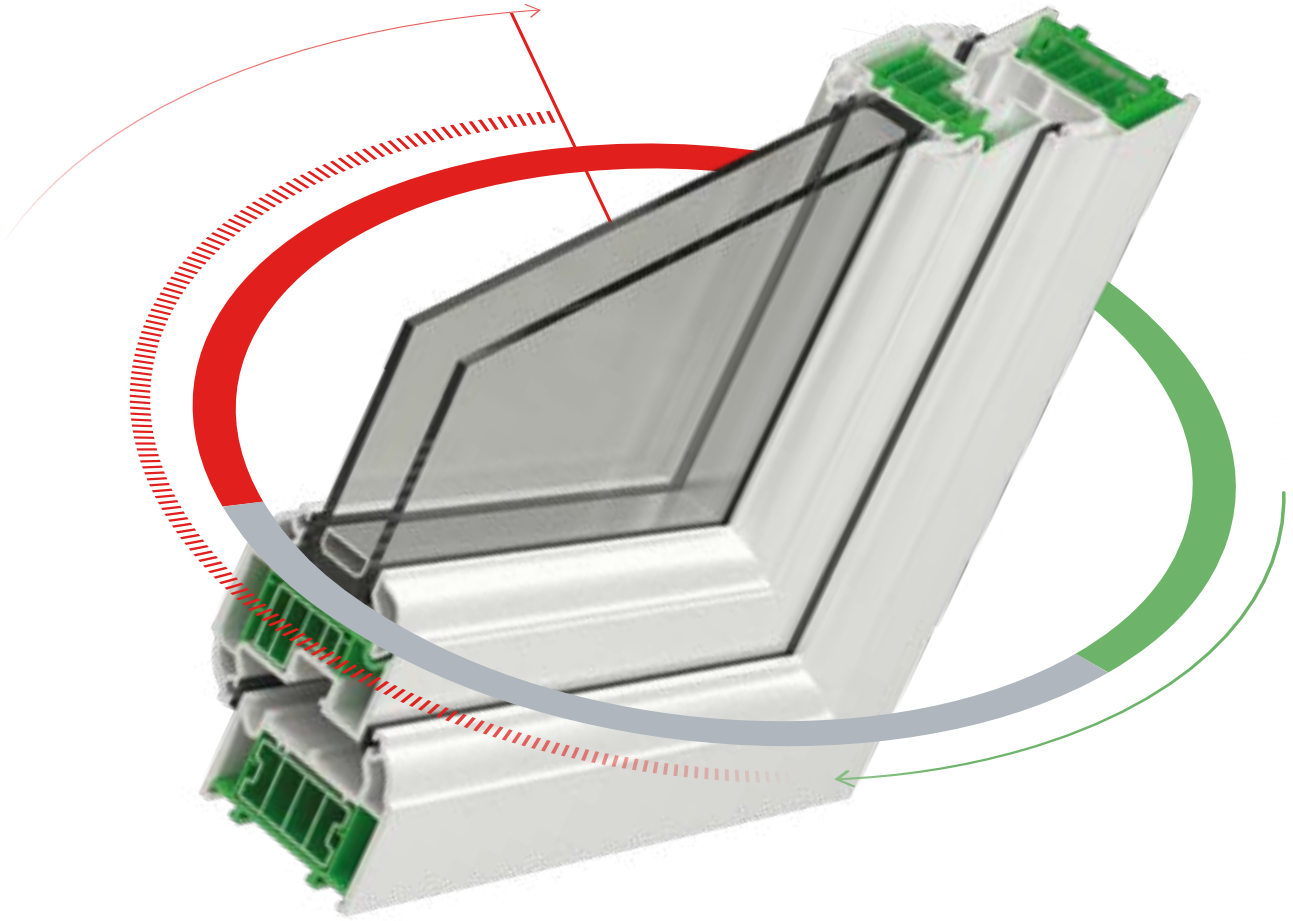




All together better

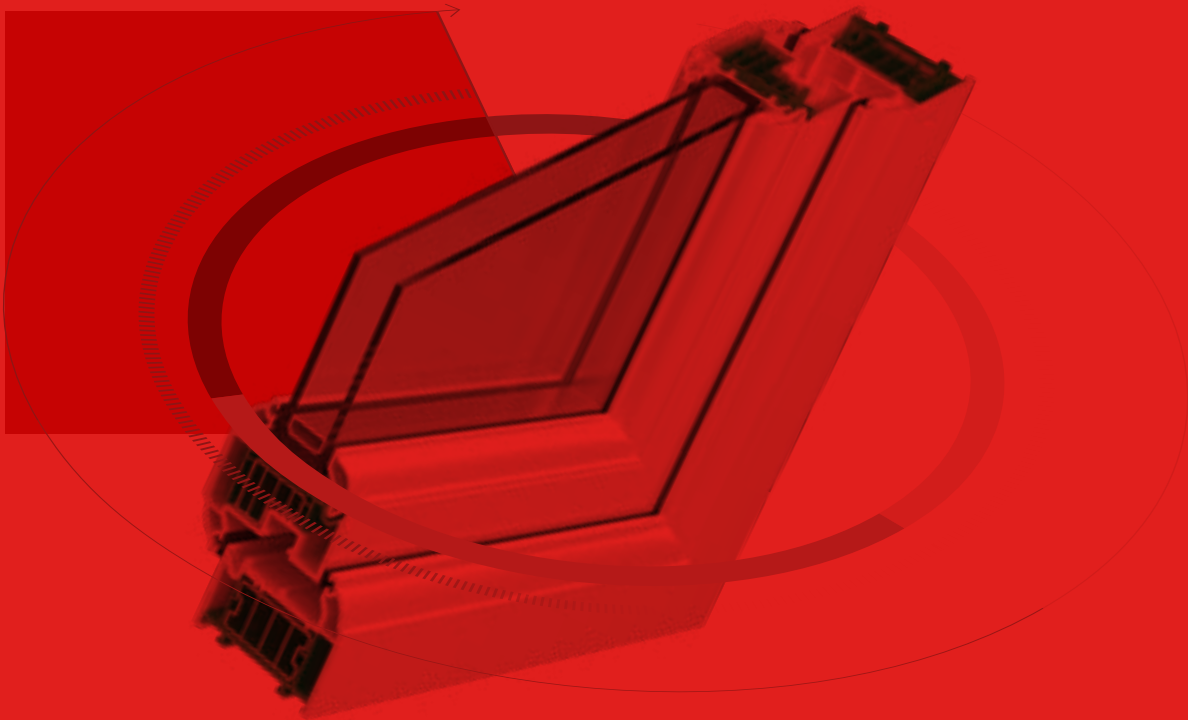


*Investing for a  
sustainable future*

## OUR PURPOSE

*We always work to provide  
the best solutions for our customers*

Through our technical expertise, our collaborative and supportive services, and by offering the widest product range.



## OUR OBJECTIVE

We endeavour to **deliver sustainable growth** in shareholder value by increasing sales and profits at above market level growth rates; leveraging the Eurocell brand and the advantages of our vertically integrated business model.

## HIGHLIGHTS

### Revenue

**£279.1m**  
 ▲ 10%  
 (8% excluding acquisitions)  
 2018: £253.7m

### Gross Margin

**51.2%**  
 ▲ 1.7%  
 2018: 49.5%

### Adjusted EBITDA<sup>1,2</sup>

**£42.4m**  
 ▲ 40%  
 2018: £30.3m

### Adjusted Profit Before Tax<sup>1,2</sup>

**£22.7m**  
 ▲ 0.9%  
 2018: £22.5m

### Profit Before Tax<sup>2</sup>

**£22.7m**  
 ▲ 2.7%  
 2018: £22.1m

### Adjusted EPS<sup>2</sup>

**19.3p**  
 ▲ 1.0%  
 2018: 19.1p

### EPS<sup>2</sup>

**19.3p**  
 ▼ 1.5%  
 2018: 19.6p

### Total Dividends (per share)

**9.6p**  
 ▲ 3.2%  
 2018: 9.3p

### Pre-IFRS 16 Net Debt

**£34.6m**  
 ▲ £11.1m  
 2018: £23.5m

## PROGRESS WITH STRATEGIC PRIORITIES

- **Gaining market share**
  - Organic sales growth of 5% for Profiles and 9% for Building Plastics.
- **Expanding the branch network**
  - 206 branches, with four new sites (net) in 2019, inclusive of one acquired branch (net).
- **Increasing use of recycled PVC in manufactured products**
  - 13.4k tonnes in 2019 (2018: 9.5k tonnes).
- **Completed acquisitions**
  - Trimseal Limited in March 2019.

<sup>1</sup> Adjusted measures are before non-underlying income and costs, and the related tax effect (see page 42). We use adjusted profit measures to assess business performance and they are provided here in addition to statutory measures to help describe the underlying results of the Group.

<sup>2</sup> 2019 figures are stated after the impact of IFRS16.

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🔗 View the latest results online  
[investors.eurocell.co.uk](https://investors.eurocell.co.uk)

## What We Do

*We operate our business through two divisions that reflect the principal routes to market for our products*

### PROFILES DIVISION

The Profiles division manufactures extruded rigid PVC profiles and foam PVC products. We make rigid and foam products using virgin PVC compound, the largest component of which is resin. Our rigid products also include recycled PVC compound, produced at our market-leading recycling facilities.

**Rigid PVC profiles** are sold to third-party fabricators, who produce windows, trims, cavity closer systems, patio doors and conservatories for their customers.

There are broadly four types of fabricator. Trade frame fabricators supply finished products to tradesmen or small retail outlets. New-build fabricators supply and install the products they make for house builders. Commercial fabricators supply and install products used in applications such as office space and education facilities. Finally, retail fabricators make products for sale via their own retail operation, which may be a large national business, or a small company servicing the local community. We are not particularly exposed to retail fabricators.

Fabricators have production facilities which are customised to the window or door system they make. As a result, fabricators predominately buy profiles from a single supplier, which in turn creates a stable and loyal customer base.

**Foam PVC products** are used for roofline and are supplied to customers through our nationwide branch network in the Building Plastics division (see opposite).

All of our manufacturing margin is recorded within the Profiles division, which therefore also benefits from expansion of the branch network.

The Profiles division also includes S&S Plastics, Vista and Eurocell Recycle North (formerly Ecoplas); businesses acquired in 2015, 2016 and 2018 respectively. S&S supplies plastic injection moulded products and services for use in windows and certain other markets. Vista manufactures composite and PVC entrance doors, which are sold to third parties either direct or via the Building Plastics division. Eurocell Recycle North is a recycler of PVC windows.

### BUILDING PLASTICS DIVISION

The Building Plastics division distributes a range of Eurocell manufactured and branded foam PVC roofline products and Vista doors, as well as third-party manufactured ancillary products. These include sealants, tools and rainwater products, as well as windows fabricated by third parties using products manufactured by the Profiles division.

Distribution is through our national network of over 200 branches to installers, small and independent builders, house builders and nationwide maintenance companies. The branches also sell roofline products to independent wholesalers.

The Building Plastics division also includes Security Hardware, Kent Building Plastics and Trimseal, acquired in 2017, 2018, and 2019 respectively. Security Hardware is a supplier of locks and hardware, primarily to the Repair, Maintenance and Improvements ('RMI') market. Kent Building Plastics and Trimseal are small groups of branches distributing building plastic materials in the south-west and south of England respectively, which have been fully integrated into our network.

📍 SEE OUR DIVISIONAL REVIEWS ON PAGES 38 TO 39

### Distribution network

We distribute through our nationwide network.

Number of branches

206

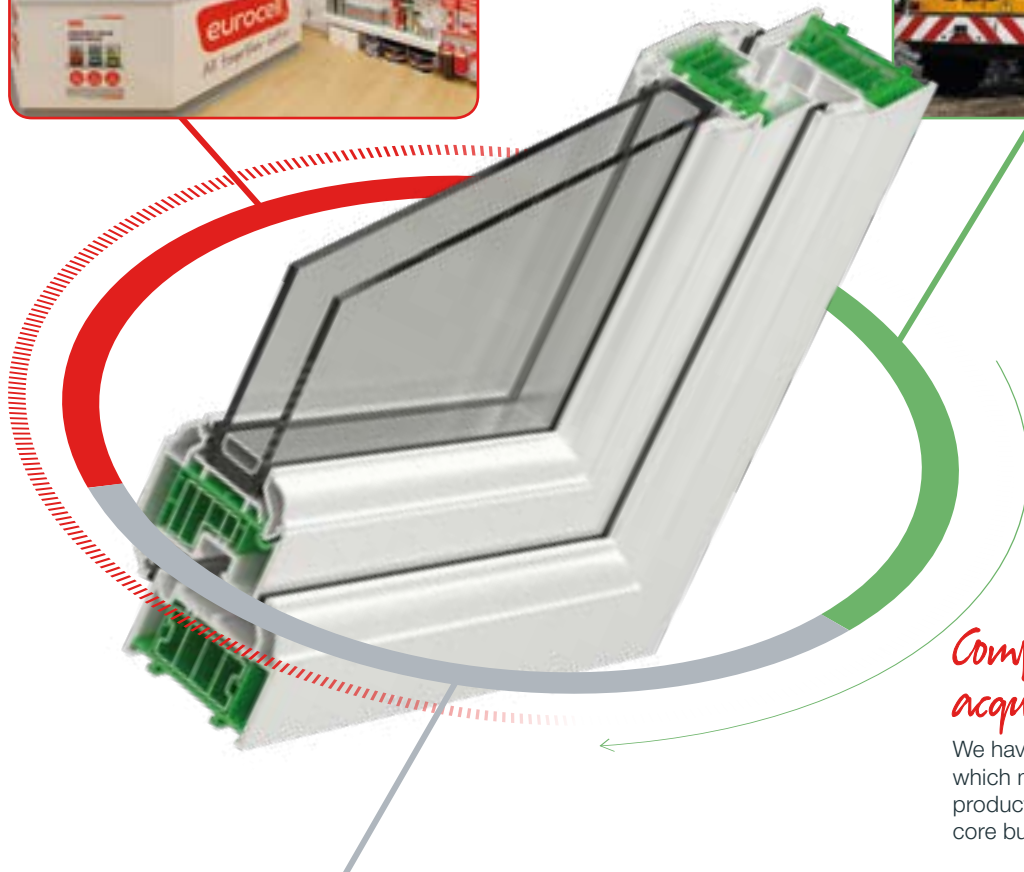


### Sustainable sourcing

We have two recycling facilities which puts recycling at the heart of our operation.

Recycled product used in our rigid PVC profile

13.4k tonnes



### Complementary acquisitions

We have three operating subsidiaries which manufacture and distribute products to complement the Eurocell core business.

Total operating profit (pre IFRS 16) generated from operating subsidiaries in 2019

£2.1m



### Manufacturing expertise

We manufacture both PVC rigid and foam products in our centrally located extrusion facilities.

Total amount of profile produced

55k tonnes



## Our Progress

# Investing in our operational performance

### INVESTING IN RECYCLING



We have consolidated our position as the leading recycler of PVC windows in the UK.

#### Using more recycled material

We have invested heavily to grow our use of recycled material, which helps to increase our profits and improve product and business sustainability, with less plastic going to landfill and reduced exposure to volatile commodity prices.

We have two recycling plants, where we have created a closed-loop recycling system for the cradle-to-grave re-use of PVC-U windows.

Eurocell Recycle Midlands (based in Ilkeston and formerly known as 'Merritt Plastics') recently celebrated its 11<sup>th</sup> anniversary with the Group.

Eurocell Recycle North (based in Selby and formerly known as 'Ecoplas') joined the Group in August 2018.

The total amount of recycled material used in our primary extrusion operations increased by almost 4k tonnes to 13.4k tonnes in 2019, representing 23% of total material consumption.

## INVESTING IN PRODUCTION CAPACITY



We have significantly increased our extrusion production capacity.

### Increasing production capacity

Over the last two years we have increased the number of extrusion machines from 48 in 2017 up to 59 at the end of 2019, which provides capacity for further growth.

## INVESTING IN THE BRANCH NETWORK



We continue to expand our branch network and refurbish the existing estate.

### Successful trial of new larger format stores

In 2019 we opened two larger format branches in Doncaster and Leeds, incorporating larger trade counters, showroom style displays and extended product range availability, for which early trading results have been encouraging.

We have also continued to improve the existing estate. We now have 206 branches providing national coverage across the UK, which offers a significant competitive advantage.

## INVESTING IN OUR PEOPLE



We have strengthened our senior management team.

### **New role of Chief Operating Officer**

Mark Hemming joined Eurocell in August 2019 in the position of Chief Operating Officer and is proving to be an excellent addition to our operational management team. Mark brings a wealth of experience in warehousing and distribution, having previously been Regional Director for Customer Fulfilment at Amazon UK. Before that he has experience leading manufacturing plants in the automotive sector. Mark is leading our work to increase manufacturing capacity and improve operational efficiency, including the transition to our new state-of-the-art warehousing facility (see opposite).

## INVESTING TO IMPROVE CUSTOMER SERVICE



We have modernised our distribution fleet.

### **Transition to a new transport provider**

During 2019, we transitioned successfully to a new transport provider, who bring over 150 years of experience in transport and distribution. We believe strongly that their size and culture fit well with Eurocell. Together we are now starting to use modern technology to better plan and execute our deliveries to customers, thereby improving our service to them and minimising our impact on the environment.



## INVESTING IN WAREHOUSING CAPACITY



We have firm plans to increase our warehousing capacity.

### **Lease secured on new warehousing facility**

In order to keep up with demand, we approached the capacity of our existing main warehouse in 2019.

We have now secured a new facility, located within 3 miles of our primary manufacturing site, existing main warehouse and head office. The new site has 260,000 ft<sup>2</sup> of high bay, state-of-the-art warehouse accommodation, dedicated office space and car parking.

We have commenced a project to fit out the new site and in doing so, modernise our product storage and picking processes. We expect the new site to be operational early in 2021.

A photograph of a modern interior space, likely a dining area, featuring a large skylight with a geometric pattern of white beams. The skylight allows natural light to illuminate the room. Below the skylight, a wooden dining table is visible, along with a white bench and a kitchen counter in the background. A red rectangular overlay is positioned in the lower-left quadrant of the image, containing the text "Strategic Report" in a white, cursive font.

# Strategic Report



# Progressing to a sustainable future



*Our substantial investments in recycling demonstrate that sustainability sits right at the heart of our business.*

**Bob Lawson**  
Chair

In 2019 we made good progress with our strategic priorities and, against generally weak or subdued end markets, continued to consolidate our strong market positions in both divisions. The substantial investments we have made in recycling leave Eurocell as the leading UK-based recycler of PVC windows, demonstrating clearly that sustainability sits right at the heart of our business.

## **Financial and operating performance**

We delivered strong sales growth across the Group in 2019, with revenue up 10% (or 8% excluding acquisitions), together with a good improvement in gross margin.

Manufacturing performance was also better, following capital investment to improve manufacturing efficiency and increase extrusion capacity. However, we have continued to incur additional warehousing and distribution costs and, with the benefit of our new Chief Operating Officer's expertise, have identified new warehousing as essential to facilitate future growth and improve operating efficiency. We have therefore put plans in place to enable this (see below).

Adjusted EBITDA increased by 5% to £31.7 million (pre-IFRS 16). Adjusted profit before tax was £22.7 million, or £23.1 million on a pre-IFRS 16 basis (2018: £22.5 million). Adjusted basic earnings per share were 19.3 pence per share, or 19.7 pence per share on a pre-IFRS 16 basis (2018: 19.1 pence per share).

Cash conversion was impacted by a planned investment in working capital to support growth and a stock build programme to improve availability in our branches and help mitigate the risk of disruption from Brexit. Excluding the impact of IFRS 16, net debt at year end was £34.6 million (31 December 2018: £23.5 million). Reported net debt was £68.7 million. We have a strong balance sheet which provides flexibility and options for the future.

## **Strategy**

In January 2020, we conducted our annual review of the Company's strategy, our markets and activities. At the conclusion of this process, we reaffirmed that our overall objective remains to deliver sustainable growth in shareholder value by increasing sales and profits at above our market level growth rates.

We have made good progress against each of our five strategic priorities in 2019, with the key aspects of our performance described in the Chief Executive Officer's Review.

The successful deployment of our commercial strategies across the business has led to sales substantially exceeding our expectations over the last few years. Our excellent market share growth has been achieved without any meaningful gross margin erosion. However, profits have lagged more recently as we build operating capacity to service our sales and we have experienced inefficiencies and extra costs.

We have worked hard to resolve manufacturing issues through investment in new capacity, but warehousing remains a constraint.

However, I am very pleased to say that we have now secured a new state-of-the-art warehouse facility, located close to our primary operating sites near Alfreton. This will allow us to modernise our storage and picking solutions, providing a safer and more productive environment for employees and demonstrates our commitment to the locality. The new site will facilitate future growth and the delivery of further operating efficiencies. We expect it to be operational early in 2021. The costs associated with the new site are set out in the Group Financial Review.

With additional, efficient capacity, there is good potential to continue to outperform our markets in the medium-term.

### Governance

As a Board, we are committed to the highest standards of corporate governance and ensuring effective communication with shareholders. We continue to comply with the UK Corporate Governance Code.

### Dividends

We paid an interim dividend of 3.2 pence per share in October 2019. The Board proposes a final dividend of 6.4 pence per share, resulting in total dividends for the year of 9.6 pence per share, representing growth of 3%.

### People

The progress we have made in 2019 is testament to the hard work and dedication of our teams in every part of our business. On behalf of shareholders and of the Board, I offer our sincere thanks.

### Bob Lawson

Chair

## INVESTMENT CASE

### CLEAR STRATEGY

#### Five clear strategic priorities

- Increase the use of recycled materials.
- Target growth in market share.
- Expand our branch network.
- Develop innovative new products.
- Explore potential bolt-on acquisitions.

We made good progress with all our strategic priorities during 2019.

SEE PAGE 22

### STRONG ON SUSTAINABILITY

#### In-house, closed-loop recycling facility

We are the leading UK recycler of PVC windows.

We recycle both customer factory offcuts ('post-industrial' waste) and old windows ('post-consumer' waste). The recycled material is used to generate brand new extruded plastic products.

Recycling helps to lower material costs and improve product and business sustainability.

SEE PAGE 24

### COMPELLING BUSINESS MODEL

#### Recycling, manufacturing and own distribution network

We are a leading manufacturer of rigid and foam PVC profiles. Our branches are conveniently located, offering a wide range of products and providing excellent service to local customers and nationwide groups alike.

SEE PAGE 20

### EXPERIENCED LEADERSHIP

#### Strong and experienced team

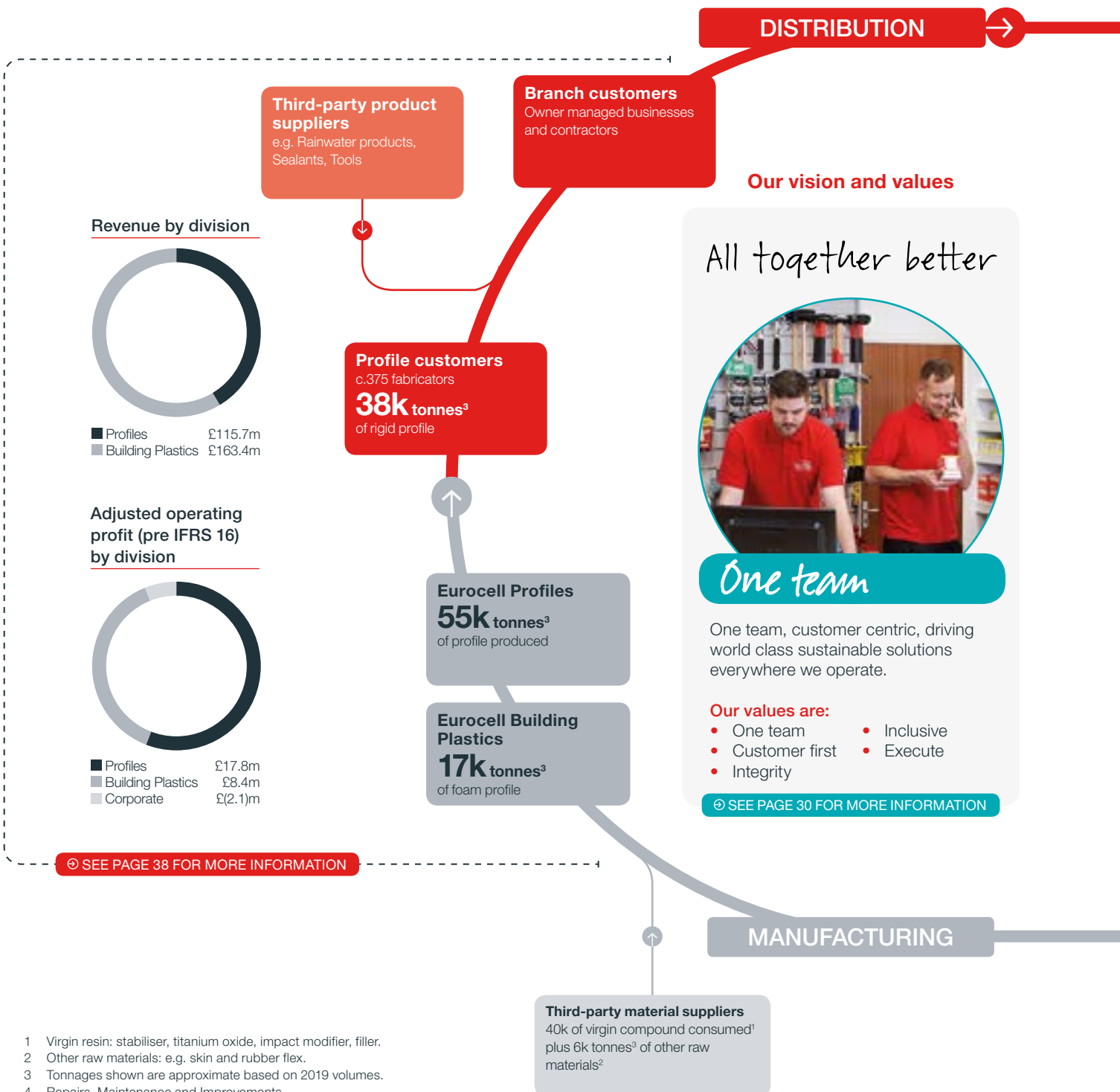
We have an effective Board and a strong senior management team with the requisite and complementary skills, knowledge and experience to secure the future success of the business.

SEE PAGE 54

## Our Operation

# A vertically integrated model to maximise efficiency

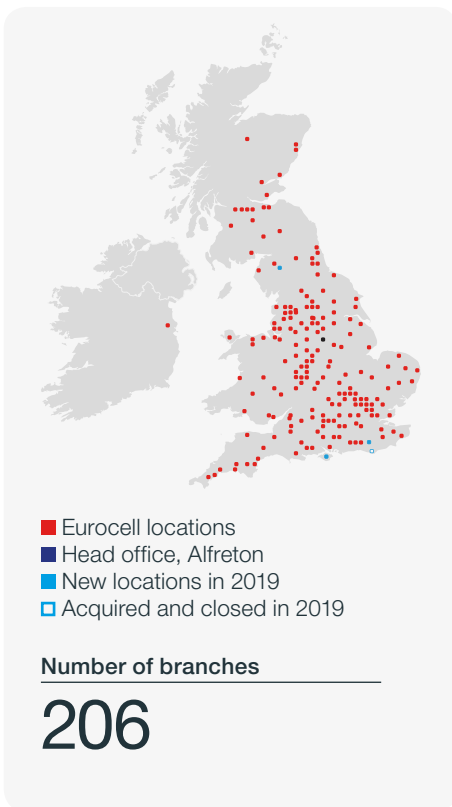
The coordination of our manufacturing, distribution processes and recycling activities, help us to be efficient throughout all stages of our value chain.



1 Virgin resin: stabiliser, titanium oxide, impact modifier, filler.  
2 Other raw materials: e.g. skin and rubber flex.  
3 Tonnages shown are approximate based on 2019 volumes.  
4 Repairs, Maintenance and Improvements.

OUR MARKETS

Where we operate



RMI<sup>4</sup>  
 Proportion of revenue in RMI market  
**> 80%**

New Build  
 Proportion of revenue in new build housing market  
**> 10%**

Public Sector  
 Proportion of revenue in public new build housing market  
**< 5%**

OUR ROUTE TO MARKET

Our sales and distribution strategy is implemented through our cross functional sales and business development teams, which target the key decision makers in the supply chain. The key decision makers include fabricators, installers, developers, architects, local authorities and planning departments. By influencing the influencers we earn the loyalty of our customers by helping them grow their businesses.

SEE PAGE 14 FOR MORE INFORMATION

Eurocell Recycle  
**13.4k tonnes<sup>3</sup>**  
 of recycled compound consumed  
 (23% of profile raw material consumed)

TWO RECYCLING SITES

Our recycling operations are based at two sites located in Selby and Ilkeston which recycle post-consumer and post-industrial PVC-U waste into re-usable raw materials for our manufacturing process.

SEE PAGE 24 FOR MORE INFORMATION

← RECYCLING

## Market Overview

*The level of UK economic activity, in particular the state of the repair, maintenance and improvement ('RMI') and new-build housing markets, are important drivers of our performance*

Despite a weak RMI market reflecting political and economic uncertainty throughout 2019, we are confident that our strategic initiatives (described in Our Strategy on pages 22 and 23), will continue to deliver above market level growth rates for Eurocell.

## EUROCELL MARKETS AND DRIVERS

### Private Home Improvement ('RMI')

The RMI market has been weak in 2019, reflecting: political and Brexit-related uncertainty, the prospect of redundancies in the event of an extended economic downturn and the relatively weak growth in real wages over the last few years. However, there is some expectation of a post-election recovery in 2020.

#### **Demand is influenced by the state of the economy**

– the resulting impact on the housing market and consumer confidence influence demand.

#### **Housing market**

– homeowners may choose to improve or extend their existing property rather than move house, which can be positive for Eurocell.

#### **Retirement housing**

– planned improvements to retirement housing and increased availability of funds following changes to pension scheme rules may provide support to the RMI market in the future.

### Public New-Build Housing

This sector represents a very small proportion of the UK housing market, as government policies are targeted towards increasing private sector affordable housing rather than public sector social housing.

#### **Right-to-Buy scheme**

– enables council and housing association tenants to buy their homes at a discount, therefore a reduction in public sector housing stock is expected as a result of the scheme.

#### **Rent caps**

– may reduce the financing available for new development.

#### **Rental property development**

– housing associations have relied on market sales to raise capital, weaker house price growth and fewer transactions will likely hamper this.

### Private New-Build Housing

Some of the large house builders reported a softening in demand in the lead up to the General Election at the end of 2019.

#### **Macroeconomic environment**

– uncertainty suggests affordability will likely remain a key issue.

#### **Help-to-Buy scheme**

– continues to support demand.

#### **Housing shortage**

– on-going positive government intervention remains a possibility.



*We believe Eurocell is well-placed to service private and public new build housing.*

**Mark Kelly**  
Chief Executive Officer





## EXTERNAL MARKET DRIVERS

### GDP

- Real UK GDP is forecast to grow by 1.6% in 2020 (2019 estimate: 1.0%).

### Consumer confidence

- Dropped in 2019 due to ongoing uncertainty over Brexit and fear of redundancies due to the uncertain political and macroeconomic outlook. However, there is some expectation of a post-election recovery in 2020.

### Interest rates

- UK interest rates increased in August 2018 (only the second increase since 2007). However, the UK Government announced a 50 bps rate reduction in March 2020.

### Construction

- Total construction activity was up 0.6% in 2019 and is forecast to be flat in 2020, before growing by 1% in 2021.
- Housing construction activity was down 2% in 2019 and is forecast to rise by 1% in 2020 and 2021.

### Housing market

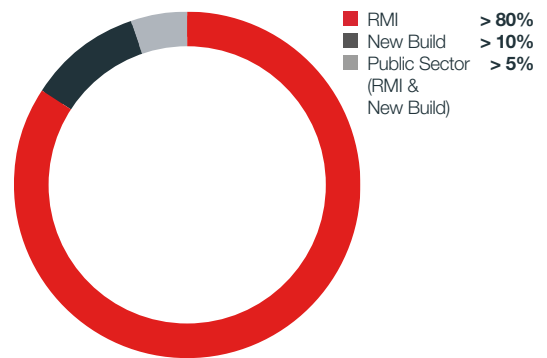
- Total housing starts were down 7.0% in 2019 and are forecast to decline by 1.6% in 2020, before increasing by 2% in 2021.
- Private housing starts were down 8% in 2019 and are forecast to decline by 2% in 2020 before rising by 2% in 2021.
- Private housing RMI1 market was down 3% in 2019 and is forecast to decline 1% in 2020 and rise by 1% in 2021.

1 RMI is Repair, Maintenance and Improvement market.

Sources: Bank of England Monetary Policy Committee statement September 2019, CPA: Construction Industry Forecasts 2019-21 (published January 2020), Office for Budgetary Responsibility Forecast (published October 2019).

## Eurocell Revenue by Market (%)

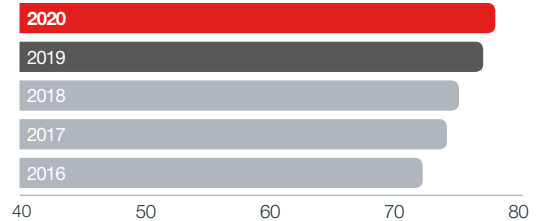
Private home improvement and, increasingly, new build housing are currently the most important market segments for Eurocell.



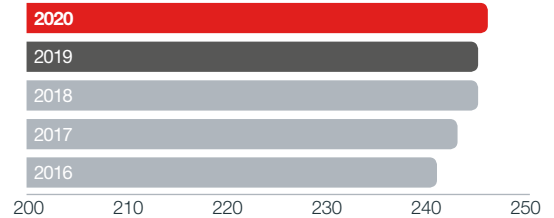
## Markets for Eurocell Products

The product groups specific to Eurocell are currently expected to show modest growth in 2020.

### Roofline (Tonnes 000s)



### Window Profile (Tonnes 000s)



Source: D&G Consulting

Key to potential impact on demand for Eurocell products:

- Positive
- Neutral
- Negative

## Chief Executive Officer's Report

*We delivered strong sales growth and good progress with our plans to drive operating efficiency*



*Against a weak market backdrop, we were very pleased to deliver another year of strong sales growth and an improved manufacturing performance.*

**Mark Kelly**  
Chief Executive Officer

### Introduction

The Construction Products Association Winter 2019 update (published January 2020) reported on a weak Repairs, Maintenance and Improvements ('RMI') market and a decline in housing starts, with both sectors impacted by Brexit-related and political uncertainty.

Against this backdrop, we were very pleased to deliver another year of strong sales growth, with reported revenues up 10% (or 8% excluding acquisitions). Growth reflects good contributions from both existing and new accounts from across our fabricator base in Profiles, as well as strong like-for-like sales in Building Plastics, driven by better stock availability and improvements in operating standards.

It is also good to report that our gross margin improved by 170 bps to 51.2%, reflecting the benefit from selling price increases, implemented to recover cost inflation, and higher usage of recycled material.

The capital investment programme launched at the beginning of the year to improve manufacturing efficiency and increase extrusion capacity is now complete, leading to an improved manufacturing performance. However, we have continued to incur additional warehousing and distribution costs, particularly through peak periods.

Adjusted EBITDA increased by 5% to £31.7 million (pre-IFRS 16). Adjusted profit before tax was £22.7 million, or £23.1 million on a pre-IFRS 16 basis (2018: £22.5 million).

In line with our continued focus on improving operations, and to support future growth, we were delighted with the appointment of Mark Hemming to the position of Chief Operating Officer. Mark started with us in August and is proving to be an excellent addition to our operational management team. Prior to joining, Mark was Regional Director for Customer Fulfilment at Amazon UK. Before that, he has experience leading manufacturing plants in the automotive sector.

With Mark's input and expertise, we have identified new warehousing as essential to facilitating future growth and driving operating efficiency, and have commenced a project to expand our warehousing capacity significantly. Further details are included in Strategic Update below.

## Operational performance

### Health and safety

The safety and well-being of our employees and contractors is our first operational priority and we continue to maintain good health and safety performance. Our Lost Time Injury Frequency Rate was 0.9 in 2019, in line with 2018. There were no major injuries and 17 minor accidents (2018: 9) recorded under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 ('RIDDOR').

### Production

In 2019 we manufactured 54.6k tonnes of rigid and foam PVC profiles at our primary extrusion facilities, up from 49.8k tonnes in 2018, an increase of 10%.

This reflects the sales growth in the year, as well as a drive to increase stock availability at our branches. In addition, given the possibility for raw material supply interruption due to Brexit, we invested in a stock build programme. In total, we added approximately £5 million to finished goods for key product lines in 2019, which provides a good level of protection.

This record level of production was made possible through the execution of a substantial capex programme in 2019, costing c.£5 million, to improve manufacturing efficiency and increase co-extrusion and foam capacity by 30% and 15% respectively. All 7 new lines are now fully operational and working well, leading to a better manufacturing performance in 2019. Overall equipment effectiveness ('OEE', a measure which takes into account machine availability, performance and yield) in extrusion improved to 73%, compared to 71% for 2018 and scrap levels were down to 8%, compared to 9% in 2018.

As planned, the new extrusion lines were operational for the busy final few months of the year. During this period, factory utilisation did not exceed 80%, demonstrating that we have capacity for further growth. We have also recruited additional skilled labour for our foiling plant to support increasing demand.

### Recycling

We used 13.4k tonnes of recycled PVC compound alongside virgin resin in the manufacture of co-extruded rigid profiles, representing 23% of overall material consumption, up from 9.5k tonnes (or 17%) in 2018, an increase of 41% driving a substantial saving compared to the cost of using virgin material.

We have been investing to increase our recycling capability, in order to capture financial and sustainability benefits and to keep pace with our sales growth (see Strategic Update). This has been delivered through the expansion of Eurocell Recycle Midlands (based in Ilkeston and formerly 'Merritt Plastics'), the acquisition of Eurocell Recycle North (based in Selby and formerly 'Ecoplas') and by investment in new co-extrusion tooling, which allows a greater proportion of recycled material to be used in our products.

We invested c.£3 million in Eurocell Recycle Midlands in 2019, to increase output and improve reliability, including new tooling.

We acquired Eurocell Recycle North in August 2018 for consideration of £6 million (including debt assumed). Output at acquisition was c.7k tonnes of recycled compound per annum, sold into a broad mix of trade extruders. As expected, investment was required to improve the operating environment and reliability of the plant, to eliminate bottlenecks from production processes and to expand capacity. Total investment post-acquisition stands at c.£3 million, mostly in 2019. Whilst we suffered some delays with our expansion plans for Ecoplas, the project is now well advanced and performance has improved.

### Strategic update

Our overall strategic objective remains to deliver sustainable growth in shareholder value by increasing sales and profits at above our market level growth rates. In 2016, we identified five clear strategic priorities to help us achieve this objective. Since then we have delivered significant progress in each of them as follows:

- Target growth in market share – now the largest supplier of rigid PVC profile to the UK market (>15% share)
- Expand the branch network – 206 sites in 2019 compared to 141 in 2015
- Increase the use of recycled materials – usage up from 4.1k tonnes in 2015 to 13.4k tonnes in 2019
- Develop innovative new products – sales from products introduced since 2017 were c.£33 million of 2019 revenue
- Explore potential bolt-on acquisition opportunities – six acquisitions completed since 2015

Successful implementation of our commercial strategies has driven a very strong compound annual growth rate in sales of 12% since 2015. However profits in the last two years have been impacted by sales running substantially ahead of our expectations, thereby exceeding the available operating capacity and leading to inefficiencies and extra costs.

As described above, manufacturing constraints experienced in 2018 have been largely resolved through investment in new extrusion capacity and skilled labour, resulting in an improved manufacturing performance.

We are confident that we can continue to outperform our markets in the medium-term, through the further progression of our strategic priorities. However, we have also concluded that additional warehousing capacity is needed to facilitate future growth and deliver further operating efficiencies. As a result, we have commenced a project to expand our warehousing capacity significantly and have outlined more on this overleaf.

### Target growth in market share in Profiles

In 2018 we became the leading supplier of rigid PVC profile to the UK market, with a share of >15%. Our objective is to consolidate this position and increase our share to c.20% over the next few years.

There is a compelling case for larger trade fabricators to switch to Eurocell. This includes: a strong product range and continued product development (e.g. flush windows, grey substrate and patio doors), the benefits of pull-through profile and hardware specifications and increasing opportunities to supply our branches, all delivered via best in class service.

Expanding our share of the new build market has been a key driver of recent growth and we believe favourable market dynamics, such as Help to Buy and low interest rates, are set to continue. We have strong relationships with large and medium-sized housebuilders, maintained by our specification and technical teams. In addition, with an increasing focus on sustainability, we believe our use of recycled material will become increasingly attractive to housebuilders.

In the commercial sector there is a strong case for the benefits of using PVC profile and thereby drive more value engineering away from aluminium, particularly in sub-sectors such as private rentals, build-to-rent, purpose-built student accommodation, education and local authority refurbishment – all habitual users of aluminium.

### Expand the branch network

Our objective for Building Plastics is to achieve world class operations from a least 300 sites.

