4 September 2020

EUROCELL PLC (Symbol: ECEL)

HALF YEAR REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2020
(including the half year condensed consolidated financial statements)

Decisive action taken in response to COVID-19 – strong re-start and well positioned for recovery

Eurocell plc is a market leading, vertically integrated UK manufacturer, distributor and recycler of innovative window, door and roofline PVC products

	H1 2020	H1 2019	Change
Key financial performance measures			
Revenue (£ million)	93.6	136.3	(31)%
Gross margin %	46.8%	51.1%	(430)bps
Adjusted (loss)/profit before tax (£ million) (1)	(8.6)	10.4	(19.0)
Adjusted basic (losses)/earnings per share (pence) (1)	(5.0)	8.7	(13.7)
Net debt, pre-IFRS 16 (£ million) (2)	23.5	36.7	13.2
Other statutory accounting measures			
(Loss)/profit before tax (£ million)	(16.5)	10.4	(26.9)
Basic (losses)/earnings per share (pence)	(11.1)	8.7	(19.8)
Interim dividend per share (pence)	–	3.2	n/a
Capital investment (£ million)	4.6	8.8	(4.2)
Net debt (£ million) (2)	75.6	69.3	(6.3)

Operational Headlines

- Business temporarily closed in line with official COVID-19 guidance from the UK Government on 23 March
- Phased re-opening from 11 May, following updated guidance and implementation of safe working practices
  - All sites open in June except Eurocell Recycle North, which followed in July
  - Better operating efficiencies since re-opening
- Fit-out of new state-of-the-art warehouse on track and continuing to target being operational early in 2021
  - Key to increasing capacity and delivering further operating efficiencies
- Strong on sustainability, as the leading UK-based recycler of PVC windows, with use of recycled material increased to 26% of material consumption (H1 2019: 22%)

Financial Headlines

- Sales down 31%, equivalent to a decline of 4% on a like-for-like(3) basis, reflects:
  - Performance for 11 weeks to 20 March in line with expectations, with like-for-like(3) sales up 3% against a tough comparative (Q1 2019 like-for-like sales growth was 10%)
  - Business closed from late March to mid-May, resulting in 90 trading days in H1 2020 compared to 124 in H1 2019
  - Good performance since re-opening, with June like-for-like(3) sales down just 6% on 2019 and strong start to Q3
- Gross margin down 430bps, reflects reduced production volumes and therefore lower recovery of direct costs
- Underlying overheads down 17%, includes support received under the Coronavirus Job Retention Scheme of £6.3 million, partially offset by an increase to the provision for bad debts of £2.9 million
- Adjusted(1) loss before tax of £8.6 million, driven by lower sales volumes and the impact of operational gearing
- Reported loss before tax of £16.5 million includes non-cash goodwill impairment charge of £5.8 million
- Strong balance sheet and liquidity, with pre-IFRS 16 net debt of £23.5 million (H1 2019: £36.7 million), reflecting swift actions taken to preserve cash and benefit of April share placing (£17.1 million, net)

Current Trading

Like-for-like[3] sales growth	Q1	April	May	June	H1	July / August
Total Group	3%	n/a	-21%	-6%	-4%	12%
Profiles Division	1%	n/a	-52%	-25%	-14%	2%
Building Plastics Division	5%	n/a	2%	7%	3%	20%

- Stronger RMI[4] market than anticipated post-lockdown, with housing market activity also now increasing
- July/August like-for-like[3] sales up 12% on 2019
  - Profiles includes good contributions from trade fabricators, who are substantially focused on the strengthening RMI[4] market. New build re-started slowly, but run rates are also now improving
  - Building Plastics includes a strong performance across our range of own-manufactured products and traded goods, as well as an excellent start for our new range of outdoor living products
- Gross margins improving as volumes increase
- Identified opportunities to streamline organisational structures, whilst not impacting on production capacity or ability to satisfy customer demand
  - Reduction in headcount of approximately 50 positions, or c.3% of the workforce

Mark Kelly, Chief Executive of Eurocell plc said:

"COVID-19 has created unprecedented challenges. Our first priority continues to be the health, safety and well-being of our employees. Through their hard work and dedication, we have implemented safe working practices in line with recommended guidelines, and I would like to thank them all for their continued commitment and support.

"In response to the pandemic, we took a number of swift and decisive actions to safeguard the future of the business, and we were grateful to receive support from investors with the share placing in April. As a result, the business was well prepared to re-open in May.

"Since re-opening, sales have exceeded our initial expectations, particularly in the branch network, and we have been encouraged by recent market trends. We are pleased that operating efficiencies have been better and that gross margins are improving as volumes increase. The actions we took to strengthen the business have left us well placed to capitalise on opportunities and continue to take market share.

"Our focus for the remainder of 2020 includes executing the warehouse transition successfully, thereby facilitating future growth and the delivery of further operating efficiencies. Whilst the current levels of uncertainty mean it is difficult to predict the outcome for the full year and beyond, we are pleased that the second half has started strongly. We continue to see good potential to outperform our markets and it is our intention to return to paying dividends in 2021."

Notes

(1) Adjusted measures are stated before non-underlying items and the related tax effect[5].

(2) Net debt is cash and cash equivalents less bank overdrafts, borrowings and lease liabilities. Pre-IFRS 16 net debt excludes lease liabilities.

(3) Like-for-like excludes acquisitions and new branches opened in 2019/20, and is calculated by comparing average sales per trading day in 2020 (i.e. 90 days, excluding days closed) with average sales per trading day in 2019 (124 days).

(4) RMI is repairs, maintenance and improvement.

(5) Non-underlying items for 2020 of £7.9 million includes a goodwill impairment charge of £5.8 million, trade receivable impairment charges of £0.8 million, right-of use asset impairment charges of £0.5 million and warehouse dual-running costs of £0.8 million. There were no non-underlying items in 2019.

Analyst presentation

There will be an audiocast presentation for analysts and investors at 9am today.

To register for the audiocast, please contact Teneo on eurocell@teneo.com.

Following the presentation, a recording of the audiocast will be made available on the Group's web site: https://investors.eurocell.co.uk/investors/

CHIEF EXECUTIVE'S REVIEW

INTRODUCTION

We started 2020 in a good position. Performance for the 11 weeks to 20 March was in line with our expectations and there was no discernible impact on our trading from COVID-19 up until the point of closure. With manufacturing constraints resolved through investment in 2019, our intended focus for 2020 was the delivery of operating efficiencies and the successful transition to our new warehouse.

However, the first half of 2020 was shaped by the challenges posed by COVID-19. The measures implemented by the UK Government to control the pandemic had a major impact on our operations, with our business closing towards the end of March. However, we took swift and decisive action to protect our employees and to safeguard our future. As a result, we were able progressively to re-open the business, starting in May.

The RMI market has been stronger than anticipated post-lockdown, with housing market activity also now increasing. Our products have resonated well with customers seeking, possibly as a result of the pandemic, to improve their homes and create more usable space, both inside and outside of their properties. Products such as conservatories and garden rooms have been particularly strong. We are both encouraged by these recent market trends and pleased that our sales and operating performance since re-opening has been good.

ACTIONS IN RESPONSE TO COVID-19

Operational actions

In line with official guidance from the UK Government on 23 March, we closed our manufacturing plants, branch network, distribution and recycling operations. The shut-down was carefully controlled, in order to leave the business well placed to recommence operations and trading when appropriate to do so.

Following updated guidance from the Government in May, which permits tradesmen to work in domestic dwellings so long as appropriate precautions are taken, we began to implement a phased re-opening of the business as follows:

- 11 May – we started to supply our fabricator customers from existing stocks and opened six branches around the country. This allowed us to test safe working practices and begin to assess the level of customer demand
- 20 May – following encouraging early results, we re-opened the full branch network
- 26 May – we recommenced manufacturing operations on a progressive basis, with all sites open in June except Eurocell Recycle North, which followed in July

The re-opening process was successful and operating efficiencies since the re-start have been good.

Health and safety actions

Prior to re-opening, we conducted a thorough review of work practices and implemented a range of COVID-19 protection measures, primarily aimed at ensuring adequate distancing and a swift response to any reported or suspected cases. In preparation for re-start, extensive work was undertaken to examine how COVID-19 risks would impact operational activities; to define more extensive standards for protection (referencing UK Government and HSE guidance, along with sound risk management approaches); and to develop programmes for effective implementation. Our employees were very actively engaged in supporting this process. The approach addressed various aspects, including: social distancing, physical barriers, screen and other protections, workplace hygiene and cleaning, personal hygiene and handwashing, personal protective equipment and case / symptom reporting, response and post-case sanitisation.

