1 ACCOUNTING POLICIES (GROUP)

Corporate information

Eurocell plc (the 'Company') and its subsidiaries (together the 'Group') is a publicly listed company incorporated and domiciled in the United Kingdom. The registered office is Eurocell Head Office and Distribution Centre, High View Road, South Normanton, Alfreton, Derbyshire, DE55 2DT.

The Group is principally engaged in the extrusion of PVC window and building products to the new and replacement window market and the sale of building materials across the UK.

Basis of preparation

The principal accounting policies adopted in the preparation of the Financial Statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated.

The Group has adequate resources to continue in operational existence for the foreseeable future and, as a result of this, the going concern basis has been adopted in preparing the Financial Statements (see below).

The Group Financial Statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the Consolidated Financial Statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The Financial Statements have been prepared under the historical cost convention, as modified by fair values in respect of acquisition accounting. The functional currency is Sterling, and the Financial Statements are presented in millions, unless otherwise stated.

The preparation of the Group Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in Note 2.

Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries at 31 December 2020 and present the results as if they formed a single entity. Where the Company has power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date when such control ceases. Intercompany transactions and balances, unrealised gains and losses resulting from intra-Group transactions and dividends are eliminated in full.

The Group's functional currency is Sterling. The vast majority of the Group's revenues are denominated in British Pounds, and as a result the consolidation of non-UK revenues has minimal foreign exchange impact.

The Consolidated Financial Statements incorporate the results of business combinations using the purchase method. In the Consolidated Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date.

All dormant subsidiaries prepare and file financial statements in accordance with Section 394A of the Companies Act 2006, which are filed with the registrar at Companies House.

Going concern

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). Adjusted EBITDA is defined as operating profit before depreciation, amortisation and non-underlying items. See alternative performance measures (below).

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, including sensitivities reducing sales forecasts to 5% below 2019 for the period 2021-23, 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 these Financial Statements.

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 reopened progressively from 11 May, with COVID protection measures operating throughout the Group. The closure had a significant impact on sales and profitability in the period to 30 June 2020, with only 88 days of trading in H1 2020, compared to 124 in H1 2019. However, although various Government restrictions were in effect between 1 July and 31 December 2020, there was no further significant disruption to our activities in H2.

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 ('JRS') is a Government grant scheme that provides financial support for the wages of individuals who were furloughed. The Group received cash contributions under the JRS of £6.5 million in relation to the period to 31 December 2020 (mostly in H1). This contribution has been matched to the payroll cost incurred, and presented net within operating costs.

Business Rates Retail Discount

Business rates relief at 100% is available for certain retail properties for the 2020/21 tax year. The Group has successfully applied for this relief in respect of the majority of the branches within its estate. Where relief has been obtained, no rates have been charged to the Consolidated Statement of Comprehensive Income. The saving arising from this relief in 2020 is £1.1 million.

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 within operating expenses (all in H1).

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 initially deferred VAT payments due during this period, but subsequently settled the outstanding amounts in December 2020. The Group continued to submit VAT returns as normal throughout the year.

Changes in accounting policies and disclosures applicable to the Company and the Group

The Company has applied the following new standards and guidance for the financial reporting period commencing 1 January 2020, 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.

1 ACCOUNTING POLICIES (GROUP) continued

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.

Revenue

The Group manufactures and distributes a range of building plastic materials, along with associated ancillary products, via direct sales to its fabricator customers and through its branch network. Revenue is recognised when control of the products has transferred. Control is considered to have transferred once the customer has taken delivery of the products, or has collected them from the branch, has full discretion over the future use of those products, and where there is no unfulfilled obligation that could affect the customer's acceptance of the products.

Revenue is recognised based upon the price specified on the customer's invoice. A receivable is recognised on the transfer of the products, as this is the point at which consideration is deemed to be unconditional. There are no variable elements to the consideration received that require estimation. No significant element of financing is present as sales are made with a credit term of 30 days end of month, which is consistent with market practice.

Where costs are incurred by the Group in securing a contract to supply products, those costs are recognised as customer contract assets (within trade and other receivables) in the Consolidated Statement of Financial Position, and amortised over the period in which revenue pertaining to those costs is recognised, which in the vast majority of cases is three years.

Due to the fact that the Group's customers typically collect or take delivery of products for immediate use in their intended purpose, the likelihood of items being returned is small. Therefore it is highly probable that a significant reversal of revenue will not occur. The Group's obligations to repair or replace faulty manufactured products under the standard warranty terms is recognised as a provision, see Note 23.

Non-underlying items

The Group presents some material items of income and expense as non-underlying items. This is done when, in the opinion of the Directors, the nature and expected infrequency of the circumstances merit separate presentation in the Financial Statements. This includes, but is not limited to, acquisition-related expenditure, costs incurred in the act of securing debt or equity funding, the financial impact of events that impact upon our ability to trade for an extended period of time and non-trading impairment losses.

This treatment allows users of the Financial Statements to better understand the elements of financial performance in the year, it facilitates comparison with prior periods and it helps in understanding trends in financial performance. Further details as to why certain items have been classified as non-underlying are provided in Note 7.

Government grants

The Group has taken advantage of government support made available to businesses to help mitigate the impact of COVID-19 (see above). 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. Grant income is recognised within administration expenses. To the extent that there are ongoing eligibility or performance criteria, grant income is spread over the relevant period of measurement.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree. Direct costs of acquisition are recognised immediately as an expense.

Goodwill is initially measured at cost, being the excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the acquisition date. Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the Consolidated Statement of Comprehensive Income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the fair value of consideration paid, the excess is credited in full to the Consolidated Statement of Comprehensive Income on the acquisition date.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see Note 2 relating to critical estimates and judgements below).

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Software	5 to 10 years	Cost to acquire
Technology-based	10 to 17 years	Cost to acquire
Customer-related	5 to 10 years	Cost to acquire
Marketing-related	10 to 15 years	Cost to acquire

The amortisation charge for the year is included within administration costs within the Consolidated Statement of Comprehensive Income.

Impairment of tangible assets, intangible assets, right-of-use assets and investments

Impairment tests on non-current assets are undertaken annually at the financial year end or at any other time when an indication of impairment arises. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows – its cash-generating unit ('CGU'). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Individual right-of-use lease property assets relating to the Group's branch network are also tested for impairment when an indication of impairment arises, such as a branch becoming loss-making. In considering individual branch performance, central overheads are allocated to each branch in proportion to sales.

Impairment charges are included in the Consolidated Statement of Comprehensive Income, except to the extent they reverse gains previously recognised in Other Comprehensive Income. An impairment loss recognised for goodwill is not reversed.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Freehold land is not depreciated. Assets in the course of construction are not depreciated until they are in a condition that would allow them to be deployed in their intended use without further changes to their condition. Depreciation is provided on all other items of property, plant and equipment so as to write off their cost less residual value over their expected useful economic lives. It is provided at the following rates:

Asset class	Depreciation policy
Freehold property	2.5% per annum straight-line
Leasehold improvements	Equal instalments over the period of the lease
Plant and machinery	
Mixing plant	Between 20% and 25% per annum on cost
Extruders	13 years based on production usage
Stillages and tooling	5 to 10 years based on production usage
Other	Between 10% and 25% per annum on cost
Motor vehicles	Between 20% and 25% per annum on cost
Office equipment and fixtures	Between 20% and 25% per annum on cost

Right-of-use lease assets

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

1 ACCOUNTING POLICIES (GROUP) continued

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of the lease.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase and conversion and other costs incurred in bringing the inventories to their present location and condition. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods, cost is taken as production cost, which includes a proportion of attributable overheads.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred up to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Financial assets

The Group records all of its financial assets at amortised cost and has not classified any of its financial assets at fair value through profit and loss or other comprehensive income. The Group's financial assets comprise trade and other receivables and cash and cash equivalents in the balance sheet. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers, but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables. The Group has two types of financial asset that are subject to the expected credit loss model: trade receivables and contract assets.

