Notes to the Company Financial Statements
For the year ended 31 December 2020

34 ACCOUNTING POLICIES (COMPANY)

Corporate information
Eurocell plc (the 'Company') is a publicly listed company incorporated and domiciled in the United Kingdom. The registered office is located in England, at the following address: Eurocell Head Office and Distribution Centre, High View Road, South Normanton, Alfreton, DE55 2DT.

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 (see below).

These financial statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework in conformity with the requirements of the Companies Act 2006 ('FRS 101') and the applicable legal requirements of the Companies Act 2006.

These Financial Statements have been prepared under the historical cost convention in accordance with UK GAAP and the Companies Act 2006.

Going concern
The position of the Company mirrors that of the Eurocell Group. The Eurocell 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 has reverted to and expects to comply with the original covenants.

In assessing going concern, the Directors have considered financial projections for the period to December 2023, 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. This includes a 'Downside' scenario, which reflects demand for our products being severely weakened, either by the impact of further COVID-19 disruption on consumer confidence, or by widened consumer choices when restrictions are lifted.

However, the business has remained open and trading as normal throughout 2021 to date, following guidance issued by the Department for Business, Energy & Industrial Strategy that the construction sector and its manufacturing supply chain should continue to operate, provided that safe working practices are maintained.

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 Company has adequate resources to continue operating and that it is therefore appropriate to continue to adopt the going concern basis in preparing these Financial Statements.

Changes in accounting policies and disclosures applicable to the Company
The Company adopted no new accounting standards in the year.

Investments in subsidiary undertakings
Investments in subsidiaries are stated at cost less provision for impairment.

34 ACCOUNTING POLICIES (COMPANY) continued

Financial assets

The Company's financial assets comprise trade and other receivables and cash and cash equivalents in the balance sheet. The Company records all of its financial assets at amortised cost and has not classified any of its financial assets as fair value through profit and loss or other comprehensive income.

Financial assets are non-derivative assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of funding to Group companies, 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 Company applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for intra-group receivables.

Expected loss rates are derived based upon the payment profile of Group companies over a three-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 Group companies 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 amounts owed by Group undertakings and the amount credited or charged on a net basis to operating expenses within the Statement of Comprehensive Income.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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.

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:
i. paragraph 79(a)(iv) of IAS 1;
ii. paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
iii. 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 and 18A 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 two or more members of a group.

35 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company 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 investments

The Company assesses the carrying value of its investments 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 investment, which have been predicated on discounted cash flow projections from approved budgets and forecasts covering a three-year period.

The Company assessed the recoverable amount in respect of each of its investments to be greater than the carrying amount and therefore no impairment arises.

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 Company's investments would be at risk of material impairment, and therefore no further sensitivity disclosures have been provided.

35 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS continued

b) Recoverability of amounts owed by Group undertakings

The Company applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for amounts owed by Group undertakings. Expected loss rates are derived based upon the payment profile of Group companies over a three-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 Group companies 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 amounts receivable from Group undertakings and this amount is credited or charged on a net basis to operating expenses within the Statement of Comprehensive Income. The key judgement is the extent to which macroeconomic factors impact upon the recoverability of amounts owed by Group companies.

If loss rates were, on average, 100 basis points higher than current estimates, the provision for impairment would increase by less than £500,000.

c) Use of the going concern basis in preparing the accounts

The Company has applied the going concern basis in preparing the accounts. In assessing going concern, the Directors have considered the Group's financial projections for the period to December 2023, 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 'Downside' scenario, which considers the impact of further COVID-19 infections, leading to a series of enhanced localised lockdown measures over the course of 2021.

In all scenarios tested, including sensitivities reducing sales forecasts to 5% below 2019 for the period 2021-23, the Company operates with significant headroom on its RCF facility and remains compliant with its original covenants.

36 EMPLOYEE BENEFITS EXPENSE

	2020 £m	2019 £m
Staff costs (including Directors) comprise:		
Wages and salaries	**0.3**	0.3
Social security costs	**–**	–
	0.3	0.3

The average number of monthly employees was three (2019: three), all of whom are Directors of the Company.

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 Company, which is considered to be the Directors of the Company.

	2020 £m	2019 £m
Emoluments	**0.9**	1.0
Share-based payments	**0.1**	0.1
Pension and other post-employment benefit costs	**0.1**	0.1
	1.1	1.2

The emoluments are paid by Eurocell Group Limited. Directors' remuneration is set out in the Remuneration Report on pages 85 to 100.

During the year, retirement benefits were accruing to two Directors in respect of defined contribution pension schemes (2019: two).