The re-start was carefully phased and controlled to ensure that our COVID-19 protection measures were effective with rising employee numbers. Employees returning to work are provided with relevant training, and personal protective equipment where necessary, before re-entering their workplace. We reported no instances of COVID-19 in our workforce in H1 and will continue to monitor closely the effectiveness of and compliance with our protection measures.

Financial actions

We increased our bank facility from £60 million to £75 million in March.

Following the business closure, we took a number of significant, swift actions to conserve cash, including the deferral of non-essential capex and other discretionary expenditure and cancellation of the proposed final dividend for 2019. In April we raised £17.1 million (net) by way of a share placing, with the net proceeds to be used to ensure we retain headroom on our bank facility, even under an extended shut-down, and to provide sufficient liquidity to continue investment in the new warehouse. In addition, we have continued to utilise various Government support measures available, including the Coronavirus Job Retention Scheme, through which we received payments of £6.3 million for H1.

The measures we have taken to conserve cash have been effective. Net debt at 30 June 2020 on a pre-IFRS 16 basis, including the benefit of the share placing, was £23.5 million (31 December 2019: £34.6 million), demonstrating good headroom on our bank facility. In recording this reduction in net debt, our suppliers and landlords had been paid in accordance with terms as at 30 June.

Cost savings and operating efficiency improvements

During the pandemic we performed a full review of our operating, support and management structures to ensure that the business is as efficient as possible. We identified several opportunities to streamline the organisation, which includes a small reduction in headcount. Approximately 50 positions (representing c.3% of our workforce) will be impacted, although a significant proportion are currently vacant and therefore will not be filled. These changes result in a more efficient structure and deliver fixed cost savings, but will not impact on production capacity or our ability to satisfy customer demand.

In addition, our COO Mark Hemming is leading the work to improve operational efficiencies, which have been better since we re-opened. These will be further enhanced when our new warehouse enters service early in 2021.

FINANCIAL RESULTS

Sales for the 6 months ended 30 June 2020, which includes the period from late-March to mid-May when the business was closed, were £93.6 million, or 31% below H1 2019. We reported an adjusted loss before tax of £8.6 million (H1 2019: profit of £10.4 million), driven by significantly lower sales volumes and the impact of operational gearing. The statutory loss before tax for the period was £16.5 million, which includes a non-cash goodwill impairment charge of £5.8 million. Further information on our financial performance is included in the Divisional and Group Financial Reviews.

Since re-opening sales have exceeded our initial expectations, particularly in the branch network, and operating efficiencies have been better. On a like-for-like basis, sales for June were down just 6% on 2019, and in July/August sales were up 12% on the same period last year. We continue to take market share and gross margins have been improving as volumes increase.

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 a good safety performance.

Our Lost Time Injury Frequency Rate ('LTIR') was 0.6 in H1 2020, compared to 0.9 for the whole of 2019. There were no major injuries and 5 minor injuries reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) in the period (full year 2019: 17 minor injuries).

Production

In the first half of 2020 we manufactured approximately 16.6k tonnes of rigid and foam PVC profiles, down from 26.6k tonnes in H1 2019, a decrease of 38%.

In 2019 we completed a substantial capex programme, at a cost of c.£5 million, to improve manufacturing efficiency and increase co-extrusion and foam capacity by 30% and 15% respectively. Overall equipment effectiveness ('OEE', a measure which takes into account machine availability, performance and yield) in extrusion improved to 76% in H1 2020, compared to 73% for H1 2019.

Recycling

We used 4.7k tonnes of recycled PVC compound alongside virgin resin in the manufacture of co-extruded rigid profiles, representing 26% of overall material consumption, compared to 6.4k tonnes or 22% of consumption in H1 2019.

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

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

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.

As a result of our investments, we have become the leading UK-based recycler of PVC windows. Our use of recycled material increased from 4.1k tonnes (or 9% of materials consumed) in 2015 to 13.4k tonnes (or 23% of consumption) in 2019. In doing so, in 2019 we saved the equivalent of c.3.2 million window frames from landfill.

The results for the period include a non-cash goodwill impairment charge of £5.8 million in relation to Eurocell Recycle North. This arises because the increase in production volumes (and therefore profitability) of the site is now expected to arise later than planned due to the temporary closure of the business and reduced demand in the short-term, as well as lower selling prices for recycled material. However, recycling and sustainability sit right at the heart of our business and we are totally committed to this critical strategic priority for the Group.

WAREHOUSING CAPACITY EXPANSION

Towards the end of 2019 we concluded that our existing main warehouse was a major constraint to future growth and operating efficiency. Earlier this year we 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 square feet of high bay, state-of-the-art warehouse accommodation, dedicated office space and car parking.

With the new warehouse we will take the 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. The fit-out is on schedule and we expect the new site to be operational early in 2021.

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

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

PROFILES DIVISION REVIEW

Profiles strategy

In 2018 we became the leading supplier of rigid PVC profile to the UK market, with a share of c.15%. We continue to consolidate our position and believe we now have a share of around 17%. Our strategic objective is to increase this 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 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 a focus on sustainability, we believe our use of recycled material will become increasingly attractive to housebuilders. Across the Profiles division, new build represented approximately one-third of sales in 2019.

In the commercial sector, energy efficiency and lower cost underpin a strong case for the benefits of using PVC profile over 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 aluminum.

Profiles income statement

	H1 2020 £m	H1 2019 £m	Change %
Third-party revenue	**36.4**	**57.6**	**(37)**
Inter-segmental revenue	19.0	28.2	(33)
Total revenue	**55.4**	**85.8**	**(35)**
Operating (loss)/profit(1)	**(2.3)**	**10.2**	**n/a**

(1) Before non-underlying items.

Profiles third-party revenue was down 37% to £36.4 million (H1 2019: £57.6 million), driven by the impact of the COVID-19 lockdown. This is equivalent to like-for-like sales performance as follows:

	Q1	April	May	June	H1	July/ August
Profiles division like-for-like(2) sales growth	**1%**	**n/a**	**-52%**	**-25%**	**-14%**	**2%**

(2) Like-for-like excludes acquisitions (none in either period), calculated by comparing average sales per trading day in 2020 (i.e. excluding days closed) with average sales per trading day in 2019.

Sales have increased progressively since re-opening and we have seen a good start to H2, with July/August up 2% on last year. This includes good contributions from trade fabricators, who are substantially focused on the strengthening RMI market. New build and commercial customers re-started slowly, but run rates are now improving. Sales also include a good performance from Vista Panels, which is now running well ahead of last year.

Following the introduction of c.60 new accounts over the last three years, so far in 2020 we have selectively added a further 6 relatively small accounts (most post-lockdown) and our prospect pipeline remains good.

The Profiles operating loss in H1 2020 was £2.3 million (H1 2019: operating profit £10.2 million), driven primarily by reduced sales volumes and the impact of operational gearing. Gross margin percentage is behind H1 2019, reflecting reduced production volumes and therefore a lower recovery of direct costs. Lower overheads includes the impact on direct agency labour from reduced production volumes and support received under the Coronavirus Job Retention Scheme (c.£3.4 million), offset by an increase to the bad debt provision in respect of certain fabricator customers (£1.6 million).

However, operating performance has been strong since re-opening, with gross margins improving as volumes increase, and we are implementing plans to improve operating efficiency, particularly through the new warehouse.

BUILDING PLASTICS DIVISION REVIEW

Building Plastics strategy

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

In the existing estate, we are implementing 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 are focusing on improving conversion rates for high value made-to-order items and extending our range, including the introduction of a new range of outdoor living products.

In light of the current environment, 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, subject to the economic environment and with additional warehousing capacity in place, we anticipate increasing branch openings, including large format branches where appropriate.

We also 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 began a trial in the North West region in August 2020.

Building Plastics income statement

	H1 2020 £m	H1 2019 £m	Change %
Third-party revenue	**57.2**	**78.7**	**(27)**
Organic	57.0	78.5	(27)
Trimseal[(1)]	0.2	0.2	–
Inter-segmental revenue	0.5	0.7	(29)
Total revenue	**57.7**	**79.4**	**(27)**
Operating (loss)/profit[(2)]	**(4.0)**	**3.4**	**n/a**

(1) Acquired March 2019.
(2) Before non-underlying items.