In the existing estate, we have plans to improve up-selling and cross-selling opportunities, to target lapsed customers, and to tighten margin controls. We also intend to enhance promotional activities with support from key suppliers. In terms of products, we will focus on improving conversion rates for high value made-to-order items and extend our range, including the introduction of new outdoor living products.

With our focus on executing the warehouse transition, we plan to open just 4 new sites in 2020. However, these will all be in a new, larger format store, with expanded trade counter and showroom-style displays designed to engage customers and drive big-ticket purchases such as windows and doors. This follows a successful trial in Leeds in 2019 and the new 2020 branches will complete the evaluation of this format. Thereafter, with additional warehousing capacity in place, we anticipate increasing branch openings, including large format branches where appropriate.

Finally, we see a significant opportunity to develop and implement a market-leading consumer online windows and doors proposition, using our branch network to provide infrastructure where needed (e.g. delivery point for installers). We will run a trial in the North West region in 2020.

### Increase the use of recycled material

Expanding the use of recycled material increases our profits, because the cost of recycled compound is typically lower than the price of virgin material. It also improves product and business sustainability, with less plastic going to landfill and by reducing our exposure to volatile commodity prices.

In particular, closed-loop recycling (where windows being replaced are recycled into the new product) is attractive to decision makers such as local authorities and architects, which helps us develop tight specifications for our products. Recycling and sustainability also resonate strongly with consumers and other stakeholders.

Our total capital investment in recycling since the beginning of 2016 (including the acquisition consideration for Eurocell Recycle North) is c.£15 million. As a result, we have become the leading UK-based recycler of PVC windows and our use of recycled material increased from 4.1k tonnes (or 9% of materials consumed) in 2015 to 13.4k tonnes (or 23% of materials consumed) in 2019. In doing so, in 2019 we saved the equivalent of c.3.2 million window frames from landfill.

In light of the potential for further good sales growth described above, we expect internal demand for recycled material to increase. We believe this incremental demand can be satisfied largely through the expansion of Eurocell Recycle North, with only limited additional investment plus maintenance capital expenditure across the recycling operations.

### Develop innovative new products

We are committed to maintaining market leadership by offering the very latest in product improvement, both through development of existing products and the introduction of new ones. We work closely with our customers and technical advisors on development and to help maintain our product pipeline. Highlights in 2019 include the introduction of a flush window sash profile for our popular Eurologik profile range, a new patio door system (Syncro) and development of a through-colour grey substrate profile.

### Explore potential bolt-on acquisitions

We have completed 6 acquisitions since our IPO, including in 2019 the acquisition of Trimseal, a building plastics distributor on the south coast of England, for total net consideration of £0.4 million. We will continue to assess and consider bolt-on acquisition opportunities in the markets in which we operate over the medium-term. However, our focus for 2020 will be delivering operating efficiencies from recent and on-going investment in manufacturing and warehousing capacity.

## Warehousing capacity expansion

We have concluded that our existing main warehouse is a major constraint to future growth and operating efficiency.

In order to keep up with recent demand, we have exceeded the capacity of the site and the loading facilities, operating in peak periods well above the target of 85% utilisation for efficient operations. This has resulted in extra costs incurred to operate safely and maintain, so far as possible, customer service.

We therefore evaluated options to expand our warehousing capacity.

I am pleased to say that we have now secured a new facility, located within 3 miles of our primary manufacturing site, existing main warehouse and head office. The new site has 260,000 ft<sup>2</sup> of high bay, state of the art warehouse accommodation, dedicated office space and car parking.

We intend to take this opportunity to modernise our storage solutions, using cantilever racking to store up to twelve stillages high (our current warehouse is restricted to seven); and mobile racking to allow high density storage, which will increase capacity by more than 60%. Similarly, we will modernise picking processes, with the use of mobile platforms to replace manual techniques, thereby providing a safer and more productive solution. We expect the new site to be operational early in 2021.

We will convert our existing warehouse to a specialist manufacturing site, relocating from 2021, our secondary operations including foiling, injection moulding and conservatory roofs. This will free up space to future-proof extrusion capacity.

We are very excited about the opportunities for growth opened up by this investment. The costs and financial implications of the new warehouse are included in the Group Financial review.

## Brexit

There remains significant uncertainty over the impact of Brexit, be it related to general macroeconomic factors or specific company risks. Key to understanding the medium-term impact on Eurocell will be the nature of the future trading relationship between the UK and the EU.

We have taken a number of steps to protect the business from any potential negative effects. In this context, it is worth noting that almost all of our sales are to UK-based customers and that the vast majority of our workforce has the right to remain and work in the UK.

Some of our key raw materials do originate from Europe, so any future disruption in supplies could impact our manufacturing operations. With that in mind, whilst we have only limited capacity to hold excess raw materials at our own sites, we completed a significant investment in additional stocks in 2019, adding c.£5 million to finished goods for key product lines. More generally, we increased our bank facilities in March 2020, securing additional funding with no change to pricing, and hold selective credit insurance for large customer accounts. We have also fixed electricity prices for the coming year at competitive prices.

Therefore, whilst we are not able to predict the impact of Brexit on our business, we have taken sensible steps to help mitigate known risks.

## Outlook

We have reported robust financial results for 2019 and, despite Brexit-related and political uncertainty, delivered another year of strong sales growth and a good improvement in gross margin.

Over the last 4 years, successful deployment of our commercial strategies has led to sales substantially exceeding our expectations. However, profits have been impacted more recently as we build the operating capacity to service our sales and we have experienced inefficiencies and extra costs. With manufacturing constraints now resolved, our focus for 2020 will be on executing the warehouse transition successfully, thereby facilitating future growth and the delivery of further operating efficiencies. As a result, looking forward we see good potential to outperform our markets.

As yet, there has been no discernible impact on our business from COVID-19, although we remain very alert to this possibility. We have a strong balance sheet, and in March 2020 we were pleased to increase our bank facility to £75 million. We maintain a conservative approach to debt, in order to ensure good liquidity and to manage any emerging risks.

Despite the impact of very wet weather so far this year, we have made a good start to 2020. Sales and margins for the first two months are in line with our expectations, and notwithstanding macroeconomic and political uncertainty, we expect to deliver further progress this year.

## Mark Kelly

Chief Executive Officer

## Our Business Model

### WHAT WE DO

#### WE MANUFACTURE

We are a leading manufacturer of rigid and foam PVC profiles, composite and PVC entrance doors for the window and building home improvement sectors. Our manufacturing process uses raw materials including PVC resin and our own produced recycled material.

**55k tonnes**  
produced in 2019

#### WE DISTRIBUTE

The Profiles division supplies our manufactured profile to a network of fabricators, who in turn supply end products to installers, retail outlets and house builders.

The Building Plastics division sells, through its network of branches, our manufactured foam products and entrance doors, along with a range of third-party related products, as well as windows fabricated by third parties using products manufactured by the Profiles division. Customers are mainly installers, small builders, roofing contractors and independent stockists.

**>1.5 million products**  
delivered in 2019

#### WE RECYCLE

We recycle both customer factory offcuts ('post-industrial' waste) and old windows that have been replaced with new ('post-consumer' waste). The recycled material is used to generate brand new extruded plastic products.

**>3 million windows**  
recycled in 2019

### HOW WE CREATE VALUE

#### Vertically integrated model

The coordination of our procurement, manufacturing and distribution processes enables us to capture margin throughout all stages of our value chain.

Our recycling activities help lower material costs and improve product stability.

#### Scale

We operate well-invested and modern extrusion facilities.

We are the UK's largest window recycler.

Our extensive branch network is a driver of sales growth and market share. It also helps improve manufacturing efficiency, with pull-through demand driving higher factory utilisation.

#### Innovative products

We are committed to a strategy of continually developing new and existing products.

We support the use of Building Information Modelling ('BIM') software, giving architects and contractors access to a library of Eurocell products, making it easier to specify them.

#### Brand strength

We have a strong brand image and our marketing activities seek to maximise our brand awareness.

#### People and culture

Our experienced management team have a proven track record of achieving growth.

Our corporate culture is one of openness, trust, encouragement and clarity of purpose. We train and empower our people to help our customers grow their businesses.

#### Local footprint

Our branches are conveniently located and have readily available inventory, thereby providing excellent service to local customers and national groups alike.

We also strive to help our customers through the provision of technical, business development and marketing support services.

## OUTPUTS

### Sales growth

Our initiatives to support sales and deliver high levels of customer service differentiate Eurocell from our competitors. We expect this to drive good sales growth.

**Sales growth  
(excluding acquisitions)**

**8%**

### Solid profitability

We have a track record of solid profitability. We experienced some challenges with incremental volume in 2018/19, but our continued investment in expanding capacity and improving operational efficiency, coupled with strong sales growth, should drive increased returns.

Expanding the branch network (including larger format branches), whilst dilutive until new branches become established, should deliver healthy medium-term results as new branches mature.

Increased use of recycled materials can help mitigate raw material pricing pressure.

**Profit before tax**

**£22.7m**

### Good cash generation

Our operating cash flow conversion is good, particularly in Building Plastics, where a high proportion of customers pay at point of sale or shortly thereafter. This has allowed us to invest in working capital to support sales growth and protect the business from any raw material supply interruption that may take place e.g. due to Brexit.

**Net cash generated  
from operating activities**

**£26.4m**

### Good return on sales

Our strong brand, well-invested facilities and capital-light branch expansion programme deliver a good return on sales.

**Return on sales<sup>1</sup>**

**15%**

### Progressive returns to shareholders

Our dividend policy, supported by sales growth and cash generation, deliver progressive dividend returns to shareholders.

**Total dividends returned to  
shareholders since the IPO in 2015**

**£38m**

## KEY BENEFICIARIES

### Shareholders

Our overall strategic objective is to deliver sustainable growth in shareholder value.

### Employees

We work hard to train and develop our people, and provide rewards commensurate with our goal to be an employer of choice.

SEE PEOPLE ON PAGE 30

### Fabricators

Through high-quality products and a strong focus on customer service, we have developed a very loyal customer base.

### Small builders & installers

The independent sole traders that visit our branches benefit from the one-stop shop offering we provide.

### House builders

House builders appreciate the quality of our products and benefit from Eurocell coordinating our fabricators' offering to meet their requirements.

### Installers

We aim to make our products as easy as possible to work with, which is very attractive to our direct or indirect installer base.

<sup>1</sup> Return on sales is Adjusted EBITDA (including impact of IFRS16) divided by revenue.

## Our Strategy

Our overall objective is to deliver sustainable growth in shareholder value by increasing sales and profits at above market level growth rates through leadership in products, operations, sales, marketing and distribution. We have five key strategic priorities:

We intend to leverage the Eurocell brand, and the advantages that our vertically integrated business model with local distribution offers over our competitors, in order to grow our market share.

### STRATEGIC PRIORITIES



#### *Increase the use of recycled materials*

Increased use of recycled material to help mitigate raw material pricing pressure, as well as enhance the stability and reduce the carbon footprint of our manufactured products.



#### *Target growth in market share*

Increase market share of rigid PVC profiles to drive sales and profit growth in Profiles.



#### *Expand our branch network*

Investment in new branches to increase market share of foam PVC profiles, and drive sales and medium-term profit growth in Building Plastics.



#### *Develop innovative new products*

Maintain market leadership by offering the latest in product innovation.



#### *Explore potential bolt-on acquisitions*

Consider acquisition opportunities when they arise.



## 2019 PROGRESS

- Continued investment to expand capacity and improve reliability in both recycling plants, with capex of c.£5.7 million in 2019.
- Increased use of recycled material for primary extrusion in 2019 to 13.4k tonnes (2018: 9.5k tonnes).
- Further 11.8k tonnes used in extrusion of products with 100% recycled content, or sold to trade extruders (2018: 8.5k tonnes).

**Total tonnes processed in the recycling plants**

**41.3k**  
(2018: 30.4k)

- Profiles organic sales growth of 5%.
- Growth driven by existing and new accounts and strong contribution from Vista Panels.
- 28 new accounts (following 17 in 2018 and 25 in 2017).
- Growth in trade and new build fabricators alike.

**Estimated market shares Profiles**

**15%**

**Building Plastics**

**23%**

- Organic and like-for-like sales growth of 9% and 8% respectively.
- Growth driven by better stock availability and improved operating standards.
- 4 new sites opened (net), including trial of 2 larger format branches.
- Continued growth in average revenue per branch.
- Total estate at 206 branches at 31 December 2019, with 78 new branches opened from 2015.

**Growth in revenue from new branches opened in 2018 and 2019**

**£2.2m**

- Introduction of flush window sash to leading Eurologik profile range.
- New Syncro patio door system.
- Development of a through-colour grey profile substrate.
- Introduction of a new overhead vent.

**Product ranges launched**

**15**

- Acquisition and integration of Trimseal Ltd, a distributor with 2 branches in the south-east.

**Acquisitions completed**

**1**

## 2020 FOCUS

- Maximise throughput and operational efficiency/reliability at both recycling sites to support business growth.

- Exploit compelling case for trade fabricators to switch to Eurocell, with clear points of differentiation through specification, service, opportunities to supply branch network and product range / development.
- Maintain share gains in new build, with favourable market dynamics and benefit of strong relationships with housebuilders.
- Double commercial sector sales by targeting specific developers and sub-sectors to drive value engineering away from aluminium to PVC.
- Drive sustainability agenda in conjunction with Eurocell Recycle.

- Continuous improvement in existing estate focused on:
  - Customers (up-selling, cross-selling)
  - Trading (enhanced promotional activities) and
  - Products (improve conversion rates for high value items, extend product range).
- Open 4 new larger branches to complete the trials of this format.
- Continue to reduce time to break-even for new branches.
- Regional trial for market-leading consumer on-line window and door proposition.

- Development and introduction of (amongst others):
  - Automatic opening vents
  - Vertical slider enhancements
  - New tiled roofing products
  - Stronger window profile to facilitate extended thresholds.
- Other enhancements to existing products and complementary new product offerings.

- Continue to develop acquisition pipeline and consider acquisition opportunities as they arise.

# Investing in recycling



'Thor' Mobile Hammermill Shredder



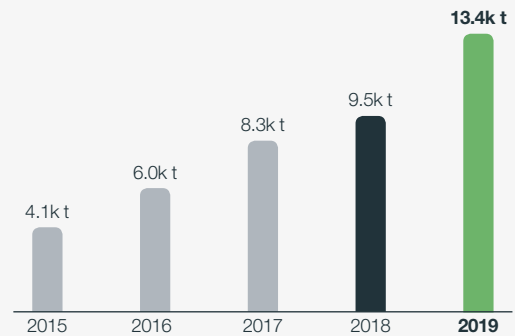
The average PVC-U window can be recycled up to ten times without any loss of quality.

Strategic priority



Increase the use of recycled materials

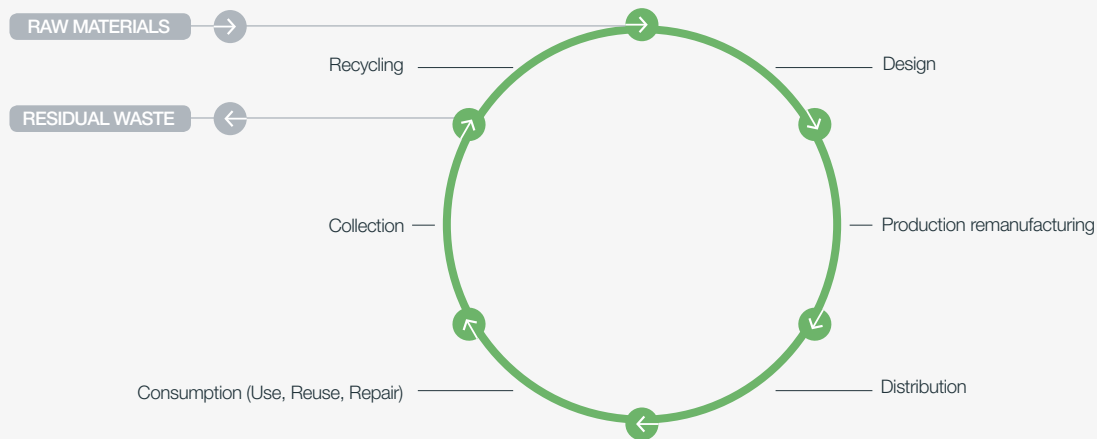
Use of recycled PVC in Eurocell manufacturing



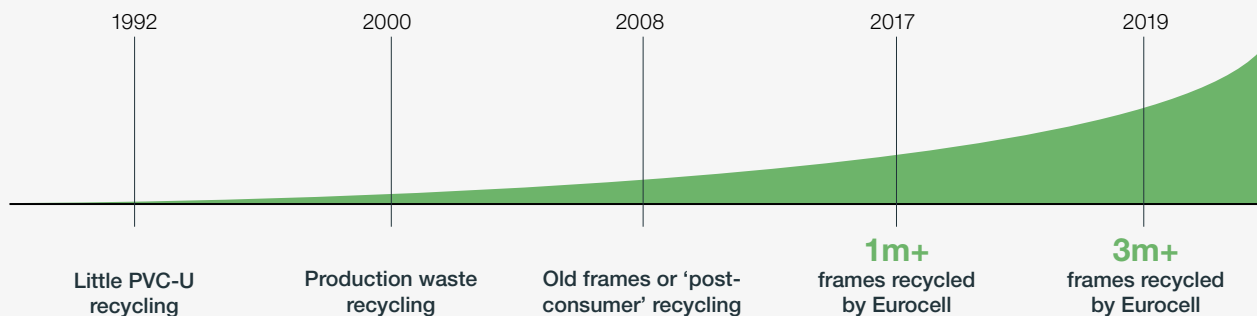
## The benefits of a PVC-U circular economy

The PVC-U industry has operated its own circular economy for a long time.

It has been known as closed-loop recycling, and it provides a system for cradle-to-grave re-use of PVC-U, which leading industry players, such as Eurocell, have developed and championed.



### The evolution of PVC-U recycling: 25 years of progress

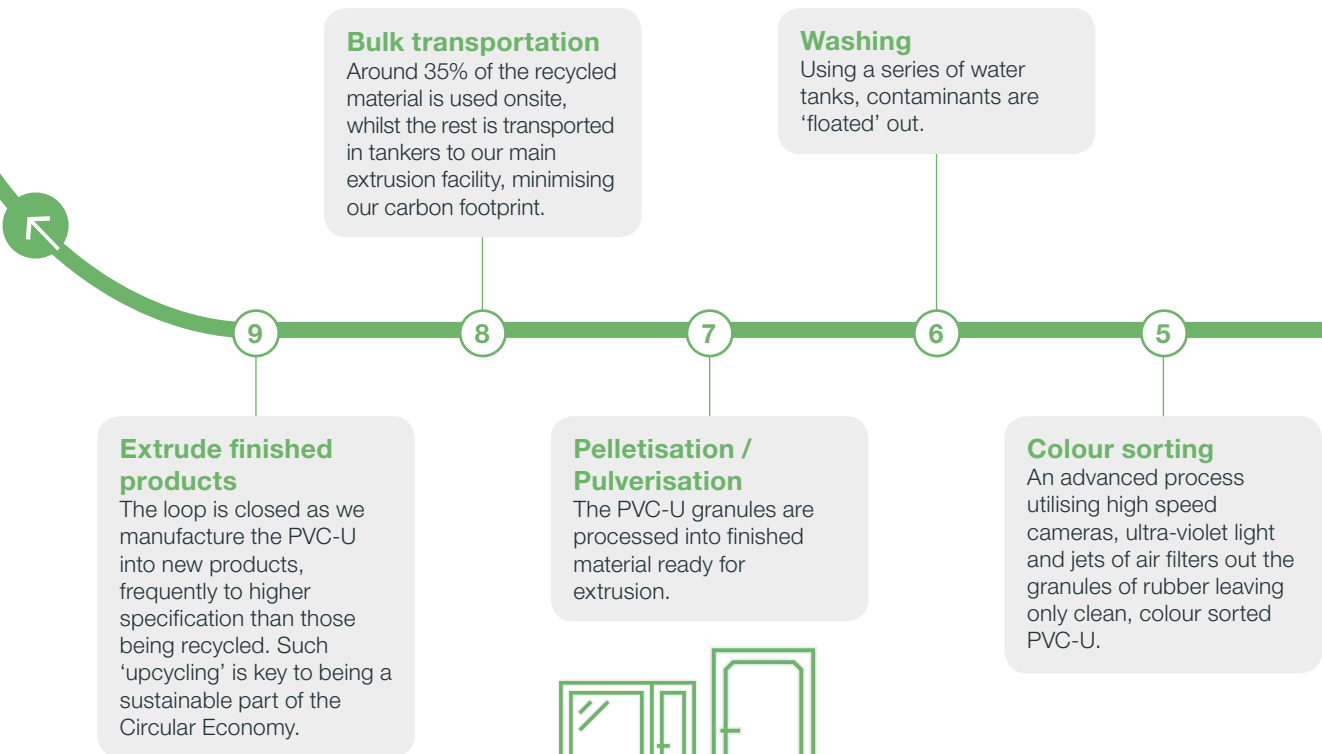


### Re-assessing PVC-U

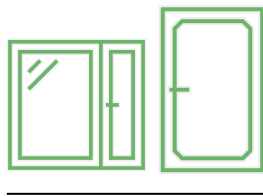
- The average PVC-U window can be recycled up to ten times (with a life cycle of up to 350 years) without any loss of quality.
- Recycled PVC-U can be harder wearing than virgin resin and the proportion of additives can be adjusted to ensure it keeps its strength.
- Eurocell Recycling Midlands recently celebrated its closed-loop recycling 11th anniversary.
- Recycling rates for PVC-U are high in comparison to timber.
- Whereas PVC-U can be reprocessed for high-value products or 'upstream' recycling, the fibres in recycled timber breakdown during the process meaning it can only be used for low-grade products or 'downstream' recycling.
- Timber use driven by consumption in Western Europe is also a major contributor to deforestation.
- Up to 50% of the timber windows removed from refurbishment projects in the UK end up as landfill.
- Timber frame manufacturers do not have comparable advanced pathways for returning and recycling old frames – the paint, stains and preservatives in treated wood make it more difficult to recycle and potentially harmful to the environment.
- Because plastic is an insulator PVC-U windows and doors are like-for-like more energy efficient than aluminium or timber.

# End-to-end sustainability

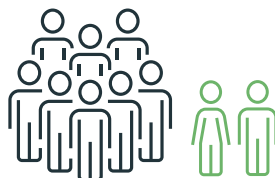
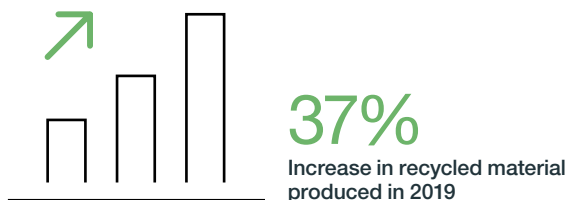
## Our Eurocell Recycle 9-step factory process



**+3 million**  
end-of-first life frames recycled in 2019



**9**  
Manufactured product ranges from recycled PVC-U – this continues to expand



**c.150**  
recycling jobs provided to people in the local area



### Granulation

The waste is granulated into uniform size. At this stage rubber gaskets are still present.

### Shredding

Waste is shredded into processable pieces.

### Separation

Using magnetic processes, metals are separated from the rest of the waste and recycled separately.

### Waste collection

Waste is taken from 3 sources:

- Post-consumer windows
- Fabricator off-cuts
- Bar length

## BENEFITS OF EUROCELL RECYCLING

### Sustainability

- The use of recycled material enhances product stability and lowers significantly the carbon footprint of our manufactured products.

### Reducing waste to landfill

- By recycling old windows ('post-consumer') we reduce the amount of waste sent to landfill.

### Protecting our margin

- The use of recycled material in the manufacture of PVC rigid products provides a substantial saving in cost compared to virgin resin compound. We also aim to increase our use of recycled material in order to maintain gross margin as our sales grow.

### Mitigating pricing pressures

- Increasing the use of recycled material in our manufactured products helps to mitigate raw material price increases and to reduce our exposure to volatile commodity prices.



# c.60,000

Windows recycled per week, on average, during 2019

# Investing in recycling technology

Recycling is at the heart of our operation. We have two recycling plants, which are located in Ilkeston (Eurocell Recycle Midlands, formerly known as ‘Merritt Plastics’) and Selby (Eurocell Recycle North, formerly known as ‘Ecoplas’). Ecoplas was acquired in August 2018. We have been investing heavily in both sites. What we do and the benefits of recycling are set out on the pages that follow.



“

*Our well-developed channels for recovery and recycling allow old frames to be recycled and reprocessed into new products up to ten times without any loss of quality.”*

### What we do

We recycle both customer factory offcuts (‘post-industrial’ waste) and old windows that have been replaced with new (‘post-consumer’ waste) to produce recycled material in the form of pellets, micronised and granulate material which are then used to generate brand new extruded products.

### How much do we recycle?

During 2019, our two sites recycled 31.4k tonnes (equivalent to over 3 million frames) of post-consumer waste, which would have otherwise been sent to landfill, and 9.9k tonnes of post-industrial waste. Together the two sites used this waste to produce approximately 25k tonnes of recycled material.

Of the recycled material produced, 13.4k tonnes (generated predominately from post-consumer waste) was used alongside virgin resin in the manufacture of many of our PVC rigid profiles.

We also used 6.7k tonnes of the recycled material produced (being almost exclusively derived from post-industrial waste) for use in products which are manufactured from 100% recycled material, including thermal inserts and cavity closer systems. A further 5.1k tonnes of the recycled material produced was sold to a range of trade extruders.

k tonnes <sup>1</sup>	2019	2018	Change	Change %
<b>Inputs – waste recycled</b>				
Post-consumer	31.4	22.8		
Post-industrial	9.9	7.6		
	41.3	30.4	10.9	36%
<b>Output – recycled material produced</b>				
	<b>24.9</b>	<b>18.2</b>	<b>6.7</b>	<b>37%</b>
<b>Usage</b>				
<b>Primary extrusion</b>				
	<b>13.4</b>	<b>9.5</b>	<b>3.9</b>	<b>41%</b>
Products made from 100% recycled material	6.7	5.6	1.1	20%
Sales to trade extruders	5.1	2.9	2.2	76%
	<b>25.2</b>	<b>18.0</b>	<b>7.2</b>	<b>40%</b>
<b>Primary extrusion usage as % of total consumption</b>				
	<b>23%</b>	<b>17%</b>		

<sup>1</sup> Data includes Eurocell Recycle North from acquisition in August 2018.

### Eurocell Recycle Midlands – Seeing the return on our investment

Between 2016 and 2018 we invested c.£3 million to expand our Eurocell Recycle Midlands site to more than double usage in primary extrusion from 4.1k tonnes of material consumption in 2015 to 9.5k tonnes in 2018, driving a substantial saving compared to the cost of using virgin material. We have invested a further c.£2 million in this site in 2019, to increase output and improve reliability (including new co-extrusion and other tooling to support the increased usage of recyclelate on key product lines).

### Eurocell Recycle North – Investing for a greener future

We acquired Eurocell Recycle North in August 2018 for a consideration of £6 million (including debt assumed) to enable us to:

- Meet our increasing demand for recycled material, driven by strong sales growth and a strategic objective to increase the amount of recycling that we do;
- Increase our presence in the recycling market; and
- Reduce our dependence on the Ilkeston site.

Output at acquisition was c.7k tonnes of recycled compound per annum, sold into a broad mix of trade extruders. As expected, investment was required to improve the operating environment and reliability of the plant, to eliminate bottlenecks from production processes and to expand capacity. Total investment post-acquisition stands at c.£3 million, including £2.5 million in 2019. Following these investments in the two sites, we increased total usage of recycled compound significantly in 2019. We expect internal demand for recycled material to increase as our sales grow and as we drive towards improving further the sustainability of our business. We intend to satisfy this demand largely through the further expansion of Eurocell Recycle North.

# One team driving world class sustainable solutions

## Our CSR focus

### PEOPLE

- Our people
- Performance and Development Review
- Health and safety
- Incentives and rewards
- Learning and development
- Apprenticeships
- Organisational design
- Equality and diversity

### ENVIRONMENT

- Greenhouse gas data
- Operation Clean Sweep
- Other initiatives

### CUSTOMERS

- Service levels
- Quality Policy Statement
- Sustainable and quality products

### SUPPLIERS

- Ethical and sustainable sourcing
- Modern slavery

### GOVERNMENT

- Taxation

### NON-FINANCIAL INFORMATION STATEMENT

### COMMUNITY

- Supporting our local community and charities

## People

### Our people

Our people are at the heart of our success. We believe that engaging all employees and galvanising their efforts in line with the Company's Vision and Values will set us on a successful path to achieving all our business objectives.

As we continue to develop as a Group, it is important that all our employees are provided with personal development opportunities, well aligned to business objectives. A strong match here is a vital component to achieving our overall targets.



### Performance and Development Review ('PDR')

We recognise that employee engagement (the energy and purpose our staff get from being immersed in their jobs), is key to the achievement of overall business targets. In 2019 we therefore designed a new performance management cycle and associated processes. This provides a forum for employees to discuss and agree their business aligned objectives and development needs with their manager.

Over the course of the year, we provided start-up training to over 300 managers, including our senior leaders. We developed our Human Resources Information System ('HRIS') to capture objectives, development needs, key activities, achievements and PDR reviews. In 2020, we will roll this out to the rest of the business.



## Health and safety

We employ over 1,800 people. The safety and the well-being of these employees and our contractors is our first operational priority.

	2019	2018
Injury frequency rate <sup>1</sup>	4.8	5.7
Lost time injury frequency rate <sup>2</sup>	0.9	0.9

<sup>1</sup> Injuries per 100,000 hours worked.

<sup>2</sup> Lost time accidents per 100,000 hours worked.

We made good progress with our two key health and safety performance measures in 2019. Our injury frequency rate fell from 5.7 to 4.8 and our lost time injury frequency rate was maintained at 0.9. These results reflect the hard work of the health and safety team and of our employees to reduce the risk of incidents in the workplace.

We recorded no major injuries in 2019 under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 ('RIDDOR'). The number of minor RIDDOR injuries reported in 2019 was 17, compared to 9 in 2018.

Our health and safety performance continues to benchmark well with industry standards.

## Incentives and rewards

We want to ensure that we attract the best people, either internally through our talent pipeline or from outside the business, that provide the right skills and knowledge that support the continued growth of our Company. It is therefore important that we continue to benchmark our remuneration packages to ensure that they remain competitive.

Every employee has access to a range of benefits that will support them both inside and outside of work. Our total reward strategy ensures that all employees are eligible for a range of incentives that include a defined contribution pension scheme, life insurance, Save as You Earn ('Sharesave') schemes and access to a range of savings and special offers through our Eurxtras platform. This platform also facilitates user-friendly communication with all employees, allowing the business to provide the latest news from across the organisation.

## Learning and development

We are committed to continuously improving the availability and quality of training and development for employees at all levels across the Group. Our focus in 2019 was to begin to use data to standardise the way we identify training needs and to improve the quality and range of compliance training, through both e-learning courses, online activities and face to face activity.

We replaced our e-learning course provider and catalogue to improve basic compliance training, with an offering that is both current and relevant to the broad range of activities undertaken at Eurocell. We now have well over 100 e-learning courses and a total of 306 different learning resources and downloadable activities developed in-house available through our learning management system ('LMS').

Our external partners continue to play an important part in the delivery of health and safety and compliance training. Delivery is face-to-face and we monitor the quality and completion of novice, conversion and refresher training in areas such as: fork lift driving and health and safety qualification programmes (e.g. First Aid at Work and fire warden training).

Within the Building Plastics division, we established a national technical and product training team. This enabled various face to face workshops and online activities, designed to keep those at the forefront of serving our customers up to date and to build their compliance and technical product knowledge and skills.

Furthermore, the introduction of a new internal Management Development Programme in 2019 was also well-received by our teams. We identified the most pressing people management challenges and launched in response three modules to address these needs.

Delivery of our various training courses may be face to face, either at HQ or at one of our training centres throughout the UK. We also run training on our in-house system for managers, face to face, on-line or via Skype.

In total across all of these activities, we had 3,037 registrations for face to face training last year.

## Apprenticeships

Eurocell is a recognised STEM ('Science, Technology, Engineering, Manufacturing') employer. We take our responsibility to help boost the UK industry's growth of existing and new talent seriously. Our focus on apprenticeships therefore continues to grow, with the current number of employees registered for a levy funded, approved apprenticeship programme growing from 15 in 2018 to 56 at the end of 2019.

In 2019, we had apprentices in technical, maintenance, operational, engineering, design, toolmaking, accountancy and customer services.

We have partnered with new approved training providers and have developed a bespoke programme for existing Trade Counter employees who wish to consolidate their experience and develop new knowledge and skills. Delivery of this Trade Supplier programme to a 34-strong cohort commenced in January 2020.

We will continue to develop apprenticeship opportunities for new and existing employees.

## Organisational design

We created and recruited two new senior roles in 2019: Chief Operating Officer and Head of Supply Chain. These roles necessitated organisational change and the re-alignment of structures to better serve operational delivery. Work will continue in 2020 to maximise the effectiveness of our organisation.

## Corporate Social Responsibility *continued*

### Equality and diversity

We aim to create an inclusive culture, with equality and diversity forming part of our Company Values.

We know that diversity is key to running a successful organisation and we aim to give every employee the opportunity to reach their full potential. Our Equal Opportunities Policy is at the heart of our recruitment processes and sets out our standards to achieve a diverse and inclusive workforce.

UK legislation sets out minimum standard that organisations must adhere to. However, we believe that the benefits of diversity require that we go well beyond this and seek to assist and provide adjustments that will help and support all our employees reach their full potential. In 2019 we also invested in a new recruitment platform, providing much improved application process.

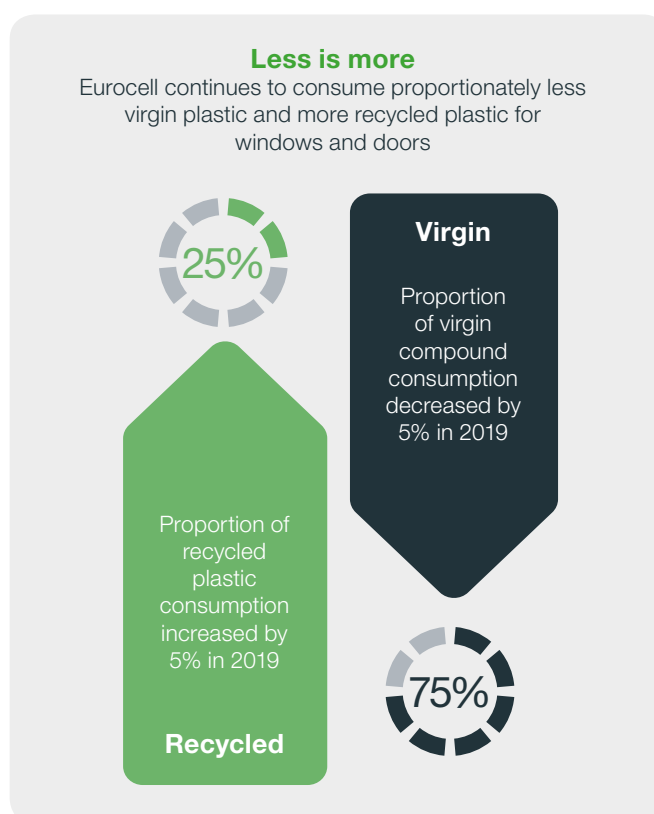
We recognise the benefits of encouraging diversity across the business and believe that this will contribute to our continued success. All appointments are made based on merit and are measured against specific objective criteria, including the skills and experience needed for the position. We remain committed to increasing the participation of women throughout the Group, including at Board level, within the Executive Committee and senior management.

Gender analysis	Male no.	%	Female no.	%	Total average no.
Directors	5	83	1	17	6
Executive Committee	5	100	–	–	5
Other senior management	21	70	9	30	30
<b>Senior management</b>	<b>31</b>	<b>76</b>	<b>10</b>	<b>24</b>	<b>41</b>
Other employees	1,601	88	213	12	1,814
<b>Total</b>	<b>1,632</b>	<b>88</b>	<b>223</b>	<b>12</b>	<b>1,855</b>

### Environment

We are committed to protecting and minimising our impact on the environment.

Recycling now sits at the very heart of our operations and we are proud to be the leading recycler of PVC windows in the UK, further details of which are shown on page 24.



More generally, we operate in compliance with all relevant environmental legislation and we strive to use pollution prevention and environmental best practice in all that we do. We recognise that our operations result in emissions and waste and we are committed to control, recover and reuse PVC waste wherever possible.

We promote the efficient use of all materials and resources throughout our facilities, particularly non-renewable resources, and continue our development of sustainably sourced products using recycled materials wherever possible.

Environmental concerns and impacts are a consideration in all of our decision making and activities. We promote environmental awareness amongst our employees and encourage them to work in an environmentally responsible manner. This is achieved through training and education, informing our employees about environmental issues that may affect their work.

Emergency response procedures are maintained where required by legislation or where significant health, safety or environmental hazards exist.

Our general environmental objectives are set in alignment with legislation and are continually reviewed to ensure they are being met. Our environmental policies apply to all our operations and we make sure sufficient resources are made available to ensure that they are implemented. We strive to continually improve our environmental performance and review our policies regularly in the light of planned future activities.

### Greenhouse gas data

We are reporting our greenhouse gas ('GHG') emissions as part of our Strategic Report and our GHG reporting period is 1 October 2018 to 30 September 2019, with comparatives for the corresponding period in the previous year. Reliable reporting of GHG emissions on a calendar year basis is not possible due to difficulties in collating actual data for the final months of the year due to timing lags on supplier invoicing.

GHG emissions for the Group for the period ending 30 September 2019 in tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e) as follows:

Source	2019	2018	Change
Fuel Combustion (stationary)	<b>335</b>	420	(20)%
Fuel Combustion (mobile)	<b>7,910</b>	6,417	23%
Facility operation	<b>91</b>	72	26%
Purchased electricity	<b>16,061</b>	16,007	0%
<b>Total</b>	<b>24,397</b>	22,916	6%

Total emissions increased by 6% compared to the corresponding 2018 period. Sales growth for the 2019 calendar year was 10% (or 8% excluding acquisitions). The main contributor was a 23% increase in transportation emissions from diesel and propane. This reflects the full year effect of the acquisition of Eurocell Recycling North (formerly known as Ecoplas) in August 2018 and the impact of organic sales growth.

This is set against a 20% fall in natural gas consumption which can partially be attributed to the 2019 period being approximately 7% warmer than 2018 and therefore requiring less gas-fired heating.

Electricity emissions remained static, despite the impact of sales growth and acquisitions during the reporting period (including the full year effect of Ecoplas). This is an excellent result and reflects our significant investments in the latest extrusion technology, as we have expanded production capacity over the last two years. This technology is considerably more efficient than older extrusion lines.

Annual comparison and emissions intensity:

tCO <sub>2</sub> e	2019	2018	Change
Total emissions	<b>24,397</b>	22,916	6%
Emission intensity <sup>1</sup>	<b>87</b>	90	(3%)

<sup>1</sup> Expressed in tCO<sub>2</sub>e per £m revenue.

### Methodology and emission factors:

These emissions were calculated using the methodology set out in the Environmental Reporting Guidelines (ref PB 13944), published by the Department for Environment, Food and Rural Affairs in June 2013. Emissions are taken from the Department for Business, Energy, Industrial Strategy emissions factor update published in 2018.

### Operation Clean Sweep



From 2018, we have been part of a campaign called 'Operation Clean Sweep', a global initiative to reduce plastic pellet loss to the environment. This is led by the British Plastics Federation in the UK with the aim of ensuring that the plastic pellets, flakes and powders that pass through UK manufacturing facilities don't end up in our rivers or seas.

By signing up to Operation Clean Sweep, Eurocell has committed to best practice and to implement systems that prevent plastic pellet loss — and that we will play our part in protecting the aquatic environment.

*"We're always looking to improve and Operation Clean Sweep gives us the opportunity to ensure the effectiveness of the systems we have in place for pellet storage and handling. Our goal is to achieve zero pellet loss and, while this may seem an ambitious target, we believe it is possible through containment and the implementation of good housekeeping practices."*

### Other initiatives

- Reducing electricity consumption (currently c.66% of emissions) by:
  - encouraging behavioural changes to be less wasteful;
  - reducing idle time/optimising temperatures on extrusion lines and chillers; and
  - investigating LED lighting.
- Increasing the use of recycled material in packaging by:
  - investigating the return of packaging materials to suppliers for re-use – i.e. a polythene closed loop; and
  - conducting an assessment to determine how much material can be collected from branches.
- Reducing the amount of packaging used by investigating the reclaim of packaging from customers.
- Reducing air pollution by encouraging the use of electric/hybrid vehicles.



## Corporate Social Responsibility *continued*

### Customers

#### Service levels

In terms of quality, our focus has been on implementing key principles of quality management and measuring systems. These are captured in our customer-focused **Quality Policy Statement** (see below), which captures the way we aspire to work at Eurocell.

#### Quality Policy Statement

##### Customers

To be trusted by our customers in everything we do. Working in partnership with them to ensure that they are able to differentiate their service and product offerings from their competitors. Easy to do business with and always responsive to their needs, in a consistent, timely, courteous and flexible manner.

