Moving forward together

EUROCELL PLC
Annual Report and Accounts 2020

2020 OVERVIEW

Moving forward together

Mark Kelly
Chief Executive Officer

We took decisive action in response to COVID-19 to protect the business and our stakeholders. As a result, we are well-placed to capitalise on future opportunities.

Our colleagues throughout the business have been integral to our response, and I would like to thank them all for their continued commitment and support.

Our COVID-19 response
See page 16

Investing in sustainable growth and efficiency
See page 28

Responsible Business
See page 36

HIGHLIGHTS

Revenue

£257.9m

(8)%

2019: £279.1m

Gross Margin

49.4%

(1.8)%

2019: 51.2%

Adjusted EBITDA[1]

£29.8m

(30)%

2019: £42.4m

Adjusted Profit Before Tax[1]

£8.5m

£(14.2)m

2019: £22.7m

(Loss)/Profit Before Tax

£(1.5)m

£(24.2)m

2019: £22.7m

Adjusted EPS[1]

6.5p

(12.8)p

2019: 19.3p

EPS

(2.0)p

(21.3)p

2019: 19.3p

Net Debt

£58.3m

£(10.4)m

2019: £68.7m

Pre-IFRS 16 Net Debt

£9.9m

£(24.7)m

2019: £34.6m

1 Adjusted measures are before non-underlying income and costs, and the related tax effect (see page 54). We use adjusted performance measures to assess business performance and they are provided here in addition to statutory measures to help describe the underlying results of the Group.

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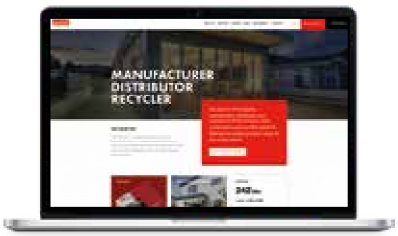

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www.investors.eurocell.co.uk

What We Do

The UK's leading MANUFACTURER, DISTRIBUTOR AND RECYCLER OF PVC BUILDING PRODUCTS

Manufacturing expertise

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

Sustainable sourcing

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

Distribution network

We distribute through our nationwide network.

Total amount of profile produced	Recycled product used in our rigid PVC profile	Number of branches
45.5k tonnes	12.4k tonnes	208

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

PROFILES DIVISION

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

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

There are broadly four types of fabricator:

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

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

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

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

The Profiles division also includes:

		(North and Midlands)
Manufacturer of composite and PVC entrance doors	Manufacturer of plastic injection moulded products/ services	Recycler of PVC windows

BUILDING PLASTICS DIVISION

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

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

The Building Plastics division also includes:

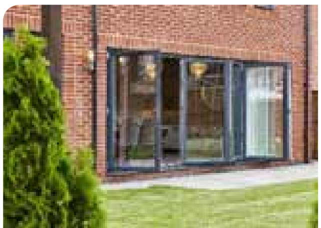
Supplier of locks and hardware

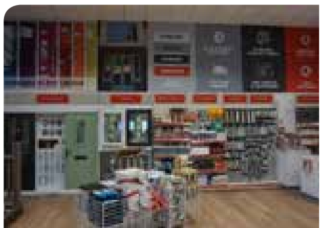

Ranges of window and door profile


Skypod pitched skylights


Conservatories and Equinox tiled roofs


Fascias, soffits and guttering


Aspect bi folding doors


Traded goods

SEE OUR DIVISIONAL REVIEWS ON PAGES 32 TO 35

Chair's Report

Well positioned FOR 2021

> "The business responded well to the unique challenges posed by COVID-19 and we continue to see good potential to outperform our markets and deliver sustainable growth in shareholder value."

Bob Lawson
Chair

Introduction

The business responded remarkably well to the unique challenges posed by COVID-19. So I start this year's report by offering, on behalf of shareholders and of the Board, my sincere thanks to our teams in every part of the Group. The progress we made during 2020 is testament to their commitment, hard work and dedication during a period of unprecedented uncertainty.

Our priority was to protect the business and ensure the safety of all our people, customers and suppliers by mandating COVID-safe working practices as detailed in the Chief Executive's Report. We also secured our financial position and substantially completed major investments in new operating capacity. This good work leaves the business well-placed for the future.

Financial and operating performance

The first half of the year was dominated by the impact of the first lockdown on our operational and financial performance, with the business closed from late March until mid-May. As a result, sales fell 31% in H1, and we reported an adjusted loss before tax.

However, we prepared well during this period for reopening, designing, testing and implementing a range of COVID-safe working practices, to protect our employees, suppliers and customers. We also took the opportunity to review and revise our operating, support and management structures, to ensure that the business is as efficient as possible.

We were therefore ready to capitalise on a strong repair, maintenance and improvement (RMI) market in the second half. We reported sales growth of 15%, and, thanks also to a good operational performance, delivered adjusted profit before tax up well up on H2 2019, signalling that the inefficiencies experienced in 2018 and 2019 are now behind us.