Expected loss rates are derived based upon the payment profile of sales over the 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 customers to settle receivables, including GDP, the rate of unemployment, new housing starts, interest rates and household disposable income. Insured balances are excluded to the extent that no loss would arise in the event of default by the customer.

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.

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

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less from inception, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within current liabilities in the balance sheet.

Financial liabilities

The Group classifies its financial liabilities as financial liabilities measured at amortised cost 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.
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Taxation

Tax on the (loss)/profit for both the current and prior periods comprises both current and deferred tax and is recognised in the Consolidated Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates that have been enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

The Group recognises a current tax asset in respect of relief claimed under the Patent Box when the inflow of economic benefits arising from that asset is virtually certain, deemed to be the submission of a claim to HM Revenue and Customs.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that future taxable profits will arise against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/assets are settled/recovered.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Lease liabilities

The Group leases certain properties, vehicles and material handling equipment. The Group has no leases previously classified as finance leases. From 1 January 2019 liabilities for leases previously classified as operating leases have been measured in accordance with IFRS 16 using the modified retrospective approach.

In applying IFRS 16, the Group has taken advantage of a number of practical expedients permitted by the standard:

- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments as to whether leases are onerous;
- accounting for leases with a remaining term of less than 12 months as short-term leases; and
- the exclusion of initial direct costs in measuring the right-of-use asset at the date of initial application.

Leases with a remaining term of less than 12 months have been accounted for as short-term leases. Leased assets with a value of less than £5,000 are omitted on the basis of materiality.

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets (defined as leases with a value of less than £5,000). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The incremental borrowing rate is calculated based upon a combination of the risk-free rate, financing and asset-specific credit spreads, adjusted for the term of each lease.

Lease payments included in the measurement of the lease liability comprise fixed lease payments, less any lease incentives. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The principal and finance elements of lease payments are presented separately on the face of the Consolidated Cash Flow Statement within financing activities.

Prior to the adoption of IFRS 16, operating leases were contractual arrangements conferring the right of use of an asset but where substantially all of the risks and rewards incidental to ownership were not transferred to the Group, and the total rentals payable under the lease were charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term. The aggregate benefit of lease incentives was recognised as a reduction of the rental expense over the lease term on a straight-line basis. Operating lease payments were included within cash generated from operations in the Consolidated Cash Flow Statement.

1 ACCOUNTING POLICIES (GROUP) continued

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

The Group has recognised provisions for liabilities of uncertain timing or amount in respect of leasehold dilapidations and warranty claims. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, discounted at a pre-tax rate as described above.

Dilapidations provisions are recognised in two ways. Firstly, known specific obligations relating to repairs required or structural changes made to a building are recognised as soon as the timing and amount of the liability can be reliably estimated. Secondly, wear and tear provisions relating to the Group's branches are accrued at a standard rate over the life of each lease, reflecting the cost of returning each branch to its prior condition at the end of the lease.

Share capital

The Group's ordinary shares are classified as equity instruments.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when paid. In the case of final dividends, this is when approved by the Shareholders at the Annual General Meeting.

Retirement benefits: defined contribution scheme

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the Consolidated Statement of Comprehensive Income represents the contributions payable to the scheme in respect of the accounting period. The Group has no obligation to pay future pension benefits.

Foreign currency

The Group's Financial Statements are presented in British pounds sterling. For each entity, the Group determines the functional currency, and items included in the Financial Statements of each entity are measured using that functional currency.

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their 'functional currency') are recorded at the prevailing rate when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the Consolidated Statement of Comprehensive Income.

Share-based payment transactions

The Group has applied the requirements of IFRS 2 Share-based Payment.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value is determined at the grant date using the Black-Scholes valuation model and equity-settled share-based payments are expensed on a straight-line basis over the vesting period, based upon the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured based on the value of options over shares on the date of grant and the likelihood of all or part of the option vesting.

Alternative performance measures

The Group uses alternative performance measures alongside statutory measures to facilitate a better understanding of financial performance and comparison with prior periods, and in order to provide audited financial information against which the Group's bank covenants, which are all measured on a pre-IFRS 16 basis, can be assessed.

EBITDA is defined as operating profit before depreciation and amortisation charges. Pre-IFRS 16 EBITDA is stated inclusive of operating lease rentals under IAS 17 Leases.

	2020 £m	**2019 £m**
Operating profit	**0.7**	24.6
Depreciation and amortisation	**20.8**	17.8
EBITDA	**21.5**	42.4
Non-underlying items	**8.3**	—
Adjusted EBITDA	**29.8**	42.4
Operating lease rentals under IAS 17	**(11.8)**	(11.1)
Pre-IFRS 16 adjusted EBITDA	**18.0**	31.3

Pre-IFRS 16 total net debt is defined as total borrowings and lease liabilities less cash and cash equivalents, excluding the impact of leases recognised under IFRS 16 Leases.

	2020 £m	2019 £m
Total net debt	**58.3**	68.7
Lease liabilities	**(48.4)**	(34.1)
Pre-IFRS 16 net debt	**9.9**	34.6

Covenants are assessed on an adjusted EBITDA basis. 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.

Adjusted profit measures allow users of the Financial Statements to better understand financial performance in the year by removing certain material items of income and expense that are unusual due to their nature or infrequency, thus facilitating better comparison with prior periods.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes certain estimates and judgements regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and judgements.

Critical estimates and judgements

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Carrying value of inventories

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 estimate 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 in the year, an increase to the provision for slow-moving inventory of £2.8 million was recorded.

Further disclosures relating to inventories are provided in Note 18.

b) Recoverability of trade receivables and contract assets

The Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables and contract assets. Expected loss rates are derived based upon the payment profile of sales over the 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 customers to settle receivables, including GDP, the rate of unemployment, new housing starts, interest rates and household disposable income.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS continued

Where the adjusted loss rates are different from the original estimate, there is an impact on the carrying value of trade receivables and contract assets and the amount credited or charged on a net basis to operating expenses (trade receivables) and sales (contract assets) within the Consolidated Statement of Comprehensive Income. The key judgement is the extent to which macroeconomic factors impact upon the recoverability of trade receivables and contract assets. The key estimate is the adjusted loss rate applied to each age category.

During the year 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 initial lockdown period. The resulting temporary deterioration in the ageing of balances, along with a weaker outlook for the UK economy, resulted in a higher provision being implied by the IFRS 9 expected credit loss model. IFRS 9 impairments and bad debt charges of £3.7 million were recognised in the year. This is consistent with the credit losses incurred in the year, compared to the historically low level of credit losses 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 £100,000. Further disclosures relating to trade receivables are provided in Note 19.

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

The Group has applied the going concern basis in preparing the accounts. 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.