##### Quality

Adherence to industry-leading specifications and ISO-based standards for Quality & Environmental Management and British Standards for Health and Safety. Ensuring that suppliers understand and work with us to meet our aspirations.

##### Constant improvement

Uniform standards across our business benchmarked against industry best practice, constantly reviewing and improving processes. Benchmarked leading industry best practice transferred across businesses and customers with a view to reducing waste and improving consistency. Always tracking and measuring through business and departmental KPIs reflecting the business objectives.

##### Everyone's responsibility

All departments are responsible for constantly reviewing, measuring, checking and improving the quality of their work and ensuring that the necessary training, facilities and tools are available to get the job done right first time through a culture of continuous improvement. All departments working together and supporting each other with no barriers and no silos.

### Sustainable and quality products

We adhere to industry-leading specifications and ISO-based standards for Quality & Environmental Management and British Standards for health and safety.

### Suppliers

#### Ethical and sustainable sourcing

We strive to develop and maintain supplier relationships which are ethical, sustainable and responsible, forming the basis of our commitment to responsible sourcing.

In particular, we ensure that all relevant raw material suppliers are compliant with the current Registration, Evaluation, Authorisation and Restriction of Chemicals Regulation (REACH) and continually monitor all of our supplier's quality management processes and controls as part of the set-up and approval process.

We have a loyal supplier base, of which over 70% have been suppliers to Eurocell for more than 3 years. All supply and tender agreements include the following statement:

*"The supplier advocates the principles of Corporate Social Responsibility and requires a serious approach to social-economic issues from its supply chain."*

In addition, all of our suppliers are required to confirm their commitment to the following principles:

- The obligation to the global and local environment;
- Respect for fundamental human entitlements;
- In purchasing activities, a commitment to improving the organisation's performance in relation to fairness to all;
- A system of internal and external reporting which matches espoused values;
- A proactive promotion of sustainable practices and products;
- Recognition that there is responsibility to add value to communities and societies upon which the organisation has influence; and
- An ethical approach to purchasing activities.

#### Modern slavery

We are absolutely committed to preventing slavery and human trafficking in our business activities, and to ensuring that our supply chains are free from these practices.

We aim to identify modern slavery risks and prevent slavery and human trafficking in all our operations. We continue to identify any potential risks in the top 80% of our suppliers and, in cases where medium or high risk is identified, further assessments are carried out which may result in the supplier not being used.

Our full Anti-Slavery and Human Trafficking Statement is published on our website at [investors.eurocell.co.uk](http://investors.eurocell.co.uk).

## Government Taxation

The Fair Tax Mark is an independent certification scheme, which recognises organisations that demonstrate they are paying the right amount of corporation tax in the right place, at the right time.

On 1 August 2019, we were certified as an accredited Fair Tax Mark business, following our successful assessment against the Fair Tax Mark criteria.

We recognise the responsibility we have to our stakeholders and communities to set the highest standards of corporate conduct, and paying the right amount of tax in the right place is fundamental to this. The ability to be able to measure ourselves against an independent benchmark, like the Fair Tax Mark, allows us to continually improve the quality of information that we provide to our investors, employees, suppliers and customers, and assists us in creating a fair and successful business environment.



**Fair Tax**

*“We’re delighted to have achieved the Fair Tax Mark certification, demonstrating our commitment to tax transparency.”*

*“Paying the right amount of tax is about fairness. Far too often tax is presented as a burden, rather than an essential component that helps glue our society together.”*

**Paul Monaghan, Fair Tax Mark**

## Non-financial Information Statement

This section of the Strategic Report constitutes our Non-financial Information Statement, produced to comply with sections 414CA and 414CB of the Companies Act. The information listed is incorporated by cross-reference.

Reporting Requirement	Policies and standards which govern our approach <sup>1</sup>	Information necessary to understand our business and its impact, policy, due diligence and outcomes.
<b>Environmental matters</b>	Corporate Vision and Values Corporate Social Responsibility Policy	Environment pp. 32-33 Investing in more recycling pp. 24-29
<b>Employees</b>	Corporate Vision and Values Corporate Social Responsibility Policy Employee Handbook	People pp. 30-32
<b>Respect for human rights</b>	Corporate Vision and Values Corporate Social Responsibility Policy Privacy Policy Recruitment Policy Anti-Slavery and Human Trafficking Policy Anti-Bullying and Harassment Policy Various information Security Policies Whistleblowing Policy	Equality and diversity p. 32 Modern slavery p. 34
<b>Social matters</b>	Corporate Social Responsibility Policy	Customers p. 34 Community pp. 36-37
<b>Anti-corruption and anti-bribery</b>	Corporate Social Responsibility Policy Anti-bribery policy	Whistleblowing and bribery p. 71
<b>Description of principal risks and impact of business activity</b>		Risk Management pp. 44-45 Principal risks and uncertainties pp. 46-49
<b>Description of the business model</b>		Overview p. 2-3 Our business model pp. 20-21
<b>Non-financial key performance indicators</b>		Operational Performance p. 17

<sup>1</sup> Certain Group Policies and internal standards as guidelines are not published externally.

The policies noted above form part of our policy framework which is founded on our risk management principles. The policies which underpin these principles define mandatory requirements in respect of risk management. Controls and processes are in place to ensure compliance.

## Community

### Supporting our local community and charities

Our manufacturing and recycling centres, and our branches, can have a significant impact on, and benefit from, the communities in which we operate. It is important that we provide support to communities local to our sites so we can enhance the quality of life in these communities.



### *Building relationships in our communities*

We donated materials to national charity 'Band of Builders' as they worked on providing a safe environment for Kyle, a Cystic Fibrosis sufferer.



*It is important that we provide support to communities local to our sites."*

**Mark Kelly**  
Chief Executive Officer





### *Supporting good causes*

We raised money for Save the Children by celebrating Christmas Jumper Day.



### *Supporting our community*

We donated a defibrillator to local youth football team Stonebroom F.C.

## Divisional Review

# Profiles

The Profiles division manufactures extruded rigid and foam PVC profiles.

We make rigid and foam products using virgin PVC compound, the largest component of which is resin. Our rigid products also include recycled PVC compound, produced at our market-leading recycling facilities.

Rigid PVC profiles are sold to third-party fabricators, who produce windows, trims, cavity closer systems, patio doors and conservatories for installers, retail outlets and house builders. Foam products are used for roofline and are supplied to customers through our nationwide branch network in the Building Plastics division.

As such, all of our manufacturing margin is recorded within the Profiles division, which therefore also benefits from expansion of the branch network.

The Profiles division also includes Vista Panels, S&S Plastics and Eurocell Recycle North (formerly 'Ecoplas').

Profiles	2019 £m	2018 £m	Change %
<b>Third-party Revenue</b>	<b>115.7</b>	107.7	7%
Organic	<b>110.8</b>	105.4	5%
Eurocell Recycle North <sup>1</sup>	<b>4.9</b>	2.3	113%
<b>Inter-segmental Revenue</b>	<b>59.5</b>	51.8	15%
<b>Total Revenue</b>	<b>175.2</b>	159.5	10%
<b>Operating Profit pre-IFRS 16</b>	<b>17.8</b>	17.8	–
<b>Operating Profit post-IFRS 16</b>	<b>17.9</b>		

1 Formerly Ecoplas, acquired August 2018.

### Revenue

Third-party revenue was up 7% in 2019 to £115.7 million (2018: £107.7 million), which includes a like-for-like sales increase of 5%. This growth includes the impact of selling price increases implemented to recover cost inflation. The remaining growth was driven by the full year effect of the acquisition of Eurocell Recycle North in August 2018.

Like-for-like sales growth reflects strong contributions from both existing and new accounts from across our fabricator base. It also includes a strong contribution from Vista Panels, where sales were up 20%, driven by higher sales of composite doors to new build. Across the Profiles division, new build represents approximately one-third of sales.

We have been pleased with recent market share gains and are now consolidating our position as the largest supplier of rigid profile to the UK market. Our specifications teams continue to be successful in generating demand, well supported by our ability to supply a comprehensive product range through the fabricator network. As well as windows, this includes composite doors, PVC and aluminium bi-fold doors, a cavity closure system and products to support off-site construction.

Following the introduction of c.40 new accounts in 2017/18, we have added selectively a small number of account wins in 2019 and our prospect pipeline remains very strong.

In terms of Eurocell Recycle North, as described above, we suffered some initial delays with our project to expand capacity, which led to a shortfall in external sales. However, the investment programme is now well advanced and performance is starting to meet expectations more consistently.

### Operating profit

Operating profit for 2019 on a pre-IFRS 16 basis was £17.8 million (2018: £17.8 million).

Gross margin percentage in Profiles was ahead of 2018. As noted above, we implemented selling price increases to recover cost inflation and increased the use of recycled material in our primary extrusion processes.

Higher overheads in Profiles includes the impact on direct labour from higher production volumes and the acquisition of Eurocell Recycle North, as well as wage and other inflation. It also includes additional warehousing and distribution costs as described in the Chief Executive's Review. As a result, return on sales percentage for 2019 was below 2018. However, we are implementing plans to improve further operating efficiency, particularly the expansion of our warehousing capacity.

## Manufactured products

### → PVC rigid products

Within the manufacture of PVC rigid profile, we look to include as much recycled content as possible. Our modus and Eurologik window systems contain approximately 44% of recycled material.



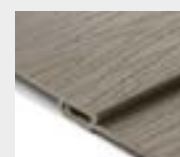
### → Foiled products

All of our manufactured window systems are available in over 30 different colour options, with lead times of just 7 days.



### → PVC foam products

We manufacture PVC foam profiles which are used for roofline, these are supplied to customers through the branch network.





# Building Plastics

Building Plastics distributes a range of Eurocell manufactured and branded PVC foam roofline products and Vista doors, as well as third-party manufactured ancillary products.

These include windows made by our fabricator customers using products manufactured by Profiles, sealants, tools and rainwater products.

Distribution is through our national network of 206 branches to installers, small and independent builders, house builders and nationwide maintenance companies. The branches also sell roofline products to independent wholesalers.

The Building Plastics division includes Security Hardware, Kent Building Plastics and Trimseal. Security Hardware is a supplier of locks and hardware, primarily to the RMI market, and Kent Building Plastics and Trimseal are both suppliers of building plastic materials.

	2019 £m	2018 £m	Change %
Building Plastics			
<b>Third-party Revenue</b>	<b>163.4</b>	146.0	12%
Organic	159.5	145.7	9%
Kent Building Plastics <sup>1</sup>	3.4	0.3	1,033%
Trimseal <sup>2</sup>	0.5	–	n/a
<b>Inter-segmental Revenue</b>	<b>1.3</b>	1.4	–
<b>Total Revenue</b>	<b>164.7</b>	147.4	12%
<b>Operating Profit pre-IFRS 16</b>	<b>8.4</b>	7.4	14%
<b>Operating Profit post-IFRS 16</b>	<b>8.6</b>		

<sup>1</sup> Acquired December 2018.

<sup>2</sup> Acquired March 2019.

## Revenue

Building Plastics third-party revenue was up 12% to £163.4m (2018: £146.0m), with growth comprising an increase in like-for-like sales of 8%, as well as the impact of branch openings and the acquisitions of Kent Building Plastics and Trimseal. This growth includes the impact of selling price increases implemented to recover cost inflation.

Like-for-like sales includes growth from branches opened in 2017 and prior, as the more recent sites from that vintage begin to mature. This growth also reflects the positive impact from better stock availability, particularly for manufactured products, and the management team driving improvements in operating standards.

In terms of new branches, there were 4 new sites in 2019 (including the acquisition of Trimseal), compared to 12 in 2018 (including the acquisition of Kent Building Plastics). We now have an estate of 206 branches providing national coverage across the UK, which offers a significant competitive advantage. Branches opened in 2018/19 (excluding the acquisitions) added £2.2 million to sales in 2019.

## Operating profit

Operating profit for 2019 on a pre-IFRS 16 basis was £8.4 million (2018: £7.4 million), an increase of 14%.

Gross margin percentage and operating profit in Building Plastics have improved compared to 2018. As noted above, we implemented selling price increases in 2019 to recover cost inflation. Other initiatives implemented to improve profitability include the introduction of a more rigid pricing architecture, revised sales and account management structures and better stock availability.

Higher overheads in Building Plastics includes the impact of new branches and acquisitions in 2018/19, as well as wage and other inflation. It also includes the additional warehousing and distribution costs described in the Chief Executive's Review.

We plan to open 4 new sites in 2020. New branches are a key driver of sales and profit growth in the medium-term, but they do create downward pressure on profitability in the short-term due to the investment in our teams at new sites and in supporting central infrastructure. However, our initiatives to reduce time to break-even have now driven this point below 24 months. We do not expect the 4 branches to be opened in 2020 to have a meaningful impact on profit for the year.

## Branch network

### No. of branches (at the end of the year)

2019	206
2018	202
2017	190

### Average revenue per branch (£000)

2019	718
2018	679
2017	674

### Indicative branch economics (rounded)

Branch open	< 2 years	2–4 years	> 4 years
No. of Branches <sup>1</sup>	11	50	140
Average Sales per Branch (£000)	300	500	850
Return on Sales per Branch (%) <sup>2</sup>	Small loss	Up to 10%	Mid-teen %

<sup>1</sup> Excluding Kent Building Plastics and Trimseal.

<sup>2</sup> EBITDA as % of revenue, before regional infrastructure and central costs, and IFRS 16 adjustments.



*We delivered robust financial results and progressed major investments in the growth and sustainability of our business*

**Michael Scott**  
Chief Financial Officer

### IFRS 16

We have adopted IFRS 16 Leases, with effect from 1 January 2019, which requires all qualifying operating leases to be brought onto the Statement of Financial Position. The impact on the Consolidated Income Statement was for overheads to reduce by £10.7 million (being the removal of lease rental charges), for depreciation to increase by £10.2 million (being the amortisation of right-of-use assets over the remaining lease term) and for interest to increase by £0.9 million (being the unwind of discounting of lease liabilities).

To provide better comparability, we have presented both the reported and pre-IFRS 16 financial information, and in explaining variances we have disclosed both the impact of the new standard and the underlying variance to 2018.

### Revenue

Revenue for 2019 was £279.1 million (2018: £253.7 million), which represents growth of 10%, or 8% excluding acquisitions. Like-for-like sales growth (i.e. excluding the impact of acquisitions and branches opened in 2018/19) was 7%.

Sales have been driven by good organic growth in Profiles (£5.4 million, or 5% for the division), strong like-for-like growth in the branch network (£11.6 million, or 8% for the division) and the positive impact from branches opened in 2018/19 (£2.2 million, or 2% for the division). Acquisitions added £6.2 million to sales in 2019.

### Gross margin

Overall, our gross margin increased by 170 bps from 49.5% in 2018 to 51.2% in 2019. This has been achieved through a combination of selling price increases, implemented to recover cost inflation, the increased use of recycled material and an improved manufacturing performance following the completion of our capex programme to expand extrusion capacity.

### Distribution costs and administrative expenses (overheads)

Excluding the impact of IFRS 16, overheads for the year were £111.2 million (2018: £95.3 million). The increase of c.£16 million includes c.£1 million as a result of new branches opened in 2018/19, c.£4 million from acquisitions and c.£3 million as a result of wage and other inflation (including the impact of higher prices for transport).

Of the remaining increase, we estimate c.£5 million is driven by volume, being the impact on direct labour and distribution of higher production and sales (both up 10%).

The balance of c.£3 million includes an increased bad debt charge and the extra warehousing and distribution costs described in the Chief Executive's Review.

### Depreciation and amortisation

Depreciation and amortisation for 2019 was £17.8 million. Excluding the impact of IFRS 16 (lease-related depreciation), depreciation and amortisation was £7.6 million (2018: £7.1 million).

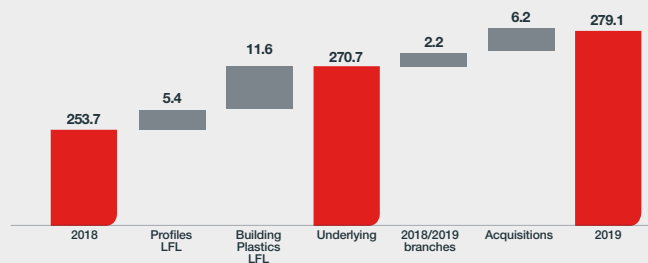
### Finance costs

Finance costs for 2019 were £1.9 million. Excluding the impact of IFRS 16, finance costs were £1.0 million (2018: £0.8 million), reflecting higher average net debt in 2019.

Group	2019 (Reported) £m	2019 (pre-IFRS 16) £m	2018 £m
<b>Revenue</b>	<b>279.1</b>	<b>279.1</b>	<b>253.7</b>
Gross profit	142.9	142.9	125.6
Gross margin %	51.2%	51.2%	49.5%
Overheads	(100.5)	(111.2)	(95.3)
<b>Adjusted<sup>1</sup> EBITDA</b>	<b>42.4</b>	<b>31.7</b>	<b>30.3</b>
Depreciation and amortisation	(17.8)	(7.6)	(7.1)
<b>Adjusted<sup>1</sup> operating profit</b>	<b>24.6</b>	<b>24.1</b>	<b>23.2</b>
Finance costs	(1.9)	(1.0)	(0.7)
<b>Adjusted<sup>1</sup> profit before tax</b>	<b>22.7</b>	<b>23.1</b>	<b>22.5</b>
Tax	(3.4)	(3.4)	(3.3)
<b>Adjusted<sup>1</sup> profit after tax</b>	<b>19.3</b>	<b>19.7</b>	<b>19.2</b>
<b>Adjusted<sup>1</sup> basic EPS (pence per share)</b>	<b>19.3</b>	<b>19.7</b>	<b>19.1</b>
Non-underlying items	–	–	0.4
<b>Reported profit before tax</b>	<b>22.7</b>	<b>23.1</b>	<b>22.1</b>
<b>Reported profit after tax</b>	<b>19.3</b>	<b>19.7</b>	<b>19.6</b>
<b>Reported basic EPS (pence per share)</b>	<b>19.3</b>	<b>19.7</b>	<b>19.6</b>

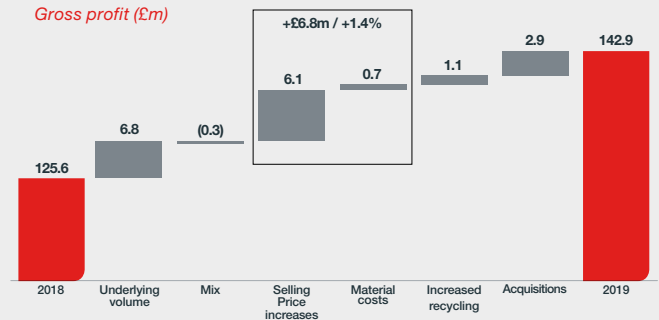
<sup>1</sup> See adjusted profit measures.

### Revenue (£m)

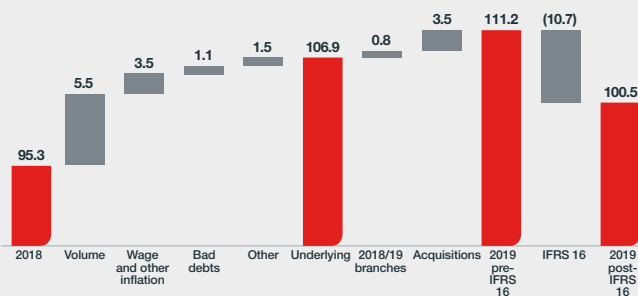


<sup>1</sup> Like-for-like sales up 7%.

### Gross profit (£m)

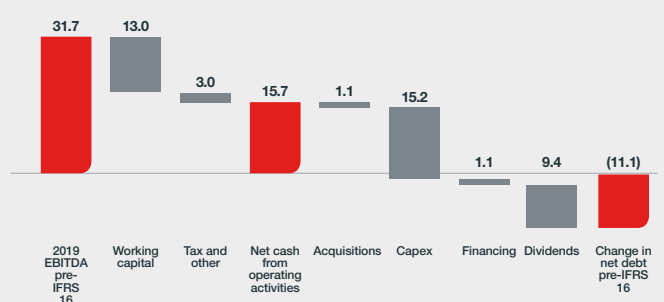


### Overheads<sup>2</sup> (£m)



<sup>1</sup> Like-for-like overheads up 12%.  
<sup>2</sup> Distribution costs and administration expenses.

### Cashflow (£m)



## Group Financial Review *continued*

### Adjusted profit measures

EBITDA represents profit before interest, tax, depreciation and amortisation. Adjusted EBITDA, adjusted operating profit and adjusted profit before tax all exclude non-underlying items (see below), of which there were none in 2019.

Adjusted profit after tax and adjusted earnings per share exclude non-underlying expenses, the related tax effect and any other non-underlying tax items.

We classify some material items of income and expense as non-underlying when the nature and infrequency merit separate presentation. Alongside statutory measures, this facilitates a better understanding of financial performance and comparison with prior periods.

### Non-underlying items

There are no non-underlying items in 2019.

Non-underlying expenses in 2018 of £0.4 million included professional fees related to the acquisitions of Eurocell Recycle North and Kent Building Plastics, as well as unamortised arrangement fees from our previous bank facility expensed following the refinancing in December 2018. Non-underlying tax for 2018 includes the tax associated with non-underlying expenses and the benefit of a second Patent Box claim in the period (£0.8m). Patent Box is an HMRC approved scheme, allowing a 10% tax rate on profits derived from products that incorporate patents. The second claim in 2018 was presented as non-underlying because we would typically expect to make only one claim in each financial year.

### Profit before tax

Reported profit before tax was £22.7 million. Excluding the impact of IFRS 16, profit before tax was £23.1 million (2018: £22.1 million).

### Tax

The effective tax rate on both reported and adjusted profit before tax for 2019 of 14.7% is consistent with the adjusted rate for 2018, and is lower than the standard corporation tax rate for the year due to the benefit of one Patent Box claim recognised in the year.

The effective tax rate on reported profit before tax in 2018 was 11.3% due to the recognition of a second Patent Box claim in the year.

During the year we were pleased to receive the Fair Tax Mark accreditation, reflecting our commitment to paying the right amount of tax at the right time (see page 35).

### Earnings per share

Taking into account all of the factors described above, earnings per share were as follows:

	2019 (Reported) pence	2019 (pre-IFRS 16) pence	2018 pence
Basic earnings per share	19.3	19.7	19.6
Adjusted basic earnings per share	19.3	19.7	19.1
Diluted earnings per share	19.2	19.6	19.5
Adjusted diluted earnings per share	19.2	19.6	19.1

### Acquisitions

We acquired Trimseal, a distributor of building plastic materials, on 6 March 2019 for a total net consideration of £0.4 million. Payments of deferred consideration of £0.7 million were made in respect of the acquisitions of S&S Plastics, Security Hardware and Kent Building Plastics.

### Dividends

We paid an interim dividend of 3.2 pence per share in October 2019. The Board proposes a final dividend of 6.4 pence per share, resulting in total dividends for the year of 9.6 pence per share (2018: 9.3 pence per share). This represents an increase of 3%. The dividend will be paid on 20 May 2020 to Shareholders registered at the close of business on 24 April 2020. The ex-dividend date will be 23 April 2020.

Retained earnings as at 31 December 2019 were £67.1 million (2018: £57.2 million). The Company takes steps to ensure distributable reserves are maintained at an appropriate level through intra-Group dividend flows.

### Capital expenditure

Capital expenditure for 2019 was £15.2 million (2018: £8.7 million).

We incurred capital expenditure of £4.8 million in 2019 to expand production capacity and improve manufacturing efficiency in our primary extrusion facilities, including an additional 7 extrusion lines. We also invested £5.7 million to expand capacity and improve the operating environment at our two recycling plants and in the associated co-extrusion tooling. Other capex of £4.7 million includes new branches, as well as a general maintenance capex, branch refurbishments and various IT-related costs.

### Cash flow

Net cash generated from operating activities was £26.4 million. Excluding the impact of the reclassification of lease payments to financing activities, net cash generated from operating activities was £15.7 million, compared to £17.7 million in 2018.

This includes a net outflow from working capital for 2019 of £13.0 million, comprising an increase in stocks of £9.0 million, an increase in trade and other receivables of £1.7 million and a decrease in trade and other payables of £2.3 million. This compares to a net outflow from working capital of £8.3 million in 2018.

Net cash generated from operating activities is also stated after tax paid in the year of £2.6 million (2018: £4.0 million), which is net of the cash received from two Patent Box claims, one of which was submitted (and the benefit recognised) in 2018.

The higher stock in 2019 reflects good growth, as well as the impact of our Brexit-related stock build. We have also improved stock availability in our branches, which was an important driver of strong like-for-like sales growth in the year.

Debtor days were 37 at year end, compared to 38 at the end of 2018. Lower payables reflect shorter payment terms for resin and post-consumer waste for the recycling operations, as well as an improvement in payables processes.

Other payments include acquisitions (including net debt acquired) of £0.4 million (2018: £8.3 million), deferred consideration of £0.7 million and capital investment of £15.2 million (2018: £8.7 million). Dividends paid represent the final dividend for 2018 of 6.2 pence per share (or £6.2 million) and the interim dividend for 2019 of 3.2 pence per share (or £3.2 million).

Finally, following the adoption of IFRS 16 Leases, we have recognised the discounted value of future lease liabilities within net debt with effect from 1 January 2019. As a result, net debt at 31 December 2019 increased by £34.1 million. The finance and principal elements of lease payments of £10.7 million are presented within cash flows arising from financing activities.

Taking all of these factors into account, net debt increased by £45.2 million during the year to £68.7 million at 31 December 2019. Excluding the impact of IFRS 16, underlying net debt increased by £11.1 million to £34.6 million (31 December 2018: £23.5 million).

## Net debt

	2019 £m	2018 £m	Change £m
Cash	4.9	5.9	(1.0)
Lease liabilities	(34.1)	–	(34.1)
Borrowings	(39.5)	(29.4)	(10.1)
<b>Net debt</b>	<b>(68.7)</b>	<b>(23.5)</b>	<b>(45.2)</b>

## New warehouse

The project to expand our warehousing capacity is described in the Chief Executive's Officer's Report. In fitting out the new warehouse we expect to incur capital expenditure of c.£8 million, all in 2020. This includes c.£3 million for racking, c.£3 million for picking equipment and c.£2 million for systems and project management.

Net operating costs for the new site in 2020 will be c.£2.5 million, comprising primarily rent, rates, depreciation and interest. We expect c.£1.5 million of these costs to be classified as non-underlying, as they will be incurred prior to the warehouse becoming operational. From 2021 onwards, the net operating cost for the new site will be c.£1 million per annum, inclusive of labour and other savings arising from more efficient picking and transport operations. From 2021 we expect this net cost will be more than offset by the impact of sales growth and operating efficiencies that are unlocked through this investment.

## Bank facility

We have an unsecured, multi-currency revolving credit facility ('RCF'), provided by Barclays Bank plc and HSBC UK Bank plc. The facility was increased by £15 million up to £75 million in March 2020, in order to provide additional flexibility and options for the future. There were no changes to pricing or key items as a result of the uplift. However, we were very pleased to convert the facility into a Sustainable RCF, where modest adjustments to the margin will be applied based on our achievement against annual recycling targets.

We operate comfortably within the terms of the facility and related covenants, which are based upon accounting standards in effect at 8 December 2018 and are therefore not impacted by IFRS 16. The facility matures in 2023.

## Michael Scott

Chief Financial Officer

## Principal Risks and Uncertainties

# Risk Management

Risk management is the responsibility of the Board and is a key factor in delivering the Group's strategic objectives.

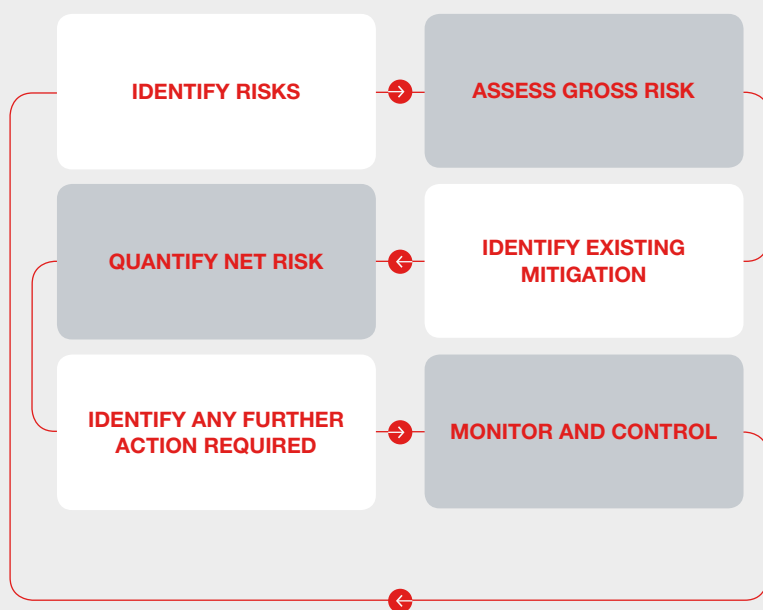
### Approach to Risk Management

The Board is responsible for setting the risk appetite, establishing a culture of effective risk management and for ensuring that effective systems and controls are in place and maintained.

Senior managers take ownership of specific risks and implement policies and procedures to mitigate exposure to those risks.

### Risk Management Process

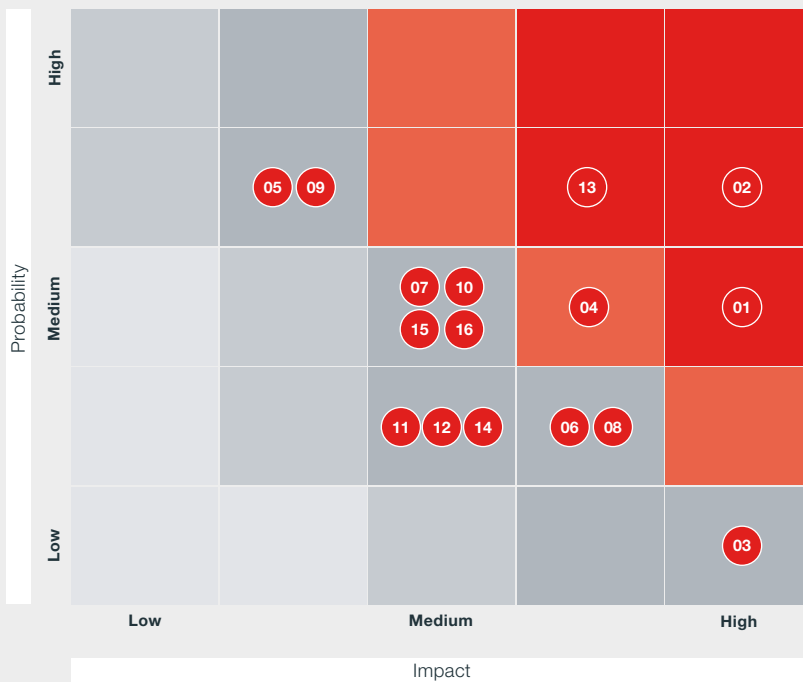
The risk management process sits alongside our strong governance culture and effective internal controls to provide assurance to the Board that risks are being appropriately identified and managed.



### How we manage risk

Risk is managed across the Group in the following ways:

- The Board meets annually to review strategy and set the risk appetite.
- Risks faced by the Group are identified during the formulation of the annual business plan and budget process, which sets objectives and agrees initiatives to achieve the Group's goals, taking account of the risk appetite set by the Board.
- Senior management and risk owners consider the root cause of each risk and assess the impact and likelihood of it materialising. The analysis is documented in a risk register, which identifies the level of severity and probability, ownership and mitigation measures, as well as any proposed further actions (and timescale for completion) for each significant risk.
- The Group has an executive Risk Management Committee, chaired by the Chief Financial Officer. This Committee meets on a regular basis (generally quarterly). The status of the most significant risks and mitigations are reviewed at each meeting, with other risks reviewed on a cyclical basis.
- The Executive Directors also meet with senior managers on a regular basis throughout the year. This allows the Executive Directors to ensure that they maintain visibility over the material aspects of strategic, financial and other risks.
- The Group's Executive Directors also compile their own risk assessment, ensuring that a top-down, bottom-up approach is undertaken when considering the Group-wide environment.
- The Group's Audit and Risk Committee assists the Board in assessing and monitoring risk management across the Group. The role of the Committee includes ensuring the timely identification and robust management of inherent and emerging risks, by reviewing the suitability and effectiveness of risk management processes and controls. The Committee also reviews the risk register to ensure net risk and proposed further actions are together consistent with the risk appetite set by the Board.



### Principal risks

- |   |   |
|---|---|
| 01 Macroeconomic conditions   | 09 Shortages or increased costs of appropriately skilled labour     |
| 02 Brexit   | 10 Customer credit risk   |
| 03 Raw material supply  | 11 Competitor activity  |
| 04 Raw material prices  | 12 Corporate and regulatory risks                                   |
| 05 Manufacturing capacity constraints   | 13 Cyber security   |
| 06 Unplanned plant downtime   | 14 Failure to develop new products                                  |
| 07 Unsuccessful branch network expansion                                      | 15 Failure to identify, complete and integrate bolt-on acquisitions |
| 08 Ability to attract and retain key personnel and highly skilled individuals | 16 Coronavirus  |

### Internal control

The Group has well-defined systems of internal control.

The Group has a robust process of financial planning and monitoring, which incorporates Board approval of operating and capital expenditure budgets. Performance against the budget is subsequently monitored and reported to the Board on a monthly basis. The Board also monitors overall performance against operating, safety and other targets set at the start of the year. Performance is reported formally to shareholders through the publication of results both annually and half-yearly. Operational management regularly reports on performance to the Executive Directors.

The Group also has processes in place for ensuring business continuity and emergency planning.

Day-to-day operations are supported by a clear schedule of authority limits that define processes and procedures for approving material decisions. This ensures that projects and transactions are approved at the appropriate level of management, with the largest and most complex projects being approved by the Board. The schedule of authority limits is reviewed on a regular basis so that it matches the needs of the business.





In order to further enhance the internal control and risk management processes, KPMG provides an outsourced internal audit service to the Group. KPMG work closely with the Risk Management Committee in delivering the Group's internal audit programme.

With the assistance of the Audit and Risk Committee, the Board has reviewed the effectiveness of the system of internal control. Following its review, the Board determined that it was not aware of any significant deficiency or material weakness in the system of internal control.

## Principal Risks and Uncertainties *continued*

### Risk profile

The principal risks monitored by the Board are as follows:

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
<p><b>MACROECONOMIC CONDITIONS</b></p> <p>Our products are used in the residential and commercial building and construction markets, both within the RMI sector, for new residential housing developments and for new construction projects.</p> <p>Our private RMI business is strongly correlated to the level of household disposable incomes. Our new-build business is particularly influenced by the level of activity in the house-building industry.</p> <p>As such, our business and ability to fund ongoing operations is dependent on the level of activity and market demand in these sectors, itself often a function of general economic conditions (including interest rates and inflation) in the UK.</p> <p>Government economic and social policy can also have a significant impact on our business.</p>		<ul style="list-style-type: none"> <li>Notwithstanding macro conditions, we expect our strategic priorities and self-help initiatives to support sales and market share growth.</li> <li>Initiatives include: growing market share, investment in our specifications team (targeting new-build, commercial and public sector work), expanding the branch network and increasing recycling.</li> <li>We operate comfortably within the terms of our bank facility and related financial covenants.</li> <li>Reducing the pace of branch network expansion should improve short-term profit and cash flows.</li> </ul>	<ul style="list-style-type: none"> <li>Political and economic uncertainty as a result of Brexit is slightly reduced.</li> <li>Construction output and general RMI market contracted in 2019. CPA now forecast a broadly flat market for 2020.</li> <li>New home registrations reduced in 2019 but modest growth is expected in 2020.</li> <li>UK base rate remains unchanged since 2018.</li> <li>Some expectation of a post-election recovery.</li> </ul>	
<p><b>BREXIT</b></p> <p>Although the UK has agreed withdrawal terms with the EU, there remains significant uncertainty over the nature of future trading arrangements.</p> <p>The UK leaving the EU without agreeing a Trade Deal remains a realistic scenario, and such an outcome could lead to delays and disruption at the UK borders.</p> <p>Almost all of our sales are to UK-based businesses. However, some of our key raw materials originate in Europe, so any disruption in supplies could impact on our ability to manufacture our products and meet customer demand.</p>		<p>Actions taken include:</p> <ul style="list-style-type: none"> <li>Some suppliers for other raw materials have agreed to hold extra stocks (very limited capacity at our manufacturing sites).</li> <li>Finished goods stock build executed for key lines where possible.</li> <li>Selective credit insurance now in place.</li> </ul>	<ul style="list-style-type: none"> <li>Withdrawal agreement with the EU now in place.</li> <li>New Government has a clear mandate to agree a Trade Deal with the EU.</li> </ul>	
<p><b>CYBER SECURITY</b></p> <p>A breach of IT security (externally or internally) could result in an inability to operate systems effectively (e.g. viruses) or the release of inappropriate information (e.g. hackers).</p>		<ul style="list-style-type: none"> <li>Physical security of servers at third-party off-site data centre, with full disaster recovery capability.</li> <li>Password and safe-use policies in place, internet usage monitored and anti-malware used.</li> <li>External cyber review and internal audit reviews conducted in 2019, resulting in significant enhancements in defence.</li> <li>Cyber awareness/IT security campaign active for all employees.</li> <li>Financial crime protection and cyber liability insurance in place.</li> </ul>	<ul style="list-style-type: none"> <li>This remains a high-profile area and is receiving considerable management focus.</li> </ul>	
<p><b>RAW MATERIAL PRICES</b></p> <p>Our manufacturing operations depend on the supply of PVC resin, a material derivative of ethylene which in turn is a derivative of crude oil.</p> <p>The price of PVC resin can therefore be subject to fluctuations based on the markets for crude oil and ethylene, as well as the market for resin itself.</p> <p>In addition, although we pay for resin in sterling, crude oil and ethylene are priced in US dollars and euros respectively. As such, the price of resin in sterling is also impacted by international currency markets.</p> <p>Our ability to pass on resin and other raw material or traded goods price increases to our customers will depend on market conditions at the time.</p>		<ul style="list-style-type: none"> <li>Where possible we pass through raw material or traded goods price increases to our customers.</li> <li>Increasing the use of recycled material in our manufacturing partially mitigates exposure to resin prices.</li> <li>We consider fixed price supply arrangements with suppliers where it is economic to do so.</li> <li>Use of more than one supplier to provide competitive pricing for many raw materials and traded goods.</li> </ul>	<ul style="list-style-type: none"> <li>Raw material prices continued to fluctuate in 2019, largely as a result of currency changes and the impact of other uncertainties surrounding Brexit.</li> <li>We have elected not to enter into a fixed price contract for PVC resin in 2020 as the premium required by suppliers was prohibitive.</li> </ul>	



**Movement key:****Strategic Priorities key:**

Target growth in market share



Develop innovative new products



Explore potential bolt-on acquisition opportunities













Expand our branch network



Increase the use of recycled materials

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
<p><b>OPERATING CAPACITY CONSTRAINTS</b></p> <p>A requirement to run manufacturing facilities at high levels of utilisation in peak periods (e.g. to meet customer demand) can drive down Overall Equipment Effectiveness ('OEE') and result in other operational inefficiencies.</p> <p>Attempting to satisfy unexpectedly high demand without the requisite infrastructure in place may lead to a failure of people, systems and processes to perform.</p> <p>Together these factors can result in adverse financial consequences.</p>		<ul style="list-style-type: none"> <li>Co-extrusion and foam capacity increased by 30% and 15% respectively in 2019 to resolve manufacturing capacity constraint.</li> <li>Recruitment of additional trained labour in our foiling plant for 2019 to resolve manufacturing capacity constraint.</li> <li>Strengthened management team in critical areas of Chief Operating Officer, production planning and logistics.</li> </ul>	<ul style="list-style-type: none"> <li>Warehousing capacity identified as the key remaining constraint to efficient operations and future growth.</li> <li>New warehouse facility secured for 2020.</li> <li>Risks associated with project to transition. Plan to be operational with new warehouse in Q4.</li> </ul>	▲
<p><b>UNPLANNED PLANT DOWNTIME</b></p> <p>The business is dependent on the continued and uninterrupted performance of our production facilities.</p> <p>Each of the facilities is subject to operating risks, such as: industrial accidents (including fire); extended power outages; withdrawal of permits and licences (e.g. the regulated operation of the recycling facility); breakdowns in machinery; equipment or information systems; prolonged maintenance activity; strikes; natural disasters; and other unforeseen events.</p>	 	<ul style="list-style-type: none"> <li>Regular planned maintenance to reduce the risk of plant failure.</li> <li>Maintenance capital investment of approximately £5 million per annum across the Group.</li> <li>Extrusion facilities spread over 3 manufacturing sites.</li> <li>Group-wide disaster recovery plans in place.</li> <li>Acquisition of Ecoplas has increased our recycling capacity and reduced our reliance on a single recycling plant.</li> </ul>	<ul style="list-style-type: none"> <li>No material change</li> </ul>	◀▶
<p><b>RAW MATERIAL SUPPLY</b></p> <p>There are only a limited number of PVC resin and certain other raw material suppliers and we operate with limited material storage capacity.</p> <p>As described above (see Brexit risk), failure to receive raw materials on a timely basis could impact on our ability to manufacture products and meet customer demand.</p>	 	<ul style="list-style-type: none"> <li>Raw material tests to identify potential alternative suppliers.</li> <li>Spot market for resin often available to access.</li> <li>Contractual arrangements for certain key suppliers include liquidated damages for failure to supply.</li> <li>Regular reviews to test financial stability of key suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>Brexit related supply risks decreasing as described above.</li> <li>Potential remains for increased resin supply originating from the US to come on line and deliver into Europe.</li> </ul>	◀▶
<p><b>UNSUCCESSFUL BRANCH NETWORK EXPANSION</b></p> <p>We have invested significantly to expand the branch network over the last 3 years.</p> <p>The network, including new branches, may fail to reach the required scale and profitability within an acceptable timeframe.</p> <p>Looking further forward, good new sites may become more difficult to find.</p>	 	<p>New Building Plastics' management team progressing initiatives to improve profitability:</p> <ul style="list-style-type: none"> <li>More rigid pricing architecture.</li> <li>Revised field sales and account management structure.</li> <li>Drive to better stock availability and trials of new front-of-house and product displays.</li> <li>Enhanced training to ensure all staff have the ability to sell the full range of products.</li> <li>Profit improvement plan template for lowest performing branches.</li> <li>Improved new site selection using location analysis tools.</li> </ul>	<ul style="list-style-type: none"> <li>Pace of expansion slowed in 2018-20 to allow focus on consolidating existing estate.</li> </ul>	◀▶
<p><b>ABILITY TO ATTRACT AND RETAIN KEY PERSONNEL AND HIGHLY SKILLED INDIVIDUALS</b></p> <p>Our success depends inter alia, on the efforts and abilities of certain key personnel and our ability to attract and retain such people.</p> <p>The senior team have significant experience in the relevant sectors and markets and are expected to make an important contribution to our growth and success.</p>	 	<ul style="list-style-type: none"> <li>Clear strategic direction provides an attractive backdrop to working at Eurocell.</li> <li>Market rate compensation for all personnel, including leadership team.</li> <li>Equity-based long-term incentive plans in place for senior team.</li> </ul>	<ul style="list-style-type: none"> <li>Continued focus on improving employee engagement and communication (e.g. new Group-wide Vision and Values launched in 2018.)</li> </ul>	◀▶