Building Plastics third-party revenue was down 27% to £57.2 million (H1 2019: £78.7 million), driven by the impact of the COVID-19 lockdown. This is equivalent to like-for-like sales performance as follows:

	Q1	April	May	June	H1	July/ August
Building Plastics division like-for-like[(3)] sales growth	**5%**	**n/a**	**2%**	**7%**	**3%**	**20%**

(3) Like-for-like excludes acquisitions and new branches opened in 2019/20, calculated by comparing average sales per trading day in 2020 (i.e. excluding days closed) with average sales per trading day in 2019.

Like-for-like sales have increased strongly since re-opening, with July/August up 20% on last year. This represents an excellent performance from across our full range of own-manufactured products and traded goods, as well as a good start for the outdoor living range.

In terms of new branches, we have opened 2 sites so far this year, compared to 5 in H1 2019. Sales from the large format stores, including the 2 new sites, continue to be encouraging. We now have a total of 208 branches providing national coverage across the UK, which offers a significant competitive advantage. Branches opened in 2019/20 added £0.5 million to sales in H1 2020.

The Building Plastics operating loss in H1 2020 was £4.0 million (H1 2019: operating profit of £3.4 million), also driven by reduced sales volumes and the impact of operational gearing. Gross margin percentage was similar to H1 2019. Lower overheads includes the impact of Government support received, including the Coronavirus Job Retention Scheme (£2.9 million) and retail grants / business rates relief (£1.0m), offset by an increase to the bad debt provision to reflect higher risk in the Building Plastics receivables book (£1.3 million).

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 > 95% 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, a significant proportion of which remains in place.

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

COVID-19 has created unprecedented challenges. Our first priority continues to be the health, safety and well-being of our employees. Through their hard work and dedication, we have implemented safe working practices in line with recommended guidelines, and I would like to thank them all for their continued commitment and support.

In response to the pandemic, we took a number of swift and decisive actions to safeguard the future of the business, and we were grateful to receive support from investors with the share placing in April. As a result, the business was well prepared to re-open in May.

Since re-opening, sales have exceeded our initial expectations, particularly in the branch network, and we have been encouraged by recent market trends. We are pleased that operating efficiencies have been better and that gross margins are improving as volumes increase. The actions we took to strengthen the business have left us well placed to capitalise on opportunities and continue to take market share.

Our focus for the remainder of 2020 includes executing the warehouse transition successfully, thereby facilitating future growth and the delivery of further operating efficiencies. Whilst the current levels of uncertainty mean it is difficult to predict the outcome for the full year and beyond, we are pleased that the second half has started strongly. We continue to see good potential to outperform our markets and it is our intention to return to paying dividends in 2021.

Mark Kelly
Chief Executive Officer

GROUP FINANCIAL REVIEW

	H1 2020 £m	H1 2019 £m
Revenue	**93.6**	**136.3**
Gross profit	43.8	69.7
Gross margin %	46.8%	51.1%
Overheads	(38.4)	(49.8)
IFRS 9 impairments and bad debt charges	(2.9)	–
Adjusted(1) EBITDA	**2.5**	**19.9**
Depreciation and amortisation	(9.9)	(8.6)
Adjusted(1) operating (loss)/profit	**(7.4)**	**11.3**
Finance costs	(1.2)	(0.9)
Adjusted(1) (loss)/profit before tax	**(8.6)**	**10.4**
Tax	3.3	(1.7)
Adjusted(1) (loss)/profit after tax	**(5.3)**	**8.7**
Adjusted(1) basic (losses)/earnings per share (pence)	**(5.0)**	**8.7**
Non-underlying items	(7.9)	–
Tax on non-underlying items	1.5	–
Reported (loss)/profit before tax	**(16.5)**	**10.4**
Reported (loss)/profit after tax	**(11.7)**	**8.7**
Total basic (losses)/earnings per share (pence)	**(11.1)**	**8.7**

(1) See Adjusted profit measures.

COVID-19

Our financial performance in the first 6 months of 2020 reflects the unprecedented circumstances arising as a result of COVID-19. The benefit of a strong balance sheet at the beginning of the year, combined with the swift decisive actions we took at the outset of the pandemic and subsequently to control costs, preserve cash and improve liquidity secured our financial position. This continued focus, combined with steps we are taking to further reduce costs, will ensure the business is very well placed to benefit as markets continue to re-open.

REVENUE

Revenue for H1 2020 was down 31% to £93.6 million (H1 2019: £136.3 million), equivalent to a decline of 4% on a like-for-like basis (i.e. taking account of trading days and excluding the impact of acquisitions and branches opened in 2019/20). This reflects:

- Performance for the 11 weeks to 20 March in line with expectations, with like-for-like sales on a trading day basis up 3% against a tough comparative (Q1 2019 like-for-like sales growth was 10%)
- The period from late March to mid-May when the business was closed, resulting in 90 trading days in H1 2020 compared to 124 days in H1 2019
- Good performance since re-opening, with June like-for-like sales on a trading day basis down just 6% on 2019

Since re-opening, sales have exceeded our initial expectations, particularly in the branch network. On a like-for-like/trading day basis, July/August sales were up 12% on the same period last year.

GROSS MARGIN

Overall, our gross margin declined from 51.1% in H1 2019 to 46.8% in H1 2020, reflecting reduced production volumes and therefore a lower recovery of direct costs, as well as an increase to the stock provision following a rationalisation of the range to eliminate some of the least profitable and least popular products. Since re-opening, operating efficiencies have been better and gross margins are improving as volumes increase.

DISTRIBUTION AND ADMINISTRATIVE EXPENSES (OVERHEADS)

Underlying overheads were £38.4 million compared to £49.8 million in H1 2019, a decrease of £11.4 million. The decrease includes COVID-related UK Government support of £7.3 million, comprising receipts under the Job Retention Scheme of £6.3 million, retail grants of £0.7 million and retail rates relief of £0.3 million. The remaining decrease is driven largely by lower volumes and the impact of furloughed employees being paid at 80% of normal salary levels.

IFRS 9 IMPAIRMENTS AND BAD DEBT CHARGES

COVID-19 has also impacted many of our customers. Our sector closed down abruptly on 24 March, and consequently receipts from customers fell sharply in March and April.

Several accounts now have a significantly worse sales ledger ageing profile than they did pre-COVID, and a number of customers are finding it difficult to bring their accounts into terms. We therefore assessed the level of credit risk to have increased materially in H1 2020 as a direct impact of COVID. As a result, IFRS 9 impairment charges of £2.9 million have been reflected in the underlying income statement.

In addition, some customers failed to survive the acute cash flow pressures brought about by the lockdown and have gone into administration. Balances due from these customers are irrecoverable, and accordingly a non-underlying impairment charge of £0.8 million has also been recognised in the period.

DEPRECIATION AND AMORTISATION (D&A)

D&A was £10.4 million. Underlying D&A was £9.9 million (H1 2019: £8.6 million).

ADJUSTED PROFIT MEASURES

Adjusted EBITDA, adjusted operating profit and adjusted profit before tax all exclude non-underlying items. Adjusted profit after tax and adjusted earnings per share exclude non-underlying items and the related tax effect.

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

Non-underlying items for H1 2020 of £7.9 million includes a non-cash goodwill impairment charge of £5.8 million, a trade receivable impairment charge of £0.8 million, a right-of use asset impairment charge of £0.5 million and warehouse dual-running costs of £0.8 million.

The non-cash goodwill impairment charge of £5.8 million relates to the Eurocell Recycle North (formerly Ecoplas). This adjustment arises because the increase in production volumes (and therefore profitability) of the site is now expected to arise later than planned due to the temporary closure of the business and reduced demand in the short-term, as well as lower selling prices for recycled material. However, the business is now running at c.70% capacity and we expect this to increase progressively over the remainder of the year.

We have been investing heavily to increase our recycling capability, in order to capture financial and sustainability benefits and to keep pace with sales growth. As a result, we have become the leading UK-based recycler of PVC windows. Recycling and sustainability sit right at the heart of our business and we are totally committed to this critical strategic priority for the Group.

No non-underlying items were recognised in H1 2019.

