruments	-	(170)	4,106	-	3,936	3,936
	26,743	**(170)**	**4,106**	**-**	**30,679**	**30,679**
Total net financial assets/(liabilities)	**19,614**	**170**	**(4,106)**	**1,617**	**17,295**	**17,295**

Notes to the Accounts

27. Financial instruments and risk management (continued)

2015	Loans and receivables/ cash and cash equivalents	Assets at fair value through profit and loss	Derivatives used for hedging	Available for sale	Total book value	Fair value
	£000	£000	£000	£000	£000	£000
Non- current assets						
Other long term financial assets	-	-	-	1,412	1,412	1,412
Current assets						
Trade and other receivables excluding prepayments	30,534	-	-	-	30,534	30,534
Cash and cash equivalents	17,084	-	-	-	17,084	17,084
	47,618	-	-	**1,412**	**49,030**	**49,030**
Non- current liabilities						
Interest bearing loans and borrowings	16,408	-	-	-	16,408	16,408
Current liabilities						
Interest- bearing loans and borrowings	270	-	-	-	270	270
Trade and other payables	15,567	-	-	-	15,567	15,567
Derivative financial instruments	-	334	1,509	-	1,843	1,843
	32,245	**334**	**1,509**	**-**	**34,088**	**34,088**
Total net financial assets/(liabilities)	**15,373**	**(334)**	**(1,509)**	**1,412**	**14,942**	**14,942**

28. Equity - share capital

	2016	2015
	£000	£000
Authorised :		
495,000 ordinary shares of £1 each	495	495
Allotted, called up and fully paid :		
491,885 ordinary shares of £1 each	492	492

29. Other reserves

The consolidated statement of changes in equity is shown on page 43. Further information on reserves is provided below:

Capital reserves
The capital reserve arose on redemption of ordinary shares in the Group companies.

Retained earnings
In accordance with IFRS, retained earnings include revaluation reserves which are not distributable under UK law. The balance in the revaluation reserve at 31 December 2016 is £96.1m.

Currency translation reserve
The foreign currency reserve is used to record exchange differences arising from the translation of the consolidated financial statements of foreign subsidiaries and other foreign currency investments.

Cash flow hedge reserve
This includes the fair value of the movements on derivative financial instruments qualifying for hedge accounting under IAS 39.

Net investment hedge reserve
This includes the fair value of the movements in derivative financial instruments qualifying for hedge accounting under IAS 39.

30. Commitments

Capital

At 31st December 2016 the Group had authorised the following future capital expenditure :

	2016	2015
	£000	£000
Contracted	2,669	3,601
Not contracted	473	187

Operating lease commitments - Group as lessee

Future minimum rentals payable under non-cancellable operating leases, on an undiscounted basis are as follows:

	2016	2015
Land and buildings		
Payable within one year	1,073	744
Payable between two and five years	3,327	1,748
Payable after five years	23	240
	4,423	**2,732**
Plant and Machinery		
Payable within one year	64	37
Payable between two and five years	135	92
Payable after five years	-	-
	199	**129**
Motor Vehicles		
Payable within one year	441	291
Payable between two and five years	549	333
Payable after five years	-	-
	990	**624**

Notes to the Accounts

31. Contingent liabilities

The Group has given its bankers guarantees amounting to the equivalent of £5.1m (2015: £6.8m) in respect of tender and performance bonds and counter indemnities.

Further legal preceedings were issued by the heirs of Sheikh Yacoub Al Rasheed during the year requesting information about the Saudi Lucy Co. Ltd and consent to the transfer to the heirs of the shares held by the late Sheikh in the Saudi Lucy Co. Ltd The company is responding to the requests.

32. Related parties

The Group's related parties include its joint venture, post-employment benefit plans for the Group's employees and others as described below. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

Transactions with joint ventures

As at 31st December 2014 the Group had one material joint venture, CG Lucy Switchgear Limited. On 8th October 2015 the group acquired the remaining 50% equity in CG Lucy. From the date of acquistion CG Lucy has been consolidated into the Group accounts as a 100% owned subsidiary.

The following trading occurred between the Group and its joint venture during the year up until the date of acquisition:

	2016	2015
	£000	£000
Revenue	-	381
Purchases	-	680

There were no balances outstanding with the joint venture at either balance sheet date.