## Principal Risks and Uncertainties *continued*

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
<p><b>SHORTAGES OR INCREASED COSTS OF APPROPRIATELY SKILLED LABOUR</b></p> <p>We are subject to supply risks related to the availability and cost of labour, both in our manufacturing operations and in our branch business. Our headquarters are located in an area of generally full employment.</p> <p>We may also experience labour cost increases (including those related to the Minimum Wage) or disruptions in circumstances where we have to compete for employees with the necessary skills and experience in tight labour markets.</p>		<ul style="list-style-type: none"> <li>• Market level or better salaries and good benefits package.</li> <li>• Induction and training programme.</li> <li>• Annual SAYE share-save scheme available to all personnel.</li> <li>• Progressing strategy to improve retention and recruitment, leadership and development, employee engagement and communication.</li> </ul>	<ul style="list-style-type: none"> <li>• Fourth SAYE scheme planned for 2020.</li> </ul>	
<p><b>CUSTOMER CREDIT RISK</b></p> <p>There is an inherent risk that default by a large customer could result in a material bad debt.</p>		<ul style="list-style-type: none"> <li>• In-depth credit review for new and ongoing customer accounts.</li> <li>• Experienced Credit Manager (over 15 years with the Group) and strong credit control team.</li> <li>• Credit insurance implemented for large Profiles accounts.</li> </ul>	<ul style="list-style-type: none"> <li>• Increased economic uncertainty and falling consumer confidence may lead to more business failures.</li> <li>• No individually material bad debts in 2019, but some extension of credit terms and overdues on large accounts. Inherent risk remains.</li> </ul>	
<p><b>COMPETITOR ACTIVITY</b></p> <p>We have a number of existing competitors who compete on range, price, quality and service. Increased competition could reduce volumes and margins on manufactured and traded products.</p>		<ul style="list-style-type: none"> <li>• Strong market and customer awareness, with good intelligence around competitor activity.</li> <li>• Focus on customer proposition and points of differentiation in product and service offering.</li> </ul>	<ul style="list-style-type: none"> <li>• We continued to gain market share in both divisions in 2019.</li> <li>• The more uncertain market environment may have weakened some of our competitors.</li> </ul>	
<p><b>CORPORATE AND REGULATORY RISKS</b></p> <p>We may be adversely affected by the crystallisation of unexpected corporate or regulatory risks. These could include health and safety, data, reputational and environmental risks (including regulations related to our recycling operations), or other legal, taxation and compliance matters.</p>		<ul style="list-style-type: none"> <li>• We have procedures and policies in place to support compliance with regulations.</li> <li>• Regular communication and training on policy compliance.</li> <li>• Monitoring procedures in place, including near miss and potential hazard reporting for health and safety matters.</li> <li>• Internal and third-party site audits to test compliance with our policies.</li> </ul>	<p>Recent developments widen the scope and increase the penalty regime for breaches in these areas. For example:</p> <ul style="list-style-type: none"> <li>• Corporate Criminal Offence of Failure to Prevent the Facilitation of Tax Evasion ('CCO') legislation came into force on 30 September 2017.</li> <li>• General Data Protection Regulations ('GDPR') came into effect in May 2018.</li> </ul>	
<p><b>FAILURE TO DEVELOP NEW PRODUCTS</b></p> <p>Failure to innovate could reduce our growth potential or render existing products obsolete.</p> <p>The launch of new products and new variants of existing products is an inherently uncertain process. We cannot guarantee that we will continuously develop successful new products or new variants of existing products.</p> <p>Nor can we predict how customers and end-users will react to new products or how successful our competitors will be in developing products which are more attractive than ours.</p>		<ul style="list-style-type: none"> <li>• We invest continuously in research and development through our in-house team.</li> <li>• The team is highly focused on new ways to develop existing products and to be innovative with new ones.</li> <li>• We have a strong product pipeline with more than 25 projects in development.</li> </ul>	<ul style="list-style-type: none"> <li>• Recent successes include: Coastline (a lightweight composite cladding for use on coastal properties), and extensions to the Modus and Skypod ranges.</li> </ul>	

**Movement key:**

Increase



No change



Decrease

**Strategic Priorities key:**

Target growth in market share



Develop innovative new products



Explore potential bolt-on acquisition opportunities



Expand our branch network



Increase the use of recycled materials

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
<p><b>FAILURE TO IDENTIFY, COMPLETE AND INTEGRATE BOLT-ON ACQUISITIONS</b></p> <p>Exploring potential bolt-on acquisitions is one of our strategic priorities.</p> <p>We may not be able to identify appropriate bolt-on acquisitions.</p> <p>Any future acquisition we do make poses integration and other risks which may affect our results or operations.</p> <p>The acquisition and integration of companies is a complex, costly and time-consuming process involving a number of possible risks. These include diversion of management attention, failure to retain personnel, failure to maintain customer service levels, disruption to relationships with various third parties, system risks and unanticipated liabilities.</p>	 	<ul style="list-style-type: none"> <li>Public communication of bolt-on acquisitions being a strategic priority.</li> <li>Good knowledge of companies operating in our sector and related sectors.</li> <li>Ecoplas and Kent Building Plastics acquired in 2018 and Trimseal in 2019.</li> <li>Tried and tested procedure for the integration of new acquisitions and a good track record of recent success.</li> </ul>	<ul style="list-style-type: none"> <li>Some delays with project to expand Ecoplas. Performance is now improving, but significant value at stake until acceptable plant reliability achieved.</li> </ul>	▲
<p><b>CORONAVIRUS</b></p> <p>A significant proportion of window and door hardware is sourced in China. We may be adversely affected by a disruption to the hardware supply chain which impacts our business (Vista Panels and Security Hardware) or that of our window fabricator customers.</p> <p>We may also be impacted if the virus results in the unavailability of our workforce or has a significant impact on the macro economic environment.</p>	 	<ul style="list-style-type: none"> <li>We placed extra orders for window and door hardware in January 2020.</li> </ul>	<ul style="list-style-type: none"> <li>New risk in 2020</li> </ul>	▲

## Viability Statement

As required by section 4 of the Code, the Directors have taken into account forecasts to assess the future funding requirements of the Group, and compared them with the level of committed available borrowing facilities.

A period of 3 years has been adopted as this is the timeframe used by the Board as our strategic and planning horizon. The assessment of viability has been made with reference to the Group's current position and future prospects, our strategy, management of risk, and also the Board's assessment of the outlook in the marketplace.

The Board considers its strategy and risks on strategy away-days, and revisits these annually when considering the next year's budget. The 3-year plan considers revenue and earnings growth and how this impacts on cash flows and key ratios. Operational plans and financing options are considered as part of this process.

In preparing the plan, we adopt a prudent forecast in respect of like-for-like sales growth, but assume other initiatives, in line with the published strategy. The plan is stress tested by applying the following scenarios:

**Scenario 1**  
**Macroeconomic conditions lead to a decline in sales**

Decreases in revenues have been applied over the 3-year plan period.

**Scenario 2**  
**Commodity prices and/or exchange rates or raw material shortages lead to a sustained increase in resin prices**

Increases in resin costs have been applied over the 3-year plan period.

**Scenario 3**  
**Scenario 1 and 2 combined**

There is a possibility that both of the above scenarios could materialise at the same time, therefore we have assessed the combined impact through the 3-year plan period.

The Board considers these tests to be sufficient to test the viability of the Group given our size and the markets we operate within. As described in Principal Risks and Uncertainties above, we have measures in place to help mitigate the impact of these events should they occur.

The Directors confirm that we have a reasonable expectation that the Company and the Group will continue in operation and meet our liabilities as they fall due in the next 3 years.

**Going Concern**

The Directors have reviewed the Company's and the Group's forecast and projections, which demonstrate that the Company and the Group will have sufficient headroom on our bank facilities for the foreseeable future and that the likelihood of breaching the related covenants in this period is remote.

Accordingly the Directors continue to adopt the going concern basis in preparing the Annual Financial Statements.

This Strategic Report was approved by the Board on 12 March 2020.

**Mark Kelly**  
Chief Executive Officer

**Michael Scott**  
Chief Financial Officer



A photograph of a modern living room. On the left, a lamp with a beige shade and a silver base stands on a surface. The wall is white and features three framed pictures of blue flowers in a row. To the right, a grey sectional sofa is visible with several pillows, including one with a black and white pattern. The ceiling has white crown molding.

# *Corporate Governance*



## Board of Directors



**Bob Lawson**  
Non-executive Chair

**Date of appointment:**

4 February 2015

**Experience:**

Bob was previously the Chair at Barratt Developments plc, Hays plc and the Federation of Groundwork Trust. Prior to this, he was Managing Director for the Vitec Group for four years, Chief Executive Officer of Electrocomponents plc for eleven years and subsequently Chair for a further six years.

**External appointments:**

- Chair of Genus plc<sup>1</sup>

**Committee membership:**



**Mark Kelly**  
Chief Executive Officer

**Date of appointment:**

29 March 2016

**Experience:**

Mark joined the Group in March 2016 and was appointed Chief Executive Officer in May 2016. He was formerly Chief Executive of Grafton Merchanting GB and previously worked for BDR Thermea Group BV, IMI and Novar. Mark has previous experience of the PVC windows and doors industry having worked for Duraflex and Celuform.

**External appointments:**

- None

**Committee membership:**



**Michael Scott**  
Chief Financial Officer

**Date of appointment:**

1 September 2016

**Experience:**

Michael joined the Group as Chief Financial Officer in September 2016. He previously worked at Drax Group plc, where he held senior financial positions including Group Financial Controller and Head of Corporate Finance & Investor Relations. Prior to Drax, Michael worked for MT International and Arthur Andersen. He is a member of the Institute of Chartered Accountants in England and Wales.

**External appointments:**

- None

**Committee membership:**

None

<sup>1</sup> Member of the Nomination and Remuneration Committees

<sup>2</sup> Chair of the Audit and Risk Committee



**Date of appointment:**

4 February 2015

**Experience:**

Frank is a qualified accountant with over 30 years' experience in the housebuilding, infrastructure and energy sectors. He was Finance Director of Galliford Try plc from 2000 until 2012 and was previously Finance Director of Try Group plc from 1987. Frank is also Chair of a private construction and development company and also acts as an adviser to certain private businesses. He is a fellow of the Chartered Institute of Management Accountants.

**External appointments:**

- Senior Independent Non-executive Director of McCarthy & Stone plc<sup>2</sup>
- Senior Independent Non-executive Director of HICL Infrastructure plc

**Committee membership:****Date of appointment:**

4 February 2015

**Experience:**

Martyn, prior to his current role at Marshalls plc (see below), was Divisional Chief Executive Officer at BDR Thermea Group BV and Chief Executive of the private equity-owned Baxi Group. He also held the position of Managing Director of Pirelli Cable. Martyn has a BSc in Mathematics.

**External appointments:**

- Chief Executive Officer of Marshalls plc
- Director of Mineral Products Association Ltd

**Committee membership:****Date of appointment:**

1 October 2018

**Experience:**

Sucheta, prior to her current role at Covestro (see below), was previously the Chief Marketing Officer of Royal DSM and also held various management positions in marketing, innovation, strategy and general management worldwide, among others at GlaxoSmithKline, PepsiCo and AkzoNobel. Sucheta has a BA Honours degree in Economics and a Masters degree in Business Administration.

**External appointments:**

- Chief Commercial Officer of Covestro AG and member of the Managing Board
- Director of Liveorg Ltd

**Committee membership:****Committee key:**

- Member of the Audit and Risk Committee
- Member of the Remuneration Committee
- Member of the Nomination Committee
- Denotes Committee Chair

## Chair's Introduction

Letter from the Chair



Bob Lawson  
Chair

*Dear Shareholder,*

**I am pleased to introduce Eurocell plc's Corporate Governance Report for the year.**

Throughout the year, we have continued to apply the principles and provisions of the UK Corporate Governance Code, including the changes introduced in the revised July 2018 version (the 'Code'), under which this report has been prepared.

The following reports provide details of the Board's activities during the year, including how it, and its Committees, have discharged their governance duties and applied the principles of good corporate governance.

The Board recognises the effectiveness of our governance relies on a culture of open communication, mutual trust and honest assessment of our strengths and areas for development and I am pleased to report this ethos continues to form the basis of all Board discussions.

I am comfortable that the composition of the Board provides an appropriate balance of skills, experience, independence and knowledge to take the business forward which, following the work of the Nomination Committee this year, is supported by a strengthened Executive Committee.

Moreover, I am thankful for the continued high level of shareholder support, in particular for the revised Directors' Remuneration policy which was approved at the AGM this year with over 99% of votes in favour. Further details of this can be found in the Remuneration Committee Report on page 85.

Further to last year's Corporate Governance Statement, I can report our externally facilitated review of the Board, and its Committees, was completed this year and the conclusions from this evaluation were positive and helpful. This is discussed later in the Corporate Governance Statement on page 59.

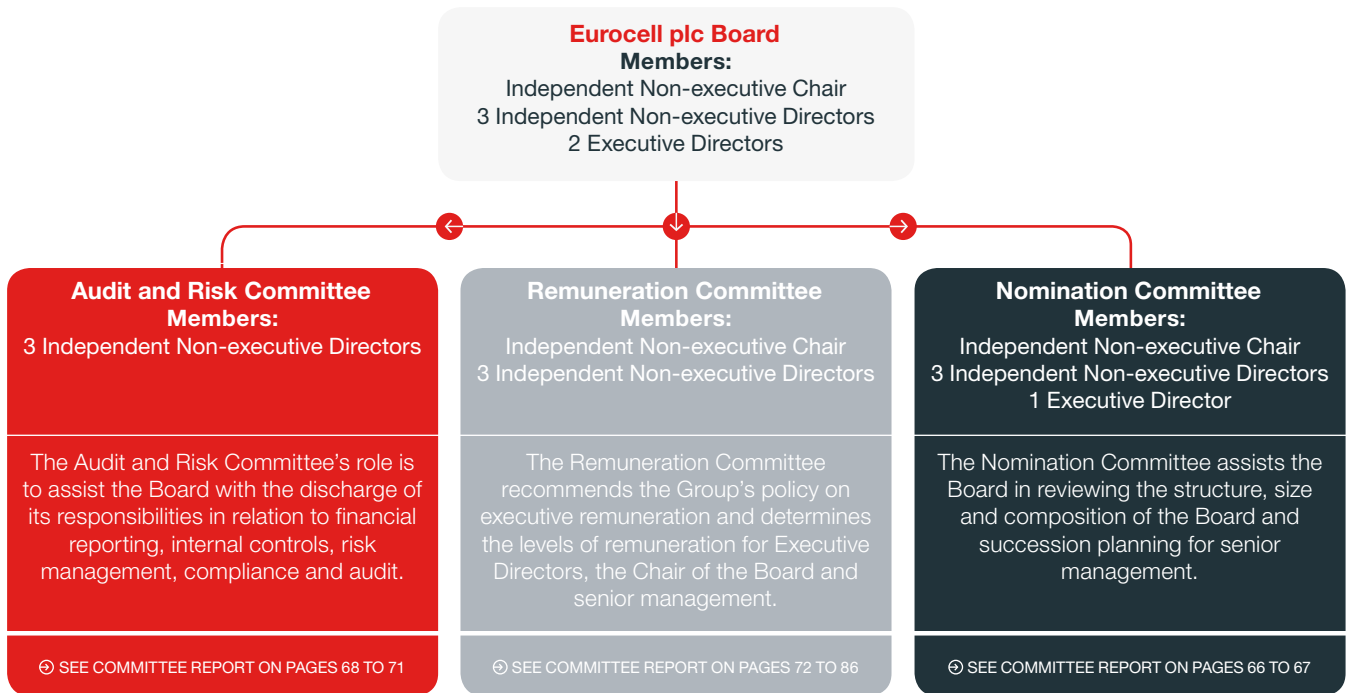
Finally, I would like to thank my Board and management colleagues for their contributions to the governance of the Company and I look forward to welcoming shareholders to the AGM, to be held in Alfreton on 14 May 2020, and to receiving and answering your questions.

**Bob Lawson**

Chair  
12 March 2020

## Corporate Governance Statement

### GOVERNANCE FRAMEWORK



#### Role of the Board

The Board comprises a Non-executive Chair, three Non-executive Directors and two Executive Directors, who are equally and collectively responsible for the proper stewardship and leadership of the Company. Their biographical details are set out on pages 54 and 55.

In accordance with the Code, at least half the Board, excluding the Chair, should be Non-executive Directors, who are determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, this judgement. The Company regards Sucheta Govil, Martyn Coffey and Frank Nelson as 'independent Non-executive Directors' within the meaning of the Code and therefore is considered to be compliant in this area.

The formal schedule of matters reserved for the Board's consideration includes the following:

- Approval of the Group's strategy, long-term objectives, annual operating budgets and capital expenditure plans.
- Approving transactions of significant value or major strategic importance, including acquisitions.
- Approving significant changes to the Group's capital, corporate or management structure.
- Monitoring and assessing the overall effectiveness of the Group's risk management processes and internal control systems, including those related to health and safety, financial controls and anti-bribery policies and procedures.
- Approving the Annual and Half-Year Reports, including Financial Statements.
- Approving other corporate communications related to matters decided by the Board.
- Board appointments and succession planning and setting terms of reference for Board Committees.
- Remuneration matters, including the general framework for remuneration and share and incentive schemes.

Subject to those matters reserved for its decision, the Board has delegated to its Audit and Risk, Nomination and Remuneration Committees certain authorities. There are written terms of reference for each of these Committees which are available on the Group's corporate website, [www.investors.eurocell.co.uk](http://www.investors.eurocell.co.uk). Separate reports for each Committee are included in this Annual Report from pages 66 to 86.

Day-to-day management and the implementation of strategies agreed by the Board are delegated to the Executive Directors. The Board meets regularly to discuss key operational issues and prescribe actions as appropriate. The Group's reporting structure below Board level is designed so that all decisions are made by those most qualified to do so in a timely manner.

Key to the structure is the Executive Committee, comprising senior managers, including the 2 Executive Directors who act as a bridge between the Board and this Committee. Management teams report to members of the Executive Committee, which meets each month. The Board receives regular updates from the Executive Committee in relation to business issues and developments.

This structure enables the Board to make informed decisions on a range of key issues including strategy and risk management.

All the Directors have the right to have their opposition to, or concerns over, the operations of the Board and/or the management of the company, noted in the minutes. During the year, no such opposition or concerns were noted.

The Chair and the Non-executive Directors met during the year without the Executive Directors present.

### Role of the Chair

The Board has concluded that the Chair has met the independence criteria of the Code on appointment.

There is a clear division of responsibilities between the Chair and the Chief Executive Officer.

The Chair is responsible for ensuring that the Board functions effectively. He sets the agenda for Board meetings and ensures that adequate time is devoted to discussion of all agenda items, particularly strategic issues, facilitating the effective contribution of all Directors and ensuring that the Board as a whole is involved in the decision-making process.

### Role of the Chief Executive Officer

The Chief Executive Officer has principal responsibility for all operational activities and the day-to-day management of the business, in accordance with the strategies and policies approved by the Board. The Chief Executive Officer also has responsibility for communicating to the Group's employees the expectations of the Board in relation to culture, values and behaviours.

### Role of the Senior Independent Director and Non-executive Directors

The Senior Independent Director has an important role on the Board, providing a sounding board for the Chair, leading on corporate governance issues and serving as an intermediary for the other Directors. He is available to shareholders if they have concerns which contact through the normal channels of the Chair, Chief Executive Officer or other Executive Directors has failed to resolve, or for which such contact is not appropriate.

Frank Nelson has served as Senior Independent Non-executive Director throughout the year.

All Non-executive Directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively. The Non-executive Directors act in a way they consider will promote the long-term sustainable success of the Group for the benefit of, and with regard to the interests of, its stakeholders.

### Board composition, commitment and election of Directors

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board.

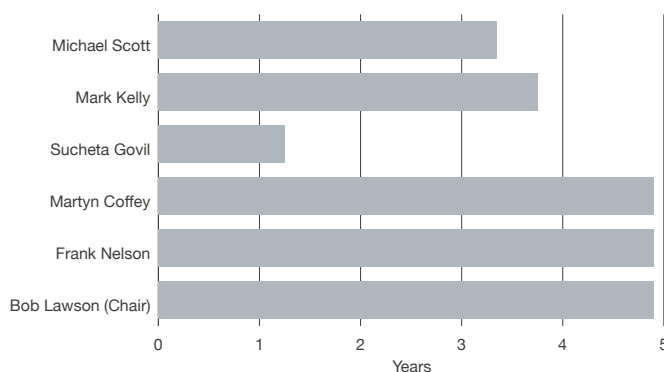
Prior to appointment, Board members, in particular the Chair and the Non-executive Directors, disclose their other commitments and agree to allocate sufficient time to the Company to discharge their duties effectively and ensure that these other commitments do not affect their contribution.

The Executive Directors may accept an outside appointment provided that such appointment does not in any way prejudice their ability to perform their duties as Executive Directors of the Company. Mark Kelly and Michael Scott do not currently hold any outside appointments.

The Non-executive Directors' appointment letters anticipate a minimum time commitment of 20 days per annum, recognising that there is always the possibility of an additional time commitment and ad hoc matters arising from time to time, particularly when the Company is undergoing a period of increased activity. The average time commitment inevitably increases where a Non-executive Director assumes additional responsibilities such as being appointed to a Board Committee.

All new Non-executive Directors undergo an induction programme and as such spend considerably more than the minimum commitment during the course of a year. All Non-executive Directors' are required to inform the Chair before accepting another position in order to ensure the Director has sufficient time to fulfil their duties.

The current Board commitments of all Directors are shown on pages 54 and 55. Their terms of appointment are reported on pages 77 and 78 and length of service on the Board is set out in the chart below:



The Company's Articles of Association contain powers of removal, appointment, election and re-election of Directors and provide that all of the Directors must retire and may offer themselves for re-election at each Annual General Meeting ('AGM').

At the upcoming AGM, all the Directors intend to offer themselves for re-election. Following the conclusion of the Board evaluation process, the Board considers all the Directors to be effective, committed to their roles and to have sufficient time available to perform their duties.

The Board has determined that the Non-executive Directors are independent and the Board, as a whole, has a complementary set of skills and experience as follows:

Principal skills and experience	Construction industry	Manufacturing	Multi-site operations	Industrial plastics	Finance	Marketing
Bob Lawson (Chair)	✓	✓	✓			✓
Mark Kelly (Chief Executive Officer)	✓	✓	✓	✓		✓
Michael Scott (Chief Financial Officer)	✓	✓	✓		✓	
Frank Nelson (Senior Independent Non-executive Director)	✓		✓		✓	
Martyn Coffey (Independent Non-executive Director)	✓	✓	✓			✓
Sucheta Govil (Independent Non-executive Director)		✓		✓		✓

### Board evaluation and effectiveness

In accordance with the Code, a formal evaluation of the performance of the Board, its Committees, the Chair and individual directors was concluded during the year, with the results presented and discussed at the May 2019 Board meeting.

In line with best practice, this evaluation was externally facilitated by Deloitte LLP, who have no connection with the Company or any individual director, using a framework based on the Board's three core roles being:

- gaining insight and foresight;
- clarifying priorities and defining expectations; and
- holding to account and seeking assurance.

Under this process, the Senior Independent Director separately reviewed the Chair's performance with the other Non-executive Directors.

An online survey tool covering each area in the framework was distributed to all Board members, all of whom fully engaged with the process resulting in a response rate of 100%, with all Board members completing the survey and providing valuable qualitative comments. The anonymity of respondents was ensured in order to promote an open and frank exchange of views.

The survey identified a number of perceived areas of strength in the way that the Board currently operates, and also identified some areas for enhancement which are set out below.

Key strengths of the Board:

1. Board composition – mix of skills and experience
2. Board dynamics – quality and openness of debate
3. Audit Committee – effective discharge of role and responsibilities
4. Clarity of priorities and expectations
5. Chair's leadership style
6. Board information – processes are reliable and valid
7. Remuneration Committee – effective discharge of role and responsibilities

Key areas for improvement:

Area	Detail	Proposed actions
<b>Performance evaluation</b>	Adopting a robust, regular process for continuous improvement with clear outcomes	<ul style="list-style-type: none"> <li>• Views of others outside the Board to be sought for future evaluations</li> <li>• Board agendas to include routine discussions of its own effectiveness</li> <li>• Board induction programme to be reviewed</li> </ul>
<b>Board engagement</b>	To include consideration of broader stakeholders across the whole organisation	Effectiveness of the Board's communication across the organisation to be reviewed and developed as appropriate
<b>Board focus</b>	More Board time on strategy and the forward plan	Forward plan, which identifies the issues to be considered by the Board over the next 12 months, to be developed
<b>Professional development</b>	Providing relevant opportunities for Board members	Attendance of external professional advisers at Board meetings to be reviewed and developed as appropriate
<b>Board reporting</b>	Timely identification of early warning indicators/red flags	Dashboard of early warning indicators (which draws the Board's attention to issues/risks on a timely basis) to be considered and developed as appropriate

## Corporate Governance Statement *continued*

Overall the results of the survey indicated that the Board members are satisfied that the Board is operating at an acceptable level in a constructive and collaborative way.

The Board believes that the evaluation process described above is thorough, robust and works well. All Directors engage fully, with a genuine desire to enhance overall Board performance. The process includes sufficient objectivity and confidentiality to ensure that challenge is acknowledged and acted upon. Taking all of the above into account, the Board is satisfied that the current composition of the Board, and its Committees, provides an appropriate balance of skills, experience, independence and knowledge to allow the Board and its Committees to discharge their duties and responsibilities effectively and in line with the Code.

### Conflicts of interest

The duties to avoid potential conflicts and to disclose such situations for authorisation by the Board are the personal responsibility of each Director. All Directors are required to ensure that they keep these duties under review and to inform the Group Company Secretary of any change in their respective positions.

The Company's conflict of interest procedures are reflected in its Articles of Association ('Articles'). In line with the Companies Act 2006, the Articles allow the Directors to authorise conflicts and potential conflicts of interest, where appropriate. The decision to authorise a conflict can only be made by non-conflicted Directors.

The Board, and its Committees, considers conflicts or potential conflicts at each meeting and, where such instances are identified, takes appropriate action, usually by excluding the conflicted party from any related discussions/decisions.

The Articles require the Company to indemnify its officers, including officers of wholly-owned subsidiaries, against liabilities arising from the conduct of the Group's business, to the extent permitted by law.

For a number of years, the Group has purchased Directors' and Officers' liability insurance and this is anticipated to continue.

### Board meetings and attendance

There were six regular Board meetings scheduled during 2019, four meetings of the Audit and Risk Committee, three meetings of the Remuneration Committee and two meetings of the Nomination Committee. Non-executive Directors also attended site visits.

The Chair of the Board, Chief Executive Officer and Chief Financial Officer are usually invited to attend Audit and Risk Committee meetings, although the Audit and Risk Committee also meets with the external auditor without any Executive Directors being present.

The Chief Executive Officer and Chief Financial Officer are invited to attend Remuneration Committee meetings when appropriate, but are never involved in discussions and decisions regarding their own remuneration.

The Group Company Secretary is also Secretary to the Remuneration Committee and the Audit and Risk Committee, and attends meetings for this purpose.

Number of meetings attended	Audit and Risk Committee Remuneration Committee Nomination Committee			
	Board	Risk Committee	Remuneration Committee	Nomination Committee
Bob Lawson	6/6	–	3/3	2/2
Frank Nelson	6/6	4/4	3/3	2/2
Martyn Coffey	6/6	4/4	3/3	2/2
Mark Kelly	6/6	–	–	2/2
Michael Scott	6/6	–	–	–
Sucheta Govil	6/6	4/4	3/3	2/2

Board packs are distributed in the week prior to each meeting to provide sufficient time for Directors to review their papers in advance. If Directors are unable to attend a Board meeting for any reason, they nonetheless receive the relevant papers and are consulted prior to the meeting and their views are made known to the other Directors.

### The Group Company Secretary

All the Directors have access to the advice and services of the Group Company Secretary. The Group Company Secretary has responsibility for ensuring that all Board procedures are followed and for advising the Board, through the Chair, on all governance matters. The Group Company Secretary provides updates to the Board on regulatory and corporate governance issues, new legislation, and Directors' duties and obligations. The appointment and removal of the Group Company Secretary is one of the matters reserved for the Board. During the year, Gerald Copley stepped-down as Group Company Secretary and, following a handover period, Paul Walker was appointed as Group Company Secretary from 27 September 2019.

Whenever necessary, Directors may take independent professional advice at the Company's expense. Board Committees are provided with sufficient resources to undertake their duties, including the option to appoint external advisers when they deem it appropriate.

### Board induction, development and support

New Directors receive a formal induction on joining the Board, which covers Group policies and other key information. Tailored training may be arranged to meet individual needs, for example to refresh knowledge of the Listing Rules and regulatory compliance. Typically, a new Director will meet the Chair and other Non-executive Directors in one-on-one sessions; he or she will have meetings with key management, briefings with external advisers and shareholders, and a programme of site visits will be arranged at which the Director meets site-based staff to gain a full understanding of the business.

Looking forward, it is the Company's expectation that training will be built in to the annual Board programme, designed to incorporate a range of in-depth topics of particular relevance to the business. Training needs will be identified through the Board evaluation process and through individual reviews between the Directors and the Chair. Directors are expected to attend external courses and seminars as appropriate to maintain and develop their Board competencies.

During 2019, there were Board briefings relating to changes to corporate governance, in particular the revised UK Corporate Governance Code, and corporate defence strategies. There were also individual meetings between Non-executive Directors and senior managers relating to areas of particular interest.

## Engagement with shareholders

The Board considers that communications with shareholders are extremely important. The Chief Executive Officer and Chief Financial Officer have developed an open and frequent dialogue with investors and meet regularly with major shareholders and potential investors to discuss the Group's performance, strategic issues and shareholder investment objectives. We also periodically arrange site visits for investors.

Alongside the full-year and half-year results, the Group follows a regular reporting and announcement schedule to ensure that matters of importance affecting the Group are communicated to investors. In addition, the Group continues to improve its investor website ([www.investors.eurocell.co.uk](http://www.investors.eurocell.co.uk)).

During 2019, a total of approximately 61 investor meetings were held, at which at least 49 institutions were represented. Feedback from these meetings and other shareholder communications are provided to the Board. The Board also receives copies of analysts' and brokers' briefings.

The Chair is available to meet with institutional shareholders to discuss governance and strategy and gain an understanding of shareholder views and concerns. The Chair ensures that the views of shareholders are communicated to the Board as a whole. The Senior Independent Director and other Non-executive Directors are also available to meet shareholders separately, if requested. During the year, no such meetings were requested or held.

In particular, the Company communicates with both the institutional and private shareholders through the following means:

Interaction with all shareholders through:

- the Company's corporate website ([www.investors.eurocell.co.uk](http://www.investors.eurocell.co.uk)), where investor information and news is regularly updated;
- the Annual Report, which sets out details of the Company's strategy, business model and performance over the past financial year and plans for future growth;
- the Annual General Meeting, where all shareholders have the opportunity to vote on the resolutions proposed and to put questions to the Board and executive team; and
- presentations of full-year and half-year results to analysts and shareholders, which are also available on the Company's corporate website.

Interaction with institutional shareholders whereby:

- the Chief Executive Officer and Chief Financial Officer hold meetings with institutional investors following the full-year and interim results; and
- the Chair of the Board meets with institutional shareholders, where appropriate.

Interaction with private shareholders through:

- dial-in facility to live presentations of the full-year and half-year results; and
- dedicated email point of contact to answer shareholder questions and queries.

The Chair and Non-executive Directors are also available to attend investor relations meetings or to request meetings with investors or to request meetings with investors or analysts independently of the Executive Directors, if required.

Investor relations activity, analysis of the share register, comments by analysts, views of major shareholders and advice from the Company's brokers are all ongoing items of review by the Board in order to maintain a clear understanding of market perceptions.

## Relations with other stakeholders

The Group considers our customers, colleagues, suppliers, finance providers, the environment and community as our principal stakeholders in addition to our shareholders. The Corporate Social Responsibility Report on pages 30 to 37 sets out more detail on how we manage our relationships with them.

The Non-executive Directors are available to discuss any matter stakeholders might wish to raise.

## Risk management and internal control

The Board acknowledges its responsibility for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives, and for the Group's system of internal control.

The Board has carried out a review of the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls, for the period covered by this Annual Report.

The Strategic Report comments in detail (pages 44 to 49) on the nature of the principal risks and uncertainties facing the Group; in particular those that would threaten our business model, future performance, solvency or liquidity and the measures in place to mitigate them. In conducting its review, the Board has included a robust assessment of these risks and the effectiveness of mitigating controls.

The Audit and Risk Committee Report on pages 68 to 71 describes the internal control system and how it is managed and monitored.

The Board confirms that no significant failings or weaknesses were identified in relation to the review. The Board also acknowledges that such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

## Corporate Governance Statement *continued*

### Section 172 statement

In accordance with s.172 of the Companies Act 2006, the Directors have a duty to promote the success of the Company and, in particular, must act in the way he/she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- (a) the likely consequences of any decision in the long term;
- (b) the interests of the Company's employees;
- (c) the need to foster the Company's business relationships with suppliers, customers and others;
- (d) the impact of the Company's operations on the community and the environment;
- (e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
- (f) the need to act fairly as between members of the Company.

The Board sources the views of the Company's stakeholders, as appropriate, either directly or via the Executive Committee (of which the Chief Executive Officer and Chief Financial Officer are members), or via Board papers, in the following ways:

Stakeholder	Source of views
<b>Shareholders</b>	See 'Engagement with shareholders' above
<b>Employees</b>	<ul style="list-style-type: none"><li>• Annual Leadership Conference – all Executive Committee members attend in order to meet and interact with the wider management teams and feedback to the Board</li><li>• Executive Committee members and senior management – feedback received, both formal and informal, at Board meetings</li><li>• 'Meet Mark' focus group sessions – regular interactive meetings held by the CEO with various staff groups across the Group to share views</li></ul>
<b>Customers</b>	<ul style="list-style-type: none"><li>• Key customer meetings – regular meetings held by CEO/CFO with key customers to discuss service levels and other relevant issues</li><li>• Customer insight calls – monthly telephone calls with customers assessing satisfaction and 'Net Promoter Score'</li><li>• 'Club Fore' meetings – quarterly forums held with customers, to discuss product design and innovation</li></ul>
<b>Suppliers</b>	<ul style="list-style-type: none"><li>• Key suppliers – regular meetings held by CEO and CFO with suppliers to discuss relevant issues</li><li>• Supplier review meetings - regular meetings held to discuss service levels and other relevant issues</li></ul>
<b>Finance providers</b>	<ul style="list-style-type: none"><li>• Regular meetings held by CFO with funding banks to discuss business performance and other relevant issues</li></ul>
<b>Regulatory bodies</b>	<ul style="list-style-type: none"><li>• Taxation - regular meetings held with tax advisers to discuss compliance, HMRC correspondence and other relevant issues with feedback to the CFO</li><li>• Health &amp; Safety – regular reporting of KPIs, HSE communications and issues arising to CEO</li></ul>

The Annual Leadership Conference, coupled with the regular 'Meet Mark' focus group sessions (noted above), are considered to provide a good understanding of the views of the workforce. In particular, following direct feedback received through these sources:

- A Security Hardware 'store-within-a-store' was trialled in our Doncaster branch to improve cross-selling opportunities.
- Training and development centres across the UK have been introduced, along with a team working on product training/awareness and leadership development.
- Prices, access and reward mechanisms within the branches have been changed, in addition to new ranges and products being introduced.
- Catering, rest and toilet facilities have been refurbished within some of our facilities.

However, in order to provide further insight, the Board recently designated Sucheta Govil, a Non-executive Director, to have specific responsibility in this area and, as a result, she will attend employee focus groups from Spring 2020 onwards.



During the year, the interests of the Company's stakeholders were considered when Board discussions and subsequent decision-making took place. The major decisions made by the Board during the year, and the resulting benefit to stakeholders, are summarised below:

Stakeholder	Board decision				
	Invest in new warehouse facility	Change transport provider	Open larger format branches	Invest in new recycling machinery	Invest in new extruders
<b>Employees</b>	<ul style="list-style-type: none"> <li>• Safer working practices in warehouse and service yard</li> <li>• More modern and efficient picking equipment</li> <li>• Improved working environment including offices, facilities and parking</li> </ul>	<ul style="list-style-type: none"> <li>• More modern vehicles and equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Improved working environment including facilities and parking</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced culture of sustainability</li> <li>• More modern and safer equipment</li> </ul>	<ul style="list-style-type: none"> <li>• More modern and safer equipment</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>• Improved service and on-time, in-full deliveries</li> <li>• Increased capacity to support growing demand</li> <li>• Improved stock availability</li> <li>• Reduced risk of product damage</li> <li>• More efficient document administration</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced risk of product damage</li> <li>• More reliable delivery service</li> <li>• More efficient document administration</li> </ul>	<ul style="list-style-type: none"> <li>• Larger trade counters</li> <li>• Extended product range availability</li> </ul>	<ul style="list-style-type: none"> <li>• Increased capacity to support growing demand</li> <li>• Reduced production costs to help maintain competitive pricing</li> </ul>	<ul style="list-style-type: none"> <li>• Increased capacity to support growing demand</li> </ul>
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>• Safer working practices in service yard</li> <li>• More efficient off-loading of incoming goods</li> <li>• More efficient document administration</li> </ul>		<ul style="list-style-type: none"> <li>• Increased demand/orders for products</li> </ul>		
<b>Shareholders/ Funding providers</b>	<ul style="list-style-type: none"> <li>• Increased capacity to support business growth</li> </ul>	<ul style="list-style-type: none"> <li>• More cost-efficient service</li> </ul>	<ul style="list-style-type: none"> <li>• Increased sales opportunities to support business growth</li> </ul>	<ul style="list-style-type: none"> <li>• Improved ability to maintain margins</li> </ul>	<ul style="list-style-type: none"> <li>• Increased capacity to support business growth</li> </ul>
<b>Community</b>	<ul style="list-style-type: none"> <li>• More opportunities for local employment</li> </ul>	<ul style="list-style-type: none"> <li>• More efficient transport usage reducing local traffic</li> </ul>	<ul style="list-style-type: none"> <li>• More opportunities for local employment</li> </ul>		
<b>Environment</b>	<ul style="list-style-type: none"> <li>• More efficient energy consumption</li> <li>• More efficient transport usage</li> </ul>	<ul style="list-style-type: none"> <li>• More efficient transport usage from improved routing</li> </ul>	<ul style="list-style-type: none"> <li>• More efficient transport usage from larger stock holding area</li> </ul>	<ul style="list-style-type: none"> <li>• Increased use of recycled materials</li> </ul>	<ul style="list-style-type: none"> <li>• More efficient energy consumption</li> </ul>

**Culture**

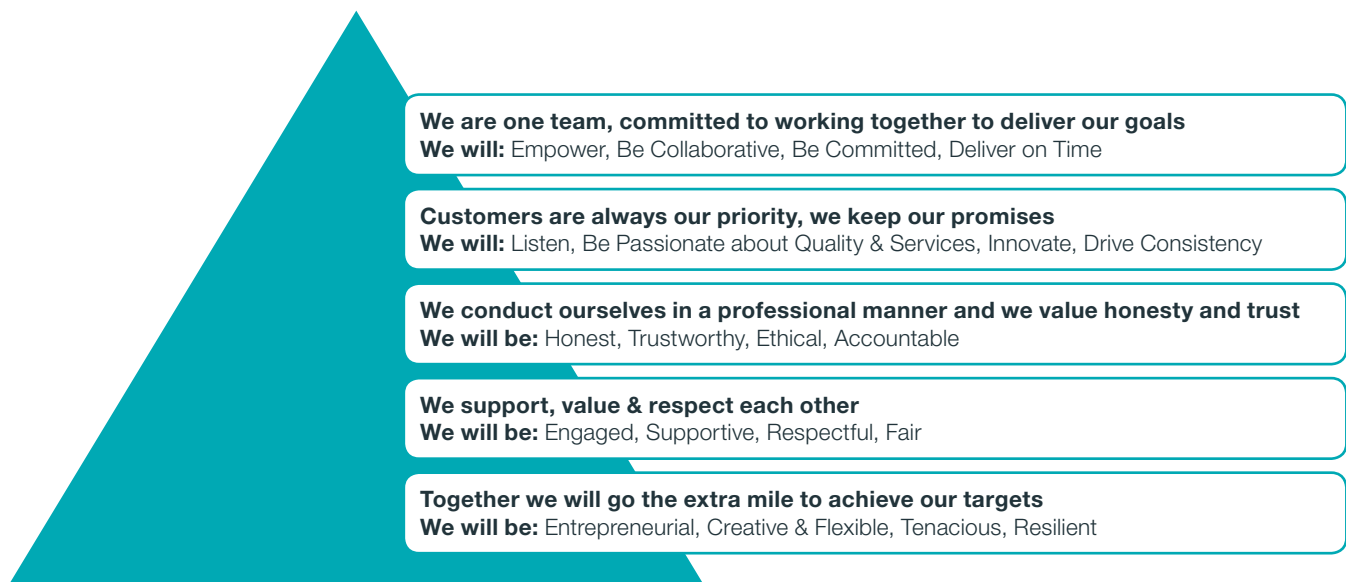
The Group's culture is based on the following Vision and Values which were formally introduced in 2018:

**Our Vision:**

**One team, customer centric, driving world class solutions everywhere we operate**

**Our Values:**

ONE TEAM	CUSTOMER FIRST	INTEGRITY	INCLUSIVE	EXECUTE
We are one team, committed to working together to deliver our goals.	Customers are always our priority, we keep our promises.	We conduct ourselves in a professional manner and we value honesty and trust.	We support, value and respect each other.	Together we will go the extra mile to achieve our targets.