FINANCE COSTS AND TAXATION

Finance costs for H1 2020 are £1.2m (H1 2019: £0.9 million).

A tax credit of £4.8 million was recognised for H1 2020 (H1 2019: tax charge of £1.7 million). The effective tax credit rate on the loss before tax for H1 2020 of 29.1% is higher than the standard corporation tax rate for the period due to the benefit of Patent Box relief. Similarly, the effective tax charge rates on the profit before tax of H1 2019 of 16.4% and full year 2019 of 14.9% were lower than the standard rate of 19.25%, also due to the benefit of Patent Box relief.

(LOSS)/PROFIT BEFORE TAX AND (LOSSES)/EARNINGS PER SHARE

The adjusted loss before tax for the period was £8.6 million (H1 2019: profit of £10.4 million), driven by lower volumes and the impact of operational gearing. The reported loss before tax for the period was £16.5 million.

Adjusted basic losses per share for the period were 5.0 pence (H1 2019: earnings per share of 8.7 pence). Reported basic losses per share for the period were 11.1 pence. As a loss was recorded for the period, share options are not considered to have a dilutive effect.

DIVIDENDS

Due to the impact of COVID-19 the dividend declared in March 2020 was subsequently cancelled and no interim dividend for 2020 will be paid (H1 2019 interim dividend: 3.2 pence per share). However, it is the Group’s intention to return to paying dividends in 2021.

CAPITAL EXPENDITURE

Capital expenditure for H1 2020 was £4.6 million (H1 2019: £8.8 million). 2020 includes the new warehouse, with £2.6 million incurred in the first half. In fitting out the facility we expect total capital expenditure of c.£8.5 million in 2020, which includes some extra costs incurred to implement COVID-19 protection measures and support social distancing. The project is progressing to plan and we expect to be operational early in 2021. Other capital expenditure in the period of £2.0 million includes new / refurbished branches, IT and maintenance capex.

CASH FLOW

Net cash generated from operating activities was £4.8 million for the period, compared to £8.4 million in H1 2019.

This includes a net inflow from working capital for H1 2020 of £4.8 million, comprised of a decrease in stocks (£3.4 million), a decrease in trade and other receivables (£8.6 million) and a decrease in trade and other payables (£7.2 million). This compares to a net outflow from working capital of £10.4 million in H1 2019. It also includes net tax paid of £1.9 million (H1 2019: £1.0 million).

Lower stocks reflects the impact of the phased return of our manufacturing sites following lockdown and increasingly strong sales. The reduction in trade receivables and payables follow lower sales and purchases in the immediate post-lockdown period.

Other items include payments for capital investments of £4.9 million, including a December 2019 capital creditor of £0.3 million (H1 2019: £8.8 million) and financing costs paid of £0.5 million (H1 2019: £0.4 million).

In April we completed a share placing, with the net proceeds of £17.1 million to be used to ensure we retain headroom on our bank facility, even under an extended shut-down, and to provide sufficient liquidity to continue investment in the new warehouse. In June, a further £0.5 million cash proceeds were received from employees in respect of vested Save As You Earn share options, which were settled via the issue of new shares.

No dividends were paid in H1 2020 (H1 2019: 2018 final dividend of 6.2 pence per share, or £6.2 million).

The principal elements of lease payments of £5.3 million (H1 2019: £4.5 million) are presented within cash flows arising from financing activities. The finance elements of lease payments were £0.7 million (H1 2019: £0.4 million).

Taking all of these factors into account, net debt on a pre-IFRS 16 basis at 30 June 2020 was £23.5 million (30 June 2019: £36.7 million, 31 December 2019: £34.6 million). Reported net debt on a post-IFRS 16 basis at 30 June 2020 was £75.6 million (31 December 2019: £68.7 million).

BANK FACILITIES

We have an unsecured revolving credit facility of £75 million which matures in 2023. We operate comfortably within the terms of the facility and in compliance with our financial covenants, which are measured on a pre-IFRS 16 basis.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties faced by the Group are set out in the 2019 Annual Report (pages 46-49). These risks remain unchanged and are as follows:

- Macro-economic conditions
- Brexit
- Cyber security
- Raw material prices
- Operating capacity constraints
- Unplanned plant downtime
- Raw material supply
- Unsuccessful branch network expansion
- Ability to attract and retain key personnel and highly skilled individuals
- Shortages or increased costs of appropriately skilled labour
- Customer credit risk
- Competitor activity
- Corporate and regulatory risks
- Failure to develop new products
- Failure to identify, complete and integrate bolt-on acquisitions
- COVID-19

Michael Scott
Chief Financial Officer

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF YEAR REPORT

We confirm that to the best of the Directors' knowledge:

- The condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) as adopted by the EU and;
- The interim management report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

By Order of the Board

Mark Kelly
Chief Executive Officer
3 September 2020

Michael Scott
Chief Financial Officer
3 September 2020

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ending 30 June 2020

		Six months ended 30 June 2020 (Unaudited)			Six months ended 30 June 2019 (Unaudited)			Year ended 31 December 2019 (Audited)		
	Note	**Underlying £m**	**[1] Non-underlying £m**	**Total £m**	**Underlying £m**	**[1] Non-underlying £m**	**Total £m**	**Underlying £m**	**[1] Non-underlying £m**	**Total £m**
Revenue	6	**93.6**	**–**	**93.6**	**136.3**	**–**	**136.3**	**279.1**	**–**	**279.1**
Cost of sales		(49.8)	–	(49.8)	(66.6)	–	(66.6)	(136.2)	–	(136.2)
Gross profit		**43.8**	**–**	**43.8**	**69.7**	**–**	**69.7**	**142.9**	**–**	**142.9**
Distribution costs		(6.5)	–	(6.5)	(11.1)	–	(11.1)	(20.2)	–	(20.2)
Administrative expenses		(41.8)	(7.1)	(48.9)	(47.3)	–	(47.3)	(98.1)	–	(98.1)
IFRS 9 impairments and bad debt charges[2]		(2.9)	(0.8)	(3.7)	–	–	–	–	–	–
Operating (loss)/profit	6	**(7.4)**	**(7.9)**	**(15.3)**	**11.3**	**–**	**11.3**	**24.6**	**–**	**24.6**
Finance expense		(1.2)	–	(1.2)	(0.9)	–	(0.9)	(1.9)	–	(1.9)
(Loss)/profit before tax		**(8.6)**	**(7.9)**	**(16.5)**	**10.4**	**–**	**10.4**	**22.7**	**–**	**22.7**
Taxation	9	3.3	1.5	4.8	(1.7)	–	(1.7)	(3.4)	–	(3.4)
(Loss)/profit for the period and total comprehensive income		**(5.3)**	**(6.4)**	**(11.7)**	**8.7**	**–**	**8.7**	**19.3**	**–**	**19.3**
Basic (losses)/earnings per share	11	**(5.0)p**		**(11.1)p**	**8.7p**		**8.7p**	**19.3p**		**19.3p**
Diluted (losses)/earnings per share	11	**(5.0)p**		**(11.1)p**	**8.7p**		**8.7p**	**19.2p**		**19.2p**

[1] Non-underlying items are detailed in Note 7.
[2] IFRS 9 impairments in 2020 have been disclosed on the face of the Consolidated Statement of Comprehensive Income due to the material nature of the charge. Impairments in the prior periods were included within Administrative expenses and were not significant.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