Transactions with key management personnel

Key management of the Group are the executive and non executive members of Lucy Group Ltd's Board of Directors.

Key management personnel remuneration includes the following expenses:

	2016	2015
Short-term employee benefits	952	918
Post employment benefits	86	66
	1,038	**984**
Emoluments of highest paid director	358	360
Pension contribution	51	50
	409	**410**

The Group does not operate share option or other long term incentive schemes for the Directors.

Two Directors are members of the defined benefit section of the W Lucy Pension Scheme. The Company also operates unfunded unapproved retirement benefit arrangements for these Directors. The Group made contributions of £32,548 (2015: £30,545) to defined contribution schemes in respect of another Director.

At the year end the highest paid Director had accrued pension benefits, excluding the value of benefits arising from additional voluntary contributions, of £167,414 p.a. (2015: £177,234) in total. This total pension of £167,414 p.a.comprised a pension in payment from the W Lucy Pension Scheme of £100,540 p.a. (after exchanging part of the pension for a cash lump sum when the pension came into payment during 2016), plus a benefit that has not yet come into payment from the Company's unfunded approved retirement benefit arrangement of equivalent actuarial value to a lifetime pension of £63,332 p.a. payable immediately as at 31 December 2016.

Transactions with the defined benefit plan
The defined benefit plan is a related party and does not hold shares in Lucy Group Ltd. The Group's only transactions with the defined benefit plan relate to contributions to the plan.

Parent and ultimate controlling party
Lucy Group Ltd is a subsidiary of WL Shareholding Company Limted, a private limited company incorporated and domiciled in England and which holds 53% of the issued ordinary share capital of the company.

The consolidated accounts of the ultimate controlling party are available from their registered office at 30 St Giles, Oxford, OX1 3LE.

33. Analysis of changes in cash and net debt

	1st January 2016	Cash flows	Exchange loss	31st December 2016
	£000	£000	£000	£000
Cash at bank and in hand	17,084	282	-	17,366
Loan capital under one year	(270)	270	-	-
Loan capital over one year	(16,408)	1,753	2,470	(12,185)
Net cash	**406**	**2,305**	**2,470**	**5,181**

Company Statement of Financial Position

As at 31st December 2016

	Note	2016	2015
		£000	£000
Assets			
Non-current assets			
Goodwill	2	-	162
Other intangible assets	3	64	61
Property, plant and equipment	4	3,313	2,818
Investment property	5	140,189	128,887
Other investments	6	59,506	64,310
Deferred tax assets		146	-
Non-current assets		**203,218**	**196,238**
Current assets			
Inventories		-	160
Trade and other receivables	7	54	92
Group debtors	7	2,246	2,893
Prepayments and other accruals	7	692	369
Cash and cash equivalents		57	17
Current assets		**3,049**	**3,531**
Total assets		**206,267**	**199,769**
Liabilities			
Non-current liabilities			
Provisions	10	4,735	4,364
Pension and other employee obligations	17	8,335	6,156
Borrowings	9	12,155	16,369
Deferred tax liabilities	11	13,077	13,471
Non-current liabilities		**38,302**	**40,360**

	Note	2016	2015
		£000	£000
Current liabilities			
Borrowings		-	270
Trade and other payables	8	7,049	7,910
Current tax liabilities	8	599	404
Derivative financial instruments	13	3,936	1,843
Other liabilities	8	4,137	3,631
Current liabilities		**15,721**	14,058
Total liabilities		**54,023**	54,418
Net assets		**152,244**	145,351
Equity			
Share capital	16	492	492
Other reserves		(5,544)	(1,283)
Profit and loss account		157,296	146,142
Total equity		**152,244**	**145,351**

Approved by the Board of Directors on 14 March 2017 and signed on its behalf.