The Board assesses and monitors culture through:

- reviews of staff turnover rates;
- reviews of Health and Safety data, including near misses;
- reviews of employee whistleblowing cases;
- interaction with senior management and workforce and feedback from the Annual Leadership Conference; and
- observation of attitudes towards regulators such as HMRC and HSE, as well as internal and external auditors.

The Board is satisfied the policies, practices and behaviours throughout the Group are aligned with the Vision and Values noted above and no corrective action is currently required. Nevertheless, this will continue to be reviewed on an on-going basis to ensure a positive culture endures.

### Statement of compliance with the Code

This Corporate Governance Statement, together with the Nomination Committee Report, the Audit and Risk Committee Report and the Remuneration Committee Report, provide a description of how the principles and provisions of the Code have been applied within Eurocell plc during 2019.

It is the Board's view that Eurocell plc was in compliance with the relevant provisions set out in the Code in all material respects. This statement complies with sub sections 2.1, 2.2(1), 2.3(1), 2.5, 2.7 and 2.10 of Rule 7 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority. The information required to be disclosed by sub-section 2.60 of Rule 7 is shown on pages 87 to 89.

### Annual General Meeting

Our AGM will be held at Fairbrook House on 14 May 2020.

The notice of our AGM, together with the Directors' voting recommendations on the resolutions to be proposed, is included on a separate circular to shareholders and will be dispatched at least 20 working days before the meeting. The notice will be available to view at [investors.eurocell.co.uk](http://investors.eurocell.co.uk).

All Directors attend the AGM, including the Chairs of the Audit and Risk, Remuneration and Nomination Committees, who are available to answer questions. The Board welcomes questions from Shareholders who have an opportunity to raise issues informally or formally before or during the meeting.

For each proposed resolution, the proxy appointment forms provide shareholders with the option to direct their proxy vote either for or against the resolution or to withhold their vote. The proxy form and any announcement of the results of a vote make it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.

All valid proxy appointments are properly recorded and counted by Equiniti, the Company Registrars. Information on the number of shares represented by proxy, the proxy votes for and against each resolution, and the number of shares in respect of which the vote was withheld for each resolution, together with the proxy voting result, are given at the AGM. The total votes cast, including those at the AGM are published on our website ([investors.eurocell.co.uk](http://investors.eurocell.co.uk)) immediately after the meeting.

## Nomination Committee Report

### Chair



### Members



### Dear Shareholder,

#### I am pleased to report to you on the main activities of the Committee and how it has performed its duties during 2019.

This year, the Committee's focus has been on overseeing the development of a more streamlined Executive Committee (see opposite for further details of the members) which has included, in part, recruitment for a new role of Chief Operating Officer.

In addition, the senior management team has been further strengthened during the year with three replacement appointments, as part of the Group's continued investment for growth. I am pleased that we have been able to attract high calibre individuals into these roles.

As part of the externally-facilitated annual Board evaluation this year, the performance of the Nomination Committee was reviewed and I am pleased to report that the evaluation showed that the Committee was operating effectively (see pages 59 and 60 for further details).

Finally, I would like to thank my fellow Committee members, all of whom have served throughout the year, for their valuable contribution and support, and I welcome any comments or questions from shareholders.

#### Bob Lawson

Chair of the Nomination Committee  
12 March 2020

#### Role and responsibilities:

The principal duties of the Nomination Committee are to:

- regularly review the structure, size and composition of the Board (including its skills, knowledge, experience, length of service and diversity) and make recommendations to the Board with regard to any changes;
- identify and nominate, for the approval by the Board, candidates to fill Board vacancies;
- review the time commitments required from Non-executive Directors; and
- maintain an effective succession plan for the Board and senior management taking into account the challenges and opportunities facing the Company, along with the skills and expertise needed in the future, while promoting diversity of gender, background and skills.

#### Composition

The Nomination Committee is chaired by Bob Lawson, except where it is dealing with matters relating to his re-appointment or replacement, and comprises all 3 of the Non-executive Directors along with the Chief Executive Officer, all of whom have served on the Committee throughout the whole year.

The Code recommends that a majority of the Nomination Committee be Non-executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement. The Board considers that the Company complies with the Code in this respect.

Only members of the Committee have the right to attend Committee meetings, but the Committee may invite others, including the Human Resources Director and external advisers, to attend all or part of any meeting if it thinks it is appropriate, necessary or pursuant to the terms of any agreement with shareholders.

The Nomination Committee will meet as often as it deems necessary but, in accordance with its terms of reference, at least twice a year.

## Summary of activities during the year

The Nomination Committee met formally twice during the year and attendance at the meetings is shown on page 60.

### The main activities of the Committee included:

- overseeing the development of a more streamlined Executive Committee to support the strategy and governance of the wider Group;
- overseeing the search and selection process for the new role of Chief Operating Officer;
- overseeing the search and selection process for three replacement appointments within the senior management team;
- the ongoing review of the talent and succession planning for the Board and senior management including an assessment of their training and development needs;
- considering the results of the externally-facilitated review of the Committee's effectiveness (see page 59 for further details);
- a review of Directors' time commitments and independence;
- consideration of the re-election of Directors at the Annual General Meeting; and
- approving updates to the Committee's Terms of Reference.

## Diversity and inclusion

All Board and senior management appointments are made on merit, in-line with the policy adopted throughout the Group's workforce. The Board recognises and embraces the benefits of diversity and, in particular, the value that different perspectives and experience bring to the quality of debate and decision-making.

There are several considerations which are taken into account when considering appointments at all levels such as background, experience, and skill set, as well as shareholder perspectives. However, the Board believes that setting targets for the number of people from a particular background or gender is not the most effective approach to take. The Board will therefore look to follow the principles of this policy rather than specified quotas or targets.

In line with this approach, a procedure has been implemented during the year to ensure female applicants for all supervisory, managerial and senior managerial vacancies are given an automatic right to interview, to ensure greater opportunity and encouragement of internal promotion and cross departmental shift.

Following the appointment of Sucheta Govil as an independent Non-executive Director in 2018, 17% (1 out of 6) of the Board is female, along with 26% (9 out of 35) of the senior management. This reflects the ongoing commitment to consider diversity as a key factor in future senior appointments. However, the overriding policy in any new appointment is to select candidates based on merit to ensure the continued success of the business.

## Gender balance

The gender balance of those in the senior management and their direct reports is included within the Corporate Social Responsibility section on page 32.

## Succession planning

As part of the development of the Executive Committee noted above, the Nomination Committee has considered succession planning for appointments to the Board and to senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board.

This planning process includes an analysis of any succession gaps or risks identified and includes contingency plans for the sudden or unexpected departure of Executive Directors and other senior managers.

As a result, the Board has a good understanding of succession planning across the Group and the range of measures being used to continue to develop and recruit talented senior employees.

### Executive Committee

#### Paul Walker

##### Group Company Secretary

Paul joined Eurocell in August 2019 and was appointed Group Company Secretary in September 2019. He previously worked for DFS Furniture plc where he was Financial Controller and, most recently, Director of Central Finance and Group Company Secretary. He is a member of the Institute of Chartered Accountants in England and Wales.

#### Ian Kemp

##### Sales Director – Profiles division

Ian joined Eurocell in 2012 and is Sales Director for the Profiles Division. Prior to that, he worked in the offsite construction industry for 12 years including Business Development Director for Caledonian Modular and UK Sales Manager for Portakabin.

#### Mark Hemming

##### Chief Operating Officer

Mark joined Eurocell in August 2019 having previously worked for Amazon UK for 6 years, most recently as Regional Director for Customer Fulfilment. Prior to that, Mark has experience of leading manufacturing plants in the automotive sector for Stadco Limited and Textron Automotive.

#### Chris Coxon

##### Head of Marketing

Chris joined Eurocell as Marketing Manager in 2007, becoming Head of Marketing in 2010, and also has responsibility for Customer Services and New Product Development. Previously, he worked for Portakabin Ltd in a number of marketing roles. Chris is a member of the Chartered Institute of Marketing (CIM).

#### Bruce Stephen

##### Group Human Resources Director

Bruce joined Eurocell in July 2019 as the Group Human Resources Director. He previously worked for Greencore holding various roles including, most recently, Corporate Services Human Resources Director. Prior to Greencore, Bruce worked for Danone (Dairy) and Walkers Snacks (PepsiCo).

#### Andy McDonnell

##### Managing Director – Building Plastics division

Andy joined Eurocell in May 2018 and has a 30 year career spanning across Retail and Trade, including senior board positions at B&Q, TradePoint and Oak Furniture Land. He is an experienced senior business leader that has delivered ambitious change and performance across global brands.

## Audit and Risk Committee Report

### Chair



Frank Nelson

### Members



Martyn Coffey



Sucheta Govil

## Dear Shareholder,

### I am pleased to report to you on the Audit and Risk Committee's objectives and activities during 2019.

This report, which is part of the Directors' Report, explains how the Audit and Risk Committee has discharged its responsibilities during 2019, and reflects the recent changes to reporting under the Code. I hope you find it useful and informative.

During the year, in addition to its routine reviews of external financial reporting, the Committee has received regular progress updates on the Group's implementation of the new lease accounting standard IFRS 16 which is applicable for the first time in 2019. I am pleased to note the Group's adoption, in conjunction with the external auditors, has been performed smoothly.

In accordance with best ethical standards, and PwC LLP's partner rotation policy, I can confirm the current audit engagement partner will step-down following the 2019 audit, after five years of client service to Eurocell. On behalf of the Committee, I would like to thank Mark Smith for his contribution and for the transitional arrangements which are in place for his successor.

In-line with best practice, an externally-facilitated review of the Committee's effectiveness was concluded this year and I am pleased to report that no significant areas of concern were identified and the Committee was viewed as operating effectively.

Finally, I would like to thank my fellow Committee members, all of whom have served throughout the year, for their valuable contribution and support, and I welcome any comments or questions from shareholders.

### Frank Nelson

Chair of the Audit and Risk Committee  
12 March 2020

### Role and responsibilities:

The key responsibilities of the Committee are to:

- review the Annual Report, half-year report and any other formal announcements relating to the Group's financial performance, giving due consideration to significant accounting issues and judgements contained therein, as well as compliance with accounting standards and other legal and regulatory requirements;
- review the Annual Report and Financial Statements to advise the Board on whether they give a fair, balanced and understandable explanation of the Group's business and performance over the relevant period;
- review the Group's financial reporting systems and procedures;
- review the Group's internal controls and risk management systems and advise the Board whether they are adequate, by considering reports on their effectiveness from the Chief Financial Officer and Chief Executive Officer, together with reports from the Group's outsourced internal auditor and from the external auditor;
- review and update the Group's risk register, as part of the assessment of emerging and principal risks;
- review the Group's procedures to ensure compliance with the provisions of the Bribery Act 2010 and the Group's whistleblowing policy;
- review the external auditor's independence and objectivity, audit and non-audit fees and make recommendations regarding audit tender and the appointment and remuneration of the auditor, together with the terms of their engagement;
- review the annual audit plan and monitor the effectiveness of the external audit process;
- monitor and review the effectiveness of the outsourced internal audit function, including a review of the internal audit plan, all internal audit reports, and management's responses to the findings and recommendations of the internal audit function;
- consider the adequacy of the Group's finance function;
- review the Group's Tax Strategy; and
- review the Committee Terms of Reference.

The role of the Audit and Risk Committee is to oversee financial reporting. The Committee reviews the ongoing effectiveness of the Group's internal controls and provides assurance on the Group's risk management processes. The Committee also assesses information received from the external and internal audit functions.

Following the 2019 year end, at the March 2020 meeting, the Committee reviewed and recommended for approval by the Board, the financial results for the year ended 31 December 2019, including a review of the full-year external audit.

As part of that review process, the members of the Committee reviewed the Annual Report, including the adequacy of the disclosure with respect to going concern and viability reporting, in order to conclude whether the Annual Report taken as a whole was fair, balanced and understandable.

This additional review by the Audit and Risk Committee, supplemented by advice received from external advisers during the drafting process, assisted the Board in determining that the report was fair, balanced and understandable at the time that it was approved.

The Committee considered the appropriateness of preparing the accounts on a going concern basis, including consideration of forecast plans, and supporting assumptions, as well as sensitivity analysis and concluded that the Company's financial position was such that it continued to be appropriate for accounts to be prepared on a going concern basis.

### Composition

The Audit and Risk Committee is chaired by Frank Nelson and comprises all three of the Non-executive Directors, but not the Chair of the Board, all of whom have served on the Committee throughout the whole year.

The Governance Code recommends that all members of the Audit and Risk Committee are Non-executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement and that one such member has recent and relevant financial experience.

The Board considers that, by virtue of his extensive experience, details of which are set out on page 55, Frank Nelson, a Fellow of the Chartered Institute of Management Accountants, has recent and relevant financial experience and the Company complies with the requirements of the Governance Code in this respect. Furthermore, all Committee members have extensive relevant commercial and operational experience, particularly in building/construction organisations, which both benefit the Committee and collectively illustrate its competence relevant to the sector in which the Group operates.

Only members of the Committee have the right to attend Committee meetings, but both the internal and external auditors were invited to attend all meetings during the year, as a matter of course. Other individuals, such as the Chief Executive Officer, the Chief Financial Officer and other members of the Board were invited to attend the Committee meetings as and when appropriate. The Group Company Secretary also attends by invitation in order to maintain a record of the meetings.

In addition, the external auditor met regularly with the Committee without executive management being present and met separately with each of the Audit and Risk Committee Chair and the Chief Financial Officer.

The Audit and Risk Committee will meet as often as it deems necessary but, in accordance with its terms of reference, at least three times a year.

### Summary of activities during the year

The Audit and Risk Committee met formally four times during the year and attendance at the meetings is shown on page 60.

#### The areas of particular focus for the Committee in 2019, and up to the date of this Annual Report, were as follows:

- Reviewed the 2018 and 2019 Annual Reports, as well as the 2019 Half-Year Report, including preliminary announcements.
- Considered information presented by management on significant accounting estimates and judgements adopted in respect of the Group's 2018 and 2019 Financial Statements and the 2019 Half-Year Report.
- Reviewed reports from the external auditor setting out their findings as a result of their audits for the years ended 31 December 2018 and 2019, as well as their review of the 2019 Half-Year Report.
- Reviewed the external auditor's plan for their audit for the year ended 31 December 2019.
- Reviewed documentation prepared to support the viability statement and going concern assumption set out on page 50.
- Considered the impact of new accounting standards and financial reporting requirements, including guidance issued by the Financial Reporting Council ('FRC').
- Considered reports by management related to the effectiveness of the Group's systems of risk management and internal control.
- Reviewed the Group's risk register, including principal and emerging risks.
- Considered reports prepared by the Group's outsourced internal audit function.
- Considered the results of the externally-facilitated assessment of the Committee's effectiveness.
- Approved updates to the Committee's Terms of Reference.
- Reviewed, and approved updates where applicable, to Group policies for anti-bribery, whistleblowing, capital expenditure and treasury, along with the Group tax strategy.
- Considered the impact of the revised ethic standard issued by the FRC in December 2019.

The Committee was also kept up to date with changes to accounting standards and developments in financial reporting, company law and other regulatory matters through presentations from the external auditor, Chief Financial Officer and the Company's Finance function.

## Audit and Risk Committee Report **continued**

### Key accounting estimates and judgements

As described above, the Committee reviewed the key estimates and judgements used in the preparation of the Group's 2019 Financial Statements (including a review of PwC's report and a discussion of their observations and findings in this area) as follows:

Area	Estimate/Judgement	Management's approach	Committee's review
<b>Inventory valuation</b>	Provisions for slow-moving items and discontinued product lines	Assessment of the appropriate level of provisioning against obsolescence, undertaken in the context of current trading and the forecast for the next financial year	Critically reviewed the carrying value of the Group's inventory, the approach taken by management and assessed the reasonableness of the underlying assumptions and financial forecasts used <sup>1</sup> .
<b>Accounts receivable recoverability</b>	Provisions for bad and doubtful debts	Adoption of IFRS 9's expected credit loss approach to the impairment of receivables, which requires the use of forward-looking statistical modelling to determine the appropriate level of provision	Critically evaluated the methodology with respect to setting provisions for potential bad and doubtful debts, as well as the absolute level of provisions held <sup>2</sup> .
<b>Contract asset valuation</b>	Carrying value/impairment of contract payments made to customers	Assessment of contract profitability and potential impairment, undertaken in the context of current and forecast trading levels	Considered the reasonableness of the key estimates and underlying assumptions and forecasts, as well the absolute asset value
<b>IFRS 16 leases</b>	Value of right-of-use asset and associated lease liability	Adoption of the modified retrospective approach to implementation, including the determination of lease terms (taking into account potential break clauses or lease-extensions) and the appropriate discount rate to be applied to future cashflows	Reviewed the methodology used and considered the reasonableness of the key estimates and underlying assumptions

Notes:

- 1 The Committee noted that there continues to be considerable management focus on both the optimisation of finished goods inventory levels and, looking forward, on the operational controls over the management of inventory.
- 2 The Committee's review also took into account the specific nature and characteristics of customers in the Group's 2 major divisions.

### Risk management

The Group's risk management processes are set out in detail on pages 44 to 45.

The Group maintains a risk register that identifies key and emerging risks, the probability of those risks occurring and the impact they would have on the Group if unmitigated. Against each gross risk, the controls that exist to manage and, where possible, minimise or eliminate those risks are also listed, and an assessment of net risk is provided. The risk register also identifies any further actions required such that net residual risk is consistent with the risk appetite set by the Board. The register is regularly updated to reflect changes in circumstances.

The Group's Risk Management Committee is chaired by the Chief Financial Officer. This Committee reviews significant risks and the status of related mitigating actions each quarter.

The Audit and Risk Committee reviews the risk register twice per year to ensure the timely identification and robust management of inherent and emerging risks is taking place. To the extent that any failings or weaknesses are identified during the review process, appropriate measures are taken to remedy these.

Information relating to the management of risks and any changes to the assessment of key risks is reported by the Audit and Risk Committee to the Board.

### Internal controls

The Board is responsible for the overall system of internal controls for the Group and for reviewing its effectiveness. In accordance with FRC guidance, it carries out such a review at least annually, covering all material controls including financial, operational and compliance controls and risk management systems.

In particular, the Board discharges its duties in this area by:

- holding regular Board meetings to consider the matters reserved for its consideration;
- receiving regular management reports which provide an assessment of key risks and controls;
- scheduling annual Board reviews of strategy including reviews of the material risks and uncertainties facing the business;
- ensuring there is a clear organisational structure with defined responsibilities and levels of authority which are regularly reviewed;
- ensuring there are documented policies and procedures in place; and
- scheduling regular Board reviews of financial budgets and forecasts with performance reported to the Board on a regular basis.

The Group has several operating policies and controls in place covering a range of issues including financial reporting, capital expenditure, business continuity and information technology, including cyber security, and appropriate employee policies. These policies are designed to ensure the accuracy and reliability of financial reporting and govern the preparation of financial statements.



In reviewing the effectiveness of the system of internal controls, the Audit and Risk Committee will continue to:

- review the risk register compiled and maintained by senior managers within the Group at least bi-annually and question and challenge where necessary;
- regularly review the systems of financial and accounting controls; and
- report to the Board on the risk and control culture within the Group.

In respect of the Group's financial reporting, the Finance Department is responsible for preparing the Group financial statements using a well-established process and ensuring that accounting policies are in accordance with International Financial Reporting Standards. All financial information published by the Group is subject to the approval of the Audit Committee.

There have been no changes in the Company's internal control during the financial year under review that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting. The Board, with advice from the Audit and Risk Committee, is satisfied that an effective system of internal controls and risk management is in place which enables the Company to identify, evaluate and manage key and emerging risks and which accords with the guidance published by the FRC.

These processes have been in place since the start of the financial year and up to the date of approval of the accounts. Further details of specific material risks and uncertainties facing the business can be found on pages 46 to 49.

### Internal audit

KPMG LLP provide an outsourced Internal Audit function which complements the internal finance-based checks performed on the branch network operations.

During 2019, the Committee worked with KPMG LLP to agree the programme for the year, which included reviews of the processes and controls relating to capital expenditure, procure-to-pay and cyber-security.

The Committee also formally reviews the Group's progress in implementing the improvement recommendations raised through the internal audit process in conjunction with the Executive Committee, who monitor a report on the status of the outstanding actions on a monthly basis. Both Committees found the progress during 2019 to be satisfactory.

### External audit and auditors' independence

The Audit and Risk Committee has primary responsibility for making a recommendation to the Board on the appointment, reappointment, removal and remuneration of the external auditors. It keeps under review the scope and results of the audit, its cost-effectiveness and the independence and objectivity of the auditors.

The external auditor is required periodically to assess whether, in its professional opinion, it is independent and those views are shared with the Audit and Risk Committee. The Committee has authority to take independent advice as it deems appropriate in order to resolve issues on auditor independence. No such advice has been required to date. There are no contractual obligations in place that restrict the choice of statutory auditor.

The Group's current auditors, PwC LLP were appointed at the Audit and Risk Committee meeting on 29 April 2015, following the Company's IPO in March 2015. As a result, PwC LLP may remain as external auditor without re-tender for ten years from that date, until the completion of the 2025 annual audit. The Committee considers the need to tender the audit on an annual basis and there are no current plans to perform such a tender.

In accordance with best ethical standards, PwC LLP has processes in place designed to maintain independence, including the rotation of the audit engagement partner at least every five years. As a result of these processes, the current audit engagement partner will step-down following the 2019 audit and transitional arrangements are in place for his successor.

The Committee has also adopted policies to safeguard the independence of its external auditors. Any work awarded to the external auditors with a value of more than £5,000 in aggregate in any financial year, other than an audit, requires the specific approval of the Committee. Where the Committee perceives that the independence of the auditors could be compromised, the work will not be awarded to the auditors. Details of amounts paid to PwC LLP for audit and audit related assurance services in 2019 are set out on page 114. The audit related assurance services provided were in relation to the half-year report.

Prior to recommending the appointment of PwC LLP at the forthcoming AGM to the Board, the Committee reviewed the audit process, the performance of the auditor and its ongoing independence, taking into consideration input from management, responses to questions from the Committee and the audit findings reported to the Committee. Based on this review, the Committee concluded that the external audit process had been run efficiently and that PwC LLP has been effective in its role as external auditor.

The Committee is satisfied that the independence of the external auditor is not impaired and the level of fees paid for non-audit services, details of which are set out in Note 5 to the Financial Statements, does not jeopardise its independence. In conclusion, the Committee has assessed the performance and independence of the external auditor and recommended to the Board the re-appointment of PwC LLP as auditor until the AGM in 2021.

### Whistleblowing and bribery

The Audit and Risk Committee monitors any reported incidents under our whistleblowing policy, which is available to all employees. This policy sets out the procedure for employees to raise legitimate concerns about any wrongdoing without fear of criticism, discrimination or reprisal. During the year, there was one report received through the whistleblowing process which was fully investigated and addressed in accordance with the policy.

The Audit and Risk Committee also takes responsibility for reviewing the policies and procedures adopted by the Group to prevent bribery. The Group is committed to a zero-tolerance position with regard to bribery. The Committee is satisfied that the Group's procedures with respect to these matters are adequate.

## Directors' Remuneration Report

### Chair



### Members



## Dear Shareholder,

### I am pleased to report to you on the main activities of the Committee and how it has performed its duties during 2019.

During the year, we concluded our review of the Directors' Remuneration policy, incorporating the requirements of the new Corporate Governance Code, for which we received strong shareholder support at the 2019 AGM, where it was approved with over 99% of votes in favour.

As a result, only one remuneration resolution will be tabled at the 2020 AGM i.e. the advisory shareholder vote on the Annual Report on Remuneration.

In addition, we have assessed year-end outcomes and approved new awards and targets regarding annual bonuses and the Long-Term Incentive Plan, as well as reviewing basic salary levels, all of which the Committee believes reflect Group performance, in a challenging economic and political environment, and provide stretching targets for future growth.

In line with best practice, an externally-facilitated review of the Committee's effectiveness was concluded this year and I am pleased to report that no significant areas of concern were identified and the Committee was viewed as operating effectively.

Finally, I would like to thank my fellow Committee members, all of whom have served throughout the year, for their valuable contribution and support, and I welcome any comments or questions from shareholders.

### Martyn Coffey

Chair of the Remuneration Committee  
12 March 2020

### Role and responsibilities:

The Committee's principal responsibilities are to:

- Recommend to the Board the remuneration strategy and framework for the Chair, Executive Directors and senior management.
- Determine, within that framework, the individual remuneration arrangements for the Executive Directors and senior managers.
- Oversee any major changes in employee benefit structures throughout the Group.

### Summary of activities during the year

#### The Committee met three times during 2019. The main Committee activities during the year (full details of which are set out in the relevant sections of this report) included:

- agreeing the performance against the targets and pay-out for the 2018 annual bonus awards;
- agreeing Executive Director and senior management base salary increases from 1 April 2019;
- setting the performance targets for the 2019 annual bonus;
- agreeing the award levels and earnings per share and operating cash flow targets for the 2019 Performance Share Plan ('PSP') awards;
- consulting with the Company's major investors and representative bodies in respect of the new Remuneration Policy; and
- considering the 2018 UK Corporate Governance Code and updating the Remuneration Committee terms of reference; finalising the Remuneration Policy that was proposed to shareholders at the 2019 AGM.

### Pay for performance

Our senior management team delivered good progress against our strategic priorities and robust financial results in 2019.

The highlights include further increases in market share, with strong sales growth of 10% driven from all areas of the business. Gross margin improved by 170 bps to 51.2%, which reflects a benefit from selling price increases implemented to recover cost inflation and higher usage of recycled material. Overheads were up 12% (on a like-for-like basis) which includes the impact on direct labour from higher production volumes.

However, we also continued to incur some operating inefficiencies, which resulted in additional warehousing and distribution costs, particularly through the peak period. As described in earlier sections of this Annual Report, Mark Hemming joined the business as Chief Operating Officer in August. Mark is leading our drive to improve operating efficiency, with the capex programme launched at the beginning of the year to increase co-extrusion and foam capacity now complete and the project to expand our warehousing capacity now well underway.

As a result, we reported profit before tax of £23.1 million, up 3% on 2018, on a pre-IFRS 16 basis. Cash conversion was impacted by working capital investment required to support the strong sales growth and a stock build programme designed to mitigate the possible impact of raw material supply interruption due to Brexit, and to increase stock holding at our branches. Adjusted operating cash flow was £18.7 million (2018: £22.0 million) being adjusted EBITDA (pre-IFRS 16) less working capital movements.

Against stretching targets, this performance has been reflected in the payments made to the Executive Directors under the Annual Bonus Plan, amounting to 49% of salary, with the health and safety underpin considered satisfied. Further details of performance against the relevant targets can be found on page 81 of this report.

PSP awards originally granted in 2017 are expected to lapse in 2020 as a result of earnings per share and cash flow performance in the three years to 31 December 2019 being below threshold.

### Changes to the remuneration policy

Following a detailed review of the Remuneration Policy, the changes approved to Eurocell's remuneration policy at the 2019 AGM were as follows:

- Annual bonus deferral was formalised and made compulsory. Previously, the Committee could determine each year whether to operate bonus deferral into shares (most recently deferring half of the bonus paid). Going forwards, 100% of any annual bonus awarded to Executive Directors above 75% of salary will be compulsorily deferred into Eurocell shares for 3 years from grant. This new approach is considered to be simpler from an administrative perspective, where low levels of bonus are awarded, and is considered fairer as participants will have greater certainty in respect of the level of deferral that will be operated. It also ensures that the bonus potential is competitive against similarly sized SmallCap companies. Formally deferring half of any annual bonus awarded on a compulsory basis is considered too onerous from both an administrative and market competitive perspective.
- Shareholding guidelines were increased from 100% to 200% of salary, in line with best practice. However, rather than operating a fixed timeframe to achieve the guidelines, a more market standard approach will be adopted. Going forwards, Executive Directors will be required to retain 50% of the net of tax shares which vest under deferred bonus and PSP awards until the new guideline is met.

- To ensure compliance with the 2018 UK Corporate Governance Code:
  - a 2 year post-vesting holding period has been introduced for all PSP awards granted to Executive Directors after the 2019 AGM; and
  - future Executive Director appointments will be offered a lower pension than the 15% of salary currently offered, to the extent this is possible, so as to align senior executive pension provision closer to workforce norms over time. No changes have been made to incumbent pension provision.

### Implementation of the Remuneration Policy for 2020

The Remuneration Committee intends to operate the Remuneration Policy for 2020 as follows.

#### Base salaries

Salary levels will be positioned to reflect experience and responsibility. Mark Kelly's and Michael Scott's current salaries are £393,271 and £251,257 respectively. With effect from 1 April 2020, these salaries will be increased by 5%.

#### Pensions/benefits

A defined contribution/salary supplement of 15% of salary will continue to be offered, together with a standard suite of other benefits.

#### Annual bonus

The maximum annual bonus remains at 100% of salary. For 2020, reflecting Eurocell's underlying strategy, 70% of the bonus will be based on adjusted profit before tax and 30% will be based on cash flow targets. The targets will be subject to a health and safety underpin. Any bonus in excess of 75% of salary will be deferred into shares for 3 years.

#### Long-term incentives

PSP awards are expected to be made in April 2020. Award levels will be set at 100% of salary for Mark Kelly and Michael Scott. Performance targets will be based on 3-year earnings per share growth (two-thirds of the award) and cash flow (one-third) targets.

The Committee believes that the above approach takes due account of market and best practice and, importantly, also reflects and supports Eurocell's strategy and promotes the Company's long-term success.

### Format of this Report and matters to be approved at our AGM

Notwithstanding the fact that:

- we will not be seeking shareholder approval for any changes to our Remuneration Policy at the 2020 AGM; and
- the relevant Regulations do not require us to reproduce our Remuneration Policy in this report;

we have included, for ease of reference, a summary of our Policy (see Part A below) in addition to the Annual Report on Remuneration section of the report (see Part B below), in respect of which we will be holding an advisory vote at the forthcoming AGM.

The full Directors' Remuneration Policy was disclosed in the 2018 Annual Report and is available on the Company's website.

## Directors' Remuneration Report *continued*

### Explanatory foreword

This report contains the material required to be set out as the Directors' Remuneration Report for the purposes of Part 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, and is split into two parts, as follows:

- Part A: The Directors' Remuneration Policy – which sets out a summary of the Remuneration Policy for which shareholder approval was obtained at the 2019 AGM and which will continue to apply without amendment for the forthcoming year.
- Part B: The Annual Report on Remuneration – which sets out payments and awards made to the Directors and details the link between Company performance and remuneration for 2019 and how the policy will be operated for 2020.

The auditors have reported on certain parts of the Annual Report on Remuneration and stated whether, in their opinion, those parts have been properly prepared in accordance with the Companies Act 2006. Those parts which have been subject to audit are clearly indicated.

### PART A: DIRECTORS' REMUNERATION POLICY

The following table summarises the key aspects of the Directors' Remuneration Policy:

#### Executive Directors

Element and purpose	Policy and operation	Maximum	Performance measures
<b>Base salary</b> This is the core element of pay and reflects the individual's role and position within the Group with some adjustment to reflect their capability and contribution.	Base salaries will be reviewed each year by the Committee.  The Committee does not strictly follow data, but uses the median position (as against appropriate size and/or sector peers) as a reference point in considering, in its judgement, the appropriate level of salary having regard to other relevant factors including corporate and individual performance and any changes in an individual's role and responsibilities.  Base salary is normally paid monthly in cash.	It is anticipated that salary increases will generally be in line with those awarded to salaried employees. However, in certain circumstances (including, but not limited to, changes in role and responsibilities, market levels, individual and Company performance), the Committee may make larger salary increases to ensure they are market competitive. The rationale for any such increase will be disclosed in the relevant Annual Report on Remuneration.	n/a
<b>Benefits</b> To provide benefits valued by recipients.	The Executive Directors can receive a car allowance or Company car, private family medical cover, permanent health insurance and life assurance.  The Committee reserves discretion to introduce new benefits where it concludes that it is appropriate to do so, having regard to the particular circumstances and to market practice.  Where appropriate, the Company will meet certain costs relating to Executive Director relocations.	It is not possible to prescribe the likely change in the cost of insured benefits or the cost of some of the other reported benefits year-to-year, but the provision of benefits will operate within an annual limit of £100,000 (plus a further 100% of base salary in the case of relocations).  The Committee will monitor the costs of benefits in practice and will ensure that the overall costs do not increase by more than the Committee considers appropriate in all the circumstances.	n/a
<b>Pension</b> To provide retirement benefits.	Executive Directors can receive pension contributions to personal pension arrangements or, if a Director is impacted by annual or lifetime limits on contribution levels to qualifying pension plans, the balance can be paid as a cash supplement.	The maximum employer's contribution is limited to up to 15% of base salary, although future Executive Director appointments will be offered a lower pension, to the extent this is possible, so as to align senior executive pension provision closer to workforce norms over time.	n/a

Element and purpose	Policy and operation	Maximum	Performance measures
<p><b>Annual Bonus Plan</b> To motivate executives and incentivise delivery of performance over a one-year operating cycle, focusing on the short-to-medium-term elements of our strategic aims.</p>	<p>Annual Bonus Plan levels and the appropriateness of measures are reviewed annually at the commencement of each financial year to ensure they continue to support our strategy.</p> <p>Once set, performance measures and targets will generally remain unchanged for the year, except to reflect events such as corporate acquisitions or other significant events where the Committee considers it to be necessary in its opinion to make appropriate adjustments.</p> <p>Any annual bonus award above 75% of salary will be compulsorily deferred into Eurocell shares, under the Company's Deferred Share Plan ('DSP'), for 3 years from grant.</p> <p>The number of shares subject to vested DSP awards may be increased to reflect the value of dividends that would have been paid in respect of any ex-dividend dates falling between the grant of awards and the expiry of the vesting period.</p> <p>Malus and clawback provisions apply to the Annual Bonus Plan and DSP.</p>	<p>The maximum level of Annual Bonus Plan outcomes is 100% of base salary per annum for the duration of this policy.</p>	<p>The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate.</p> <p>Attaining the threshold level of performance for any measure will not produce a pay-out of more than 20% of the maximum portion of overall annual bonus attributable to that measure.</p> <p>However, the Annual Bonus Plan remains a discretionary arrangement and the Committee retains a standard power to apply its judgement to adjust the outcome of the Annual Bonus Plan for any performance measure (from zero to any cap) should it consider that to be appropriate.</p>
<p><b>Long-term incentives</b> To motivate and incentivise delivery of sustained performance over the long term, and to promote alignment with shareholders' interests, the Company operates PSP.</p>	<p>Awards under the PSP take the form of nil-cost options which vest to the extent performance conditions are satisfied over a period of at least 3 years.</p> <p>The number of shares subject to vested PSP awards may be increased to reflect the value of dividends that would have been paid in respect of any ex-dividend dates falling between the grant of awards and the expiry of the vesting period (or at the end of any holding period in respect of unexercised awards).</p> <p>A two-year post-vesting holding period applies to PSP awards granted to Executive Directors after the 2019 AGM.</p> <p>Malus and clawback provisions apply to PSP awards</p>	<p>The PSP allows for awards over shares with a maximum value of 150% of base salary per financial year.</p> <p>The Committee expressly reserves discretion to make such awards as it considers appropriate within these limits.</p>	<p>The Committee may set such performance conditions on PSP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual).</p> <p>Performance periods may be over such periods as the Committee selects at grant, which will not normally be less than (but may be longer than) 3 years.</p> <p>No more than 25% of awards vest for attaining the threshold level of performance conditions.</p>

## Directors' Remuneration Report *continued*

Element and purpose	Policy and operation	Maximum	Performance measures
<p><b>Share ownership guidelines</b> To further align the interests of Executive Directors with those of shareholders.</p>	Executive Directors are required to retain 50% of the net of tax shares which vest under the PSP and DSP awards until the guideline is met.	No maximum limit (Guideline minimum target of 200% of base salary for all Executive Directors.)	n/a
<p><b>All-employee share plans</b> To encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders.</p>	<p>These are all-employee share plans established under HMRC tax-advantaged regimes and follow the usual form for such plans.</p> <p>Executive Directors will be able to participate in all-employee share plans on the same terms as other Group employees.</p>	The maximum participation levels for all-employee share plans will be the limits for such plans set by HMRC from time to time.	Consistent with normal practice, such awards will not be subject to performance conditions.

### Chair and Non-executive Directors

Element and Purpose	Policy and Operation	Maximum	Performance Measures
<p><b>Chair/Non-executive Director fees</b> To enable the Company to recruit and retain Chairs and Non-executive Directors of the highest calibre, at the appropriate cost.</p>	<p>The fees paid to the Chair and Non-executive Directors aim to be competitive with other fully listed companies of equivalent size and complexity.</p> <p>The fees payable to the Non-executive Directors are determined by the Board, with the Chair's fees determined by the Remuneration Committee. Fees are paid monthly in cash.</p> <p>The Chair and Non-executive Directors will not participate in any cash or share incentive arrangements.</p> <p>The Company reserves the right to provide benefits (including travel and office support) to the Chair and Non-executive Directors where appropriate.</p>	<p>The aggregate fees (and any benefits) of the Chair and Non-executive Directors will not exceed the limit from time to time prescribed within the Company's Articles of Association.</p> <p>If the Chair and/or Non-executive Directors devote special attention to the business of the Company, or otherwise perform services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, they may be paid such additional remuneration as the Directors or any Committee authorised by the Directors may determine.</p>	n/a

## Other elements of our policy include:

### Recruitment remuneration policy

The Company's recruitment remuneration policy aims to give the Committee sufficient flexibility to secure the appointment and promotion of high-calibre executives to strengthen the management team and secure the skill sets to deliver our strategic aims.

In terms of the principles for setting a package for a new Executive Director, the starting point for the Committee will be to apply the general Policy for Executive Directors as set out above and structure a package in accordance with that policy. Any caps contained within the policy for fixed pay do not apply to new recruits, although the Committee would not envisage exceeding these caps in practice.

The Annual Bonus Plan, DSP and PSP will operate (including the maximum award levels) as detailed in the general Policy in relation to any newly appointed Executive Director. For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as it considers appropriate.

For external candidates, it may be necessary to make additional awards in connection with the recruitment to buy-out awards forfeited by the individual on leaving a previous employer.