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

The key estimate is the level of sales over the forecast period.

d) Carrying value of goodwill and intangible assets

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.

CGUs are determined with reference to the smallest identifiable groups of assets that generate cash flows independently of other groups of assets.

With the exception of Eurocell Recycle North ('ERN', formerly Ecoplas), the Group assessed the recoverable amount in respect of goodwill for each CGU 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.

Other estimates and judgements

The following estimates and judgements are important, but are not considered to have a significant risk of leading to a material misstatement.

e) Determining the term of right-of-use lease assets

In determining the term of a lease, management considers all facts and circumstances that create an economic incentive to exercise or not exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or change in circumstances brings into question management's earlier judgement (see Note 15).

f) Determining the incremental borrowing rate applied to lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The incremental borrowing rate is calculated based upon a combination of the risk-free rate, financing and asset-specific credit spreads, adjusted for the term of each lease. The weighted average borrowing rate applied to lease liabilities is 2% – 2.5% for properties and 2.5% – 3% for other leases. If the borrowing rate were to increase or decrease by 0.5% the impact upon the Consolidated Income Statement would be to decrease/increase profit by £0.1 million (see Note 22).

g) Dilapidation provisions

The Group recognises dilapidation provisions on the leasehold properties it occupies. The key estimate is the level of provision required for each property, which management assesses based on past experience within the property portfolio. If the actual cost of dilapidations in respect of the Group's branch network was on average 10% greater or less than expected, the provision would change by less than £50,000. These provisions are reviewed semi-annually to ensure that they reflect the current best estimate of the provision required. Further disclosures relating to dilapidation provisions are provided in Note 23.

h) Classification of non-underlying costs

The Group presents some material items of income and expense as non-underlying items. This is done when, in the opinion of the Directors, the nature and expected infrequency of the circumstances merit separate presentation in the Financial Statements. This treatment allows users of the Financial Statements to better understand the elements of financial performance in the year; it facilitates comparison with prior periods and it helps in understanding trends in financial performance.

The key judgement is whether or not a certain type of income or cost should be considered to be non-underlying. Full disclosure is provided of each item, along with the rationale for the classification as non-underlying.

3 FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group is exposed through its operations to the following financial risks:

- credit risk;
- market risk;
- foreign exchange risk; and
- liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these Financial Statements. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade and other receivables;
- cash and cash equivalents;
- trade and other payables;
- bank overdrafts;
- floating-rate bank loans; and
- lease liabilities.

The Group finances its activities using cash generated from operations and its Revolving Credit Facility. It does not use invoice discounting or any other financing facilities.

3 FINANCIAL INSTRUMENTS – RISK MANAGEMENT continued

A summary of the financial instruments held by category is provided below:

Financial assets	2020 £m	2019 £m
Cash and cash equivalents	**7.1**	4.9
Trade and other receivables	**33.4**	34.5
Total financial assets	**40.5**	39.4

Financial liabilities	2020 £m	2019 £m
Trade and other payables	**42.8**	40.1
Lease liabilities	**48.4**	34.1
Bank overdrafts	**4.5**	–
Borrowings	**13.0**	40.0
Total financial liabilities	**108.7**	114.2

The analysis above does not correspond to the values reported in the Consolidated Statement of Financial Position as excluded from the analysis above are assets and liabilities from which no future cash flows are expected to arise, including rent-free periods on leased properties, and unamortised arrangement costs relating to the Group's borrowings.

Impairment of financial assets

Impairments of trade receivables are outlined in Note 19. No further impairments to financial assets are considered necessary. The Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The Board receives monthly reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. These are then discussed at regular Board meetings.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk through its trade receivables arising from its normal commercial activities. It is Group policy, implemented locally, to assess the credit risk of new customers before entering into contracts.

Existing credit risks associated with trade receivables are managed in line with Group policies as discussed in the financial assets section of accounting policies.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. This risk is mitigated by ensuring that deposits are only made with banks and financial institutions with a good rating issued by an industry-recognised independent third party (e.g. Standard and Poor's).

Further disclosures regarding financial assets are provided in Note 19.

Market risk

The Group is exposed to market risk from bank borrowings which incur variable interest rate charges linked to base rate plus a margin. The Group's policy aims to manage the interest cost of the Group within the constraints of its financial covenants and forecasts.

If variable interest rates were 50 basis points higher/lower, the Group's finance expense would increase/decrease by £150,000.

During 2020 and 2019 the Group's borrowings at variable rate were denominated in sterling. Further disclosures relating to bank borrowings are provided in Note 20.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of a financial instrument or future cash flow will fluctuate because of changes in foreign exchange rates. The Group's exposure to foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group manages its exposure to fluctuations in currency rates by wherever possible negotiating both purchases and sales to be denominated in sterling. The profit or loss arising from likely changes in foreign exchange is not significant.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, cash flow forecasts are prepared and updated on a regular basis to ensure that the Group has adequate headroom in its facilities.

The Board receives monthly updates on the Group's liquidity position and any issues are reported by exception.

At the end of the financial year, the most recent cash flow projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably foreseeable circumstances.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

At 31 December 2020	**Total £m**	**Up to 3 months £m**	**Between 3 and 12 months £m**	**Between 1 and 2 years £m**	**Between 2 and 5 years £m**	**Over 5 years £m**
Trade and other payables	**(42.8)**	**(42.6)**	**–**	**–**	**(0.2)**	**–**
Lease liabilities	**(53.4)**	**(1.6)**	**(8.4)**	**(9.4)**	**(17.3)**	**(16.7)**
Bank overdrafts	**(4.5)**	**(4.5)**	**–**	**–**	**–**	**–**
Borrowings	**(13.0)**	**–**	**–**	**–**	**(13.0)**	**–**
Total	**(113.7)**	**(48.7)**	**(8.4)**	**(9.4)**	**(30.5)**	**(16.7)**

At 31 December 2019	Total £m	Up to 3 months £m	Between 3 and 12 months £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Trade and other payables	(40.1)	(39.6)	–	–	(0.5)	–
Lease liabilities	(36.1)	(2.2)	(6.8)	(8.6)	(14.9)	(3.6)
Borrowings	(40.0)	–	–	–	(40.0)	–
Total	(116.2)	(41.8)	(6.8)	(8.6)	(55.4)	(3.6)

Excluded from the analysis above are assets and liabilities from which no future cash flows are expected to arise.

Capital management

The Group's objective when managing capital, which is deemed to be total equity plus total debt and which totalled £148.1 million (2019: £144.1 million) at the balance sheet date, is to safeguard the Group's ability to continue as a going concern, through the optimisation of the debt and equity balance, and to maintain good headroom on its debt facilities and financial covenants. The Group manages its capital structure and makes appropriate decisions in the light of current economic conditions and its strategic objectives.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and sustain the future development of the business.

The funding requirements of the Group are met by the utilisation of external borrowings together with available cash.

A key objective of the Group's capital management is to maintain comfortable headroom over the covenants set out in its existing facility agreements.

The financial covenants which are in place, all measured on a pre-IFRS 16 basis, are as follows:
- Leverage: the ratio of total net debt to consolidated EBITDA of any relevant period of not more than 3:1.
- Interest cover: the ratio of EBITDA to net interest payable in respect of any relevant period of not less than 4:1.

3 FINANCIAL INSTRUMENTS – RISK MANAGEMENT continued

Covenants are measured semi-annually on a rolling 12-month basis. 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 the half year of £23.5 million.