C R Dick
Executive Chairman

G D Ashton
Group Finance Director

Company Statement of Changes in Equity

For the year ended 31st December 2016

	Share capital	Capital reserve	Currency reserve	Cash flow hedge reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
At 1st January, 2016	492	31	(720)	(594)	146,142	145,351
Profit for the year	**-**	**-**	**-**	**-**	**15,638**	**15,638**
Other comprehensive income						
Foreign currency translation	-	-	(4,193)	-	-	(4,193)
Change in cash flow hedges	-	-	-	(68)	-	(68)
Fair value change in investments	-	-	-	-	222	222
Actuarial loss on post retirement liability, net of deferred tax	-	-	-	-	(3,240)	(3,240)
Total comprehensive income	**-**	**-**	**(4,193)**	**(68)**	**12,620**	**8,359**
Dividends	-	-	-	-	(1,466)	(1,466)
At 31st December, 2016	**492**	**31**	**(4,913)**	**(662)**	**157,296**	**152,244**
At 1st January, 2015	492	31	(243)	(197)	124,342	124,425
Profit for the year	**-**	**-**	**-**	**-**	**23,330**	**23,330**
Other comprehensive income						
Foreign currency translation	-	-	(477)	-	-	(477)
Change in cash flow hedges	-	-	-	(397)	-	(397)
Actuarial loss on post retirement liability, net of deferred tax	-	-	-	-	(104)	(104)
Total comprehensive income	**-**	**-**	**(477)**	**(397)**	**23,226**	**22,352**
Dividends	-	-	-	-	(1,426)	(1,426)
At 31st December, 2015	**492**	**31**	**(720)**	**(594)**	**146,142**	**145,351**

Notes to the Company Accounts

1. Accounting policies

Statement of compliance
These financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

The company has taken the exemption allowed under Section 408 of the Companies Act 2006 from the requirement to present its own income statement. The profit for the year was £15.6m (2015: £23.3m). These financial statements present information about the Company as an individual undertaking and not about its Group.

General information and basis of preparation
Lucy Group Ltd is a private company limited by shares incorporated in England, United Kingdom. The address of the registered office is given in the company information on page 89 of this report. The financial statements have been prepared in accordance with the Companies Act 2006 and the principal accounting policies as summarised below. They have all been applied consistently throughout the year.

Disclosure exemptions adopted
The company has taken advantage of the following disclosure exemptions under FRS 101:

- IAS 24: Related Party Disclosures to disclose related party transactions entered into
- IAS1: Presentation of comparative reconciliations for property, plant and equipment and intangible assets
- IAS 24: Disclosure of key management personnel compensation
- IAS 1: Capital management disclosures
- IAS 8: Disclosures in respect of standards in issue not yet effective
- IAS 7: Exemption from preparing a cash flow statement

Functional and presentation currency
The financial statements are presented in Sterling which is also the functional currency of the company.

Foreign currency transactions and balances
Foreign exchange gains and losses resulting from the re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the income statement. Non-monetary items are translated at the date of the transaction.

Revenue
Revenue from ordinary activities is recognised where it is likely that future economic benefits will accrue to the company and this income can be assessed reliably. Such income is assessed at the fair value of the consideration to be received, excluding trade discounts and value added tax.

Operating expenses
Operating expenses are recognised in the income statement upon utilisation of the service or at the date of their origin.

Fixed assets
Freehold buildings, fixtures and machinery are initially recognised at acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the company's management. Buildings, fixtures and other equipment are subsequently measured using the cost model, cost less accumulated depreciation and impairment losses

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

- Freehold buildings 2% - 2.5%
- Fixtures and fittings 10% - 33%
- Plant and machinery 5% - 33%
- Motor vehicles 25% - 33%

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the

Notes to the Company Accounts

carrying amount of the assets and are recognised in the income statement within other income or other expenses.

1. Accounting policies (continued)

Intangible fixed assets
Intangible assets, other than goodwill, are stated at cost less accumulated amortisation. Amortisation is calculated to write off the cost of the licenses on a straight line basis over the life of the lease. The residual value, if significant, is reassessed annually.

Investment properties
Investment properties are valued annually and are included in the financial statements at fair value after taking appropriate professional advice. Changes in fair value are recognised in the income statement.

No depreciation is provided in respect of Investment properties.

Leased assets
Operating leases are recorded as expenditure on a straight line basis until expiry of the contract.

Taxation
Tax expense recognised in the Income Statement comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided those rates are enacted or substantively enacted by the end of the reporting period.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Derivative financial instruments and hedge accounting
All derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative financial instruments are accounted for as hedges when designated as hedges at the inception of the contract and when the financial instruments provide an effective hedge of the underlying risk. Gains and losses on hedging instruments are not recognised in the income statement until the hedged risk is recognised. The ineffective portion is recognised immediately in the Income Statement.