For the avoidance of doubt, buy-out awards are not subject to a formal cap. Any recruitment-related awards which are not buy-outs will be subject to the limits for Annual Bonus Plan and PSP as stated in the general policy. Details of any recruitment-related awards will be appropriately disclosed.

For any buy-outs the Company will not pay more than is, in the view of the Committee, necessary and will in all cases seek, in the first instance, to deliver any such awards under the terms of the existing Annual Bonus Plan, DSP or PSP. It may, however, be necessary in some cases to make buy-out awards on terms that are more bespoke than the existing Annual Bonus Plan, DSP or PSP.

All buy-outs, whether under the Annual Bonus Plan, DSP, PSP or otherwise, will take due account of the service obligations and performance requirements for any remuneration relinquished by the individual when leaving a previous employer. The Committee will seek (where it is practicable to do so) to make buy-outs subject to what are, in its opinion, comparable requirements in respect of service and performance. However, the Committee may choose to relax this requirement in certain cases (such as where the service and/or performance requirements are materially completed, or where such factors are, in the view of the Committee, reflected in some other way, such as a significant discount to the face value of the awards forfeited) and where the Committee considers it to be in the interests of shareholders.

A new Chair/Non-executive Director would be recruited on the terms explained above in respect of the main policy for such Directors.

### Service contracts

#### Executive Directors

The Committee's policy is that each Executive Director's service agreement should be of indefinite duration, subject to termination upon no more than twelve months' notice by either party. The service agreements of both Executive Directors comply with that policy. Contracts contain provisions allowing the Company to make payments in lieu of notice (albeit not including bonus or benefits) but do not contain change of control provisions.

The Committee reserves flexibility to alter these principles if necessary to secure the recruitment of an appropriate candidate and, if appropriate, introduce a longer initial notice period (of up to two years) reducing over time.

The date of each Executive Director's contract is:

**Mark Kelly** 29 March 2016  
**Michael Scott** 1 September 2016

## Directors' Remuneration Report *continued*

### Chair/Non-executive Directors

The Chair and each Non-executive Director is engaged for an initial period of three years. These appointments can be renewed following the initial three-year term. These engagements can be terminated by either party on twelve months' notice.

Neither the Chair nor any Non-executive Directors can participate in the Company's incentive plans, are not entitled to any pension benefits and are not entitled to any payment in compensation for early termination of their appointment beyond the twelve months' notice referred to above.

Name	Date of original appointment	Date of latest appointment	Term
<b>Bob Lawson</b>	4 February 2015	2 February 2018	3 years
<b>Frank Nelson</b>	4 February 2015	2 February 2018	3 years
<b>Martyn Coffey</b>	4 February 2015	2 February 2018	3 years
<b>Sucheta Govil</b>	1 October 2018	1 October 2018	3 years

The Directors' service agreements and letters of appointment are available for shareholders to view from the Company Secretary on request.

### Termination/change of control policy summary

It is appropriate for the Committee to consider treatments on a termination having regard to all of the relevant facts and circumstances available at that time. This policy applies both to any negotiations linked to notice periods on a termination and any treatments that the Committee may choose to apply under the discretions available to it under the terms of the Annual Bonus Plan, DSP and PSP. The potential treatments on termination under these plans are summarised in the table below:

Incentives	If a leaver is deemed to be a 'good leaver'; for example, leaving through injury, ill-health, disability, retirement, redundancy, sale of business or otherwise at the discretion of the Committee	If a leaver is not a 'good leaver'	Change in control
<b>Annual bonus</b>	Committee has discretion to determine an annual bonus which may be limited to the period actually worked.	Annual bonus generally paid.	Committee has discretion to determine annual bonus.
<b>DSP</b>	Awards normally vest either on cessation or the normal vesting date. The Committee can pro-rate awards if considered appropriate.	All awards will normally lapse.	Awards vest on a pro rata basis, unless the Committee determines not to pro-rate.
<b>PSP</b>	Will receive a pro-rated award subject to the application of the performance conditions at the end of the normal performance period.  Committee retains standard discretions to either vary/disapply time pro-rating or to accelerate vesting to the earlier date of cessation (determining the performance conditions at that time).	All awards will normally lapse.	Will receive a pro-rated award subject to the application of the performance conditions at the date of the event, unless the Committee determines not to pro-rate.

On death, the Annual Bonus Plan, DSP and PSP awards typically vest in full (with pro-rating also potentially applying).

The Company has the power to enter into settlement agreements with Directors and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of the termination of an Executive Director, the Company may make a contribution towards that individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees will be disclosed as part of the detail of termination arrangements. For the avoidance of doubt, the policy does not include an explicit cap on the cost of termination payments.

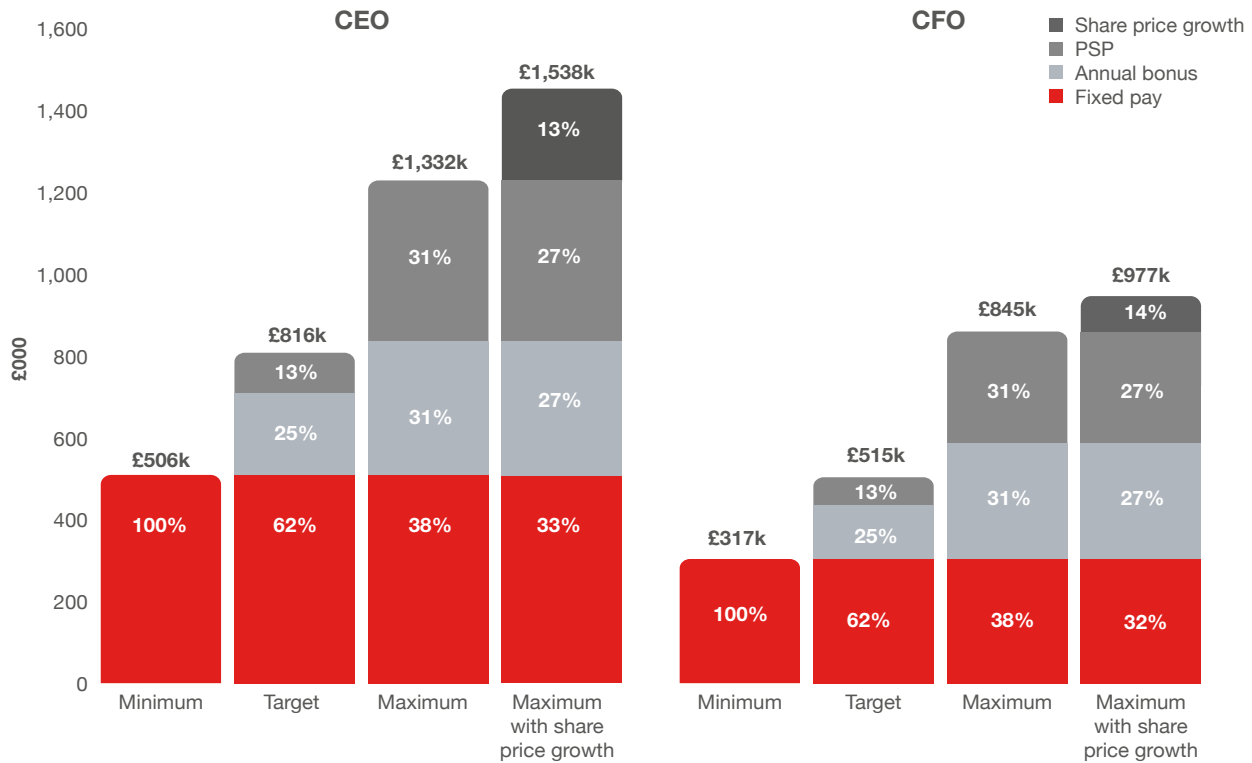
### Other policy matters

The 2018 Annual Report also set out formal details of our approach to:

- travel and hospitality;
- differences between the policy on remuneration for Directors from the policy on remuneration for other employees;
- Committee discretions;
- external appointments;
- considerations of employment conditions elsewhere in the Group;
- the operation of malus and clawback in relation to the PSP and annual bonus; and
- how the views of shareholders are taken into account.



## Illustrations of application of remuneration policy



The charts above aim to show how the remuneration policy for Executive Directors will be applied in 2020 using the assumptions in the table below.

### Minimum

- Consists of base salary, benefits and pension.
- Base salary is the salary to be paid with effect from 1 April 2020.
- Estimated value of a full year's benefits, including car allowance, private medical cover, health insurance and life assurance.
- Pension measured as the cash allowance in lieu of Company contributions at 15% of salary.

	Base salary	Benefits	Pension	Total fixed
Mark Kelly	£412,935	£31,000	£61,940	£505,875
Michael Scott	£263,820	£14,000	£39,573	£317,393

### Target

Based on what the Director would receive if performance was on-target (excluding share price appreciation and dividends):

- Annual bonus: consists of an assumed payment of 50% of maximum opportunity.
- Long-term incentives: consists of the threshold level of vesting (25% vesting) under the PSP.

### Maximum

Based on the maximum remuneration receivable (excluding share price appreciation and dividends):

- Annual bonus: consists of maximum bonus of 100% of base salary.
- Long-term incentives: consists of the face value of awards (at 100% of salary for both Executive Directors) under the PSP.

### Maximum with Share Price Growth

As per the maximum but with a 50% share price growth assumption for the PSP awards.

### PART B: THE ANNUAL REPORT ON REMUNERATION

#### The Committee (unaudited information)

The members of the Remuneration Committee are: Martyn Coffey (Chair), Bob Lawson, Frank Nelson and Sucheta Govil.

The Committee's principal responsibilities are to:

- recommend to the Board the remuneration strategy and framework for the Chair, Executive Directors and senior managers;
- determine, within that framework, the individual remuneration arrangements for the Executive Directors and senior managers; and
- oversee any major changes in employee benefit structures throughout the Group.

The Chief Executive Officer is invited to attend meetings of the Committee, except when his own remuneration is being discussed, and the Chief Financial Officer and other Executive and Non-executive Directors attend meetings as required. Bob Lawson takes no part in any discussions relating to his own remuneration.

The Committee met three times during the year, with all members of the Committee present at these meetings.

The Committee has formal terms of reference which can be viewed on the Company's website ([www.investors.eurocell.co.uk](http://www.investors.eurocell.co.uk)).

During the year, the Committee considered its obligations under the UK Corporate Governance Code and concluded that:

- the Directors' Remuneration Policy supports the Company's strategy (including in the performance measures chosen); and
- remuneration for our Directors remains appropriate.

**In addition, the Committee has ensured that the Directors' Remuneration Policy and practices are consistent with the six factors set out in Provision 40 of the Corporate Governance Code:**

**Clarity** – Our Directors' Remuneration Policy is well understood by our senior executive team and has been clearly articulated to our shareholders and representative bodies (both on an ongoing basis and during a consultation when changes are being proposed).

**Simplicity** – The Committee is mindful of the need to avoid overly complex remuneration structures which can be misunderstood and deliver unintended outcomes. Therefore, a key objective of the Committee is to ensure that our Directors' Remuneration Policy and practices are straightforward to communicate and operate.

**Risk** – Our Directors' Remuneration Policy has been designed to ensure that inappropriate risk-taking is discouraged and will not be rewarded via (i) the balanced use of both annual incentives and long-term incentives which employ a blend of targets, (ii) the significant role played by shares in our incentive plans (together with bonus deferral and shareholding guidelines) and (iii) malus/ clawback provisions within all our incentive plans.

**Predictability** – Our incentive plans are subject to individual caps, with our share plans also subject to standard dilution limits. The use of shares within our incentive plans results in that actual pay received being highly aligned to the experience of our shareholders.

**Proportionality** – There is a clear link between individual awards, delivery of strategy and our long-term performance. In addition, the significant role played by variable pay, together with the composition of the Executive Directors' service contracts, ensures that poor performance is not rewarded.

**Alignment to culture** – Our executive pay policies are fully aligned to the Company's culture through the use of metrics in both the annual bonus and PSP that measure how we perform against key aspects of our strategy, which has the objective of delivering sustainable growth in revenue, profit and cash flow.

FIT Remuneration Consultants LLP ('FIT'), signatories to the Remuneration Consultants Group's Code of Conduct, are appointed by the Committee and provide advice to the Committee on all matters relating to remuneration, including best practice. FIT provided no other services to the Group and, accordingly, the Committee was satisfied that the advice provided by FIT was objective and independent. FIT's fees in respect of 2019 were £12,326 (excluding VAT). FIT's fees were charged on the basis of the firm's standard terms of business for advice provided.

## Audited information

### Single total figure table (audited)

The remuneration for the Chair, Executive and Non-executive Directors of the Company who performed qualifying services during the relevant financial year is detailed below. The Chair and Non-executive Directors received no remuneration other than their annual fee.

For the year ended 31 December 2019:

Director	Salary/fees £000	Taxable benefits <sup>1</sup> £000	Bonus £000	Long-term incentives £000	Pension £000	Other £000	Total remuneration £000
Mark Kelly	389	33	193	–	58	–	673
Michael Scott	248	21 <sup>2</sup>	124	–	37	–	430
Robert Lawson	120	–	–	–	–	–	120
Patrick Kalverboer <sup>3</sup>	17	–	–	–	–	–	17
Frank Nelson	48	–	–	–	–	–	48
Martyn Coffey	45	–	–	–	–	–	45
Sucheta Govil <sup>4</sup>	40	–	–	–	–	–	40

For the year ended 31 December 2018:

Director	Salary/fees £000	Taxable benefits <sup>1</sup> £000	Bonus £000	Long-term incentives £000	Pension £000	Other £000	Total remuneration £000
Mark Kelly	372	31	–	–	56	–	459
Michael Scott	238	14	–	–	36	–	288
Robert Lawson	120	–	–	–	–	–	120
Patrick Kalverboer	40	–	–	–	–	–	40
Frank Nelson	48	–	–	–	–	–	48
Martyn Coffey	45	–	–	–	–	–	45
Sucheta Govil <sup>4</sup>	10	–	–	–	–	–	10

#### Notes:

- 1 Taxable benefits comprise Company car or car allowance, private family medical cover, permanent health insurance and life assurance.
- 2 Includes £5k relating to prior years.
- 3 Patrick Kalverboer stepped-down from the Board on 10 May 2019.
- 4 Sucheta Govil joined the Board on 1 October 2018.

The aggregate emoluments (being salary/fees, bonuses, benefits and pension allowances) of all Directors for 2019 was £1,373,000 (2018: £1,010,000).

### Further information on the 2019 annual bonus (audited)

In 2019, the annual bonus metrics were a blend of targets relating to adjusted profit before tax (70% of the bonus opportunity) and cash flow (30% of the bonus opportunity). In addition, a health and safety adjustment underpin applied which, if not achieved, could reduce the bonus pay-out (including to zero).

More particularly, the adjusted profit before tax and cash flow bonus targets were as follows:

£m	Threshold	Target	Maximum	Actual	Pay-out (% of max)
Adjusted Profit before Tax (pre IFRS 16)	22.0	23.2	24.9	23.1	70%
Adjusted cash flow	19.0	20.0	21.5	18.7	0%

In order to reflect the level of stretch within the targets, the Committee determined that a pay-out of 75% of base salary would be appropriate for an on-target performance this year. Performance against the adjusted profit before tax element of the bonus resulted in a bonus of 70% of that element (i.e. approx. 49% of salary). Performance against the cash flow element of the bonus resulted in a bonus of 0% of that element (i.e. approx. 0% of salary). The health and safety underpin was also considered satisfied.

In total, this results in a total bonus pay-out of 49% of salary. Whilst not required under our Director's Remuneration Policy (which only requires annual bonus awards above 75% of salary to be deferred), 25% of the annual bonus paid to Mark Kelly and Michael Scott will be deferred into shares for one year from the date of grant under the DSP.

## Directors' Remuneration Report *continued*

### PSP awards vesting in respect of 2019

The PSP values included in the single figure table above relate to awards granted in 2017 which vest in 2020, dependent on EPS and cash flow performance measured over the 3-year period ended 31 December 2019. As noted below these share awards are not expected to vest.

Under the EPS performance target (two-thirds of awards) which uses a sliding scale, 25% of this part of an award vests where the mean average annual growth of adjusted earnings per share of 7% p.a. is achieved over the three-year performance period, increasing pro-rata to full vesting where mean average annual growth of 13% p.a. is achieved.

Performance target	Base EPS	EPS at 31 December 2019	Average annual EPS growth	Threshold 7% p.a.	Maximum 13% p.a.	Vesting %
Adjusted EPS (pre IFRS 16)	20.0p	19.7p	(0.5)%	24.2p	27.8p	0%

Under the cash-flow target (defined as aggregate of EBITDA less working capital and excluding capital expenditure over the 3-year period) (one-third of awards), 25% of this part of an award vests for cash flow of £84.9m increasing pro-rata to full vesting for cash flow of £103.7m.

Performance target	Threshold	Maximum	Actual	Vesting %
Cash flow	£84.9m	£103.7m	£69.8m	0%

As a result of EPS (two-thirds of awards) and cash flow (one-third of awards) performance, no PSP share awards are expected to vest in 2020.

### Statement of Directors' shareholding and share interests (audited)

The table below details for each Director, the total number of Directors' interests in shares at 31 December 2019:

Director	Beneficially owned 31 December 2018 <sup>1</sup>	Beneficially owned 31 December 2019 <sup>1</sup>	Vested but unexercised awards	Unvested DSP	Unvested PSP <sup>2</sup>	Unvested SAYE	Shareholding Guideline (% of salary) <sup>3</sup>	Shareholding Guideline met? <sup>3</sup>
Mark Kelly	109,469	109,469	–	79,210	491,944	11,029	200	No
Michael Scott	14,215	14,215	–	34,259	314,297	11,029	200	No
Robert Lawson	72,811	87,026	–	–	–	–	–	n/a
Frank Nelson	28,571	43,376	–	–	–	–	–	n/a
Martyn Coffey	10,714	10,714	–	–	–	–	–	n/a
Sucheta Govil	–	–	–	–	–	–	–	n/a

Notes:

- The beneficial shareholdings set out above include those held by Directors and their respective connected persons.
- Performance-based share awards.
- Shareholding guidelines for Executive Directors are 200% of salary. Executive Directors will be required to retain at least 50% of the net of tax shares which vest under the PSP and DSP until the guideline is met.

### PSP awards granted in 2019

The following awards were made under the PSP in 2019:

	Date of grant	Basis of award (% salary)	Share price <sup>1</sup>	Number of shares	Face value of award at grant	Exercise period
Mark Kelly	24 April 2019	100%	231.0p	170,247	393,271	April 2022 to April 2023
Michael Scott	24 April 2019	100%	231.0p	108,768	251,257	April 2022 to April 2023

Notes:

- Rounded to one decimal place for the purposes of presentation in this report.

The performance conditions, all based on pre IFRS 16 results, applying to the awards made in April 2019 relate to: (i) adjusted earnings per share growth for two-thirds of the award; and (ii) Group cash flow targets for one-third of the award. Group cash flow is defined as the aggregate of EBITDA less working capital (and excluding capital expenditure) for each of the 3 financial years falling in the performance period.

More specifically:

Average annual adjusted EPS growth target to 31 December 2021	Portion of award vesting
Above 10% p.a.	100%
Between 4% p.a. and 10% p.a.	Pro rata on straight-line between 25% and 100%
4% p.a.	25%
Below 4% p.a.	0%

Group cash flow to 31 December 2021	Portion of award vesting
Above £97.0 million	100%
Between £79.4 million and £97.0 million	Pro rata on straight-line between 25% and 100%
£79.4 million	25%
Below £79.4 million	0%

### DSP awards granted in 2019

No awards were made under the DSP in 2019 in respect to the 2018 annual bonus.

### Outstanding share plan awards

Details of all outstanding share awards made to Executive Directors are set out below:

Executive	Award type	Ex price (p)	Grant date	Interest at 1 January 2019	Awards granted in the year	Awards lapsed in the year	Awards vested in the year	Interest at 31 December 2019	Exercise period	Notes
Mark Kelly	PSP	0	28/06/16	273,417	–	273,417	–	–	Jun 19 – Jun 20	1
	PSP	0	04/04/17	148,148	–	–	–	148,148	Apr 20 – Apr 21	2
	PSP	0	18/04/18	173,549	–	–	–	173,549	Apr 21 – Apr 22	3
	PSP	0	24/04/19	–	170,247	–	–	170,247	Apr 22 – Apr 23	4
	DSP	0	04/04/17	45,502	–	–	–	45,502	Apr 20 – Apr 21	5
	DSP	0	18/04/18	33,708	–	–	–	33,708	Apr 21 – Apr 22	6
	SAYE	163.2	07/04/17	11,029	–	–	–	11,029	Apr 20 – Oct 20	7
Michael Scott	PSP	0	19/12/16	126,006	–	126,006	–	–	Dec 19 – Dec 20	1
	PSP	0	04/04/17	94,650	–	–	–	94,650	Apr 20 – Apr 21	2
	PSP	0	18/04/18	110,879	–	–	–	110,879	Apr 21 – Apr 22	3
	PSP	0	24/04/19	–	108,768	–	–	108,768	Apr 22 – Apr 23	4
	DSP	0	04/04/17	12,724	–	–	–	12,724	Apr 20 – Apr 21	5
	DSP	0	18/04/18	21,535	–	–	–	21,535	Apr 21 – Apr 22	6
	SAYE	163.2	07/04/17	11,029	–	–	–	11,029	Apr 20 – Oct 20	7

Notes:

- See 'PSP Awards Vesting in Respect of 2018' section in the 2018 Directors' Remuneration Report.
- See 'PSP Awards Vesting in Respect of 2019' section above.
- As disclosed in the 2018 Directors' Remuneration Report.
- See 'PSP Awards Granted in 2019' section above.
- DSP awards in respect of the 2016 annual bonus award.
- DSP awards in respect of the 2017 annual bonus award.
- Awards granted under the Eurocell plc Save As You Earn Scheme. Awards are based on a 3-year savings contract with an exercise price of 163.2p.

During the year ended 31 December 2019, the highest mid-market price of the Company's shares was 245p and the lowest mid-market price was 196.5p. At 31 December 2019 the share price was 243p.

The aggregate gains by all Directors during 2019 was £nil (2018: £nil).

### Payments to past directors (audited)

No payments to past directors were made during the year.

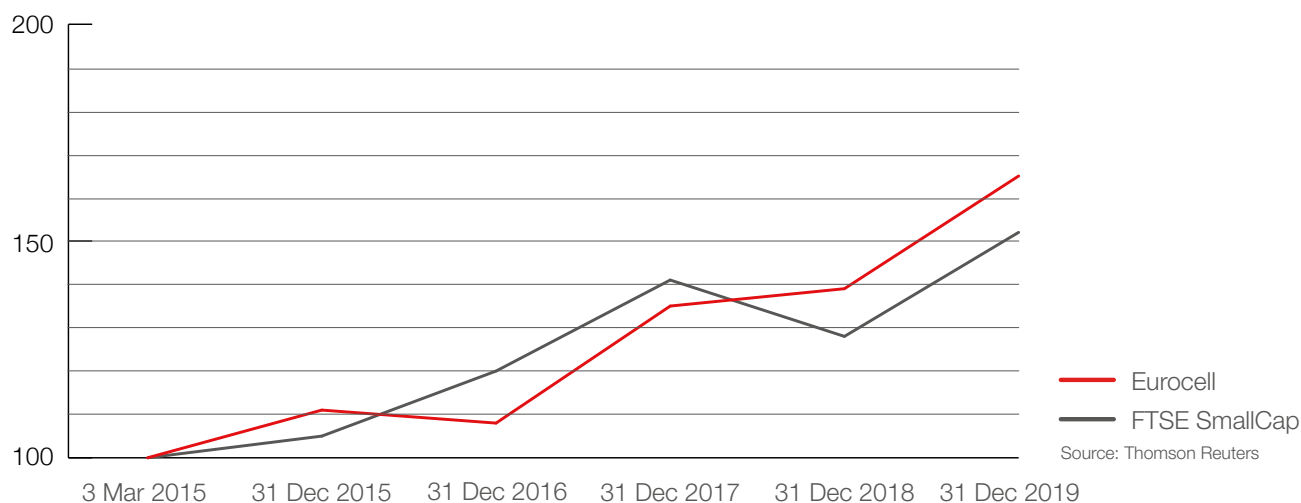
### Payments for loss of office (audited)

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

**Performance graph and CEO remuneration table (unaudited)**

The following graph shows the Total Shareholder Return ('TSR') performance of an investment of £100 in Eurocell plc's shares from its listing in March 2015 to 31 December 2019, compared with a £100 investment in the FTSE SmallCap Index over the same period. The FTSE SmallCap Index was chosen as a comparator because it represents a broad equity market index of similar-sized companies.

**Total Shareholder Return Index**



The table below details certain elements of the CEO's remuneration over the same period as presented in the TSR Index graph:

Year	CEO	Single figure of total remuneration	Annual Bonus pay-out against maximum %	Long-term incentive vesting rates against maximum opportunity %
2019	Mark Kelly	£673,262	49%	0%
2018	Mark Kelly	£459,294	0%	0%
2017	Mark Kelly	£916,442	40%	n/a
2016	Mark Kelly	£560,558	80%	n/a
	Patrick Bateman	£284,457	33%	n/a
2015	Patrick Bateman	£637,098	87%	n/a

As the Company listed in March 2015, part of the 2015 remuneration relates to when Eurocell was a privately owned Company.

## Percentage change in remuneration of director undertaking the role of CEO (unaudited)

The table below presents the year-on-year percentage change in remuneration for the CEO and for all Group employees:

	Percentage increase in remuneration between 2018 and 2019	
	CEO	All staff
Salary and fees	5%	3%
Short-term incentives	n/a <sup>1</sup>	7%
All taxable benefits	6%	18%

Notes:

1 Percentage increase is not available due to 2018 short-term incentives being £nil.

## CEO to employee pay ratio

The table below shows the CEO to employee pay ratio.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option B	34 : 1	27 : 1	21 : 1

Notes to the CEO to employee pay ratio:

- Option B (based on the gender pay gap reporting disclosures) was preferred as this data was already prepared on a Group basis.
- In line with the gender pay gap reporting regulations, pay for the 25th percentile, median and 75th percentile employees was calculated with reference to 5 April for each financial year.
- The ratios shown are representative of the FTE 25th percentile, median and 75th percentile pay for employees within the Group at the gender pay gap reference date.
- FTE equivalent pay has been calculated using the gender pay gap reporting methodology.
- The Chief Executive's salary, benefits, pension, bonus and long-term incentives from the single total figure have been used.

The total pay and benefits and the salary component of total pay and benefits for the employee at each of the 25th percentile, the median and the 75th percentile are shown below:

Year	Salary £'000			Total pay and benefits £'000		
	25th percentile	Median	75th percentile	25th percentile	Median	75th percentile
2019	19	24	30	20	25	32

## Relative importance of spend on pay (unaudited)

The table below details the change in total employee pay between 2018 and 2019 as detailed in Note 8 of the Financial Statements, compared with distributions to shareholders by way of dividend, share buybacks or any other significant distributions or payments.

	% change	2019 £m	2018 £m
Total gross employee pay	17%	65.5	56.1
Dividends/share buybacks	3%	9.6	9.3

The average number of employees during the year was 1,855 (2018: 1,666).

## Statement of voting at General Meeting

The following table shows the results of the binding Remuneration Policy vote and the advisory Directors' Remuneration Report vote at the 10 May 2019 AGM.

	(Binding Vote)		(Advisory Vote)	
	Approval of the Directors' Remuneration Policy		Annual Report on Remuneration	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	87,361,882	99.41%	87,361,882	99.41%
Against	518,633	0.59%	518,633	0.59%
Votes withheld	1,737,500	–	1,737,500	–

### **Implementation of policy for 2020 (unaudited information)**

#### **Base salary**

- Base salaries from 1 April 2019 were as follows: £393,271 for Mark Kelly, and £251,257 for Michael Scott. With effect from 1 April 2020, these salaries will be increased by 5% to £412,935 and £263,820 respectively. The salary increase reflects the individuals' performance in their respective roles over the last 12 months.

#### **Pension**

- Contribution rates for Executive Directors will be 15% of salary in 2020.

#### **Benefits**

- Details of the benefits received by Executive Directors are set out in Note 1 to the Single Total Figure Table on page 81. There is no intention to introduce additional benefits in 2020.

#### **Annual bonus**

- The annual bonus opportunity for 2020 will be structured in a similar manner to 2019. The maximum bonus will be 100% of salary and will be payable based on performance against a blend of adjusted profit before tax (70% of the bonus opportunity) and operating cash flow (30% of the bonus opportunity) targets.
- These targets, all based on post-IFRS 16 results, will be set in light of internal and external forecasts and will require significant outperformance to generate higher levels of pay-out. In addition, a health and safety adjustment underpin will apply which, if not achieved, could reduce the bonus pay-out.
- Any bonus earned above 75% of salary will be deferred into shares for three years.
- Given the competitive nature of the Company's sector, the specific performance targets for 2020 are considered to be commercially sensitive and, accordingly, are not disclosed at this time, although the targets will be disclosed in next year's report in relation to the 2020 bonus outturn.

#### **Long-term incentives**

- Awards will be made under the PSP in 2020 to the Executive Directors structured in a similar manner to the awards made in 2019, in that awards will be made which will vest subject to three-year earnings per share (two-thirds of the award) and operating cash flow (one-third) targets.
- Full details of these targets, all based on post IFRS 16 results, will be disclosed in next year's report, with these targets no less challenging in relative terms than the targets applied to the 2019 PSP awards.

#### **Chair and Non-executive Directors' fees**

- The fees of the Chair and Non-executive Directors will remain unchanged from 2019 levels.
- Robert Lawson receives a fee of £120,000 p.a. as Chair.
- The Non-executive Directors each receive a fee of £40,000 p.a., with an additional fee of £5,000 p.a. for each of the Chair of the Audit Committee and Chair of the Remuneration Committee and an additional fee of £3,000 p.a. for the Senior Independent Director.



## Directors' Report

The Directors' Report includes the Corporate Governance Statement set out on pages 57 to 65.

The Directors' Report and Strategic Report comprise the 'Management Report' for the purpose of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR 4.1.8R).

The Directors of the Company are listed on pages 54 and 55 and were in place on the date this Directors' Report was approved, all of whom served throughout the year

The Group is UK domiciled and the majority of its activity is within the United Kingdom.

### Strategic Report

As permitted by section 414C of the Companies Act 2006, certain information required to be included in the Directors' Report has been included in the Strategic Report, which is set out on pages 8 to 51. Specifically, this relates to information on the Group's strategy, business model, likely future developments and risk management.

### UK Corporate Governance Code

Matters related to corporate governance and our compliance with the Code are set out in the Corporate Governance Statement on pages 57 to 65, which is incorporated herein by reference.

### Results

Our Financial Statements for year ended 31 December 2019 are set out on pages 92 to 133. The Financial Statements should be read in conjunction with the Chief Executive's Review, Divisional Reviews and the Group Financial Review.

### Dividends

The Board is recommending a final dividend of 6.4 pence (2018: 6.2 pence) per share which, together with the interim dividend of 3.2 pence (2018: 3.1 pence) per share, makes a combined dividend of 9.6 pence (2018: 9.3 pence) per share.

Payment of the final dividend, if approved at the Annual General Meeting ('AGM'), will be made on 20 May 2020 to shareholders registered at the close of business on 24 April 2020. The ex-dividend date will be 23 April 2020.

Dividends paid in the year to 31 December 2019 and disclosed in the Consolidated Cash Flow Statement of £9.4 million (2018: £9.1 million), is comprised of the 2018 final dividend of 6.2 pence per share and the 2019 interim dividend of 3.2 pence per share, which were paid in May 2019 and October 2019 respectively.

### Tax governance

Our tax policy is set out below. It is determined by the Board and overseen by the Audit and Risk Committee. The Board reviews the policy, and our compliance with it, on an annual basis. Operational responsibility for the execution of the Group's tax policy rests with the Chief Financial Officer, who reports the Group's tax position to the Audit and Risk Committee on a regular basis.

### Tax Policy

We are committed to compliance with tax law and practice in the UK. Compliance for us means paying the amount of tax we are legally obliged to pay and doing so in the right place, at the right time. It involves disclosing all relevant facts and circumstances to the UK tax authorities in ways that reflect the economic reality of the transactions we undertake, and claiming appropriate reliefs and incentives where available

### Risk management

The level of risk that we accept in relation to UK tax is consistent with our overall objective of achieving certainty in the Group's tax affairs. At all times, we seek to comply fully with our regulatory and other obligations, and to act in a way that upholds our core values and reputation as a responsible corporate citizen. We see compliance with tax legislation as key to managing tax risk, and understand the importance of tax in the wider context of business decisions.

Processes have been put in place to ensure tax is considered as part of our overall decision-making processes, with tax risks managed by local finance teams and escalated through to appropriate levels of management and, ultimately, to the Board when necessary.

### Tax planning

In structuring our commercial activities, we will always consider – among other factors – the relevant tax laws. We believe that it is fair to mitigate tax using generally available reliefs in the spirit in which they are intended. However, any tax planning that we undertake will have commercial and economic substance and we will not use aggressive tax planning or enter into complicated tax avoidance schemes.

Although for commercial reasons we may trade with customers and suppliers genuinely located in countries considered to be tax havens, we will not use such jurisdictions for the purpose of avoiding tax, nor will we seek to take advantage of the secrecy afforded to transactions recorded in these jurisdictions.

### Engaging with HMRC

We aim to have a good working relationship with HMRC. We will engage with honesty and integrity, and in a spirit of cooperative compliance. We will make all returns and pay tax on a timely basis, across all types of tax.

### Share Capital

Details of our issued share capital, including movements during the year, are shown in Note 25 to the Financial Statements. We have one class of ordinary shares, which carries no fixed income. Each share carries the right to one vote at our general meetings. The ordinary shares are listed on the Official List and traded on the London Stock Exchange.

As at 31 December 2019, we had 100,335,353 (2018: 100,310,472) ordinary shares of 0.1 pence each in nominal value in issue (the 'issued share capital').

Holders of ordinary shares are entitled to receive dividends when declared, to receive the Company's Annual Report, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

## Directors' Report *continued*

Whilst the Board has the power under the Articles of Association to refuse to register a transfer of shares, there are no such restrictions on the transfer of shares in place.

Under the Company's Articles of Association, the Directors have the power to suspend voting rights and the right to receive dividends in respect of shares in circumstances where the holder of those shares fails to comply with a notice issued under section 793 of the Companies Act 2006. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

### Share schemes

The Company operates a number of Share schemes.

Long-Term Incentive Plans payable to executives and senior managers are operated under our Performance Share Plan ('PSP'). Executive Directors and some members of senior management have a proportion of their annual bonus deferred for three years under our Deferred Share Plan ('DSP'). The Company also operates Save As You Earn (or "Sharesave") schemes, which are available to all employees.

All shares issued under these plans carry the same rights as those already in issue.

### Related party transactions

Other than in respect of arrangements set out in Note 29 to the Financial Statements and in relation to the employment of Directors, details of which are provided in the Remuneration Committee Report on pages 72 to 86, there is no material indebtedness owed to or by us to any employee or any other person or entity considered to be a related party.

### Substantial shareholders

As at 31 December 2019, the Company's major shareholders were as follows:

Shareholder	No. of Shares	% of voting rights
Aberforth Partners	16,343,367	16.3
Soros Fund Management	13,559,537	13.5
Alantra Asset Management	12,934,940	12.9
JO Hambro Capital Management	9,560,556	9.5
AXA Investment Managers	8,396,515	8.4
Santander Asset Management UK	5,679,507	5.7
Chelverton Asset Management	4,920,800	4.9
Janus Henderson Investors	4,056,819	4.0
BlackRock Investment Management	3,608,494	3.6

### The Takeover Directive

The rights and obligations attached to the issued share capital are set out in the Articles of Association (see below).

There are no agreements in place between the Company, its employees or Directors for compensation for loss of office or employment that trigger as a result of a takeover bid.

### Articles of Association

The Company's Articles of Association can only be amended by special resolution of the shareholders. Our current articles are available on our website at [www.investors.eurocell.co.uk](http://www.investors.eurocell.co.uk).

The Company's Articles of Association give powers to the Board to appoint Directors. All Board members are required to retire and submit themselves for re-election by Shareholders at each Annual General Meeting.

The Board of Directors may exercise all the powers of the Company, subject to the provisions of relevant legislation, the Company's Articles of Association and any directions given by the Company in general meetings. The powers of the Directors include those in relation to the issue and buyback of shares.

### Directors' retirement by rotation

In accordance with above and in line with the Code, all Directors in office will retire and offer themselves for re-election at the 2020 AGM.

The Articles of Association provide that a Director may be appointed by an ordinary resolution of shareholders or by existing Directors, either to fill a vacancy or as an additional Director.

The Executive Directors serve under contracts that are terminable with twelve months' notice from the Company and twelve months' notice from the Executive Director. The Non-executive Directors serve under letters of appointment and do not have service contracts with the Company.

Copies of the service contracts of the Executive Directors and the letters of appointment of the Non-executive Directors are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

### Directors' interests

Details of Directors' remuneration, interests in the share capital (or derivatives or other financial instruments relating to those shares) of the Company and of their share-based payment awards are contained in the Remuneration Committee Report on pages 72 to 86. No change in the interests of the Directors has been notified between 31 December 2019 and the date of this report.

### Directors' indemnities

Pursuant to the Articles of Association, the Company has executed a deed poll of indemnity for the benefit of the Directors of the Company and persons who were Directors of the Company in respect of costs of defending claims against them and third-party liabilities. These provisions, deemed to be qualifying third-party indemnity provisions pursuant to section 234 of the Companies Act 2006, were in force during the year ended 31 December 2019 and remain in force. The indemnity provision in the Company's Articles of Association also extends to provide a limited indemnity in respect of liabilities incurred as a director, secretary or officer of an associated company of the Company.

A copy of the deed poll of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

### Conflicts of interest

Under the Companies Act 2006, Directors must avoid situations where they have, or could have, a direct or indirect interest that conflicts or possibly may conflict with the Company's interests. As permitted by the Act, the Company's Articles of Association enable Directors to authorise actual or potential conflicts of interest.

### Legal and regulatory compliance

The executive team is responsible for identifying and carrying out assessments of those areas of the business where material legal and regulatory risks may be present. Where issues are identified, mitigating actions are built into an action plan involving the drafting and communication of policies and the delivery of training where appropriate, or are approached by way of a revision to key contractual terms. The Board receives regular reports on material litigation and the legal action taken to support our strategy.

### Health and Safety

We are committed to providing a safe place for employees to work. Our policies are reviewed on an ongoing basis to ensure that the approach to training, risk assessment, safe systems of working and accident management are appropriate. As part of this process, a rolling audit programme is in place to ensure that health, safety, environmental and security risks are assessed stringently and that robust control measures are in place to limit or mitigate risk as appropriate.

### Other matters

#### Employee disclosure (including Equality and Diversity)

See Corporate Social Responsibility on page 32.

#### Financial risk management

Please refer to Note 3 of the Financial Statements.

#### Research and development

The Group undertakes research and development work in support of its objectives. Further details of our research and development activities can be found in the Strategic Report on pages 8 to 51.

#### Payments to suppliers

It is Group policy to abide by the payment terms agreed with suppliers, provided that the supplier has performed its obligations under the contract.

#### Donations

In accordance with the Group's policy, no political donations were made and no political expenditure was incurred during 2019 (2018: £nil).

#### Greenhouse gas emissions

See Corporate Social Responsibility on page 33.

#### Disclosures required by Listing Rule 9.8.4R

There were no waivers of dividends during the year. There are no other disclosures to be made under the above listing rule.

By Order of the Board

#### Paul Walker

Group Company Secretary  
12 March 2020

## Statement of Directors' Responsibilities in respect of the Financial Statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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

### Directors' confirmations

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the corporate governance section on pages 54 and 55 confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

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

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

The Directors' Responsibility Statement was approved by the Board on 12 March 2020.

**Mark Kelly**  
Chief Executive Officer

**Michael Scott**  
Chief Financial Officer



The background of the page features a photograph of a modern, light-colored building with a grey roof and several windows. To the right of the building is a young, bare tree supported by wooden stakes. The sky is filled with soft, grey clouds. A prominent red rounded rectangle is overlaid on the lower half of the image, containing the text 'Financial Statements' in a white, cursive font.

# Financial Statements



# Independent Auditors' Report to the members of Eurocell plc

## Report on the audit of the Financial Statements

### Opinion

In our opinion:

- Eurocell plc's Group Financial Statements and Company Financial Statements (the "Financial Statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2019 and of the Group's profit and cash flows for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements, included within the Annual Report and Accounts 2019 (the "Annual Report"), which comprise: the Consolidated Statement of Financial Position as at 31 December 2019 and the Company Statement of Financial Position as at 31 December 2019; the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity for the year then ended; and the notes to the Financial Statements, which include a description of the significant accounting policies.

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

### Basis for opinion

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

### Independence

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

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

Other than those disclosed in note 5 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2019 to 31 December 2019.