	Note	30 June 2020 (Unaudited) £m	30 June 2019 (Unaudited) £m	31 December 2019 (Audited) £m
Assets				
Non-current assets				
Property, plant and equipment	13	45.4	40.8	44.2
Right-of-use assets	13	50.1	33.1	35.3
Intangible assets	13	20.4	27.7	27.0
Total non-current assets		**115.9**	**101.6**	**106.5**
Current assets				
Inventories		33.9	32.4	37.3
Trade and other receivables		32.6	47.6	40.9
Corporation tax		4.5	–	–
Cash and cash equivalents		2.9	4.7	4.9
Total current assets		**73.9**	**84.7**	**83.1**
Total assets		**189.8**	**186.3**	**189.6**
Liabilities				
Current liabilities				
Trade and other payables		(31.4)	(42.6)	(39.8)
Lease liabilities		(9.4)	(8.4)	(8.3)
Provisions		(0.6)	(0.5)	(0.2)
Corporation tax		–	(2.0)	(1.8)
Total current liabilities		**(41.4)**	**(53.5)**	**(50.1)**
Non-current liabilities				
Borrowings		(26.4)	(41.4)	(39.5)
Trade and other payables		(0.1)	(1.2)	(0.5)
Lease liabilities		(42.7)	(24.2)	(25.8)
Provisions		(0.6)	(0.9)	(0.6)
Deferred tax		(2.1)	(2.4)	(2.6)
Total non-current liabilities		**(71.9)**	**(70.1)**	**(69.0)**
Total liabilities		**(113.3)**	**(123.6)**	**(119.1)**
Net assets		**76.5**	**62.7**	**70.5**
Equity attributable to equity holders of the Parent				
Share capital	12	0.1	0.1	0.1
Share premium account		20.0	2.4	2.4
Share-based payment reserve		0.6	0.5	0.9
Retained earnings		55.8	59.7	67.1
Total equity		**76.5**	**62.7**	**70.5**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the period ended 30 June 2020

	Note	**Six months ended 30 June 2020 (Unaudited) £m**	**Six months ended 30 June 2019 (Unaudited) £m**	**Year ended 31 December 2019 (Audited) £m**
Cash generated from operations	14	**6.7**	**9.4**	**29.0**
Income taxes paid		(1.9)	(1.0)	(2.6)
Net cash generated from operating activities		**4.8**	**8.4**	**26.4**
Investing activities				
Acquisition of subsidiaries (net of cash acquired) and payment of deferred consideration		–	(1.1)	(1.1)
Purchase of property, plant and equipment		(4.9)	(8.8)	(15.1)
Purchase of intangible assets		–	–	(0.1)
Net cash used in investing activities		**(4.9)**	**(9.9)**	**(16.3)**
Financing activities				
Proceeds from issue of ordinary share capital		17.6	–	–
Proceeds from bank borrowings		–	12.0	10.0
Repayment of bank and other borrowings		(13.0)	(0.2)	(0.1)
Principal elements of lease payments		(5.3)	(4.5)	(9.8)
Finance elements of lease payments		(0.7)	(0.4)	(0.9)
Finance expense paid		(0.5)	(0.4)	(0.9)
Dividends paid to equity Shareholders	10	–	(6.2)	(9.4)
Net cash (used in)/generated from financing activities		**(1.9)**	**0.3**	**(11.1)**
Net decrease in cash and cash equivalents		**(2.0)**	**(1.2)**	**(1.0)**
Cash and cash equivalents at beginning of period		4.9	5.9	5.9
Cash and cash equivalents at end of period		**2.9**	**4.7**	**4.9**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 (Unaudited)	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2020	**0.1**	**2.4**	**0.9**	**67.1**	**70.5**
Comprehensive income for the period					
Loss for the period	–	–	–	(11.7)	(11.7)
Total comprehensive income for the period	**–**	**–**	**–**	**(11.7)**	**(11.7)**
Contributions by and distributions to owners					
Share capital issued	–	17.1	–	–	17.1
Exercise of share options	–	0.5	(0.4)	0.4	0.5
Deferred tax on share-based payments	–	–	0.1	–	0.1
Total transactions with owners recognised directly in equity	**–**	**17.6**	**(0.3)**	**0.4**	**17.7**
Balance at 30 June 2020	**0.1**	**20.0**	**0.6**	**55.8**	**76.5**

For the six months ended 30 June 2019 (Unaudited)	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2019	**0.1**	**2.4**	**0.4**	**57.2**	**60.1**
Comprehensive income for the period					
Profit for the period	–	–	–	8.7	8.7
Total comprehensive income for the period	**–**	**–**	**–**	**8.7**	**8.7**
Contributions by and distributions to owners					
Share-based payments	–	–	0.1	–	0.1
Dividends paid	–	–	–	(6.2)	(6.2)
Total transactions with owners recognised directly in equity	**–**	**–**	**0.1**	**(6.2)**	**(6.1)**
Balance at 30 June 2019	**0.1**	**2.4**	**0.5**	**59.7**	**62.7**

For the year ended 31 December 2019 (Unaudited)	**Share capital £m**	**Share premium account £m**	**Share-based payment reserve £m**	**Retained earnings £m**	**Total equity £m**
Balance at 1 January 2019	**0.1**	**2.4**	**0.4**	**57.2**	**60.1**
Comprehensive income for the year					
Profit for the year	–	–	–	19.3	19.3
Total comprehensive income for the year	**–**	**–**	**–**	**19.3**	**19.3**
Contributions by and distributions to owners					
Share-based payments	–	–	0.4	–	0.4
Deferred tax on share-based payments	–	–	0.1	–	0.1
Dividends paid	–	–	–	(9.4)	(9.4)
Total transactions with owners recognised directly in equity	**–**	**–**	**0.5**	**(9.4)**	**(8.9)**
Balance at 31 December 2019	**0.1**	**2.4**	**0.9**	**67.1**	**70.5**

1 BASIS OF PREPARATION

The half year report for the six months ended 30 June 2020 reflects the results of the Company and its subsidiaries (together the ‘Group’). It has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union and the Disclosure and Transparency rules of the Financial Conduct Authority, and includes the half year condensed consolidated financial statements (the ‘interim financial statements’).

The interim financial statements do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. They do not include all the information required for full financial statements and should be read in conjunction with the 2019 Annual Report.

The comparative figures for the year ended 31 December 2019 have been extracted from the Group’s audited financial statements for that year. Those financial statements are included in the 2019 Annual Report and have been delivered to the Registrar of Companies. The auditor’s report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their audit report, and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The interim financial statements are unaudited, but have been reviewed by the auditors in accordance with the Auditing Practices Board guidance on Review of Interim Financial Information.

The half year report was approved by the Board of Directors on 3 September 2020.

2 SIGNIFICANT CHANGES IN THE CURRENT PERIOD – INCLUDING THE IMPACT OF COVID-19

In line with official guidance from the UK Government on 23 March, the business temporarily closed. Following updated guidance, the business re-opened progressively from 11 May. The closure has had a significant impact on sales and profitability, with only 90 days of trading in the first half of 2020, compared to 124 in 2019.

Government support

In partial mitigation of the impact of COVID, the Group has taken advantage of several Government support schemes.

Job Retention Scheme

The Job Retention Scheme provides financial support for the wages of individuals who have been furloughed during the period since 24 March. The Group received cash contributions under the JRS of £6.3 million in relation to the period to 30 June. This contribution has been matched to the payroll cost incurred.

Business Rates Retail Discount

Business rates relief at 100% is available for retail properties for the 2020/21 tax year. The Group applied for this relief in respect of the branch estate. Where relief has been obtained, no rates have been charged to the Consolidated Statement of Comprehensive Income. Where relief has not yet been secured, rates have been charged to the Consolidated Statement of Comprehensive Income in the normal way. Rates relief of £0.3 million has been recognised in the first half of 2020.

Retail, Hospitality and Leisure Grant Fund

Businesses with retail property that were eligible for the Rates Retail Discount are also eligible for grants of either £10,000 or £25,000 (depending on the rateable value of the property), up to an EU-mandated maximum total benefit of €0.8 million (£0.7 million) over a three-year period.

The Group has claimed and received grants up to the maximum amount of £0.7 million. This grant income has been recognised in full in the Consolidated Statement of Comprehensive Income in the first half of 2020.

VAT deferral

In April, the Government announced that all VAT payments between 20 March and 30 June 2020 could be deferred, with payment due on or before 31 March 2021.

The Group has deferred VAT payments due during this period, and plans to settle the outstanding amounts in March 2021. The Group has continued to submit VAT returns as normal, and the Q2 liability was recognised within the Consolidated Statement of Financial Position at 30 June.

Bank facility

Throughout this period the Group has continued to comply with the terms of its financing arrangements, and at 30 June 2020 all financial obligations to employees, suppliers, landlords and local authorities had been met.

The Group’s £75 million Revolving Credit Facility expires in December 2023. At 30 June £24 million was drawn on the facility, leaving headroom of £51 million.

Seasonality

The Group's trading performance is normally impacted by seasonality, with revenues and profits typically weighted more towards the second half of the year. In light of the macroeconomic developments caused by the pandemic and the prevailing uncertainty, it is not possible to reliably estimate the impact of seasonality for the remainder of 2020.