As at 31 December 2020 Leverage and Interest Cover were 0.6:1 and 20:1 respectively (2019: 1.1:1 and 30:1). The Group operated well within the terms of its covenants throughout the current and prior periods. The Group anticipates that it will comfortably meet all future covenant obligations.

The following table sets out the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date:

	As at 31 December 2020			
	GBP £m	EUR £m	USD £m	Total £m
Trade and other receivables	**33.1**	**0.3**	**—**	**33.4**
Cash and cash equivalents	**6.5**	**0.5**	**0.1**	**7.1**
Bank overdrafts	**(4.5)**	**—**	**—**	**(4.5)**
Lease liabilities	**(48.4)**	**—**	**—**	**(48.4)**
Other interest-bearing borrowings	**(13.0)**	**—**	**—**	**(13.0)**
Trade and other payables	**(42.1)**	**(0.4)**	**(0.3)**	**(42.8)**
	(68.4)	**0.4**	**(0.2)**	**(68.2)**

	As at 31 December 2019			
	GBP £m	EUR £m	USD £m	Total £m
Trade and other receivables	34.3	0.2	–	34.5
Cash and cash equivalents	4.3	0.6	–	4.9
Lease liabilities	(34.1)	–	–	(34.1)
Other interest-bearing borrowings	(40.0)	–	–	(40.0)
Trade and other payables	(39.9)	(0.2)	–	(40.1)
	(75.4)	0.6	–	(74.8)

4 REVENUE

Revenue arises from:

	2020 £m	2019 £m
Sale of goods	**257.9**	279.1

External revenue by destination:

	2020 £m	2019 £m
United Kingdom	**255.5**	275.8
European Union	**1.9**	3.1
Rest of World	**0.5**	0.2
	257.9	279.1

There are no customers with sales in excess of 10% of total Group revenues.

The Group has recognised contract assets with a gross value of £1.5 million (2019: £3.1 million) and a value net of provisions for impairment of £1.4 million (2019: £3.1 million) within Trade and Other Receivables. All contract assets are derived from the sale of goods. Further details are provided in Note 19.

5 AUDITORS' REMUNERATION

Total amounts payable to the Group's auditors were as follows:

	2020 £000	2019 £000
Audit of these Financial Statements	**60**	55
Amounts receivable by auditors and their associates in respect of:		
Audit of Financial Statements of subsidiaries pursuant to legislation	**151**	136
Audit-related assurance services	**60**	25
	271	216

6 EXPENSES BY NATURE

	2020 £m	2019 £m
Depreciation of property, plant and equipment (Note 14)	**6.8**	5.8
Depreciation of right-of-use assets (Note 15)	**12.4**	10.2
Amortisation of intangible assets (Note 16)	**1.6**	1.8
Impairment of goodwill (Note 17)	**5.8**	–
Impairment of right-of-use assets (Note 15)	**0.9**	–
Other non-underlying operating expenses (Note 7)	**2.9**	–
Cost of inventories	**120.0**	124.5
Other variable costs	**10.5**	10.0
Employee benefits expense (Note 8)	**60.7**	65.5
Rentals under operating leases	**0.3**	3.5
Other expenses	**35.3**	33.2
Total cost of sales, distribution costs and administration expenses	**257.2**	254.5

7 NON-UNDERLYING ITEMS

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

	2020 £m	2019 £m
Impairment of goodwill	**5.8**	–
Impairment of right-of-use assets	**0.9**	–
Warehouse dual-running costs	**2.3**	–
Restructuring costs	**0.6**	–
Non-underlying operating expenses	**9.6**	–
Finance expense	**0.4**	–
Total non-underlying expenses	**10.0**	–
Tax on non-underlying expenses	**(0.8)**	–
Impact on profit after tax	**9.2**	–

There were no non-underlying items in the prior year.

Impairment charges

The temporary closure of the business in the first half of 2020, 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 some of 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 and right-of-use assets were recognised. 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 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.

7 NON-UNDERLYING ITEMS continued

Goodwill

The goodwill in respect of Eurocell Recycle North ('ERN', formerly Ecoplas) has been impaired in full, leading to a non-underlying charge of £5.8 million (see Note 17). 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.

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 (see Note 1). 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 £0.3 million has been recognised to reduce the carrying value of the associated right-of-use assets to their value in use.

Additionally, a number of leased assets are no longer required following transition to the new warehouse (see below), and will be decommissioned. Impairment charges of £0.6 million have been recognised to reduce the value of these right-of-use assets to nil.

In total, right-of-use asset impairment charges amount to £0.9 million.

Warehouse dual-running costs and finance expense

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 was fitted out during the year, and was brought into active service in early 2021. Certain costs incurred during the fit-out process, such as IFRS 16 lease charges (including the related IFRS 16 finance expense), rates and other property-related costs, have been classified as non-underlying as the warehouse was not yet operational in 2020, and therefore not contributing to the underlying performance of the business in that period.

Restructuring costs

During the year the Group took the opportunity to review existing operating structures to ensure that they remained appropriate for the business in its current form. Following this review, a number of roles were identified as being potentially redundant. A restructuring was announced with the half year results, and a period of consultation followed. At the end of the consultation period 35 roles were made redundant, at a one-off cost of £0.6 million. These costs have been classified as non-underlying as they relate to roles that no longer exist within the organisation and therefore will not reoccur in future reporting periods.

8 EMPLOYEE BENEFITS EXPENSE

	2020 £m	2019 £m
Staff costs (including Directors) comprise:		
Wages and salaries	**53.2**	57.7
Share-based payments	**0.3**	0.4
Social security costs	**5.3**	5.6
Other pension costs	**1.9**	1.8
	60.7	65.5

In 2020 staff costs are stated net of Job Retention Scheme income amounting to £6.5 million.

	2020 No.	2019 No.
The average monthly number of employees, including Directors, during the year was as follows:		
Production	**669**	584
Office and administration	**405**	415
Distribution	**871**	856
	1,945	1,855

Key management personnel compensation and Directors' remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, which is considered to be the Directors of the Company and the Directors of the Group's subsidiary companies.

	2020 £m	2019 £m
Emoluments	**1.1**	1.3
Share-based payments	**0.1**	0.1
Pension and other post-employment benefit costs	**0.1**	0.1
	1.3	1.5

Directors' remuneration is set out in the Remuneration Report on pages 85 to 100. The highest paid Director received remuneration of £466,000 (2019: £673,000).

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

63,322 share options were exercised by Directors of the Group during the current year (2019: nil), of which 51,049 were exercised by the highest paid director.

The Group's policy for consulting with, sharing information with, and encouraging the involvement of employees is discussed on pages 71 to 76.

9 SEGMENTAL INFORMATION

The Group organises itself into a number of operating segments that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Internal reporting provided to the chief operating decision-maker, which has been identified as the executive management team including the Chief Executive Officer and the Chief Financial Officer, reflects this structure.

The Group has aggregated its operating segments into three reported segments, as these business units have similar products, production processes, types of customer, methods of distribution, regulatory environments and economic characteristics:

- Profiles – extrusion and sale of PVC window and building products to the new and replacement window market across the UK. This segment includes Vista Panels, S&S Plastics and Eurocell Recycle North.
- Building Plastics – sale of building plastic materials across the UK. This segment includes Security Hardware, Kent Building Plastics and Trimseal.
- Corporate – represents costs relating to the ultimate parent company and includes amortisation in respect of acquired intangible assets.