The portion of the gain or loss on an instrument used to hedge a net investment in an overseas company that is determined to be an effective hedge is recognised in other comprehensive income in the consolidated accounts that contain both the investments and the hedging instrument.

Cash flow hedging
Derivative financial instruments are classified as cash flow hedges that hedge the Group's exposure to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. These include interest rate swaps, commodity (copper) swaps, forward foreign exchange transactions and options.

Equity, reserves and dividend payments
Share capital represents the nominal value of shares that have been issued.

Share premium includes any premiums received on issue of share capital. Incremental transaction costs directly attributable with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Post-employment benefits plans
The company contributes to a pension scheme operated by the group providing benefits based on final pensionable pay for eligible employees who

joined on or before 10th April 2002. The scheme is administered by trustees and the funds are independent of the company's finances.

The pension cost of the defined benefit scheme is charged to the income statement so as to spread the cost of pensions over employees' working lives with the company. For UK employees not in this scheme the group provides the Lucy Group Personal Pension Plan. This was established with Sterling ISA Managers Limited, trading as Zurich Money4LifeTM, as the provider. Eligible employees were enrolled into a scheme established under Part 1 of the Pensions Act 2008. The pension costs of these schemes are charged as incurred.

Provisions, contingent assets and contingent liabilities
A provision is recognised when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the company and amounts can be estimated reliably.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values, where the time value of money is material.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised.

Significant management judgement in applying accounting policies and estimation uncertainty
When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. The following judgements and estimates have had the most significant effect on amounts recognised in the financial statements:

Recognition of deferred tax assets
The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the company's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

Defined benefit obligation
Management's estimate of the defined benefit obligation is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the defined benefit obligation amount and the annual defined benefit expenses.

Fair value measurement
Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Investment properties are valued using appropriated professional advice.

Notes to the Company Accounts

2. Goodwill

The movements in the net carrying amount of goodwill are as follows:

	2016	2015
	£000	£000
Gross carrying amount		
Balance 1st January	162	-
Disposals	(162)	162
Balance 31st December	**-**	**162**

Impairment of Goodwill

Goodwill arising on business combinations is not amortised but is reviewed on an annual basis, or when there is an indicator that goodwill has been impaired. Goodwill acquired in a business combination is allocated to groups of cash generating units according to the level at which goodwill is monitored by management.

	2016	2015
The components of goodwill are:		
Lucy Electric Gridkey Ltd	-	162
	-	**162**

3. Other intangible assets

	Licences and software
	£000
Gross carrying amount	
At 1st January, 2016	607
Additions	44
Disposals	-
At 31st December, 2016	**651**
Amortisation	
At 1st January, 2016	546
Charge for year	41
Disposals	-
At 31st December, 2016	**587**
Net book value	
At 31st December, 2016	**64**
At 31st December, 2015	61

4. Property, plant and equipment

	Freehold land and buildings	Fixtures and fittings	Motor vehicles	Total
	£000	£000	£000	£000
Cost or valuation				
At 1st January, 2016	1,765	5,241	266	7,272
Opening balance adjustment	-	(7)	-	(7)
Restated opening balance	1,765	5,234	266	7,265
Additions	-	583	52	635
Transfer in	573	-	-	573
Disposals	-	(8)	(122)	(130)
Revaluation	(40)	-	-	(40)
At 31st December, 2016	**2,298**	**5,809**	**196**	**8,303**
Depreciation				
At 1st January, 2016	200	4,085	169	4,454
Opening balance adjustment	-	(7)	-	(7)
Restated opening balance	200	4,078	169	4,447
Charge for year	29	531	42	602
Disposals	-	-	(59)	(59)
At 31st December, 2016	**229**	**4,609**	**152**	**4,990**
Net book value				
At 31st December, 2016	**2,069**	**1,200**	**44**	**3,313**
At 31st December, 2015	1,565	1,156	97	2,818

5. Investment property

Investment property includes real estate properties in the UK, which are owned to earn rentals and for capital appreciation.

Note 27 of the Group accounts (Financial instruments) sets out how the fair value of the investment properties has been determined.