3 GOING CONCERN

The interim financial statements have been prepared on a going concern basis.

The Group funds its activities through a £75 million Revolving Credit Facility, provided by Barclays and HSBC, which matures in December 2023. The facility includes two key financial covenants, which are tested at 30 June and 31 December on a pre-IFRS 16 basis. These are that net debt should not exceed 3 times adjusted EBITDA (Leverage), and that adjusted EBITDA should be at least 4 times the interest charge on the debt (Interest Cover).

In advance of the 30 June 2020 reporting period, given the significant uncertainty related to the impact of COVID-19, the Group agreed a revised covenant with its banking partners, replacing Leverage and Interest Cover with a single undertaking that net debt should not exceed a maximum of £40.0 million at 30 June 2020. This covenant was comfortably met, with reported net debt at £23.5 million.

Had the original covenants been in place at 30 June, the Group would have complied with the relevant terms, with significant headroom. For the next measurement period, being 31 December 2020, and going forward, the Group expects to revert to and comply with the original covenants.

In assessing going concern, the Directors have considered financial projections for the period to December 2022, which is consistent with the Board's strategic planning horizons. These forecasts have been compiled based on the best estimates of our commercial and operational teams. The various scenarios take into consideration a wide range of possible impacts from COVID-19, along with other factors such as Brexit.

This includes a "Reasonable Worst Case" scenario, which considers the impact of a second-wave of COVID-19 infections, leading to a series of enhanced localised lockdown measures over the period Q4 2020 to Q1 2021. Under this scenario, we believe that the business would continue to operate, on the basis that we have introduced and maintained effective 2 metre social distancing measures (alongside other protections) in our manufacturing operations and branch network. We have assumed, however, that in this scenario demand would be impacted severely in the short-term by declining consumer confidence.

In all scenarios tested, the Group operates with significant headroom on its RCF facility and remains compliant with its original covenants.

After reviewing the Group's projected financial performance and financing arrangements, the Directors consider that the Group has adequate resources to continue operating and that it is therefore appropriate to continue to adopt the going concern basis in preparing this half year report.

4 ACCOUNTING POLICIES AND ESTIMATES

The interim financial statements have been prepared in accordance with the accounting policies and presentation that were applied in the Group's audited financial statements for the year ended 31 December 2019.

The following new standards, amendments or interpretations have been adopted by the Group, with no material impact:

- IFRS 3, Definition of a Business;
- IAS 1 and IAS 8, Definition of Material;
- IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform (Phase 1);
- Revised Conceptual Framework; and
- Amendments to References to the Conceptual Framework in IFRS Standards.

The following standards, which are not expected to have a material impact on the Group's future financial statements, were in issue but not yet effective (and not yet adopted by the EU):

- IAS 1 Presentation of Financial Statements (effective from 1 January 2022);
- IAS 16 Property, Plant and Equipment (effective from 1 January 2022);
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (effective from 1 January 2022);
- IFRS 3 Business Combinations (effective from 1 January 2022);
- IFRS 9 Financial Instruments (effective from 1 January 2022); and
- IFRS 17 Insurance Contracts (effective from 1 January 2022).

The Group does not intend to adopt any standard, revision or amendment before the required implementation date.

Government grants

As highlighted in Note 2, the Group has taken advantage of government support made available to businesses to help mitigate the impact of COVID-19. In recognising this support in the financial statements, the Group has applied IAS 20 Government Grants. Grant income is recognised only when it is reasonably certain that the cash will be received, and that all eligibility criteria have been met. To the extent that there are ongoing eligibility or performance criteria, grant income is spread over the relevant period of measurement. All revenues and costs are stated net of grant income.

Critical accounting estimates and judgements

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The significant judgements, estimates and assumptions relevant to the preparation of the interim financial statements are consistent with those described on pages 104 to 110 of the 2019 Annual Report. Updates where relevant are provided below.

<u>Carrying value of inventories</u>
The Group reviews 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. During the current period there has been an increase in uncertainty over these estimates, due to the fast-changing circumstances arising from the impact of COVID-19. Following a rationalisation of the product range, an increase to the provision for slow moving inventory of £1.5 million was recorded in H1.

<u>Recoverability of trade receivables</u>
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 the 3-year period up to the reporting date, 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, there is an 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.

During the current period there has been an increase in uncertainty over these estimates, in particular through the impact of COVID-19 on customer payment behaviour, with many customers struggling to make payments that fell due during the lockdown period. Both the ageing of balances and the outlook for the UK economy have deteriorated, and consequently the IFRS 9 expected credit loss model has resulted in a higher provision. IFRS 9 impairments and bad debt charges of £3.7 million were recorded in H1, of which £0.8 million were classified as non-underlying (see Note 7). This is consistent with the credit losses incurred in the half year to date, compared to the historical low level of such instances prior to the end of March 2020.

If loss rates were, on average, 500 basis points higher than current estimates, the provision for impairment would increase by less than £50,000.

<u>Impairment of goodwill and intangible assets</u>
The Group 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 approved budgets and forecasts covering a three-year period.

COVID-19 was considered to be a potential trigger for impairment, and accordingly management has revisited the value-in-use calculations for all CGUs.

With the exception of Eurocell Recycle North (ERN, formerly Ecoplas), the Group assessed the recoverable amount in respect of goodwill for each GCU to be greater than the carrying amount and therefore no impairment arises. For ERN, the carrying value of goodwill has been written down to nil, with a non-underlying charge of £5.8 million, as described in Note 7. The intangible and other assets at ERN remain supported.

The key estimates 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 material impairment, and therefore no further sensitivity disclosures have been provided.

5 FINANCIAL INSTRUMENTS

The Group is exposed to financial risks through its use of the following financial instruments:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables
- Bank overdrafts
- Floating-rate bank loans

The relevant financial risks are: credit risk, market risk, foreign exchange risk and liquidity risk.

The Group estimates that the fair value of these financial assets and liabilities is approximate to their carrying amount. Further information in relation to the Group's exposure to financial risks is included on pages 111 to 113 of the 2019 Annual Report.

The Group amended its Revolving Credit Facility in March 2020, increasing the facility from £60 million to £75 million, but with all other key terms remaining unchanged. Costs incurred in amending the facility have been capitalised, and are being released to the Consolidated Statement of Comprehensive Income over the period of the facility, which expires in December 2023. Total unamortised costs, which are presented as a deduction to borrowings, were £0.5 million as at 30 June 2020.

6 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 operations 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 UPVC 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.
- Building Plastics – sale of building plastic materials across the UK. This segment includes Security Hardware, Kent Building Plastics and Trimseal.

All revenue is recognised at a point in time upon delivery to, or collection by customers.

The Corporate segment includes depreciation and amortisation in respect of right-of-use assets and acquired intangible assets.

Six months ended 30 June 2020 (Unaudited)	**Profiles £m**	**Building Plastics £m**	**Corporate £m**	**Total £m**
Revenue				
Total revenue	55.4	57.7	–	113.1
Inter-segmental revenue	(19.0)	(0.5)	–	(19.5)
Total revenue from external customers	**36.4**	**57.2**	**–**	**93.6**
Adjusted EBITDA	**1.9**	**(0.6)**	**1.2**	**2.5**
Amortisation of intangible assets	–	–	(0.8)	(0.8)
Depreciation of property, plant and equipment	(2.5)	(0.5)	(0.4)	(3.4)
Depreciation of right-of-use assets	(1.7)	(2.9)	(1.1)	(5.7)
Operating loss before non-underlying items	**(2.3)**	**(4.0)**	**(1.1)**	**(7.4)**
Non-underlying items				(7.9)
Finance expense				(1.2)
Loss before tax				**(16.5)**

Six months ended 30 June 2019 (Unaudited)	**Profiles £m**	**Building Plastics £m**	**Corporate £m**	**Total £m**
Revenue				
Total revenue	85.8	79.4	–	165.2
Inter-segmental revenue	(28.2)	(0.7)	–	(28.9)
Total revenue from external customers	**57.6**	**78.7**	**–**	**136.3**
Adjusted EBITDA	**13.3**	**6.6**	**–**	**19.9**
Amortisation of intangible assets	(0.1)	-	(0.8)	(0.9)
Depreciation of property, plant and equipment	(2.0)	(0.5)	(0.3)	(2.8)
Depreciation of right-of-use assets	(1.0)	(2.7)	(1.2)	(4.9)
Operating profit	**10.2**	**3.4**	**(2.3)**	**11.3**
Finance expense				(0.9)
Profit before tax				**10.4**