### Our audit approach

#### Overview



- Overall Group materiality: £1.13m (2018: £1.10m), based on 5% of underlying profit before tax.
- Overall Company materiality: £0.73m (2018: £0.60m), based on 1% of total assets.
- Financially significant components were determined to be those which represented 15% or more of the consolidated underlying profits before tax.
- The financial information of Eurocell Building Plastics Limited and Eurocell Profiles Limited were therefore included as a full scope audit.
- Together these represent 90% of the consolidated revenues, 90% of consolidated gross profit and 78% of consolidated net assets.
- For the remaining entities we also scoped in any individual balances which were above £1.0m and represented 10% or more of the consolidated balance. This resulted in cash balances at Vista Panels Limited, tangible fixed asset balances in Eurocell Group Limited and Ecoplas Limited, payroll expense within Eurocell Group Limited, provisions in Ecoplas Limited; and prepayments within Eurocell Group Limited being included in our audit scope.
- Analytical review procedures were performed over all other remaining balances within the out-of-scope subsidiary companies.
- Assessment of the valuation of inventory (Group).
- Trade receivables provisions (Group).
- IFRS 16 (Group).

#### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the Financial Statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.



### Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules, UK tax legislation and employment law, and we considered the extent to which non-compliance might have a material effect on the Financial Statements. We also considered those laws and regulations that have a direct impact on the preparation of the Financial Statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the Financial Statements (including the risk of override of controls), and determined that the principal risks were related to either inappropriate journal entries, manipulation of significant estimates or misreporting of significant and/or unusual transactions. Audit procedures performed by the Group engagement team included:

- Review of correspondence with the regulators and review of correspondence with legal advisors (where applicable);
- Enquiries of management;
- Review of internal audit reports in so far as they related to the Financial Statements;
- Review of significant and/or unusual transactions during the year;
- Identifying and testing journal entries with unusual account combinations which result in an impact to revenue or reported profits; and
- Assessing key judgements made by management for evidence of inappropriate bias. Key judgements include the valuation of trade receivables and inventory, impairment assessments and the use of alternative profit measures.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Financial Statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

### Key audit matters

Key audit matters are those matters that, in the Auditors' professional judgement, were of most significance in the audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

#### KEY AUDIT MATTER

#### HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

##### Assessment of the valuation of inventory – Group

Refer to pages 44 to 49 (Risk management and Principal risks and uncertainties), pages 68 to 71 (Audit and Risk Committee), Note 1 (Accounting Policies), Note 2 (Critical Accounting Estimates and Judgements) and Note 18 (Inventories).

Inventory totalled £37.3m as at 31 December 2019 (2018: £28.3m) after provisions of £1.9 million (2018: £1.8 million).

We focused on this area because the Directors' assessment of the absorption of labour and overhead costs into inventory and the assessment of the recoverability of inventory involved subjective judgements.

Specifically the determination of inventory provisions for slow moving, obsolete and discontinued line items, reflecting the level of inventory held across the branch network and manufactured goods at the year end, requires the exercise of judgement.

In addition, we also focused on this area because the incentive schemes of the Directors and senior management are based upon financial measures, including profit, which we concluded gave a greater risk of manipulation of judgements, including inventory costing and provisioning, to ensure that bonus targets are achieved.

We understood the nature of the costs that the Directors absorbed into inventory and determined their appropriateness in line with IAS 2 'Inventories' ("IAS 2").

We tested, on a sample basis, the valuation and calculation of costs absorbed into inventory. We also assessed the reasonableness of the Directors' estimates in this area for bias.

We identified no material exceptions from the procedures noted above.

Our attendance at the physical inventory counts, conducted by management, highlighted no increased areas of concern, regarding excess / unused stock held at either the branches we visited or the manufacturing sites.

We understood the Directors' methodology for calculating inventory provisions and evaluated the Directors' assumptions over future forecast usage and validated historic usage to underlying revenue recorded. We found no material exceptions from these procedures.

Where inventory provisions were based upon expected future demand or historical sales data, we tested the underlying report to validate the data on which management's calculations were based.

We selected an audit sample of inventory held as at 31 December 2019 and verified that sales recorded in 2020 were made above cost.

Based on the results of our audit work, we found that the inventory recognised by the Directors was at an appropriate value and was consistent with the requirements of IAS 2.

## Independent Auditors' Report to the members of Eurocell plc *continued*

### KEY AUDIT MATTER

#### Trade receivables provisions – Group

Refer to pages 44 to 49 (Risk management and Principal risks and uncertainties), pages 68 to 71 (Audit and Risk Committee), Note 1 (Accounting Policies), Note 2 (Critical Accounting Estimates and Judgements) and Note 19 (Trade and other receivables).

The Group had gross trade receivables of £36.9m at 31 December 2019 (2018: £34.8m) against which provisions of £1.6 million (2018: £0.8 million) were held in accordance with IFRS 9.

We focused on these areas because the Directors' assessment of the provisions required in respect of trade receivables involved subjective judgements.

In addition, we also focused on these areas because there is a risk that debtors are not recoverable due to the current economic climate, and the incentive schemes of the Directors and senior management are based upon financial measures including profit, which we concluded gave a greater risk of manipulation of judgements, including those around trade receivables provisions, to ensure that bonus targets are achieved.

### HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We understood the Directors' methodology for calculating trade receivables provisions across the Group and considered if these complied with IFRS 9.

We tested the ageing of amounts due at the balance sheet date to understand and quantify the potential risk in overdue balances after considering relevant insurance cover. We then challenged management in respect of those customers with whom amounts were past due but not impaired to assess for bias.

We reviewed the accuracy of past management estimates for bias or inaccuracy.

We also tested, on a sample basis, cash received from customers following the year-end to validate the appropriateness of the Directors' estimates.

We tested the methodology, underlying data validity and calculations of the provisions in line with the requirements of IFRS 9.

We identified no material exceptions from the procedures noted above.

Based on the results of our audit work, we found that the provisions recorded by the Directors were materially accurate and were consistent with the requirements of IFRS 9.

#### IFRS 16 (Leases) – Group

Refer to pages 44 to 49 (Risk management and Principal risks and uncertainties), pages 68 to 71 (Audit and Risk Committee), Note 1 (Accounting Policies), Note 2 (Critical Accounting Estimates and Judgements) and Note 15 (Right-of-use assets) and Note 22 (Lease liabilities).

The Group has applied IFRS 16 for the first time using the modified retrospective approach to transition. A right-of-use asset (£35.3m: 31 December 2019) and a lease liability (£34.1m: 31 December 2019) has been recorded.

Due to the management estimates required in calculating the above, and the significant number of individual calculations, there is a risk that the assets and liabilities are materially mis-stated either due to inappropriate management estimates, calculation errors or incomplete data being utilised by management.

We have understood the transition method chosen by management, including the transition exemptions taken, and tested to ensure that these were appropriately reflected in managements assessments and taken in accordance with IFRS 16.

We have understood management's process for ensuring all contracts containing a lease are accounted for in line with the requirements of IFRS 16. We tested the completeness of management's model with reference to the lease commitments note in the Financial Statements and our knowledge of contracts containing lease agreements in the Group.

We have assessed the key management estimates underpinning managements calculations, the most significant of these being the setting of the discount rate, using an incremental borrowing rate specific to the Group. We have understood how management has calculated this rate and identified no exceptions regarding this calculation.

We have obtained and inspected a sample of inputs into management's model and agreed these data points (being lease start and end dates, options for extensions and future rental payments) back to the underlying lease agreements. On a non-statistical sample of leases, we have recalculated the lease asset and liability and confirmed management's model is performing the calculation accurately.

We have reviewed the disclosures in the Financial Statements and are satisfied that they are consistent with the evidence obtained and compliant with IAS 8 and IFRS 16.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

### How we tailored the audit scope

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

Eurocell operates in the market of the extrusion of UPVC (unplasticised polyvinyl chloride) window and building products to the new and replacement window market and the sale of building plastics materials. The Group has sites throughout the UK with its headquarters in Alfreton. The business is managed as two primary divisions:

- Eurocell Building Plastics, focusing on sales and distribution across over 200 branches within the UK to smaller scale customers. This segment includes the trading subsidiary companies Eurocell Building Plastics Limited, Security Hardware Limited, Kent Building Plastics Limited and Trimseal Limited; and
- Eurocell Profiles, focusing on manufacture and distribution to large-scale customers. This division includes the trading subsidiaries Eurocell Profiles Limited, Vista Panels Limited, and Ecoplas Limited.

Each legal entity has its own local finance team and management team who report directly into the head office finance and management teams.

All audit work, including work on components, was completed by the Group audit team.

### Materiality

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

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

	Group Financial Statements	Company Financial Statements
<b>Overall materiality</b>	£1.13m (2018: £1.10m).	£0.73m (2018: £0.60m).
<b>How we determined it</b>	5% of underlying profit before tax.	1% of total assets.
<b>Rationale for benchmark applied</b>	We believe that underlying profit before tax is the key measure used by the shareholders in assessing the performance of the Group. This benchmark, which excludes the non-recurring items described in Note 7 to the Financial Statements, provides consistent year on year basis for determining materiality by eliminating the non-recurring and/or disproportionate impact of these items.	We believe that total assets is the primary measure used by the shareholders in assessing the financial position of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1.08m and £0.90m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £60,000 (Group audit) (2018: £65,000) and £35,000 (Company audit) (2018: £35,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Going concern

In accordance with ISAs (UK) we report as follows:

#### Reporting obligation

We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the Financial Statements.

We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

#### Outcome

We have nothing material to add or to draw attention to.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

We have nothing to report.

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## Independent Auditors' Report to the members of Eurocell plc *continued*

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the Financial Statements and our Auditors' report thereon. The Directors are responsible for the other information. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the Financial Statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

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### The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 61 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 50 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

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### Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 90, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 68 to 71 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

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### Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

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## Responsibilities for the Financial Statements and the audit

### Responsibilities of the Directors for the Financial Statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the Financial Statements, the Directors are responsible for the preparation of the Financial Statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the Directors on 29 April 2015 to audit the Financial Statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2015 to 31 December 2019.

### Mark Smith (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham  
12 March 2020

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 Underlying £m	Year ended 31 December 2019 Non-underlying* £m	Year ended 31 December 2019 Total £m	Year ended 31 December 2018 Underlying £m	Year ended 31 December 2018 Non-underlying* £m	Year ended 31 December 2018 Total £m
<b>Revenue</b>	4,9	<b>279.1</b>	–	<b>279.1</b>	253.7	–	253.7
Cost of sales		<b>(136.2)</b>	–	<b>(136.2)</b>	(128.1)	–	(128.1)
<b>Gross profit</b>		<b>142.9</b>	–	<b>142.9</b>	125.6	–	125.6
Distribution costs		<b>(20.2)</b>	–	<b>(20.2)</b>	(18.5)	–	(18.5)
Administrative expenses		<b>(98.1)</b>	–	<b>(98.1)</b>	(83.9)	(0.3)	(84.2)
<b>Operating profit</b>	9	<b>24.6</b>	–	<b>24.6</b>	23.2	(0.3)	22.9
Finance expense	10	<b>(1.9)</b>	–	<b>(1.9)</b>	(0.7)	(0.1)	(0.8)
<b>Profit before tax</b>	9	<b>22.7</b>	–	<b>22.7</b>	22.5	(0.4)	22.1
Taxation	11	<b>(3.4)</b>	–	<b>(3.4)</b>	(3.3)	0.8	(2.5)
<b>Profit for the year and total comprehensive income</b>		<b>19.3</b>	–	<b>19.3</b>	19.2	0.4	19.6
<b>Basic earnings per share</b>	12	<b>19.3p</b>		<b>19.3p</b>	19.1p		19.6p
<b>Diluted earnings per share</b>	12	<b>19.2p</b>		<b>19.2p</b>	19.1p		19.5p

\* Non-underlying items are detailed in Note 7. The Group's policy regarding the recognition of non-underlying items is outlined on page 106.

The Notes on pages 104 to 126 are an integral part of these Consolidated Financial Statements.

## Consolidated Statement of Financial Position

As at 31 December 2019

	Note	2019 £m	2018 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	44.2	35.0
Right-of-use assets	15	35.3	–
Intangible assets	16	27.0	27.8
<b>Total non-current assets</b>		<b>106.5</b>	62.8
<b>Current assets</b>			
Inventories	18	37.3	28.3
Trade and other receivables	19	40.9	40.3
Cash and cash equivalents		4.9	5.9
<b>Total current assets</b>		<b>83.1</b>	74.5
<b>Total assets</b>		<b>189.6</b>	137.3
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	21	(39.8)	(41.3)
Lease liabilities	22	(8.3)	–
Provisions	23	(0.2)	(0.5)
Corporation tax		(1.8)	(1.2)
<b>Total current liabilities</b>		<b>(50.1)</b>	(43.0)
<b>Non-current liabilities</b>			
Borrowings	20	(39.5)	(29.4)
Trade and other payables	21	(0.5)	(1.2)
Lease liabilities	22	(25.8)	–
Provisions	23	(0.6)	(1.1)
Deferred tax	24	(2.6)	(2.5)
<b>Total non-current liabilities</b>		<b>(69.0)</b>	(34.2)
<b>Total liabilities</b>		<b>(119.1)</b>	(77.2)
<b>Net assets</b>		<b>70.5</b>	60.1
<b>Equity attributable to equity holders of the parent</b>			
Share capital	25	0.1	0.1
Share premium account	25	2.4	2.4
Share-based payment reserve	26	0.9	0.4
Retained earnings		67.1	57.2
<b>Total equity</b>		<b>70.5</b>	60.1

The Financial Statements on pages 100 to 126 were approved and authorised for issue by the Board of Directors on 12 March 2020 and were signed on its behalf by:

**Mark Kelly**  
Director

**Michael Scott**  
Director

## Consolidated Cash Flow Statement

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
<b>Cash generated from operations</b>	31	<b>29.0</b>	21.7
Income taxes paid		<b>(2.6)</b>	(4.0)
<b>Net cash generated from operating activities</b>		<b>26.4</b>	17.7
<b>Investing activities</b>			
Acquisition of subsidiaries (net of cash acquired) and payment of deferred consideration	30	<b>(1.1)</b>	(7.2)
Purchase of property, plant and equipment		<b>(15.1)</b>	(8.4)
Sale of property, plant and equipment		<b>–</b>	0.1
Purchase of intangible assets		<b>(0.1)</b>	(0.4)
<b>Net cash used in investing activities</b>		<b>(16.3)</b>	(15.9)
<b>Financing activities</b>			
Proceeds from bank borrowings		<b>10.0</b>	30.0
Repayment of bank and other borrowings		<b>(0.1)</b>	(27.1)
Principal elements of lease payments		<b>(9.8)</b>	–
Finance elements of lease payments		<b>(0.9)</b>	–
Finance expense paid		<b>(0.9)</b>	(1.1)
Dividends paid to equity Shareholders	13	<b>(9.4)</b>	(9.1)
<b>Net cash used in financing activities</b>		<b>(11.1)</b>	(7.3)
<b>Net decrease in cash and cash equivalents</b>		<b>(1.0)</b>	(5.5)
<b>Cash and cash equivalents at beginning of year</b>	32	<b>5.9</b>	11.4
<b>Cash and cash equivalents at end of year</b>	32	<b>4.9</b>	5.9



## Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
<b>Balance at 1 January 2019</b>	<b>0.1</b>	<b>2.4</b>	<b>0.4</b>	<b>57.2</b>	<b>60.1</b>
<b>Comprehensive income for the year</b>					
Profit for the year	–	–	–	19.3	19.3
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>19.3</b>	<b>19.3</b>
<b>Contributions by and distributions to owners</b>					
Exercise of share options	–	–	–	–	–
Share-based payments	–	–	0.4	–	0.4
Deferred tax on share-based payments	–	–	0.1	–	0.1
Dividends paid	–	–	–	(9.4)	(9.4)
<b>Total transactions with owners recognised directly in equity</b>	<b>–</b>	<b>–</b>	<b>0.5</b>	<b>(9.4)</b>	<b>(8.9)</b>
<b>Balance at 31 December 2019</b>	<b>0.1</b>	<b>2.4</b>	<b>0.9</b>	<b>67.1</b>	<b>70.5</b>
	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
<b>Balance at 1 January 2018</b>	0.1	2.1	0.5	46.7	49.4
<b>Comprehensive income for the year</b>					
Profit for the year	–	–	–	19.6	19.6
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>19.6</b>	<b>19.6</b>
<b>Contributions by and distributions to owners</b>					
Exercise of share options	–	0.3	(0.3)	–	–
Share-based payments	–	–	0.2	–	0.2
Deferred tax on share-based payments	–	–	–	–	–
Dividends paid	–	–	–	(9.1)	(9.1)
<b>Total transactions with owners recognised directly in equity</b>	<b>–</b>	<b>0.3</b>	<b>(0.1)</b>	<b>(9.1)</b>	<b>(8.9)</b>
<b>Balance at 31 December 2018</b>	<b>0.1</b>	<b>2.4</b>	<b>0.4</b>	<b>57.2</b>	<b>60.1</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 1 Accounting policies (Group)

### Corporate information

Eurocell plc (the 'Company') and its subsidiaries (together the 'Group') is a publicly listed company incorporated and domiciled in England and Wales. The registered office is Fairbrook House, Clover Nook Road, Alfreton, Derbyshire, DE55 4RF.

The Group is principally engaged in the extrusion of PVC window and building products to the new and replacement window market and the sale of building materials across the UK.

### Basis of preparation

The principal accounting policies adopted in the preparation of the Financial Statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated.

The Group has adequate resources to continue in operational existence for the foreseeable future and, as a result of this, the going concern basis has been adopted in preparing the Financial Statements.

The Group Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and with the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements have been prepared under the historical cost convention, as modified by fair values in respect of acquisition accounting. The functional currency is Sterling, and the Financial Statements are presented in millions.

The preparation of the Group Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in Note 2.

### Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries at 31 December 2019 and present the results as if they formed a single entity. Where the Company has power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date when such control ceases. Intercompany transactions and balances, unrealised gains and losses resulting from intra-Group transactions and dividends are eliminated in full.

The Consolidated Financial Statements incorporate the results of business combinations using the purchase method. In the Consolidated Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date.

### Changes in accounting policies and disclosures applicable to the Company and the Group

The Company has applied the following new standards and guidance for the financial reporting period commencing 1 January 2019:

- IFRS 16 Leases;
- Prepayment Features with Negative Compensation – Amendments to IFRS 9; and
- IFRIC 23 Uncertainty Over Income Tax Treatment.

With the exception of IFRS 16, none of the other new standards listed have had a material impact on the Company or Group for the year ended 31 December 2019.

The Group has adopted IFRS 16 Leases from 1 January 2019.

The Group leases various warehouses, depots, offices and vehicles in conducting its business. Rental contracts are typically made for fixed periods ranging from 3 to 10 years, but may have break or extension clauses to maximise operational flexibility.

The Group has no leases previously classified as finance leases. From 1 January 2019 liabilities for leases previously classified as operating leases have been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate.

The incremental borrowing rate is calculated based upon a combination of the risk-free rate, financing and asset-specific credit spreads, adjusted for the term of each lease. The weighted average borrowing rate applied to lease liabilities is 2.4%. If the borrowing rate were to decrease/increase by 0.5%, the impact upon the Consolidated Income Statement would be to increase/decrease profit before tax by £0.1 million.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise or not exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or change in circumstances brings into question management's earlier judgement.

Lease terms are negotiated on an individual basis and contain a wide variety of specific terms and conditions. These lease arrangements do not impose any covenants, nor do they contain variable lease payments. Leased assets may not be pledged as security for borrowing purposes.

The Group has elected to apply the Modified Retrospective approach to transition, thereby setting the value of right of use lease assets equal to the respective liabilities as at 1 January 2019, adjusted by the amount of any prepaid or accrued lease payments relating to that lease in the balance sheet as at 31 December 2018.

In applying IFRS 16 for the first time, the Group has taken advantage of a number of practical expedients permitted by the standard:

- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments as to whether leases are onerous;
- accounting for leases with a remaining term of less than 12 months as short-term leases; and
- the exclusion of initial direct costs in measuring the right-of-use asset at the date of initial application.

Leased assets with a value of less than £5,000 have been omitted on the basis of materiality.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

On 1 January 2019 the Group recognised right-of-use assets of £35.2 million and lease liabilities of £34.6 million (inclusive of prepaid rent). Right-of-use assets are stated after taking into account rent-free periods.

The lease liabilities reconcile to the operating lease commitments disclosed as at 31 December 2018 as follows:

	£m
<b>Operating lease commitments as at 31 December 2018</b>	<b>38.1</b>
Leases omitted from disclosure at 31 December 2018	2.2
Prepaid rent	(0.4)
Short-term and low-value leases	(2.7)
Impact of discounting of lease liabilities	(2.6)
<b>Lease liabilities recognised as at 1 January 2019</b>	<b>34.6</b>
Current lease liabilities	9.4
Non-current lease liabilities	25.2
<b>Total lease liabilities</b>	<b>34.6</b>

The impact of adopting IFRS 16 on the Financial Statements for the year to 31 December 2019 is as follows:

	Pre-IFRS 16 £m	IFRS 16 adjustment £m	Reported £m
Revenue	279.1	–	279.1
Gross profit	142.9	–	142.9
Operating expenses	(111.2)	10.7	(100.5)
<b>EBITDA</b>	<b>31.7</b>	<b>10.7</b>	<b>42.4</b>
Depreciation and amortisation	(7.6)	(10.2)	(17.8)
Finance expense	(1.0)	(0.9)	(1.9)
<b>Profit before tax</b>	<b>23.1</b>	<b>(0.4)</b>	<b>22.7</b>
<b>Basic earnings per share</b>	<b>19.7p</b>	<b>(0.4)p</b>	<b>19.3p</b>
Right-of-use assets	–	35.3	35.3
<b>Net debt</b>	<b>34.6</b>	<b>34.1</b>	<b>68.7</b>

The adoption of IFRS 16 has had no impact on actual cash flows. Cash flows arising from leases under IFRS 16 are now shown within financing cash flows, whereas leases falling outside of the scope of the new standard are presented within operating cash flows.

## Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2019

### 1 Accounting policies (Group) *continued*

#### Changes in accounting policies and disclosures applicable to the Company and the Group *continued*

The following standard, which is not expected to have a material impact on the Group's future Financial Statements, was in issue but not yet effective (and not yet adopted by the EU):

- IFRS 17 Insurance Contracts (effective from 1 January 2021).

The Group does not intend to adopt any standard, revision or amendment before the required implementation date.

#### Revenue

The Group manufactures and distributes a range of building plastic materials, along with associated ancillary products, via direct sales to its fabricator customers and through its branch network. Revenue is recognised when control of the products has transferred. Control is considered to have transferred once the customer has taken delivery of the products, or has collected them from the branch, has full discretion over the future use of those products, and where there is no unfulfilled obligation that could affect the customer's acceptance of the products. See Note 2 relating to critical accounting estimates and judgements.

A receivable is recognised on the transfer of the products, as this is the point at which consideration is deemed to be unconditional.

Where costs are incurred by the Group in securing a contract to supply products, those costs are recognised as customer contract assets (within trade and other receivables) in the Consolidated Statement of Financial Position, and amortised over the period in which revenue pertaining to those costs is recognised.

#### Non-underlying items

The Group presents some material items of income and expense as non-underlying items. This is done when, in the opinion of the Directors, the nature and expected infrequency of the circumstances merit separate presentation in the Financial Statements. This treatment allows users of the Financial Statements to better understand the elements of financial performance in the year; it facilitates comparison with prior periods and it helps in understanding trends in financial performance. Further details as to why certain items have been classified as non-underlying are provided in Note 7.

#### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree. Direct costs of acquisition are recognised immediately as an expense.

Goodwill is initially measured at cost, being the excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the acquisition date. Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the Consolidated Statement of Comprehensive Income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the Consolidated Statement of Comprehensive Income on the acquisition date.

#### Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see Note 2 relating to critical estimates and judgements below).

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Software	5 to 10 years	Cost to acquire
Technology-based	10 to 17 years	Cost to acquire
Customer-related	5 to 10 years	Cost to acquire
Marketing-related	10 to 15 years	Cost to acquire

The amortisation charge for the year is included within administration costs within the Consolidated Statement of Comprehensive Income.

#### Impairment of tangible assets, intangible assets and investments

Impairment tests on non-current assets are undertaken annually at the financial year end or at any other time when an indication of impairment arises. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows – its cash-generating unit ('CGU'). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the Consolidated Statement of Comprehensive Income, except to the extent they reverse gains previously recognised in Other Comprehensive Income. An impairment loss recognised for goodwill is not reversed.

### Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Freehold land and assets in the course of construction are not depreciated. Depreciation is provided on all other items of property, plant and equipment so as to write-off their cost less residual value over their expected useful economic lives. It is provided at the following rates:

Asset class	Depreciation policy
Freehold property	2.5% per annum straight-line
Leasehold improvements	Equal instalments over the period of the lease
Plant and machinery	
Mixing plant	Between 20% and 25% per annum on cost
Extruders	13 years based on production usage
Stillages and tooling	5 to 10 years based on production usage
Other	Between 10% and 25% per annum on cost
Motor vehicles	Between 20% and 25% per annum on cost
Office equipment and fixtures	Between 20% and 25% per annum on cost

### Right-of-use lease assets

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

### Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase and conversion and other costs incurred in bringing the inventories to their present location and condition. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods, cost is taken as production cost, which includes a proportion of attributable overheads.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred up to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

### Financial assets

The Group classifies all of its financial assets as loans and receivables and has not classified any of its financial assets as held to maturity. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

Loans and receivable assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers, but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all financial assets. The Group has two types of financial asset that are subject to the expected credit loss model: trade receivables and contract assets. In measuring expected credit losses for trade receivables, receivables have been grouped based on shared characteristics and days past due. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less from inception, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities in the Statement of Financial Position.

## Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2019

### 1 Accounting policies (Group) *continued*

#### Financial liabilities

The Group classifies its financial liabilities as other financial liabilities which include the following items:

- Bank borrowings which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the Statement of Financial Position.
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

#### Taxation

Tax on the profit for both the current and prior periods comprises both current and deferred tax and is recognised in the Consolidated Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates that have been enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

The Group recognises a current tax asset in respect of relief claimed under the Patent Box when the inflow of economic benefits arising from that asset is virtually certain, deemed to be the submission of a claim to H M Revenue and Customs.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that future taxable profits will arise against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/assets are settled/recovered.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group Company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

#### Lease liabilities

The Group has no leases previously classified as finance leases. From 1 January 2019 liabilities for leases previously classified as operating leases have been measured in accordance with IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as leases with a value of less than £5,000). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The incremental borrowing rate is calculated based upon a combination of the risk-free rate, financing and asset-specific credit spreads, adjusted for the term of each lease.

Lease payments included in the measurement of the lease liability comprise fixed lease payments, less any lease incentives.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Prior to the adoption of IFRS 16, operating leases were contractual arrangements conferring the right of use of an asset but where substantially all of the risks and rewards incidental to ownership were not transferred to the Group, the total rentals payable under the lease were charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term. The aggregate benefit of lease incentives was recognised as a reduction of the rental expense over the lease term on a straight-line basis.

### Provisions

A provision is recognised in the Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, when appropriate, the risks specific to the liability.

The Group has recognised provisions for liabilities of uncertain timing or amount, in respect of leasehold dilapidations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, discounted at a pre-tax rate as described above.

### Share capital

The Group's ordinary shares are classified as equity instruments.

### Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when paid. In the case of final dividends, this is when approved by the Shareholders at the Annual General Meeting.

### Retirement benefits: defined contribution scheme

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the Consolidated Statement of Comprehensive Income represents the contributions payable to the scheme in respect of the accounting period. The Group has no obligation to pay future pension benefits.

### Foreign currency

The Group's Financial Statements are presented in British pounds sterling. For each entity, the Group determines the functional currency, and items included in the Financial Statements of each entity are measured using that functional currency.

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their 'functional currency') are recorded at the prevailing rate when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the Consolidated Statement of Comprehensive Income.

### Share-based payment transactions

The Group has applied the requirements of IFRS 2 Share-based Payment.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value is determined at the grant date using the Black-Scholes valuation model and equity-settled share-based payments are expensed on a straight-line basis over the vesting period, based upon the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured based on the value of options over shares on the date of grant and the likelihood of all or part of the option vesting.

## 2 Critical accounting estimates and judgements

The Group makes certain estimates and judgements regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and judgements.

### Critical estimates and judgements

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### a) Carrying value of inventories

Management review the market value of, and demand for, its inventories on a periodic basis to ensure inventory is recorded in the Financial Statements at the lower of cost and net realisable value. Any provision for impairment is recorded against the carrying value of inventories. The key judgement is the extent to which items of inventory remain saleable as they age. Management use their knowledge of market conditions to assess future demand for the Group's products and achievable selling prices.

Further disclosures relating to inventories are provided in Note 18.

## Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2019

### 2 Critical accounting estimates and judgements *continued*

#### Critical estimates and judgements *continued*

##### b) Recoverability of trade receivables

The Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables. Expected loss rates are derived based upon the payment profile of sales over a 3-year period before 31 December 2019, and the corresponding credit losses experienced. These rates are then adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle receivables, including GDP, the rate of unemployment, new housing starts, interest rates and household disposable income.

Where the adjusted loss rates are different from the original estimate, such difference will impact on the carrying value of trade receivables and the amount credited or charged on a net basis to operating expenses within the Consolidated Statement of Comprehensive Income. The key judgement is the extent to which macroeconomic factors impact upon the recoverability of trade receivables. The key estimate is the adjusted loss rate applied to each category of trade receivables. If loss rates were, on average, 500 basis points higher than current estimates, the provision for impairment would increase by less than £50,000.

Further disclosures relating to trade receivables are provided in Note 19.

##### Other estimates and judgements

The following estimates and judgements are important, but are not considered to have a significant risk of leading to a material misstatement.

##### c) Determining the term of right-of-use lease assets

In determining the term of a lease, management considers all facts and circumstances that create an economic incentive to exercise or not exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or change in circumstances brings into question management's earlier judgement. See Note 15.

##### d) Determining the incremental borrowing rate applied to lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The incremental borrowing rate is calculated based upon a combination of the risk-free rate, financing and asset-specific credit spreads, adjusted for the term of each lease. The weighted average borrowing rate applied to lease liabilities is 2.4%. If the borrowing rate were to increase or decrease by 0.5% the impact upon the Consolidated Income Statement would be to decrease/increase profit by £0.1 million. (See Note 22).

##### e) Dilapidation provisions

The Group recognises dilapidation provisions on the leasehold properties it occupies. The key estimate is the level of provision required for each property, which management assesses based on past experience within the property portfolio. If the actual cost of dilapidations in respect of the Group's branch network was on average 10% greater or less than expected, the provision would change by less than £50,000. These provisions are reviewed semi-annually to ensure that they reflect the current best estimate of the provision required. Further disclosures relating to dilapidation provisions are provided in Note 23.

##### f) Carrying value of goodwill and intangible assets

Management assesses the carrying value of its goodwill and intangible assets at least annually, or when an indication of impairment arises. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly. Recoverable amounts are determined from 'value-in-use' calculations applied to each Cash Generating Unit ('CGU'), which have been predicated on discounted cash flow projections from formally approved budgets covering a three-year period. The key estimates as highlighted in Note 17 are the discount rate and the level of profit growth assumed in perpetuity. If the discount rate increased by 100 basis points, or if the level of profit growth in perpetuity was zero, none of the Group's CGUs would be at risk of impairment.



### 3 Financial instruments – risk management

The Group is exposed through its operations to the following financial risks:

- credit risk;
- market risk;
- foreign exchange risk; and
- liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these Financial Statements. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them from previous periods unless otherwise stated in this note.

#### Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade and other receivables;
- cash and cash equivalents;
- trade and other payables;
- bank overdrafts;
- floating-rate bank loans; and
- lease liabilities.

The Group finances its activities using cash generated from operations and its revolving credit facility. It does not use invoice discounting or any other financing facilities.

A summary of the financial instruments held by category is provided below:

	2019 £m	2018 £m
<b>Financial assets</b>		
Cash and cash equivalents	4.9	5.9
Trade and other receivables	34.5	34.1
<b>Total financial assets</b>	<b>39.4</b>	40.0
<b>Financial liabilities</b>		
Trade and other payables	40.1	42.1
Lease liabilities	34.1	–
Borrowings	40.0	30.0
<b>Total financial liabilities</b>	<b>114.2</b>	72.1

Excluded from the analysis above are assets and liabilities from which no future cash flows are expected to arise.

#### Impairment of financial assets

Impairments of trade receivables are outlined in Note 19. No further impairments to financial assets are considered necessary. The Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables.

#### General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The Board receives monthly reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. These are then discussed at regular Board meetings.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

## Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2019

### 3 Financial instruments – risk management *continued*

#### General objectives, policies and processes *continued*

##### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk through its trade receivables arising from its normal commercial activities. It is Group policy, implemented locally, to assess the credit risk of new customers before entering into contracts.

Existing credit risks associated with trade receivables are managed in line with Group policies as discussed in the financial assets section of accounting policies.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. This risk is mitigated by ensuring that deposits are only made with banks and financial institutions with a good rating issued by an industry-recognised independent third party (e.g. Standard and Poor's).

Further disclosures regarding financial assets are provided in Note 19.

##### Market risk

The Group is exposed to market risk from bank borrowings which incur variable interest rate charges linked to base rate plus a margin. The Group's policy aims to manage the interest cost of the Group within the constraints of its financial covenants and forecasts.

During 2019 and 2018 the Group's borrowings at variable rate were denominated in sterling. Further disclosures relating to bank borrowings are provided in Note 20.

##### Foreign exchange risk

Foreign exchange risk is the risk that the fair value of a financial instrument or future cash flow will fluctuate because of changes in foreign exchange rates. The Group's exposure to foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group manages its exposure to fluctuations in currency rates by wherever possible negotiating both purchases and sales to be denominated in sterling. The profit or loss arising from likely changes in foreign exchange is not significant.

##### Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, cash flow forecasts are prepared and updated on a regular basis to ensure that the Group has adequate headroom in its facilities.

The Board receives monthly updates on the Group's liquidity position and any issues are reported by exception.

At the end of the financial year, the most recent cash flow projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably foreseeable circumstances.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	Total £m	Up to 3 months £m	Between 3 and 12 months £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
<b>At 31 December 2019</b>						
Trade and other payables	(40.1)	(39.6)	–	–	(0.5)	–
Lease liabilities	(36.1)	(2.2)	(6.8)	(8.6)	(14.9)	(3.6)
Borrowings	(40.0)	–	–	–	(40.0)	–
<b>Total</b>	<b>(116.2)</b>	<b>(41.8)</b>	<b>(6.8)</b>	<b>(8.6)</b>	<b>(55.4)</b>	<b>(3.6)</b>
	Total £m	Up to 3 months £m	Between 3 and 12 months £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
<b>At 31 December 2018</b>						
Trade and other payables	(42.1)	(40.9)	(0.3)	(0.1)	(0.8)	–
Borrowings	(30.0)	–	–	–	(30.0)	–
<b>Total</b>	<b>(72.1)</b>	<b>(40.9)</b>	<b>(0.3)</b>	<b>(0.1)</b>	<b>(30.8)</b>	<b>–</b>

Excluded from the analysis above are assets and liabilities from which no future cash flows are expected to arise.

### Capital management

The Group's objective when managing capital, which is deemed to be total equity plus total debt and which totalled £144.1 million, or £110.0 million on a pre-IFRS 16 basis (2018: £89.5 million) at the balance sheet date, is to safeguard the Group's ability to continue as a going concern, through the optimisation of the debt and equity balance, and to maintain good headroom on its debt facilities and financial covenants. The Group manages its capital structure and makes appropriate decisions in the light of current economic conditions and its strategic objectives.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and sustain the future development of the business.

The funding requirements of the Group are met by the utilisation of external borrowings together with available cash.

A key objective of the Group's capital management is to maintain comfortable headroom over the covenants set out in its existing facility agreements.

The financial covenants which are in place, all measured on a pre-IFRS 16 basis, are as follows:

- Leverage: the ratio of total net debt to consolidated EBITDA of any relevant period of not more than 3:1.
- Interest cover: the ratio of EBITDA to net interest payable in respect of any relevant period of not less than 4:1.

Covenants are measured semi-annually on a rolling 12-month basis. As at 31 December 2019 they were 1.1:1 and 30:1 respectively (2018: 0.7:1 and 46:1). The Group operated well within its covenants throughout the current and prior periods.

The following table sets out the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date:

	As at 31 December 2019			
	GBP £m	EUR £m	USD £m	Total £m
Trade and other receivables	34.3	0.2	–	34.5
Cash and cash equivalents	4.3	0.6	–	4.9
Lease liabilities	(34.1)	–	–	(34.1)
Other interest-bearing borrowings	(40.0)	–	–	(40.0)
Trade and other payables	(39.9)	(0.2)	–	(40.1)
	<b>(75.4)</b>	<b>0.6</b>	<b>–</b>	<b>(74.8)</b>

	As at 31 December 2018			
	GBP £m	EUR £m	USD £m	Total £m
Trade and other receivables	34.0	0.1	–	34.1
Cash and cash equivalents	5.6	0.3	–	5.9
Other interest-bearing borrowings	(30.0)	–	–	(30.0)
Trade and other payables	(41.1)	(1.0)	–	(42.1)
	<b>(31.5)</b>	<b>(0.6)</b>	<b>–</b>	<b>(32.1)</b>

## 4 Revenue

Revenue arises from:

	2019 £m	2018 £m
Sale of goods	279.1	253.7

External revenue by destination:

	2019 £m	2018 £m
United Kingdom	275.8	250.2
European Union	3.1	3.0
Rest of World	0.2	0.5
	<b>279.1</b>	<b>253.7</b>

There are no customers with sales in excess of 10% of total Group revenues.

## Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2019

### 5 Auditors' remuneration

Total amounts payable to the Group's auditors were as follows:

	2019 £000	2018 £000
Audit of these Financial Statements	55	50
Amounts receivable by auditors and their associates in respect of:		
Audit of Financial Statements of subsidiaries pursuant to legislation	136	134
Audit-related assurance services	25	25
	<b>216</b>	209

### 6 Expenses by nature

	2019 £m	2018 £m
Depreciation of property, plant and equipment (Note 14)	5.8	5.5
Depreciation of right-of-use assets (Note 15)	10.2	–
Amortisation of intangible assets (Note 16)	1.8	1.6
Cost of inventories	133.4	127.7
Employee benefits expense (Note 8)	65.5	56.1
Non-underlying operating expenses (Note 7)	–	0.3
Rentals under operating leases	3.5	9.9
Other expenses	34.3	29.7
<b>Total cost of sales, distribution costs and administration expenses</b>	<b>254.5</b>	230.8

### 7 Non-underlying items

Amounts included in the Consolidated Statement of Comprehensive Income are as follows:

	2019 £m	2018 £m
Acquisition-related costs	–	(0.3)
<b>Non-underlying operating expenses</b>	–	(0.3)
Finance expense – unamortised prepaid arrangement fees	–	(0.1)
<b>Total non-underlying expenses</b>	–	(0.4)
Tax on non-underlying expenses	–	–
Benefit of second Patent Box claim in the year	–	0.8
<b>Taxation</b>	–	0.8
<b>Impact on profit after tax</b>	–	0.4

There were no non-underlying items in the current year.

## 8 Employee benefits expense

	2019 £m	2018 £m
Staff costs (including Directors) comprise:		
Wages and salaries	57.7	49.4
Share-based payments	0.4	0.2
Social security costs	5.6	5.1
Pension costs – defined contribution plans	1.8	1.4
	<b>65.5</b>	56.1

	2019 No.	2018 No.
The average monthly number of employees, including Directors, during the year was as follows:		
Production	584	538
Office and administration	415	354
Distribution	856	774
	<b>1,855</b>	1,666

### Key management personnel compensation and Directors' remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, which is considered to be the Directors of the Company and the Directors of the Group's subsidiary companies.

	2019 £000	2018 £000
Emoluments	1,278	1,208
Share-based payments	148	39
Pension and other post-employment benefit costs	122	117
	<b>1,548</b>	1,364

Directors' remuneration is set out in the Remuneration Report.

During the year, retirement benefits were accruing to two Directors in respect of defined contribution pension schemes (2018: two).

The highest paid Director received remuneration of £673,000 (2018: £459,000).

No share options were exercised by Directors of the Group during the current and prior year.

The value of contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £58,000 (2018: £56,000).

The Group's policy for consulting with, sharing information with, and encouraging the involvement of employees is discussed on pages 62 to 65.

## 9 Segmental information

The Group organises itself into a number of operating segments that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Internal reporting provided to the chief operating decision-maker, which has been identified as the executive management team including the Chief Executive Officer and the Chief Financial Officer, reflects this structure.

The Group has aggregated its operating segments into two reported segments, as these business units have similar products, production processes, types of customer, methods of distribution, regulatory environments and economic characteristics:

- Profiles – extrusion and sale of PVC window and building products to the new and replacement window market across the UK. This segment includes Vista Panels, S&S Plastics and Eurocell Recycle North (formerly Ecoplas).
- Building Plastics – sale of building plastic materials across the UK. This segment includes Security Hardware, Kent Building Plastics and Trimseal.

## Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2019

### 9 Segmental information *continued*

The Corporate segment includes amortisation in respect of acquired intangible assets.