The highest paid Director received remuneration of £466,000 (2019: £673,000). 63,322 share options were exercised by Directors of the Company during the current year (2019: nil), of which 51,049 were exercised by the highest paid Director.

The value of contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £57,000 (2019: £58,000).

37 INVESTMENTS

Cost	Investments in subsidiary undertakings £m
At 31 December 2020 and at 31 December 2019	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:

		Holding	
Name	Principal activity	**2020**	2019
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%**	100%
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.

** Ecoplas Limited is treated as a wholly-owned subsidiary for the purposes of consolidating the financial statements due to the fact that the remaining 5% shareholding is held under a put and call option.

All of the above have a registered address of Eurocell Head Office and Distribution Centre, High View Road, South Normanton, Alfreton, Derbyshire, DE55 2DT.

The Company assesses that the recoverable amounts of these investments are supportable. Recoverable amounts 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.

37 INVESTMENTS continued

All of the Company's CGUs operate principally in the UK Repair, Maintenance and Improvements market, and all are funded through a combination of retained earnings and the Group's Revolving Credit Facility. The strategic decision-making timeframe is also consistent across all CGUs. Consequently, the key assumptions detailed below are applied consistently across the Group's entities:

	2020	2019
Period on which management-approved forecasts are based (years)	**3**	3
Discount rate (pre-tax)	**11%**	10%
Profit growth rate in perpetuity	**2%**	2%

38 TRADE AND OTHER RECEIVABLES

	2020 £m	2019 £m
Prepayments and other debtors	**0.5**	0.4
Amounts owed by Group undertakings	**46.2**	55.2
Total trade and other receivables	**46.7**	55.6

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, receivables have been grouped based on shared characteristics and days past due.

The Directors have assessed the risk of impairment of its amounts owed by Group undertakings as at 31 December 2020. After considering the projected future cash flows expected to arise in its subsidiary entities, the Directors believe that the amounts owed by Group undertakings are recoverable.

39 DEFERRED TAX

	2020 £m	2019 £m
At 1 January	**0.3**	0.1
(Charged)/credited to equity	**(0.1)**	0.1
(Charged)/credited to the Statement of Comprehensive Income	**(0.1)**	0.1
At 31 December	**0.1**	0.3

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 Statement of Comprehensive Income and amounts recognised in Other Comprehensive Income are as follows:

	Asset 2020 £m	**Liability 2020 £m**	**Net 2020 £m**	**Statement of Comprehensive Income 2020 £m**	**Equity 2020 £m**
Other temporary differences	**0.1**	**–**	**0.1**	**(0.1)**	**(0.1)**
Net tax assets	**0.1**	**–**	**0.1**	**(0.1)**	**(0.1)**

	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

Amounts within other comprehensive income due to be settled in greater than one year are not material and therefore no further disclosure has been provided.

40 TRADE AND OTHER PAYABLES

	2020 £m	2019 £m
Trade and other payables	–	0.1
Total current liabilities	–	0.1

Book values approximate to fair value at 31 December 2020 and 2019.

Trade payables are non-interest-bearing and are generally settled on 30-60 day terms.

41 BORROWINGS

The book value and fair value of borrowings are as follows:

	Book value 2020 £m	Fair value 2020 £m	Book value 2019 £m	Fair value 2019 £m
Non-current				
Bank borrowings unsecured	12.5	12.5	39.5	39.5
Total borrowings	12.5	12.5	39.5	39.5

Borrowings

In March 2020 the Company amended its multi-currency revolving unsecured credit facility held with Barclays Bank plc and HSBC UK Bank plc, increasing the facility from £60 million to £75 million, but with all other key terms remaining unchanged. Costs amounting to £0.2 million were incurred in amending the facility. These costs have been capitalised, and are being released to the Statement of Comprehensive Income over the period of the facility, which expires in December 2023.

Borrowings of £13.0 million were drawn down at 31 December 2020 (2019: £40.0 million). Total unamortised costs, which are presented as a deduction to borrowings, were £0.5 million as at 31 December 2020 (2019: £0.5 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 SONIA, which is due to replace LIBOR in 2021) will remain relatively stable during the next year, and any changes, when applied to the current bank borrowings of £13.0 million would not lead to a significant change in finance expense.

All borrowings are denominated in Sterling.

42 RELATED PARTY TRANSACTIONS

Transactions with key management personnel

The remuneration of Executive and Non-executive Directors is disclosed on pages 85 to 100.

Other related party transactions

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.

	2020 £000	2019 £000
Kellmann Recruitment Limited – recruitment services	48	22
Kalverboer Management UK LLP – director remuneration	–	17

The following balances are outstanding at the balance sheet date:

	2020 £000	2019 £000
Kellmann Recruitment Limited	3	–
Kalverboer Management UK LLP	–	–