Year ended 31 December 2019 (Audited)	**Profiles £m**	**Building Plastics £m**	**Corporate £m**	**Total £m**
Revenue				
Total revenue	175.2	164.7	–	339.9
Inter-segmental revenue	(59.5)	(1.3)	–	(60.8)
Total revenue from external customers	**115.7**	**163.4**	**–**	**279.1**
Adjusted EBITDA	**24.7**	**15.2**	**2.5**	**42.4**
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)
Operating profit	**17.9**	**8.6**	**(1.9)**	**24.6**
Finance expense				(1.9)
Profit before tax				**22.7**

Six months ended 30 June 2020 (Unaudited)	**Profiles £m**	**Building Plastics £m**	**Corporate £m**	**Total £m**
Segment assets	**107.2**	**66.5**	**16.1**	**189.8**
Segment liabilities	(47.9)	(34.3)	(2.6)	(84.8)
Borrowings				(26.4)
Deferred tax liability				(2.1)
Total liabilities				**(113.3)**
Total net assets				**76.5**

Six months ended 30 June 2019 (Unaudited)	Profiles £m	Building Plastics £m	Corporate £m	Total £m
Segment assets	**91.3**	**72.2**	**22.8**	**186.3**
Segment liabilities	(31.7)	(39.0)	(7.1)	(77.8)
Borrowings				(41.4)
Corporation tax				(2.0)
Deferred tax				(2.4)
Total liabilities				**(123.6)**
Total net assets				**62.7**

Year ended 31 December 2019 (Audited)	Profiles £m	Building Plastics £m	Corporate £m	Total £m
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				(1.8)
Deferred tax				(2.6)
Total liabilities				**(119.1)**
Total net assets				**70.5**

	Six months ended 30 June 2020 (Unaudited)		**Six months ended 30 June 2019 (Unaudited)**		**Year ended 31 December 2019 (Audited)**	
	Revenue £m	**Non-current assets £m**	**Revenue £m**	**Non-current assets £m**	**Revenue £m**	**Non-current assets £m**
United Kingdom	93.1	115.9	135.7	101.6	277.7	106.5
Republic of Ireland	0.5	–	0.6	–	1.4	–
Total	**93.6**	**115.9**	**136.3**	**101.6**	**279.1**	**106.5**

As at 30 June 2020 the Group employed 1,883 people in the UK, and 7 people in the Republic of Ireland.

7 NON-UNDERLYING ITEMS

Amounts included in the Condensed Consolidated Statement of Comprehensive Income are as follows:

	Six months ended 30 June 2020 (Unaudited) £m
Impairment charges:	
- Goodwill	5.8
- Trade receivables and contract assets	0.8
- Right-of-use assets	0.5
Warehouse dual running costs	0.8
Non-underlying items	**7.9**
Taxation	**(1.5)**
Impact on loss after tax	**6.4**

Impairment charges

The temporary closure of the business, alongside the on-going and potential medium- to long-term impact of COVID-19 on the Group and its markets were considered to be possible indicators of impairment for the Group's assets.

Following a review of projected discounted future cash flows for the Group's Cash Generating Units (CGUs), impairments to the carrying value of goodwill, right-of-use assets, trade receivables and contract assets have been recognised in the interim financial statements. Impairment charges have been classified as non-underlying where the direct effects of COVID-19 have materially impacted the future cash flows expected to arise.

Goodwill
The goodwill in respect of Eurocell Recycle North (ERN, formerly Ecoplas) has been impaired in full, leading to a non-underlying charge of £5.8m (see Note 8). This charge arises as a result of lower projected short term cash flows than previously expected, reflecting the impact of COVID-19 on selling prices, customer demand and production volumes (and therefore profitability) of the ERN CGU. The carrying value of all other intangible assets and property, plant and equipment in the Group remains supported.

Receivables and contract assets
A number of the Group's customers have suffered acute short-term cash flow issues. In some cases, this has led to customers filing for administration, and in others there has been a marked deterioration in the ageing of receivable balances. Where customers have entered into an insolvency process, the amount owed of £0.8 million has been written off (net of VAT and any expected re-imbursement) as a non-underlying charge. Where the increase in provisions results from the IFRS 9 Expected Credit Loss model, the charge is included within underlying expenses.

Right-of-use assets
Right-of-use assets relating to property leases are subject to impairment testing, both within their respective CGUs, but also individually. The Group's branch network operates entirely from leased properties. The expected future profitability of each of the branches was considered in the light of the potential impact of COVID-19 on future sales. The projections identified a small number of potentially loss-making branches in the medium-term, against which an impairment charge of £0.5 million has been recognised to reduce the carrying value of the associated right-of-use assets to their value-in-use.

In determining the carrying value of these various assets, estimates and judgements have been made as to expected future cash flows. In the future, actual experience may deviate from these estimates and judgements, the modification of which might have a material impact on the consolidated financial statements. Any modifications will be made in the period in which the circumstances change, with the exception of the impairment of goodwill, which cannot be reversed.

Warehouse dual running costs

In January 2020 the Group entered into a lease arrangement for a new warehouse and head office facility close to its primary manufacturing operations. The warehouse is in the process of being fitted-out, and is due to be brought into active service in early 2021. Certain costs have been incurred during the fit-out process, such as IFRS 16 lease charges, rates and other property-related costs. These costs have been classified as non-underlying as the warehouse is not yet operational, and therefore not currently contributing to the underlying performance of the business.

The warehouse is expected to be operational in early 2021. There will therefore be further non-underlying costs relating to the warehouse in the second half of 2020.

8 IMPAIRMENT

For the purpose of impairment testing, goodwill is allocated to Cash Generating Units (CGUs) as follows:

	30 June 2020 (Unaudited) £m	30 June 2019 (Unaudited) £m	31 December 2019 (Audited) £m
Eurocell Recycle North (formerly Ecoplas)	–	5.8	5.8
Eurocell Building Plastics	5.1	5.1	5.1
Eurocell Profiles	3.3	3.3	3.3
Vista Panels	2.2	2.2	2.2
S&S Plastics	0.2	0.2	0.2
Security Hardware	0.2	0.2	0.2
Total	**11.0**	**16.8**	**16.8**

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 represent our best estimate of the most likely outcome, and growth rates do not exceed growth rates achieved in prior periods.

The key assumptions in preparing these forecasts are in line with the Group's published strategy, which includes continuing to open new branches, developing new products and increasing the use of recycled materials.

	30 June 2020 (Unaudited) £m	31 December 2019 (Audited) £m
Period on which management approved forecasts are based (years)	3	3
Discount rate (pre-tax)	11%	10%
Profit growth rate in perpetuity	2%	2%

Goodwill is considered to have an indefinite useful life. The discount rate was estimated based on past experience and an industry average weighted average cost of capital.

As described in Note 7, with the exception of Eurocell Recycle North (ERN, formerly Ecoplas), the Group assessed the recoverable amount in respect of goodwill for each GCU to be greater than the carrying amount and therefore no impairment arises. No reasonably possible change in assumptions would result in an impairment for these CGUs.

In the case of ERN, the carrying value of goodwill has been written down to nil, with a non-underlying charge of £5.8 million. The remaining assets associated with the ERN CGU comprise intangible assets of £0.5 million and property, plant and equipment of £4.4 million. A 1% increase/decrease in the perpetuity growth rate would lead to a £0.9 million increase/decrease in value-in-use. A 100 basis points increase/decrease in discount rate would lead to a decrease/increase in value-of-use of £0.7 million. We will re-assess all key judgements as the year progresses.