	Profiles 2019 £m	Building Plastics 2019 £m	Corporate 2019 £m	Total 2019 £m
<b>Revenue</b>				
Total revenue	175.2	164.7	–	339.9
Inter-segmental revenue	(59.5)	(1.3)	–	(60.8)
<b>Total revenue from external customers</b>	<b>115.7</b>	<b>163.4</b>	<b>–</b>	<b>279.1</b>
<b>Adjusted EBITDA</b>	<b>24.7</b>	<b>15.2</b>	<b>2.5</b>	<b>42.4</b>
Amortisation of intangible assets	(0.1)	–	(1.7)	(1.8)
Depreciation of property, plant and equipment	(4.2)	(1.0)	(0.6)	(5.8)
Depreciation of right-of-use assets	(2.5)	(5.6)	(2.1)	(10.2)
<b>Operating profit</b>	<b>17.9</b>	<b>8.6</b>	<b>(1.9)</b>	<b>24.6</b>
Finance expense				(1.9)
<b>Profit before tax</b>				<b>22.7</b>

	Profiles 2018 £m	Building Plastics 2018 £m	Corporate 2018 £m	Total 2018 £m
<b>Revenue</b>				
Total revenue	159.5	147.4	–	306.9
Inter-segmental revenue	(51.8)	(1.4)	–	(53.2)
<b>Total revenue from external customers</b>	<b>107.7</b>	<b>146.0</b>	<b>–</b>	<b>253.7</b>
<b>Adjusted EBITDA</b>	<b>22.0</b>	<b>8.4</b>	<b>(0.1)</b>	<b>30.3</b>
Amortisation of intangible assets	(0.1)	(0.1)	(1.4)	(1.6)
Depreciation of property, plant and equipment	(4.1)	(0.9)	(0.5)	(5.5)
<b>Operating profit before non-underlying expenses</b>	<b>17.8</b>	<b>7.4</b>	<b>(2.0)</b>	<b>23.2</b>
Non-underlying expenses				(0.3)
Finance expense				(0.8)
<b>Profit before tax</b>				<b>22.1</b>

	Profiles 2019 £m	Building Plastics 2019 £m	Corporate 2019 £m	Total 2019 £m
Additions to plant, property, equipment and intangible assets	13.0	1.5	1.0	15.5
Segment assets	96.8	69.8	23.0	189.6
Segment liabilities	(36.2)	(31.3)	(7.7)	(75.2)
Borrowings				(39.5)
Corporation tax payable				(1.8)
Deferred tax liability				(2.6)
Total liabilities				(119.1)
Total net assets				70.5

	Profiles 2018 £m	Building Plastics 2018 £m	Corporate 2018 £m	Total 2018 £m
Additions to plant, property, equipment and intangible assets	6.2	1.0	1.4	8.6
Segment assets	75.0	46.2	16.1	137.3
Segment liabilities	(25.0)	(17.2)	(1.9)	(44.1)
Borrowings				(29.4)
Corporation tax payable				(1.2)
Deferred tax liability				(2.5)
Total liabilities				(77.2)
Total net assets				60.1

## 10 Finance expense

	2019 £m	2018 £m
<b>Finance expense</b>		
Bank borrowings	1.0	0.6
Other borrowings	–	0.1
Interest on lease liabilities	0.9	–
<b>Underlying finance expense</b>	<b>1.9</b>	0.7
Non-underlying finance expense (Note 7)	–	0.1
<b>Total finance expense</b>	<b>1.9</b>	0.8

## 11 Taxation

	2019 £m	2018 £m
<b>Current tax expense</b>		
Current tax on profits for the year	3.4	2.6
Adjustment in respect of prior years	(0.2)	–
<b>Total current tax</b>	<b>3.2</b>	2.6
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	0.2	(0.2)
Adjustment in respect of change in rates	–	–
Adjustment in respect of prior years	–	0.1
<b>Total deferred tax</b>	<b>0.2</b>	(0.1)
<b>Total tax expense</b>	<b>3.4</b>	2.5

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	2019 £m	2018 £m
<b>Profit before tax</b>	<b>22.7</b>	22.1
Expected tax charge based on the standard rate of corporation tax in the UK of 19.0%	4.3	4.2
Taxation effect of:		
Expenses not deductible for tax purposes	–	0.1
Patent Box claims	(0.8)	(1.8)
Adjustments to tax charge in respect of prior years	(0.2)	–
Tax on share-based payments recognised in equity	0.1	–
Adjustment in respect of change in rates	–	–
<b>Total tax expense</b>	<b>3.4</b>	2.5

### Changes in tax rates and factors affecting the future tax charge

A reduction in the UK corporation tax rate from 19% to 17% from 1 April 2020 has been substantively enacted. Deferred taxes at the year-end date have been measured using these enacted tax rates and reflected in the Financial Statements.

On 11 March 2020 the UK Government announced that the rate reduction would be cancelled. Once enacted, this will increase the deferred tax liability by £0.3 million.

There are no material uncertain tax provisions.

### Tax on non-underlying items

Non-underlying tax in the prior year includes a credit of £0.8 million, being the benefit of a second Patent Box claim in the year.

### Tax included in Other Comprehensive Income

The tax credit arising on share-based payments within Other Comprehensive Income is £88,000 (2018: charge of £36,000).

Based on the current investment plans of the Group, and assuming the rates of capital allowances on capital expenditure continue into the future, there is little prospect of any significant part of the deferred tax liability becoming payable over the next three years.

## Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2019

### 12 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options. Adjusted earnings per share excludes the impact of non-underlying items.

	2019 £m	2018 £m
Profit attributable to ordinary Shareholders	19.3	19.6
Profit attributable to ordinary Shareholders excluding non-underlying items	19.3	19.2
	Number	Number
Weighted average number of shares – basic	100,316,692	100,278,663
Weighted average number of shares – diluted	100,720,559	100,627,058
	Pence	Pence
Basic earnings per share	19.3	19.6
Adjusted basic earnings per share	19.3	19.1
Diluted earnings per share	19.2	19.5
Adjusted diluted earnings per share	19.2	19.1

### 13 Dividends

	2019 £m	2018 £m
<b>Dividends paid during the year</b>		
Final dividend for 2018 of 6.2p per share (2017: 6.0p per share)	6.2	6.0
Interim dividend for 2019 of 3.2p per share (2018: 3.1p per share)	3.2	3.1
	9.4	9.1
<b>Dividends proposed</b>		
Final dividend for 2019 of 6.4p per share (2018: 6.2p per share)	6.4	6.2

### 14 Property, plant and equipment

	Freehold property £m	Leasehold improvements £m	Plant and machinery £m	Motor vehicles £m	Office equipment and fixtures £m	Assets under construction £m	Total £m
<b>Cost</b>							
Balance at 1 January 2018	8.7	0.2	38.7	0.2	0.1	1.7	49.6
Additions	–	–	2.4	–	–	6.0	8.4
Added on acquisition	–	–	1.3	0.1	–	–	1.4
Disposals	–	–	(0.2)	–	(0.1)	–	(0.3)
Transfers	0.3	–	4.2	–	–	(5.0)	(0.5)
<b>Balance at 1 January 2019</b>	<b>9.0</b>	<b>0.2</b>	<b>46.4</b>	<b>0.3</b>	<b>–</b>	<b>2.7</b>	<b>58.6</b>
Additions	–	–	6.3	0.1	0.1	8.9	15.4
Added on acquisition	–	–	–	–	–	–	–
Disposals	–	–	(0.6)	(0.1)	–	–	(0.7)
Transfers	–	–	8.7	–	–	(9.1)	(0.4)
<b>Balance at 31 December 2019</b>	<b>9.0</b>	<b>0.2</b>	<b>60.8</b>	<b>0.3</b>	<b>0.1</b>	<b>2.5</b>	<b>72.9</b>
<b>Accumulated depreciation</b>							
Balance at 1 January 2018	0.9	0.1	17.2	0.1	0.1	–	18.4
Charge for the year	0.2	–	5.3	–	–	–	5.5
Disposals	–	–	(0.2)	–	(0.1)	–	(0.3)
<b>Balance at 1 January 2019</b>	<b>1.1</b>	<b>0.1</b>	<b>22.3</b>	<b>0.1</b>	<b>–</b>	<b>–</b>	<b>23.6</b>
Charge for the year	0.2	–	5.4	0.1	0.1	–	5.8
Disposals	–	–	(0.6)	(0.1)	–	–	(0.7)
<b>Balance at 31 December 2019</b>	<b>1.3</b>	<b>0.1</b>	<b>27.1</b>	<b>0.1</b>	<b>0.1</b>	<b>–</b>	<b>28.7</b>
<b>Net book value</b>							
<b>At 31 December 2019</b>	<b>7.7</b>	<b>0.1</b>	<b>33.7</b>	<b>0.2</b>	<b>–</b>	<b>2.5</b>	<b>44.2</b>
At 31 December 2018	7.9	0.1	24.1	0.2	–	2.7	35.0



Included within freehold property is non-depreciable land of £2.3 million (31 December 2018: £2.3 million).

During the year £0.4 million of assets under construction were transferred to Intangible Assets.

## 15 Right-of-use assets

	Leasehold Improvements £m	Motor vehicles £m	Office equipment and fixtures £m	Total £m
<b>Balance at 1 January 2019 on adoption of IFRS 16</b>	<b>26.0</b>	<b>9.1</b>	<b>0.1</b>	<b>35.2</b>
Additions	2.9	7.5	–	10.4
Disposals	(0.5)	(0.3)	–	(0.8)
<b>Balance at 31 December 2019</b>	<b>28.4</b>	<b>16.3</b>	<b>0.1</b>	<b>44.8</b>
<b>Accumulated amortisation</b>				
<b>Balance at 1 January 2019 on adoption of IFRS 16</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Charge for the year	6.4	3.8	–	10.2
Disposals	(0.4)	(0.3)	–	(0.7)
<b>Balance at 31 December 2019</b>	<b>6.0</b>	<b>3.5</b>	<b>–</b>	<b>9.5</b>
<b>Net book value At 31 December 2019</b>	<b>22.4</b>	<b>12.8</b>	<b>0.1</b>	<b>35.3</b>

The Group adopted IFRS 16 Leases on 1 January 2019, recognising right-of-use assets of £35.2 million (see Note 1).

## 16 Intangible assets

	Software £m	Technology -based £m	Customer -related £m	Marketing -related £m	Goodwill £m	Total £m
<b>Cost</b>						
Balance at 1 January 2018	1.5	1.6	6.3	6.3	8.5	24.2
Additions	0.2	–	–	–	–	0.2
Added on acquisition	–	–	1.4	–	8.0	9.4
Transfers	0.4	–	(0.4)	–	–	–
<b>Balance at 1 January 2019</b>	<b>2.1</b>	<b>1.6</b>	<b>7.3</b>	<b>6.3</b>	<b>16.5</b>	<b>33.8</b>
Additions	0.1	–	–	–	–	0.1
Added on acquisition	–	–	0.2	–	0.2	0.4
Adjustments in respect of prior periods	–	–	–	–	0.1	0.1
Transfers	0.4	–	–	–	–	0.4
<b>Balance at 31 December 2019</b>	<b>2.6</b>	<b>1.6</b>	<b>7.5</b>	<b>6.3</b>	<b>16.8</b>	<b>34.8</b>
<b>Accumulated amortisation</b>						
Balance at 1 January 2018	0.5	0.4	2.2	1.6	–	4.7
Charge for the year	0.2	0.1	1.0	0.3	–	1.6
Transfers	–	–	(0.3)	–	–	(0.3)
<b>Balance at 1 January 2019</b>	<b>0.7</b>	<b>0.5</b>	<b>2.9</b>	<b>1.9</b>	<b>–</b>	<b>6.0</b>
Charge for the year	0.3	0.1	1.1	0.3	–	1.8
<b>Balance at 31 December 2019</b>	<b>1.0</b>	<b>0.6</b>	<b>4.0</b>	<b>2.2</b>	<b>–</b>	<b>7.8</b>
<b>Net book value</b>						
<b>At 31 December 2019</b>	<b>1.6</b>	<b>1.0</b>	<b>3.5</b>	<b>4.1</b>	<b>16.8</b>	<b>27.0</b>
At 31 December 2018	1.4	1.1	4.4	4.4	16.5	27.8

During 2018 customer-related intangible assets with a net book value of £0.1 million were transferred to Contract Assets within Trade and Other Receivables.

Goodwill of £0.1 million was added in the year in respect of the acquisition of Kent Building Plastics following a final assessment of the fair value of assets and liabilities acquired, which were provisionally assessed as at 31 December 2018.

## Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2019

### 17 Impairment

For the purpose of impairment testing, goodwill is allocated to Cash Generating Units ('CGUs') as follows:

	2019 £m	2018 £m
Ecoplas	5.8	5.8
Eurocell Building Plastics	5.1	4.8
Eurocell Profiles	3.3	3.3
Vista Panels	2.2	2.2
S & S Plastics	0.2	0.2
Security Hardware	0.2	0.2
	<b>16.8</b>	16.5

During the year the Group recognised Goodwill of £0.2 million in respect of the acquisition of Trimseal and £0.1 million in respect of the prior year acquisition of Kent Building Plastics, which have both been incorporated into the Eurocell Building Plastics CGU following the integration of those businesses.

The recoverable amounts of the CGUs have been determined from 'value-in-use' calculations which have been predicated on discounted pre-tax cash flow projections based on a three-year business plan approved by the Board. These projections are based on all available information and growth rates do not exceed growth rates achieved in prior periods.

The key assumptions in preparing these forecasts are in line with our published strategy of continuing to open further branches, developing new products, increasing our use of recycled materials and adding bolt-on acquisitions when they arise.

	2019	2018
Period on which management approved forecasts are based (years)	3	3
Discount rate (pre-tax)	10%	10%
Profit growth rate in perpetuity	2%	2%

The goodwill is considered to have an indefinite useful life. The discount rate was estimated based on past experience and an estimated industry average weighted average cost of capital.

The total recoverable amount in respect of goodwill, as assessed by the Directors using the above assumptions, is greater than the carrying amount and therefore no impairment charge has been recorded. With the exception of Ecoplas, the Directors consider that it is not reasonably possible for the assumptions to change so significantly as to eliminate the headroom. For Ecoplas, sales would have to be 30% lower than projected over the forecast period for goodwill to be at risk of impairment.

### 18 Inventories

	2019 £m	2018 £m
Raw materials	2.2	2.8
Work in progress	2.0	1.6
Finished goods and goods for resale	33.1	23.9
	<b>37.3</b>	28.3

All inventories are carried at cost less a provision to take account of slow-moving and obsolete items. At 31 December 2019 the inventory provision amounted to £1.9 million (2018: £1.8 million).

## 19 Trade and other receivables

	2019 £m	2018 £m
Trade receivables	36.9	34.8
Less: provision for impairment of trade receivables	(1.6)	(0.8)
Less: provision for rebates payable	(0.9)	(0.4)
<b>Net trade receivables</b>	<b>34.4</b>	33.6
Contract assets	3.1	3.1
<b>Total financial assets other than cash and cash equivalents classified as loans and receivables</b>	<b>37.5</b>	36.7
Prepayments	3.3	3.1
Other receivables	0.1	0.5
<b>Total trade and other receivables</b>	<b>40.9</b>	40.3

Trade receivables are non-interest bearing and are generally on 30 days credit.

The fair values of trade and other receivables classified as loans and receivables are not materially different to their carrying values.

The Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all financial assets. In measuring expected credit losses for trade receivables, receivables have been grouped based on shared characteristics and days past due.

Expected loss rates are derived based upon the payment profile of sales over a 3-year period before 31 December 2019, and the corresponding credit losses experienced. These rates are then adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle receivables, including GDP, the rate of unemployment, new housing starts, interest rates and household disposable income.

The closing loss allowances for trade receivables and contract assets as at 31 December 2019 reconcile to the opening loss allowances as follows:

	Trade receivables		Contract assets	
	2019 £m	2018 £m	2019 £m	2018 £m
<b>At 1 January</b>	<b>0.8</b>	0.8	–	–
Charged during the year	1.5	0.9	–	–
Released or utilised during the year	(0.5)	(0.4)	–	–
Receivables written-off during the year as uncollectible	(0.2)	(0.5)	–	–
<b>At 31 December</b>	<b>1.6</b>	0.8	–	–

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

	Current £m	More than 30 days past due £m	More than 60 days past due £m	More than 90 days past due £m	More than 120 days past due £m	Total £m
<b>At 31 December 2019</b>						
Expected loss rate	0.2%	0.2%	0.5%	75%	50%	3%
Gross carrying amount – trade receivables	18.4	10.8	5.3	0.7	1.7	36.9
Gross carrying amount – contract assets	3.1	–	–	–	–	3.1
<b>Loss allowance</b>	–	–	0.1	0.6	0.9	1.6
<b>At 31 December 2018</b>						
Expected loss rate	0.2%	0.2%	0.5%	15%	33%	2%
Gross carrying amount – trade receivables	14.5	13.2	5.0	–	2.1	34.8
Gross carrying amount – contract assets	3.1	–	–	–	–	3.1
<b>Loss allowance</b>	–	–	–	–	0.7	0.7

Contract assets of £1.9m (2018: £2.6m) were added in the year. Amounts amortised in the period were £1.9m (2018: £1.1m).

## Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2019

### 20 Borrowings

The book value and fair value of borrowings are as follows:

	Book value 2019 £m	Fair value 2019 £m	Book value 2018 £m	Fair value 2018 £m
<b>Non-current</b>				
Bank borrowings unsecured	39.5	39.5	29.4	29.4
<b>Total borrowings</b>	<b>39.5</b>	<b>39.5</b>	29.4	29.4

The bank borrowings outstanding at 31 December 2019 are classified as non-current liabilities as they relate to committed facilities available to the Group until 2023. The book value and fair value are not considered to be materially different.

### Borrowings

At 31 December 2019 the Company had a £60 million committed multi-currency revolving unsecured credit facility with Barclays Bank plc and HSBC UK Bank plc which expires in 2023. The facility was increased to £75 million in March 2020.

Borrowings of £40.0 million were drawn down at 31 December 2019 (2018: £30.0 million) less unamortised issue costs of £0.5 million (2018: £0.6 million).

Interest is charged at an excess over base rate of between 1.25% and 2.25% per annum and is dependent upon the ratio of total net debt to consolidated EBITDA (on a pre-IFRS 16 basis).

Based upon current economic and market trends, management consider that the sterling LIBOR rate (or any relevant rate that replaces LIBOR) will remain relatively stable during the next reporting period to 31 December 2020, and any changes, when applied to the Group's current bank borrowings of £40.0 million would not lead to a significant change in finance expense.

All of the Group's borrowings are denominated in sterling.

The analysis of repayments on the combined borrowings is as follows:

	2019 £m	2018 £m
Within 1 year or repayable on demand	–	–
Between 1 and 2 years	–	–
Between 2 and 5 years	40.0	30.0
	<b>40.0</b>	30.0

### 21 Trade and other payables

	2019 £m	2018 £m
<b>Current liabilities</b>		
Trade payables	28.6	29.7
Other tax and social security	4.2	4.1
Other payables	1.0	1.1
Accruals	6.0	6.4
<b>Total current trade and other payables</b>	<b>39.8</b>	41.3
<b>Non-current liabilities</b>		
Other payables	0.5	1.2

Book values approximate to fair value at 31 December 2019 and 2018.

## 22 Lease liabilities

	2019 £m	2018 £m
<b>Lease liabilities</b>		
Current	8.3	–
Non-current	25.8	–
<b>Total discounted lease liabilities at 31 December 2019</b>	<b>34.1</b>	–
	2019 £m	2018 £m
<b>Maturity analysis</b>		
– Less than one year	9.0	–
– One to five years	23.5	–
– More than five years	3.6	–
<b>Total undiscounted lease liabilities at 31 December 2019</b>	<b>36.1</b>	–

## 23 Provisions

	Dilapidations and environmental provisions £m
At 1 January 2018	1.1
Credited to Statement of Comprehensive Income	(0.2)
Discounting of provisions	–
Utilised	(0.1)
Added on acquisition	0.8
<b>At 1 January 2019</b>	<b>1.6</b>
Released to Statement of Comprehensive Income	(0.4)
Discounting of provisions	–
Utilised	(0.4)
<b>At 31 December 2019</b>	<b>0.8</b>
Current	0.2
Non-current	0.6
<b>At 31 December 2019</b>	<b>0.8</b>

### Dilapidations and environmental provisions

Under property lease agreements, the Group has obligations to maintain all properties to the standard that prevailed at the inception of the respective leases. The provision represents the Directors' best estimate of the costs associated with this obligation.

The timing of the utilisation of the provision is variable dependent on the lease expiry dates of the properties concerned, which vary between 1 and 10 years.

## Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2019

### 24 Deferred tax

The movement in the net deferred tax liability is as follows:

	2019 £m	2018 £m
At 1 January	(2.5)	(2.2)
(Debited)/credited to Statement of Comprehensive Income	(0.2)	0.1
Credited to equity	0.1	–
Added on acquisition	–	(0.2)
Recognised on acquisition	–	(0.2)
<b>At 31 December</b>	<b>(2.6)</b>	<b>(2.5)</b>

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the Directors believe it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year, together with amounts recognised in the Consolidated Statement of Comprehensive Income and amounts recognised in Other Comprehensive Income are as follows:

	Asset 2019 £m	Liability 2019 £m	Net* 2019 £m	Statement of Comprehensive Income 2019 £m	Equity 2019 £m
Accelerated capital allowances/intangible fixed assets	–	(3.0)	(3.0)	(0.4)	–
Other temporary differences	0.4	–	0.4	0.2	0.1
<b>Net tax assets/(liabilities)</b>	<b>0.4</b>	<b>(3.0)</b>	<b>(2.6)</b>	<b>(0.2)</b>	<b>0.1</b>

\* Included in the net liability is a deferred tax liability of £35,000 relating to the acquisition of Trimseal Limited.

	Asset 2018 £m	Liability 2018 £m	Net* 2018 £m	Statement of Comprehensive Income 2018 £m	Equity 2018 £m
Accelerated capital allowances/intangible fixed assets	0.2	(2.9)	(2.7)	0.1	–
Other temporary differences	0.1	0.1	0.2	–	–
<b>Net tax assets/(liabilities)</b>	<b>0.3</b>	<b>(2.8)</b>	<b>(2.5)</b>	<b>0.1</b>	<b>–</b>

\* Included in the net liability is a deferred tax liability of £425,000 relating to the acquisitions of Ecoplas Limited and Kent Building Plastics Limited.

### 25 Share capital

	<b>Allotted, called up and fully paid</b>	
	2019 Number	2018 Number
Ordinary shares of £0.001 each	<b>100,335,353</b>	100,310,472
	2019 £m	2018 £m
Ordinary shares of £0.001 each	<b>0.1</b>	0.1
Share premium account	<b>2.4</b>	2.4

The ordinary shares carry the rights to attend and vote at general meetings, the right to receive payment in respect of dividends declared and the right to participate in the distribution of capital. The ordinary shares are not redeemable.

During the year no shares were issued in respect of share-based payment transactions for Directors and 24,881 shares vested and were issued in respect of share-based payment transactions for other key management personnel.

## 26 Share-based payments

The Group enters into equity-settled payment transactions with its employees. For the year ended 31 December 2019, the charge was £0.4 million (2018: £0.2 million). The overall Consolidated Statement of Financial Position is unchanged as a result of this.

The Group operates an annual Save As You Earn scheme, allowing employees to make monthly contributions over a three year period which are then used to purchase Company shares at a fixed price. This price is agreed at the inception of the scheme, and carried a discount on the market value at that date of 20%.

For details of share-based payment schemes see pages 82 to 83 of the Directors' Remuneration Report.

No further disclosure has been provided on the grounds of materiality.

## 27 Contingent assets and liabilities

The Group has entered into a cross-guarantee arrangement to cover the bank borrowings of all other Group companies in the event of default. As at 31 December 2019 the bank borrowings were £40.0 million (2018: £30.0 million).

The Group had no other material contingent assets or liabilities (31 December 2018: £nil).

## 28 Retirement benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost represents contributions payable by the Group to the fund and amounted to £1.8 million (2018: £1.4 million).

## 29 Related party transactions

The remuneration of Executive and Non-executive Directors is disclosed on pages 72 to 86.

### Transactions with key management personnel

Kalverboer Management UK LLP is controlled by P H L Kalverboer, who until May 2019 was a Director of Eurocell plc. Kellmann Recruitment Limited is controlled by T Kelly, a close family member of M Kelly who is a Director of Eurocell plc.

	2019 £000	2018 £000
Kellmann Recruitment Limited – recruitment services	22	70
Kalverboer Management UK LLP – Director Remuneration	17	40

The following balances are outstanding at the balance sheet date:

	2019 £000	2018 £000
Kellmann Recruitment Limited	–	–
Kalverboer Management UK LLP	–	20

## 30 Acquisition of subsidiary

On 6 March 2019, the Group acquired 100% of the ordinary share capital of Trimseal Limited, a distributor of building plastic materials, for a cash consideration of £0.4 million. On acquisition, customer relationship intangible assets of £0.2 million and goodwill of £0.2 million were recognised. The fair value of the net assets acquired was not material.

Sales of £0.5 million were recognised in the Consolidated Income Statement in 2019, with no material impact on profit. Had the acquisition occurred on 1 January 2019, revenue and profits would be materially the same.

In 2019 the Group made payments of deferred consideration in respect of the acquisitions of S. and S. Plastics Limited, Security Hardware Limited and Kent Building Plastics Limited of £0.2 million, £0.1 million and £0.4 million respectively. Total cash flows in respect of acquisitions were therefore £1.1 million.

## Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2019

### 31 Reconciliation of profit after tax to cash generated from operations

	2019 £m	2018 £m
<b>Profit after tax</b>	<b>19.3</b>	19.6
Taxation	<b>3.4</b>	2.5
Finance expense	<b>1.9</b>	0.8
<b>Operating profit</b>	<b>24.6</b>	22.9
Adjustments for:		
Depreciation of property, plant and equipment	<b>5.8</b>	5.5
Depreciation of right-of-use assets	<b>10.2</b>	–
Amortisation of intangible assets	<b>1.8</b>	1.6
Profit on sale of property, plant and equipment and intangible assets	<b>–</b>	–
Share-based payments	<b>0.4</b>	0.2
Increase in inventories	<b>(9.0)</b>	(6.8)
Increase in trade and other receivables	<b>(1.7)</b>	(7.0)
(Decrease)/increase in trade and other payables	<b>(2.3)</b>	5.5
Decrease in provisions	<b>(0.8)</b>	(0.2)
<b>Cash generated from operations</b>	<b>29.0</b>	21.7

### 32 Reconciliation of net debt

	1 January 2019 £m	Added on acquisition £m	Cash flows £m	Non-cash movements* £m	31 December 2019 £m
<b>Cash and cash equivalents</b>	<b>5.9</b>	–	<b>(1.0)</b>	–	<b>4.9</b>
<b>Lease liabilities</b>	<b>(34.6)</b>	–	<b>10.7</b>	<b>(10.2)</b>	<b>(34.1)</b>
<b>Borrowings</b>	<b>(29.4)</b>	<b>(0.1)</b>	<b>(9.9)</b>	<b>(0.1)</b>	<b>(39.5)</b>
<b>Total</b>	<b>(58.1)</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(10.3)</b>	<b>(68.7)</b>

\* Non-cash movements in borrowings relate to the recognition and amortisation of prepaid arrangement fees in respect of the Group's borrowings. Non-cash movements in lease liabilities represents new lease liabilities recognised.

	1 January 2018 £m	Added on acquisition £m	Cash flows £m	Non-cash movements* £m	31 December 2018 £m
Cash and cash equivalents	11.4	–	(5.5)	–	5.9
Borrowings	(25.9)	(1.1)	(2.9)	0.5	(29.4)
<b>Total</b>	<b>(14.5)</b>	<b>(1.1)</b>	<b>(8.4)</b>	<b>0.5</b>	<b>(23.5)</b>

\* Non-cash movements relate to the amortisation of arrangement fees in respect of the Group's borrowings.

31 December 2019	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash and cash equivalents	<b>4.9</b>	–	–	<b>4.9</b>
Lease liabilities	–	<b>(8.3)</b>	<b>(25.8)</b>	<b>(34.1)</b>
Borrowings	–	–	<b>(39.5)</b>	<b>(39.5)</b>
<b>Total</b>	<b>4.9</b>	<b>(8.3)</b>	<b>(65.3)</b>	<b>(68.7)</b>

31 December 2018	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash and cash equivalents	5.9	–	–	5.9
Borrowings	–	–	(29.4)	(29.4)
<b>Total</b>	<b>5.9</b>	<b>–</b>	<b>(29.4)</b>	<b>(23.5)</b>

### 33 Events after the balance sheet date

On 2 January 2020 the Group signed the lease for a new warehouse facility with annual rentals of £1.5 million and a lease term of 15 years. A right-of-use asset and lease liability of £17.2 million were recognised at this date.

On 10 March 2020 the Group increased its unsecured, multi-currency revolving credit facility, provided by Barclays Bank plc and HSBC UK Bank plc, by £15 million to £75 million.

The Directors are not aware of any other material events that have occurred after 31 December 2019 which would require disclosure under IAS 10.



## Company Statement of Financial Position

As at 31 December 2019

	Note	2019 £m	2018 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	36	17.8	17.8
<b>Total non-current assets</b>		<b>17.8</b>	17.8
<b>Current assets</b>			
Trade and other receivables	37	55.6	40.9
Deferred tax	38	0.3	0.1
<b>Total current assets</b>		<b>55.9</b>	41.0
<b>Total assets</b>		<b>73.7</b>	58.8
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	39	(0.1)	(0.2)
<b>Total current liabilities</b>		<b>(0.1)</b>	(0.2)
<b>Non-current liabilities</b>			
Borrowings	40	(39.5)	(29.4)
<b>Total non-current liabilities</b>		<b>(39.5)</b>	(29.4)
<b>Total liabilities</b>		<b>(39.6)</b>	(29.6)
<b>Net assets</b>		<b>34.1</b>	29.2
<b>Issued capital and reserves attributable to owners of the Company</b>			
Share capital	25	0.1	0.1
Share premium account	25	2.4	2.4
Share-based payment reserve	26	0.9	0.4
Retained earnings		30.7	26.3
<b>Total equity</b>		<b>34.1</b>	29.2

A separate Statement of Comprehensive Income for the Company is not presented, in accordance with Section 408 of the Companies Act 2006. The Company recognised a profit of £13.8 million in the year (2018: £19.2 million). Dividend income from subsidiary undertakings included in the results was £15.0 million (2018: £21.0 million).

The Financial Statements on pages 127 to 133 were approved and authorised for issue by the Board of Directors on 12 March 2020 and were signed on its behalf by:

**Mark Kelly**  
Director

**Michael Scott**  
Director

## Company Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
<b>Balance at 1 January 2019</b>	<b>0.1</b>	<b>2.4</b>	<b>0.4</b>	<b>26.3</b>	<b>29.2</b>
<b>Comprehensive income for the year</b>					
Profit for the year	–	–	–	13.8	13.8
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>13.8</b>	<b>13.8</b>
<b>Contributions by and distributions to owners</b>					
Exercise of share options	–	–	–	–	–
Share-based payments	–	–	0.4	–	0.4
Deferred tax on share-based payments	–	–	0.1	–	0.1
Dividends paid	–	–	–	(9.4)	(9.4)
<b>Total transactions with owners recognised directly in equity</b>	<b>–</b>	<b>–</b>	<b>0.5</b>	<b>(9.4)</b>	<b>(8.9)</b>
<b>Balance at 31 December 2019</b>	<b>0.1</b>	<b>2.4</b>	<b>0.9</b>	<b>30.7</b>	<b>34.1</b>
	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
<b>Balance at 1 January 2018</b>	0.1	2.1	0.5	16.2	18.9
<b>Comprehensive income for the year</b>					
Profit for the year	–	–	–	19.2	19.2
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>19.2</b>	<b>19.2</b>
<b>Contributions by and distributions to owners</b>					
Exercise of share options	–	0.3	(0.3)	–	–
Share-based payments	–	–	0.2	–	0.2
Deferred tax on share-based payments	–	–	–	–	–
Dividends paid	–	–	–	(9.1)	(9.1)
<b>Total transactions with owners recognised directly in equity</b>	<b>–</b>	<b>0.3</b>	<b>(0.1)</b>	<b>(9.1)</b>	<b>(8.9)</b>
<b>Balance at 31 December 2018</b>	<b>0.1</b>	<b>2.4</b>	<b>0.4</b>	<b>26.3</b>	<b>29.2</b>

## Notes to the Company Financial Statements

For the year ended 31 December 2019

### 34 Accounting policies (Company)

#### Corporate information

Eurocell plc (the 'Company') is a publicly listed company incorporated and domiciled in England and Wales. The registered office is Fairbrook House, Clover Nook Road, Alfreton, Derbyshire, DE55 4RF.

The Company is principally engaged as a holding company for its subsidiaries which are engaged in the extrusion of PVC window and building products to the new and replacement window market and the sale of building materials across the UK.

#### Basis of preparation

The principal accounting policies adopted in the preparation of the Financial Statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The Company has adequate resources to continue in operational existence for the foreseeable future and, as a result of this, the going concern basis has been adopted in preparing the Financial Statements.

The Company Financial Statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework ('FRS 101'). These Financial Statements have been prepared under the historical cost convention in accordance with UK GAAP and the Companies Act 2006.

#### Changes in accounting policies and disclosures applicable to the Company

On 1 January 2019 the Company adopted IFRS 16 Leases. There was no impact on the Financial Statements.

#### Investments in subsidiary undertakings

Investments in subsidiaries are stated at cost less provision for impairment.

#### Financial assets

The Company classifies all of its financial assets as loans and receivables and has not classified any of its financial assets as held to maturity.

Loans and receivable assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

From time to time, the Company elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in administrative expenses.

The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

#### Financial liabilities

The Company classifies its financial liabilities as other financial liabilities which include the following items:

- Bank borrowings which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Further information is provided in Note 3.
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

## Notes to the Company Financial Statements *continued*

For the year ended 31 December 2019

### Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

### Share capital

The Company's ordinary shares are classified as equity instruments.

### Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when paid. In the case of final dividends, this is when approved by the shareholders at the Annual General Meeting.

Further information regarding dividends is provided in Note 13.

### FRS 101 exemptions

The following exemptions from the requirements of IFRS have been applied in the preparation of the Company Financial Statements, in accordance with FRS 101:

Paragraphs 45(b) and 46 to 52 of IFRS 2, Share-based Payment (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).

Paragraph 38 of IAS 1, Presentation of Financial Statements, comparative information requirements in respect of:

- paragraph 79(a)(iv) of IAS 1;
- paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
- paragraph 118(e) of IAS 38 Intangible Assets (reconciliations between the carrying amount at the beginning and end of the period).

The following paragraphs of IAS 1, Presentation of Financial Statements:

- 10(d), (statement of cash flows);
- 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its Financial Statements, or when it reclassifies items in its Financial Statements);
- 16 (statement of compliance with all IFRS);
- 38A (requirement for minimum of two primary statements, including cash flow statements);
- 38B-D (additional comparative information);
- 40A-D (requirements for a third statement of financial position);
- 111 (cash flow statement information); and
- 134-136 (capital management disclosures).

Paragraph 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

Paragraph 17 of IAS 24, Related Party Disclosures (key management compensation).

The requirements in IFRS 7 Financial Instruments: Disclosures.

The requirements in IAS 24, Related Party Disclosures to disclose related party transactions entered into between 2 or more members of a group.

### 35 Employee benefits expense

	2019 £m	2018 £m
Staff costs (including Directors) comprise:		
Wages and salaries	0.3	0.2
Social security contributions and similar taxes	-	-
	<b>0.3</b>	<b>0.2</b>

The average number of monthly employees was 3 (2018: 3).

### 36 Investments

Cost	Investments in subsidiary undertakings £m
At 31 December 2019 and at 31 December 2018	17.8

The subsidiaries of Eurocell plc, all of which have been incorporated in the United Kingdom are included in these Consolidated Financial Statements, as follows:

Name	Principal activity	Holding	
		2019	2018
Eurocell Holdings Limited*	Holding company	100%	100%
Eurocell Group Limited	Holding company	100%	100%
Eurocell Building Plastics Limited	Sale of building plastic materials	100%	100%
Eurocell Profiles Limited	Manufacture and sale of building plastic materials	100%	100%
Vista Panels Limited	Manufacture and sale of doors	100%	100%
Security Hardware Limited	Sale of locks and security hardware products	100%	100%
Ecoplas Limited	Recycler of PVC windows	95%	95%
Kent Building Plastics Limited	Dormant	100%	100%
Trimseal Limited	Dormant	100%	n/a
S&S Plastics Limited	Dormant	100%	100%
Fairbrook Group Limited	Dormant	100%	100%
Fairbrook Limited	Dormant	100%	100%
Fairbrook Holdings Limited	Dormant	100%	100%
Eurocell Window Systems Limited	Dormant	100%	100%
Eurocell Plastics Limited	Dormant	100%	100%
Cavalok Building Products Limited	Dormant	100%	100%
Merritt Plastics Limited	Dormant	100%	100%
Merritt Engineering Limited	Dormant	100%	100%
Deeplas Limited	Dormant	100%	100%
Deeplas Building Plastics Limited	Dormant	100%	100%
Ampco 113 Limited	Dormant	100%	100%

\* Directly held by Eurocell plc.

All of the above have a registered address of Fairbrook House, Clover Nook Road, Alfreton, Derbyshire, DE55 4RF.

The Company has guaranteed the liabilities of Trimseal Limited in order that it qualifies for the exemption from audit under Section 479A of the Companies Act 2006 in respect of the year ended 31 December 2019.

## Notes to the Company Financial Statements *continued*

For the year ended 31 December 2019

### 37 Trade and other receivables

	2019 £m	2018 £m
Prepayments and other debtors	0.4	0.6
Amounts owed by Group undertakings	55.2	40.3
<b>Total trade and other receivables</b>	<b>55.6</b>	<b>40.9</b>

Amounts owed by Group undertakings attract interest of 2% and are repayable on demand.

The Company applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all financial assets. In measuring expected credit losses for trade receivables, receivables have been grouped based on shared characteristics and days past due.

The Directors consider that there is no risk of impairment of its amounts owed by Group undertakings as at 31 December 2019.

### 38 Deferred tax

	2019 £m	2018 £m
<b>At 1 January</b>	<b>0.1</b>	0.1
Credited to equity	0.1	–
Credited to Statement of Comprehensive Income	0.1	–
<b>At 31 December</b>	<b>0.3</b>	0.1

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the Directors believe it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year, together with amounts recognised in the Consolidated Statement of Comprehensive Income and amounts recognised in Other Comprehensive Income are as follows:

	Asset 2019 £m	Liability 2019 £m	Net 2019 £m	Statement of Comprehensive Income 2019 £m	Equity 2019 £m
Other temporary differences	0.3	–	0.3	0.1	0.1
Net tax assets	0.3	–	0.3	0.1	0.1

	Asset 2018 £m	Liability 2018 £m	Net 2018 £m	Statement of Comprehensive Income 2018 £m	Equity 2018 £m
Other temporary differences	0.1	–	0.1	–	–
Net tax assets	0.1	–	0.1	–	–

### 39 Trade and other payables

	2019 £m	2018 £m
Trade and other payables	0.1	0.2
<b>Total current liabilities</b>	<b>0.1</b>	<b>0.2</b>

Book values approximate to fair value at 31 December 2019 and 2018.

Trade payables are non-interest bearing and are generally settled on 30-60 day terms.

## 40 Borrowings

The book value and fair value of borrowings are as follows:

	Book value 2019 £m	Fair value 2019 £m	Book value 2018 £m	Fair value 2018 £m
<b>Non-current</b>				
Bank borrowings unsecured	39.5	39.5	29.4	29.4
<b>Total borrowings</b>	<b>39.5</b>	<b>39.5</b>	29.4	29.4

### Borrowings

At 31 December 2019 the Company had a £60 million committed multi-currency revolving unsecured credit facility with Barclays Bank plc and HSBC UK Bank plc which expires in 2023. The facility was increased to £75 million in March 2020.

Borrowings of £40.0 million were drawn down at 31 December 2019 (2018: £30.0 million) less unamortised issue costs of £0.5 million (2018: £0.6 million).

Interest is charged at an excess over base rate of between 1.25% and 2.25% per annum and is dependent upon the ratio of total net debt to consolidated EBITDA (on a pre-IFRS 16 basis).

Based upon current economic and market trends, management consider that the sterling LIBOR rate (or any other benchmark interest rate that may replace LIBOR) will remain relatively stable during the next reporting period to 31 December 2019, and any changes, when applied to the Company's current bank borrowings of £40.0 million would not lead to a significant change in finance expense.

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## Company Information

For the year ended 31 December 2019

<b>Directors</b>	Bob Lawson Frank Nelson Martyn Coffey Sucheta Govil Mark Kelly Michael Scott
<b>Registered Number</b>	08654028
<b>Registered Office</b>	Fairbrook House Clover Nook Road Alfreton Derbyshire DE55 4RF
<b>Independent Auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors One Chamberlain Square Birmingham B3 3AX
<b>Bankers</b>	Barclays Bank plc 1 Churchill Place London E14 5HP  HSBC UK Bank plc 1 Centenary Square Birmingham B1 1HQ





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For more investor information visit,  
[www.eurocell.co.uk/investors](http://www.eurocell.co.uk/investors)

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