Changes to the carrying amounts are as follows:

	2016	2015
	£000	£000
Carrying amount 1st January	128,887	121,571
Additions	1,964	2,903
Transfer out	-	(75)
Revaluation	9,338	4,488
Carrying amount 31st December	**140,189**	**128,887**

Freehold land and buildings which had a value when charged in 2013 of £35.4m (2015: £35.4m) have been pledged to secure borrowings of the company (see note 12).

Notes to the Company Accounts

6. Other investments

	2016	2015
	£000	£000
Equity securities: listed	1,617	1,412
Group undertakings	29,694	29,247
Loans to Group undertakings	28,195	33,651
	59,506	**64,310**

Investments in subsidiaries have been written down to the company net asset value at the year end.
Total impairments to investments in subsidiaries were £7.1m (2015: £6.2m), total write backs were £2.2m (2015: £2.4m), additions were £4.7m (2015: £17.4m) and disposals were £0.2m (2015: nil) in the year.

Quoted investments are classified as available for sale and are recorded at fair value

Group undertakings	£000	£000
Lucy Electric UK Limited	11,537	9,386
Lucy Electric India (Private) Limited	7,374	7,879
Lucy Electric Manufacturing and Technologies India (Private) Limited	4,077	3,979
Lucy Electric (EMS) Limited	2,387	3,779
Lucy Zodion Limited	1,250	1,250
Lucy Asia Pacific SDN BHD	871	2
Lucy Electric South Africa (Pty) Limited	636	636
Lucy Switchgear FZE	534	534
Truscanian Foundries Limited	343	343
Lucy Electric Beijing Company Limited	203	174
Lucy Electric Gridkey Limited	200	-
Lucy Middle East FZE	174	174
Lucy Block Management Limited	82	82
Power Connectors Limited	15	15
Sandawana Castings Limited	10	10
Lucy Developments Limited	1	1
Lucy Electric (Thailand) Limited	-	508
Truscanian Limited	-	321
Hall Estates (Birmingham) Limited	-	174
	29,694	**29,247**

Truscanian Limited (company registration number 04872978) is exempt from having its financial statements audited under section 479C of the Companies Act. 2016 was the final year of activity for Truscanian Limited, with intercompany transactions the only transactions made during the year. As at 31 December 2016 the statement of financial position comprised of £1 ordinary share capital only. From 2017 Truscanian Limited will be dormant.

Unquoted equity Investments
The company holds a 30% shareholding in the Saudi Lucy Company Limited, a company registered in Saudi Arabia.

7. Trade and other receivables

	2016	2015
	£000	£000
Trade receivables	12	9
Amounts owed by Group undertakings	2,246	2,893
Rent debtors	42	83
Corporation Tax receivable	115	-
Prepayments and accrued income	439	369
Other receivables	138	-
	2,992	**3,354**

8. Trade & other payables - current

	£000	£000
Bank overdrafts	2,171	1,609
Trade payables	149	149
Amounts owed to Group undertakings	6,900	7,761
Corporation Tax payable	454	240
Social security and other taxes	145	164
Accruals and deferred income	1,090	1,321
Loans repayable within one year	-	270
Other payables	876	701
	11,785	**12,215**

9. Trade & other payables - non-current

	£000	£000
Loans repayable after more than one year	12,155	16,369
	12,155	**16,369**

Notes to the Company Accounts

10. Provisions

All provisions are considered current. The carrying amounts and the movements in the provision account are as follows:

	Restructuring costs	Integration costs	Warranty provision	Other	Total
	£000	£000	£000	£000	£000
Carrying amount 1st January, 2016	3,270	575	127	392	4,364
Provided in year	971	-	-	257	1,228
Released in year	-	(522)	(60)	(33)	(615)
Reclassification	(681)	-	-	681	-
Charge in year	(149)	-	-	(93)	(242)
Carrying amount 31st December, 2016	**3,411**	**53**	**67**	**1,204**	**4,735**

11. Deferred tax

	2016	2015
	£000	£000
Investment Properties	13,259	13,345
Capital allowances	(364)	(484)
Defined benefit pension scheme	-	-
Other timing differences and allowances	182	610
	13,077	**13,471**

12. Borrowings

The Group's committed loan facilities at the year end were £28.0m, and these were utilised as follows:

	Repayable	2016
Facilities		£000
Revolving facilities		
Secured £20m revolving multi-currency loan at 1.40% above LIBOR	30th September 2021	3,419
Secured £8m revolving multi-currency loan at 1.61% above LIBOR	23rd May 2018	5,712
Other		
Exchange loss on foreign currency borrowings		3,024
Total Borrowings		**12,155**

Security

The two revolving loan facilities are secured against specific freehold properties valued at £35.4m in 2013.