Inter-segmental sales relate to manufactured products distributed by the Building Plastics division.

	Profiles 2020 £m	**Building Plastics 2020 £m**	**Corporate 2020 £m**	**Total 2020 £m**
Revenue				
Total revenue	**156.1**	**159.5**	**—**	**315.6**
Inter-segmental revenue	**(56.4)**	**(1.3)**	**—**	**(57.7)**
Total revenue from external customers	**99.7**	**158.2**	**—**	**257.9**
Adjusted EBITDA[1]	**16.5**	**12.7**	**0.6**	**29.8**
Amortisation of intangible assets	**—**	**—**	**(1.6)**	**(1.6)**
Depreciation of property, plant and equipment	**(5.1)**	**(1.1)**	**(0.6)**	**(6.8)**
Depreciation of right-of-use assets	**(3.5)**	**(7.6)**	**—**	**(11.1)**
Adjusted operating profit	**7.9**	**4.0**	**(1.6)**	**10.3**
Impairment of goodwill	**(5.8)**	**—**	**—**	**(5.8)**
Other non-underlying operating expenses	**(3.1)**	**(0.6)**	**(0.1)**	**(3.8)**
Operating (loss)/profit	**(1.0)**	**3.4**	**(1.7)**	**0.7**
Finance expense				**(2.2)**
Loss before tax				**(1.5)**

1 Included within adjusted EBITDA are IFRS 9 impairment and bad debt charges of £3.7 million (Profiles: £1.7 million; Building Plastics: £2.0 million).

9 SEGMENTAL INFORMATION continued

	Profiles 2019 £m	Building Plastics 2019 £m	Corporate 2019 £m	Total 2019 £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[2]	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

2 Included within adjusted EBITDA are IFRS 9 impairment and bad debt charges of £1.5 million (Profiles: £1.0 million; Building Plastics: £0.5 million).

	Profiles 2020 £m	**Building Plastics 2020 £m**	**Corporate 2020 £m**	**Total 2020 £m**
Additions to plant, property, equipment and intangible assets	**12.3**	**0.9**	**0.5**	**13.7**
Segment assets	**110.9**	**59.6**	**30.9**	**201.4**
Segment liabilities	**(57.6)**	**(32.9)**	**(7.0)**	**(97.5)**
Borrowings				**(12.5)**
Corporation tax payable				**(0.7)**
Deferred tax liability				**(3.5)**
Total liabilities				**(114.2)**
Total net assets				**87.2**

	Profiles 2019 £m	Building Plastics 2019 £m	Corporate 2019 £m	Total 2019 £m
Additions to plant, property, equipment and intangible assets	13.0	1.5	1.0	15.5
Segment assets	96.8	69.8	23.0	189.6
Segment liabilities	(36.2)	(31.3)	(7.7)	(75.2)
Borrowings				(39.5)
Corporation tax payable				(1.8)
Deferred tax liability				(2.6)
Total liabilities				(119.1)
Total net assets				70.5

Geographical information

	Revenue 2020 £m	**Non-current assets 2020 £m**	Revenue 2019 £m	Non-current assets 2019 £m
United Kingdom	**256.3**	**117.7**	277.7	106.5
Republic of Ireland	**1.6**	**–**	1.4	–
Total	**257.9**	**117.7**	279.1	106.5

10 FINANCE EXPENSE

	2020 £m	2019 £m
Finance expense		
Bank borrowings	**0.9**	1.0
Interest on lease liabilities	**0.9**	0.9
Underlying finance expense	**1.8**	1.9
Non-underlying finance expense (Note 7)	**0.4**	–
Total finance expense	**2.2**	1.9

11 TAXATION

	2020 £m	2019 £m
Current tax (credit)/expense		
Current tax on (losses)/profits for the year	**(0.1)**	3.4
Adjustment in respect of prior years	**–**	(0.2)
Total current tax	**(0.1)**	3.2
Deferred tax expense		
Origination and reversal of temporary differences	**0.5**	0.2
Adjustment in respect of change in rates	**0.1**	–
Adjustment in respect of prior years	**0.2**	–
Total deferred tax	**0.8**	0.2
Total tax expense	**0.7**	3.4

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

	2020 £m	2019 £m
(Loss)/profit before tax	**(1.5)**	22.7
Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 19.0% (2019: 19.0%)	**(0.3)**	4.3
Taxation effect of:		
Expenses not deductible for tax purposes	**0.4**	–
Impairment of goodwill not deductible for tax purposes	**1.1**	–
Patent Box claims	**(0.7)**	(0.8)
Adjustments to tax charge in respect of prior years	**0.2**	(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 expense	**0.7**	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 deferred taxes at the period end have been re-measured using the mainstream rate of 19%.

On 3 March 2021 an increase in the mainstream rate of UK corporation tax from 19% to 25% was announced, effective from April 2023. The Group estimates that the impact of the resulting remeasurement of deferred taxes in 2021 will be approximately £1 million.

There are no material uncertain tax provisions.

Tax included in Other Comprehensive Income

The tax credit arising on share-based payments within Other Comprehensive Income is £110,000 (2019: charge of £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.

11 TAXATION continued

Tax residency

Eurocell plc and its subsidiaries are all registered in the United Kingdom, and are resident in the UK for tax purposes.

The Group has two branches in the Republic of Ireland, with combined annual revenues of £1.6 million, total assets of less than £50,000 and eight full time employees. For tax purposes these two trading locations form a single branch within Eurocell Building Plastics Limited, and therefore any profits generated are subject to tax in the Republic of Ireland. The tax charge in relation to the Group's Republic of Ireland operations in 2020 is €1,000, and tax payments of €1,000 were made during the year.

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Adjusted earnings per share excludes the impact of non-underlying items.

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.

	2020 £m	2019 £m
(Loss)/profit attributable to ordinary Shareholders	(2.2)	19.3
Profit attributable to Shareholders excluding non-underlying items	7.0	19.3

	Number	Number
Weighted average number of shares – basic	108,218,827	100,316,692
Weighted average number of shares – diluted	108,218,827	100,720,559

	Pence	Pence
Basic (losses)/earnings per share	(2.0)	19.3
Adjusted basic earnings per share	6.5	19.3
Diluted (losses)/earnings per share	(2.0)	19.2
Adjusted diluted earnings per share	6.5	19.2

13 DIVIDENDS

Due to the impact of COVID-19, the final dividend for 2019 declared in March 2020 of 6.4p per share was subsequently cancelled, and no dividends will be paid in respect of 2020. It remains the Group's intention to return to paying dividends in 2021.