9 TAXATION

	Six months ended 30 June 2020 (Unaudited) £m	Six months ended 30 June 2019 (Unaudited) £m	Year ended 31 December 2019 (Audited) £m
Current tax			
Current tax on (loss)/profit for the period	(4.4)	1.6	3.4
Adjustments in respect of prior years	–	–	(0.2)
Total current tax (credit)/expense	**(4.4)**	**1.6**	**3.2**
Deferred tax			
Origination and reversal of temporary differences	(0.4)	0.1	0.2
Total deferred tax	**(0.4)**	**0.1**	**0.2**
Total tax (credit)/expense	**(4.8)**	**1.7**	**3.4**

The reasons for the difference between the actual tax charge for the period and the standard rate of corporation tax in the United Kingdom applied to profits for the period are as follows:

	Six months ended 30 June 2020 (Unaudited) £m	Six months Ended 30 June 2019 (Unaudited) £m	Year ended 31 December 2019 (Audited) £m
(Loss)/profit before tax	**(16.5)**	**10.4**	**22.7**
Expected tax (credit)/expense based on the standard rate of corporation tax in the UK of 19% (2019: 19%)	(3.1)	2.0	4.3
Expenses not deductible for tax purposes	(1.1)	0.1	–
Patent Box claim	(0.4)	(0.4)	(0.8)
Adjustments in respect of prior years	–	–	(0.2)
Tax on share-based payments recognised in equity	(0.1)	–	0.1
Adjustment in respect of change in rates	(0.1)	–	–
Total tax (credit)/expense	**(4.8)**	**1.7**	**3.4**

Changes in tax rates and factors affecting the future tax charge

A reduction in the mainstream rate of UK corporation tax from 19% to 17% from April 2020 was enacted during 2016. This reduction was cancelled in January 2020, and consequently deferred taxes at the period end have been re-measured using the mainstream rate of 19%, and reflected in the interim financial statements.

In calculating the half year tax credit, the expected effective tax rate for the full year has been applied to the half year underlying loss. Separately, tax has been applied to non-underlying items incurred in the period to 30 June 2020 at the standard rate.

Tax included in Other Comprehensive Income

The tax credit arising on share-based payments within Other Comprehensive Income is £88,000.

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.

10 DIVIDENDS

	Six months ended 30 June 2020 (Unaudited) £m	Six months ended 30 June 2019 (Unaudited) £m	Year ended 31 December 2019 (Audited) £m
Dividends paid during the period			
Interim dividend for H1 2019: 3.2p per share	–	–	3.2
Final dividend for 2019: nil p per share (2018: 6.2p per share)	–	6.2	6.2
	–	**6.2**	**9.4**
Dividends proposed			
Interim dividend for H1 2020: nil p per share (H1 2019: 3.2p per share)	–	3.2	–
Final dividend for 2019: nil p per share	–	–	–
	–	**3.2**	**–**

On 13 March 2020 a final dividend for 2019 of 6.4p per share was declared. In response to the closure of the business and the level of uncertainty due to COVID-19, the dividend was subsequently cancelled.

11 (LOSSES)/EARNINGS PER SHARE

Basic (losses)/earnings per share is calculated by dividing the net (loss)/profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options. In the event that a loss is recorded for the period, share options are not considered to have a dilutive effect.

	Six months ended 30 June 2020 (Unaudited) £m	Six months ended 30 June 2019 (Unaudited) £m	Year ended 31 December 2019 (Audited) £m
Total (loss)/profit attributable to ordinary shareholders	(11.7)	8.7	19.3
Underlying (loss)/profit attributable to ordinary shareholders	(5.3)	8.7	19.3
	Number	**Number**	**Number**
Weighted average number of shares- basic	105,431,314	100,310,472	100,316,692
Weighted average number of shares- diluted	105,431,314	100,724,244	100,720,559

	Six months ended 30 June 2020 (Unaudited) Pence	Six months ended 30 June 2019 (Unaudited) Pence	Year ended 31 December 2019 (Audited) Pence
Basic (losses)/earnings per share	(11.1)	8.7	19.3
Underlying basic (losses)/earnings per share	(5.0)	8.7	19.3
Diluted (losses)/earnings per share	(11.1)	8.7	19.2
Underlying diluted (losses)/earnings per share	(5.0)	8.7	19.2

12 NEW SHARE CAPITAL

On 1 April the Group issued 10,031,040 new shares via a placing, for a gross consideration of £17.6 million. The amount raised above the nominal value of the shares issued, less costs associated with the placing of £0.5 million, has been recorded as share premium.

The Group also issued 336,665 new shares in respect of its Save As You Earn sharesave scheme, in the process receiving consideration from employees of £0.5 million. The consideration received above the nominal value of the shares issued has been recorded as share premium.

13 NON-CURRENT ASSETS (Unaudited)

	Property, plant and equipment £m	Right-of-use assets £m	Intangible assets £m
At 31 December 2019	**44.2**	**35.3**	**27.0**
Additions	4.6	21.5	–
Depreciation and amortisation	(3.4)	(5.7)	(0.8)
Depreciation (non-underlying)	–	(0.5)	–
Impairment charges (non-underlying)	–	(0.5)	(5.8)
At 30 June 2020	**45.4**	**50.1**	**20.4**

14 RECONCILIATION OF (LOSS)/PROFIT AFTER TAX TO CASH GENERATED FROM OPERATIONS

	Six months ended 30 June 2020 (Unaudited) £m	Six months ended 30 June 2019 (Unaudited) £m	Year ended 31 December 2019 (Audited) £m
(Loss)/profit after tax	**(11.7)**	**8.7**	**19.3**
Taxation	(4.8)	1.7	3.4
Finance expense	1.2	0.9	1.9
Operating (loss)/profit	**(15.3)**	**11.3**	**24.6**
Adjustments for:			
Depreciation of property, plant and equipment	3.4	2.8	5.8
Depreciation of right-of-use assets	6.2	4.9	10.2
Amortisation of intangible assets	0.8	0.9	1.8
Impairment of goodwill	5.8	–	–
Impairment of right-of-use assets	0.5	–	–
Share-based payments	–	0.1	0.4
Decrease/(increase) in inventories	3.4	(4.1)	(9.0)
Decrease/(increase) in trade and other receivables	8.6	(8.0)	(1.7)
(Decrease)/increase in trade and other payables	(7.2)	1.7	(2.3)
Increase/(decrease) in provisions	0.5	(0.2)	(0.8)
Cash generated from operations	**6.7**	**9.4**	**29.0**

15 RELATED PARTY TRANSACTIONS

The remuneration of Executive and Non-executive Directors is disclosed in the 2019 Annual Report.

Transactions with key management personnel

Kalverboer Management UK LLP is controlled by P H L Kalverboer, a Director of Eurocell plc until his resignation from the Board on 10 May 2019. Kellmann Recruitment Limited is controlled by T Kelly, a close family member of M Kelly who is a Director of Eurocell plc.

The following amounts were paid to Kellman Recruitment and Kalverboer Management for services provided during the period:

	Six months ended 30 June 2020 (Unaudited) £000	Six months ended 30 June 2019 (Unaudited) £000	Year ended 31 December 2019 (Audited) £000
Kalverboer Management UK LLP	–	17	17
Kellmann Recruitment Limited – recruitment services	25	11	22

The following balances are outstanding at the period end:

	Six months ended 30 June 2020 (Unaudited) £000	Six months ended 30 June 2019 (Unaudited) £000	Year ended 31 December 2019 (Audited) £000
Kalverboer Management UK LLP	–	–	–
Kellmann Recruitment Limited – recruitment services	–	7	–

16 CAPITAL COMMITMENTS

The Group is committed to a further c.£6 million of capital investment in its new warehouse facility in the second half of 2020. The warehouse is expected to be fully operational in early 2021.

17 EVENTS AFTER THE BALANCE SHEET DATE

The directors are not aware of any material events that have occurred after 30 June 2020 which would require disclosure under IAS 10.

Following a review of operating, support and management structures, the Group has announced a small reduction in headcount (approximately 50 positions, representing c.3% of our workforce) which will be achieved through a combination of vacancies that will not be filled and redundancies. The cost associated with the redundancies announced to date is not material.

Independent Review Report to Eurocell plc
Report on the Half Year Condensed Consolidated Financial Statements

Our conclusion
We have reviewed Eurocell plc's half year condensed consolidated financial statements (the "interim financial statements") in the half year report of Eurocell plc for the 6 month period ended 30 June 2020. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed
The interim financial statements comprise:

- The condensed consolidated statement of financial position as at 30 June 2020;
- The condensed consolidated statement of comprehensive income for the period then ended;
- The condensed consolidated cash flow statement for the period then ended;
- The condensed consolidated statement of changes in equity for the period then ended; and
- The explanatory notes to the interim financial statements.

The interim financial statements included in the half year report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review
Our responsibilities and those of the Directors
The half year report, including the interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half year report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the half year report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

What a review of interim financial statements involves
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham
3 September 2020