Loan drawdown and interest	
The amount of loan drawdown at 31st December 2016 was £12.2m, split as follows:	
Sterling £3.2m loans at variable rates of interest	3,200
US Dollar $2.6m loans at variable rates of interest	2,104
Thai Baht THB303m loans at variable rates of interest	6,851
	12,155

	2016	2015
Maturity of borrowings	£000	£000
In more than one but no more than two years	5,756	12,965
In more than two but no more than five years	6,399	3,404
More than five years	-	-
	12,155	**16,369**

13. Derivative financial instruments

	2016		2015	
	Asset	Liability	Asset	Liability
	£000	£000	£000	£000
Designated hedge relationships:				
Foreign exchange contracts	-	4,106	-	1,509
Commodity contracts	-	(170)	-	334
	-	**3,936**	**-**	**1,843**

Notes to the Company Accounts

14. Dividends

Information on dividends paid and declared is given in Note 10 in the Group financial statements.

15. Related parties

The Company has taken advantage of the exemption given in FRS 101 to not disclose transactions with other group companies.

16. Equity - share capital

	2016	2015
	£000	£000
Authorised :		
495,000 ordinary shares of £1 each	495	495
Allotted, called up and fully paid :		
491,885 ordinary shares of £1 each	492	492

17. Pensions

Disclosure of Company pension schemes is given in Note 25 of the Group financial statements.

Registered Office

Lucy Group Ltd
Eagle Works
Walton Well Road
Oxford
OX2 6EE

Notice of Meeting

Notice is hereby given that the annual general meeting of Lucy Group Ltd will be held at Eagle Works, Walton Well Road, Oxford, OX2 6EE on Tuesday 25th April 2017, at 12:00 noon for the following purposes:

1. To receive the Report of the Directors and the audited financial statements for the year ended 31st December, 2016.
2. To declare a final dividend.
3. To re-elect as a Director Mr R I Dick who retires by rotation.
4. To re-appoint Wenn Townsend as auditors of the Company and to authorise the Directors to fix their remuneration.
5. To transact any other ordinary business of the Company.

By order of the Board,

Madeline Laxton
Company Secretary
14 March 2017

Lucy Group Ltd
Eagle Works
Walton Well Road
Oxford
OX2 6EE

Notes

1. As a member of the company, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you will receive a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
2. A proxy does not need to be a member of the company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
3. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share.
4. If you do not give your proxy an indication of how to vote on any resolution, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.
5. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.
   To appoint a proxy using the proxy form, the form must be:
   - completed and signed;
   - sent or delivered to the Company at Eagle Works, Walton Well Road, Oxford OX2 6EE; and
   - received by the Company not less than 48 hours before the start of the meeting.

   In the case of a member that is a company, the proxy form must be signed on its behalf by an officer of the company or an attorney for the company.

   Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
6. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the company's register of members in respect of the joint holding (the first-named being the most senior).
7. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact the Company Secretary.

   If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
8. In order to revoke a proxy instruction you will need to inform the company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company Secretary at Eagle Works, Walton Well Road, Oxford OX2 6EE. In the case of a member that is a company, the revocation notice must be signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

   In either case, the revocation notice must be received by the company before the commencement of the meeting. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then your proxy appointment will remain valid. Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.
9. Except as provided above, members who have general queries about the meeting should contact the Company Secretary at Eagle Works, Walton Well Road, Oxford OX2 6EE (no other methods of communication will be accepted).

Aluminium castings awaiting dispatch

Financial Calendar

Announcement of results

The results of the Group are normally reported at the following times:

Interim report for the six months to June in September
Report and Accounts to 31 December in March

Dividend payments

Current policy is to make dividend payments at the following times:

Interim dividend in September
Final dividend in April

Advisors

Auditors

Wenn Townsend
Chartered Accountants and Statutory Auditors
30 St. Giles
Oxford
OX1 3LE

Pension consultants

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Chalfont Court
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Bankers

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Investment advisors

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Notes

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