	2020 £m	2019 £m
Dividends paid during the year		
Final dividend for 2018 of 6.2p per share	–	6.2
Interim dividend for 2019 of 3.2p per share	–	3.2
	–	9.4

14 PROPERTY, PLANT AND EQUIPMENT

	Freehold property £m	Leasehold improvements £m	Plant and machinery £m	Motor vehicles £m	Office equipment and fixtures £m	Assets under construction £m	Total £m
Cost							
Balance at 1 January 2019	9.0	0.2	46.4	0.3	–	2.7	58.6
Additions	–	–	6.3	0.1	0.1	8.9	15.4
Disposals	–	–	(0.6)	(0.1)	–	–	(0.7)
Transfers	–	–	8.7	–	–	(9.1)	(0.4)
Balance at 31 December 2019	**9.0**	**0.2**	**60.8**	**0.3**	**0.1**	**2.5**	**72.9**
Additions	**–**	**–**	**3.1**	**–**	**–**	**10.4**	**13.5**
Disposals	**–**	**–**	**(1.5)**	**–**	**–**	**–**	**(1.5)**
Transfers	**–**	**–**	**3.2**	**–**	**–**	**(3.3)**	**(0.1)**
Balance at 31 December 2020	**9.0**	**0.2**	**65.6**	**0.3**	**0.1**	**9.6**	**84.8**
Accumulated depreciation							
Balance at 1 January 2019	1.1	0.1	22.3	0.1	–	–	23.6
Charge for the year	0.2	–	5.4	0.1	0.1	–	5.8
Disposals	–	–	(0.6)	(0.1)	–	–	(0.7)
Balance at 31 December 2019	**1.3**	**0.1**	**27.1**	**0.1**	**0.1**	**–**	**28.7**
Charge for the year	**0.2**	**–**	**6.6**	**–**	**–**	**–**	**6.8**
Disposals	**–**	**–**	**(1.5)**	**–**	**–**	**–**	**(1.5)**
Balance at 31 December 2020	**1.5**	**0.1**	**32.2**	**0.1**	**0.1**	**–**	**34.0**
Net book value							
At 31 December 2020	**7.5**	**0.1**	**33.4**	**0.2**	**–**	**9.6**	**50.8**
At 31 December 2019	7.7	0.1	33.7	0.2	–	2.5	44.2

Included within freehold property is non-depreciable land of £2.3 million (31 December 2019: £2.3 million).

During the year £0.1 million of assets under construction were transferred to Intangible Assets.

15 RIGHT-OF-USE ASSETS

	Leasehold improvements £m	Motor vehicles £m	Office equipment and fixtures £m	Total £m
Balance at 1 January 2019 on adoption of IFRS 16	26.0	9.1	0.1	35.2
Additions	2.9	7.5	–	10.4
Disposals	(0.5)	(0.3)	–	(0.8)
Balance at 31 December 2019	**28.4**	**16.3**	**0.1**	**44.8**
Additions	**24.0**	**1.0**	**–**	**25.0**
Disposals	**(0.6)**	**(0.9)**	**–**	**(1.5)**
Balance at 31 December 2020	**51.8**	**16.4**	**0.1**	**68.3**
Accumulated amortisation				
Balance at 1 January 2019 on adoption of IFRS 16	–	–	–	–
Charge for the year	6.4	3.8	–	10.2
Disposals	(0.4)	(0.3)	–	(0.7)
Balance at 31 December 2019	**6.0**	**3.5**	**–**	**9.5**
Charge for the year	**7.9**	**4.5**	**–**	**12.4**
Impairment charges	**0.3**	**0.6**	**–**	**0.9**
Disposals	**(0.6)**	**(0.9)**	**–**	**(1.5)**
Balance at 31 December 2020	**13.6**	**7.7**	**–**	**21.3**
Net book value				
At 31 December 2020	**38.2**	**8.7**	**0.1**	**47.0**
At 31 December 2019	22.4	12.8	0.1	35.3

The Group adopted IFRS 16 Leases on 1 January 2019, recognising right-of-use assets of £35.2 million.

16 INTANGIBLE ASSETS

	Software £m	Technology -based £m	Customer -related £m	Marketing -related £m	Goodwill £m	Total £m
Cost						
Balance at 1 January 2019	2.1	1.6	7.3	6.3	16.5	33.8
Additions	0.1	–	–	–	–	0.1
Added on acquisition	–	–	0.2	–	0.2	0.4
Adjustments in respect of prior periods	–	–	–	–	0.1	0.1
Transfers	0.4	–	–	–	–	0.4
Balance at 31 December 2019	**2.6**	**1.6**	**7.5**	**6.3**	**16.8**	**34.8**
Additions	**0.2**	**–**	**–**	**–**	**–**	**0.2**
Transfers	**0.1**	**–**	**–**	**–**	**–**	**0.1**
Balance at 31 December 2020	**2.9**	**1.6**	**7.5**	**6.3**	**16.8**	**35.1**
Accumulated amortisation						
Balance at 1 January 2019	0.7	0.5	2.9	1.9	–	6.0
Charge for the year	0.3	0.1	1.1	0.3	–	1.8
Balance at 31 December 2019	**1.0**	**0.6**	**4.0**	**2.2**	**–**	**7.8**
Charge for the year	**0.3**	**0.1**	**0.9**	**0.3**	**–**	**1.6**
Impairment charge	**–**	**–**	**–**	**–**	**5.8**	**5.8**
Balance at 31 December 2020	**1.3**	**0.7**	**4.9**	**2.5**	**5.8**	**15.2**
Net book value						
At 31 December 2020	**1.6**	**0.9**	**2.6**	**3.8**	**11.0**	**19.9**
At 31 December 2019	1.6	1.0	3.5	4.1	16.8	27.0

The goodwill in respect of Eurocell Recycle North (formerly Ecoplas) has been impaired in full, leading to a non-underlying charge of £5.8 million (see Note 17).

Included within customer-related and marketing-related intangible assets are the acquired intangibles in relation to the acquisition of Vista Panels in 2016, which have a combined carrying value of £1.5 million and a remaining amortisation period of four years.

17 IMPAIRMENT

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

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

CGUs are determined with reference to the smallest identifiable groups of assets that generate cash flows independently of other groups of assets, with reference to the business or product sectors in which they operate.

The recoverable amounts of the CGUs have been determined from 'value-in-use' calculations which have been predicated on discounted pre-tax cash flow projections based on a three-year business plan approved by the Board. These projections are based on all available information and growth rates do not exceed growth rates achieved in prior periods.

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

All of the Group'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 each CGU:

	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%

The period on which management-approved forecasts are based is consistent with the Board's strategic planning timeframe. The discount rate reflects an estimate of the Group's pre-tax Weighted Average Cost of Capital, based on past experience and sector-weighted assumptions. The profit growth rate in perpetuity is consistent with the average annual growth in UK Gross Domestic Product between 1990 and 2019 (source: Office for National Statistics). For CGUs with a higher risk profile due to their size or historical performance, management forecasts are risk-adjusted by applying a sales sensitivity of 5%. This adjustment has been made for all CGUs with the exception of Eurocell Building Plastics and Eurocell Profiles.

Goodwill is considered to have an indefinite useful life.

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.

Eurocell Recycle North (formerly Ecoplas)

In the case of ERN, the carrying value of goodwill was written down to nil at the Half Year, with a non-underlying charge of £5.8 million recorded within administrative expenses. The impairment reflected the temporary closure of the business at that time, and the resulting uncertainty surrounding short term future cash flows. The remaining non-current assets associated with the ERN CGU comprise intangible assets of £0.5 million and property, plant and equipment of £4.5 million.

At 31 December 2020 production run rates were ahead of prior year, and future cash flows less uncertain. As a result, the latest financial projections imply headroom over the carrying value of the remaining assets. However, should revenues be 6% lower than currently forecast, further impairments may arise in the future.

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 £0.8 million. No further impairments would arise in either scenario.

17 IMPAIRMENT continued

Sensitivities

The following sales and discount rate sensitivities would reduce headroom on each CGU to nil:

	Sales	Discount Rate
Eurocell Recycle North (formerly Ecoplas)	6%	16%
Eurocell Building Plastics	76%	48%
Eurocell Profiles	70%	52%
Vista Panels	72%	41%
S & S Plastics	74%	45%
Security Hardware	38%	18%

18 INVENTORIES

	2020 £m	2019 £m
Raw materials	**3.9**	2.2
Work in progress	**2.6**	2.0
Finished goods and goods for resale	**31.6**	33.1
	38.1	37.3

All inventories are carried at cost less a provision to take account of slow-moving and obsolete items. At 31 December 2020 the inventory provision amounted to £4.2 million (2019: £1.4 million).

19 TRADE AND OTHER RECEIVABLES

	2020 £m	2019 £m
Trade receivables	**38.6**	36.9
Less: provision for impairment of trade receivables	**(4.4)**	(1.6)
Less: provision for rebates payable	**(0.8)**	(0.9)
Net trade receivables	**33.4**	34.4
Contract assets	**1.4**	3.1
Total financial assets other than cash and cash equivalents classified as financial assets	**34.8**	37.5
Prepayments	**3.7**	3.3
Other receivables	**—**	0.1
Total trade and other receivables	**38.5**	40.9

Trade receivables are non-interest-bearing and are generally on 30 days credit. The fair values of trade and other receivables classified as financial assets are not materially different to their carrying values.

Contract assets are amortised over the period in which revenue pertaining to those costs is recognised, which in the vast majority of cases is three years. They are presented net of a provision for impairment of £0.1 million (2019: £nil). Additions of £0.7 million were recognised during the year (2019: £1.6 million), and amounts amortised against revenue were £1.8 million (2019: £1.6 million). Impairment charges of £0.6 million were recorded in the year (2019: £nil).

The Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all financial assets. In measuring expected credit losses for trade receivables, receivables have been grouped based on shared characteristics and days past due. Insured balances are excluded to the extent that no loss would arise in the event of default by the customer.

Expected loss rates are derived based upon the payment profile of sales over a three-year period before 31 December 2020, 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, GDP, the rate of unemployment, new housing starts, interest rates and household disposable income. In assessing these factors we considered the potential impact of COVID-19 and the UK's exit from the European Union.

The closing loss allowances for trade receivables and contract assets as at 31 December 2020 reconcile to the opening loss allowances as follows:

	Trade receivables		Contract assets	
	2020 £m	2019 £m	**2020 £m**	2019 £m
At 1 January	**1.6**	0.8	**–**	–
Charged during the year	**3.7**	1.5	**0.6**	–
Released or utilised during the year	**(0.3)**	(0.5)	**(0.1)**	–
Receivables written off during the year as uncollectible	**(0.6)**	(0.2)	**(0.4)**	–
At 31 December	**4.4**	1.6	**0.1**	–

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The rate of expected loss has increased in 2020 due to the impact of COVID-19 on the macroeconomic outlook for the UK. The uncertainty of the timing and extent of Government restrictions, and the potential for disruption to construction activities, mean that the risk that customers cannot pay balances owed at 31 December 2020 has increased substantially.

At 31 December 2020	**Current £m**	**More than 30 days past due £m**	**More than 60 days past due £m**	**More than 90 days past due £m**	**More than 120 days past due £m**	**Total £m**
Expected loss rate	**4%**	**20%**	**65%**	**65%**	**65%**	**11%**
Gross carrying amount – trade receivables	**31.5**	**3.3**	**0.8**	**0.5**	**2.5**	**38.6**
Gross carrying amount – contract assets	**1.4**	**–**	**–**	**–**	**–**	**1.4**
Loss allowance	**1.2**	**0.7**	**0.6**	**0.3**	**1.6**	**4.4**

At 31 December 2019	Current £m	More than 30 days past due £m	More than 60 days past due £m	More than 90 days past due £m	More than 120 days past due £m	Total £m
Expected loss rate	0.2%	0.2%	0.5%	75%	50%	3%
Gross carrying amount – trade receivables	18.4	10.8	5.3	0.7	1.7	36.9
Gross carrying amount – contract assets	3.1	–	–	–	–	3.1
Loss allowance	–	–	0.1	0.6	0.9	1.6

20 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

The bank borrowings outstanding at 31 December 2020 are classified as non-current liabilities as they relate to committed facilities available to the Group until 2023. The book value and fair value are not considered to be materially different.

Borrowings

In March 2020 the Group 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 within borrowings and are being released to the Consolidated Statement of Comprehensive Income within finance expense over the period of the facility, which expires in December 2023.

20 BORROWINGS continued

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 Group's current bank borrowings of £13.0 million would not lead to a significant change in finance expense.

All of the Group's borrowings are denominated in sterling.

The analysis of repayments on the combined borrowings is as follows:

	2020 £m	2019 £m
Within 1 year or repayable on demand	–	–
Between 1 and 2 years	–	–
Between 2 and 5 years	13.0	40.0
	13.0	40.0

21 TRADE AND OTHER PAYABLES

	2020 £m	2019 £m
Current liabilities		
Trade payables	28.5	28.6
Other tax and social security	4.8	4.2
Other payables	0.7	1.0
Accruals	8.8	6.0
Total current trade and other payables	42.8	39.8
Non-current liabilities		
Other payables	0.3	0.5

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

22 LEASE LIABILITIES

	2020 £m	2019 £m
Lease liabilities		
Current	8.9	8.3
Non-current	39.5	25.8
Total discounted lease liabilities at 31 December	48.4	34.1

	2020 £m	2019 £m
Maturity analysis		
– Less than one year	10.0	9.0
– One to five years	26.7	23.5
– More than five years	16.7	3.6
Total undiscounted lease liabilities at 31 December	53.4	36.1

The Group adopted IFRS 16 Leases on 1 January 2019. The Group has no leases previously classified as finance leases. From 1 January 2019 liabilities for leases previously classified as operating leases have been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate.

On adoption of IFRS 16 the Group recognised lease liabilities of £34.6 million (inclusive of prepaid rent). The lease liabilities reconcile to the operating lease commitments disclosed as at 31 December 2018 as follows:

	£m
Operating lease commitments as at 31 December 2018	**38.1**
Leases omitted from disclosure at 31 December 2018	2.2
Prepaid rent	(0.4)
Short-term and low-value leases	(2.7)
Impact of discounting of lease liabilities	(2.6)
Lease liabilities recognised as at 1 January 2019	**34.6**
Current lease liabilities	9.4
Non-current lease liabilities	25.2
Total lease liabilities	**34.6**

23 PROVISIONS

	Dilapidations and environmental provisions £m	Warranty provisions £m	Total £m
At 1 January 2019	1.6	–	1.6
Released to Statement of Comprehensive Income	(0.4)	–	(0.4)
Discounting of provisions	–	–	–
Utilised	(0.4)	–	(0.4)
At 31 December 2019	**0.8**	**–**	**0.8**
Charged to Statement of Comprehensive Income	**0.1**	**0.8**	**0.9**
Discounting of provisions	**–**	**–**	**–**
Utilised	**–**	**(0.2)**	**(0.2)**
At 31 December 2020	**0.9**	**0.6**	**1.5**
Current	0.2	0.6	0.8
Non-current	0.7	–	0.7
At 31 December 2020	**0.9**	**0.6**	**1.5**

Dilapidations and environmental provisions

Under property lease agreements, the Group has obligations to maintain all properties to the standard that prevailed at the inception of the respective leases. The provision represents the Directors' best estimate of the costs associated with this obligation.

The timing of the utilisation of the provision is variable dependent on the lease expiry dates of the properties concerned, which vary between one and ten years.

Warranty provisions

The Group makes provision to cover known potential warranty issues. The provision represents the Directors' best estimate of the costs associated with this obligation. The timing of the utilisation is variable depending on the circumstances of each individual claim under warranty.

24 DEFERRED TAX

The movement in the net deferred tax liability is as follows:

	2020 £m	2019 £m
At 1 January	**(2.6)**	(2.5)
Charged to Statement of Comprehensive Income	**(0.8)**	(0.2)
(Charged)/credited to equity	**(0.1)**	0.1
Added on acquisition	**–**	–
At 31 December	**(3.5)**	(2.6)

24 DEFERRED TAX continued

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the Directors believe it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year, together with amounts recognised in the Consolidated Statement of Comprehensive Income and amounts recognised in Other Comprehensive Income are as follows:

	Asset 2020 £m	**Liability 2020 £m**	**Net 2020 £m**	**Statement of Comprehensive Income 2020 £m**	**Equity 2020 £m**
Accelerated capital allowances/intangible fixed assets	**–**	**(3.8)**	**(3.8)**	**(0.8)**	**–**
Other temporary differences	**0.3**	**–**	**0.3**	**–**	**(0.1)**
Net tax assets/(liabilities)	**0.3**	**(3.8)**	**(3.5)**	**(0.8)**	**(0.1)**

	Asset 2019 £m	Liability 2019 £m	Net* 2019 £m	Statement of Comprehensive Income 2019 £m	Equity 2019 £m
Accelerated capital allowances/intangible fixed assets	–	(3.0)	(3.0)	(0.4)	–
Other temporary differences	0.4	–	0.4	0.2	0.1
Net tax assets/(liabilities)	0.4	(3.0)	(2.6)	(0.2)	0.1

* Included in the net liability is a deferred tax liability of £35,000 relating to the acquisition of Trimseal Limited.

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.

25 SHARE CAPITAL

	Allotted, called up and fully paid	
	2020 Number	2019 Number
Ordinary shares of £0.001 each	**111,486,709**	100,335,353

	2020 £m	2019 £m
Ordinary shares of £0.001 each	**0.1**	0.1
Share premium account	**21.1**	2.4

The ordinary shares carry the rights to attend and vote at general meetings, the right to receive payment in respect of dividends declared and the right to participate in the distribution of capital. The ordinary shares are not redeemable.

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 1,030,189 new shares in respect of its Save As You Earn sharesave scheme, in the process receiving consideration from employees of £1.6 million. The consideration received above the nominal value of the shares issued has been recorded as share premium.

During the year no shares were issued in respect of share-based payment transactions for Directors and 90,127 shares vested and were issued in respect of share-based payment transactions for other key management personnel.

26 SHARE-BASED PAYMENTS

The Group enters into equity-settled payment transactions with its employees. For the year ended 31 December 2020, the charge was £0.3 million (2019: £0.4 million). The overall Consolidated Statement of Financial Position is unchanged as a result of this.

The Group operates an annual Save As You Earn scheme, allowing employees to make monthly contributions over a three-year period which are then used to purchase Company shares at a fixed price. This price is agreed at the inception of the scheme, and carried a discount on the market value at that date of 20%.

For details of share-based payment schemes see pages 95 to 97 of the Directors' Remuneration Report.

No further disclosure has been provided on the grounds of materiality.

27 CONTINGENT ASSETS AND LIABILITIES

The Group has entered into a cross-guarantee arrangement to cover the bank borrowings of all other Group companies in the event of default. As at 31 December 2020 the bank borrowings were £13.0 million (2019: £40.0 million).

The Group had no other material contingent assets or liabilities (31 December 2019: £nil).

28 CAPITAL COMMITMENTS

The Group had capital commitments of £1.0 million at the balance sheet date (2019: £nil).

29 RETIREMENT BENEFITS

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost represents contributions payable by the Group to the fund and amounted to £1.9 million (2019: £1.8 million).

30 RELATED PARTY TRANSACTIONS

The Group's subsidiary undertakings are detailed in Note 37.

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	**–**	–

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

	2020 £m	2019 £m
(Loss)/profit after tax	**(2.2)**	19.3
Taxation	**0.7**	3.4
Finance expense	**2.2**	1.9
Operating profit	**0.7**	24.6
Adjustments for:		
Depreciation of property, plant and equipment	**6.8**	5.8
Depreciation of right-of-use assets	**12.4**	10.2
Amortisation of intangible assets	**1.6**	1.8
Impairment of goodwill	**5.8**	—
Impairment of right-of-use assets	**0.9**	—
Share-based payments	**0.3**	0.4
Increase in inventories	**(0.8)**	(9.0)
Decrease/(increase) in trade and other receivables	**2.4**	(1.7)
Increase/(decrease) in trade and other payables	**3.1**	(2.3)
Increase/(decrease) in provisions	**0.7**	(0.8)
Cash generated from operations	**33.9**	29.0

32 RECONCILIATION OF NET DEBT

	1 January 2020 £m	Cash flows £m	New leases £m	Non-cash movements* £m	31 December 2020 £m
Cash and cash equivalents	**4.9**	**2.2**	**—**	**—**	**7.1**
Bank overdrafts	**—**	**(4.5)**	**—**	**—**	**(4.5)**
Lease liabilities	**(34.1)**	**12.0**	**(26.3)**	**—**	**(48.4)**
Borrowings	**(39.5)**	**27.2**	**—**	**(0.2)**	**(12.5)**
Total	**(68.7)**	**36.9**	**(26.3)**	**(0.2)**	**(58.3)**

	1 January 2019 £m	Added on acquisition £m	Cash flows £m	New leases £m	Non-cash movements* £m	31 December 2019 £m
Cash and cash equivalents	5.9	–	(1.0)	–	–	4.9
Lease liabilities	(34.6)	–	10.7	(10.2)	–	(34.1)
Borrowings	(29.4)	(0.1)	(9.9)	–	(0.1)	(39.5)
Total	(58.1)	(0.1)	(0.2)	(10.2)	(0.1)	(68.7)

* Non-cash movements relate to the amortisation of arrangement fees in respect of the Group's borrowings.

31 December 2020	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash and cash equivalents	**7.1**	**—**	**—**	**7.1**
Bank overdrafts	**—**	**(4.5)**	**—**	**(4.5)**
Lease liabilities	**—**	**(8.9)**	**(39.5)**	**(48.4)**
Borrowings	**—**	**—**	**(12.5)**	**(12.5)**
Total	**7.1**	**(13.4)**	**(52.0)**	**(58.3)**

31 December 2019	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash and cash equivalents	4.9	–	–	4.9
Lease liabilities	–	(8.3)	(25.8)	(34.1)
Borrowings	–	–	(39.5)	(39.5)
Total	4.9	(8.3)	(65.3)	(68.7)

33 EVENTS AFTER THE BALANCE SHEET DATE

The Directors are not aware of any material events that have occurred after 31 December 2020 which would require disclosure under IAS 10.