Sales for the full year were £258 million, or 8% below 2019 and adjusted profit before tax was £8.5 million (2019: profit of £22.7 million).

The measures we took in the first half to conserve cash were effective and we were grateful to receive support from investors with a share placing in April. Thereafter, cash conversion in H2 was good. As a result, net debt at 31 December 2020 on a pre-IFRS 16 basis reduced to £9.9 million (31 December 2019: £34.6 million), demonstrating significant headroom on our bank facility. We also have a strong balance sheet, which provides flexibility and options for the future.

Dividends

Due to the impact of COVID-19, the dividend declared in March 2020 was subsequently cancelled and no dividends will be paid in respect of 2020. However, it remains our intention to return to paying dividends in 2021.

Governance

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

Strategy

Our overall strategic objective remains to deliver sustainable growth in shareholder value by increasing sales and profits above our market growth rates. Over the last five years, we have targeted five strategic priorities to deliver this objective. We have made good progress against each of them, with the key aspects of our performance described in the Chief Executive Officer's Report.

Early in 2021 we conducted a review of the Group's strategy, our markets and activities. We decided that, whilst the five existing priorities remain relevant, we would refine one of them and introduce two new priorities, making seven in all.

It is therefore our intention in 2021 to develop our existing strategic priority to increase the use of recycled material, into a 'sustainability strategy' for the whole business, thereby linking our own objectives to the relevant UN Sustainable Development Goals and the UK Government's transition towards a net zero carbon economy. We will communicate further on sustainability later in 2021.

We will also introduce a new strategic priority to 'deliver sustained operational excellence'. The project to fit-out our new warehouse progressed well throughout 2020 and I was delighted to see we reached a major milestone in January 2021, with commercial operations beginning from the new site. With recent operational constraints now substantially resolved through major investments in new manufacturing and warehousing capacity, we expect sustained operational excellence to result in the benefit of our sales growth flowing through to improved profits and margins.

Finally, we intend to introduce a new strategic priority to 'develop a sector-leading digital proposition'. Offering an end-to-end digital solution is becoming increasingly important to our stakeholders and will act as an enabler to our other priorities. Our objective is to improve the supplier, customer and employee experience, making Eurocell an even better business partner all round.

Overall, we are confident that, through the successful progression of our strategic priorities, we will outperform our markets and deliver sustainable growth in shareholder value.

Bob Lawson
Chair

INVESTMENT CASE

CLEAR STRATEGY

Clear strategic priorities

- Grow market share in profiles.
- Expand the brand network.
- Increase the use of recycled materials.
- Develop innovative new products.
- Deliver sustained operational excellence.
- Develop a sector-leading digital proposition.
- Explore potential bolt-on acquisition opportunities.

SEE PAGE 24

STRONG ON SUSTAINABILITY

In-house, closed-loop recycling facility

We are the leading UK-based recycler of PVC windows. We recycle both customer factory offcuts ('post-industrial' waste) and old windows ('post-consumer' waste). The recycled material is used to generate brand new extruded plastic products.

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

SEE PAGE 28

COMPELLING BUSINESS MODEL

Recycling, manufacturing and own distribution network

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

SEE PAGE 22

EXPERIENCED LEADERSHIP

Strong and experienced team

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

SEE PAGE 64

Our Operation

A vertically integrated model TO MAXIMISE EFFICIENCY

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

DISTRIBUTION

Branch customers
Owner managed businesses and contractors

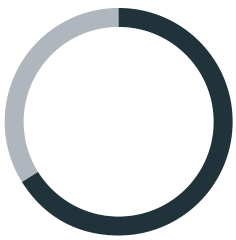
Third-party product suppliers
e.g. Rainwater products, Sealants, Tools

Revenue by division

Profiles	£99.7m
Building Plastics	£158.2m

Profile customers
c.400 fabricators
31.1k tonnes[3]
of rigid profile

Adjusted operating profit by division



Profiles	£7.9m
Building Plastics	£4.0m

Eurocell Profiles
45.5k tonnes[3]
of profile produced

Eurocell Building Plastics
14.4k tonnes[3]
of foam profile

Key to increasing capacity and delivering further
- 260k square feet, state of the art site

Modernise storage
- Cantilever racking permits storage up to 12 stillages high - currently 7
- capacity increased by > 60%

Modernise picking
- Single person on mobile platform
- Safer and more productive

SEE PAGES 32 TO 35 FOR MORE INFORMATION

SEE PAGE 26 FOR MORE INFORMATION

MANUFACTURING

Third-party material suppliers
31.0k tonnes of virgin compound consumed[1] plus 5.6k tonnes[3] of other raw materials[2]

1 Virgin resin: stabiliser, titanium oxide, impact modifier, filler.
2 Other raw materials: e.g. skin and rubber flex.
3 Tonnages shown are approximate based on 2020 volumes.
4 Repair, Maintenance and Improvement.

OUR MARKETS

RMI[4]
Proportion of revenue in RMI market
c.85%

New Build
Proportion of revenue in new build housing market
c.10%

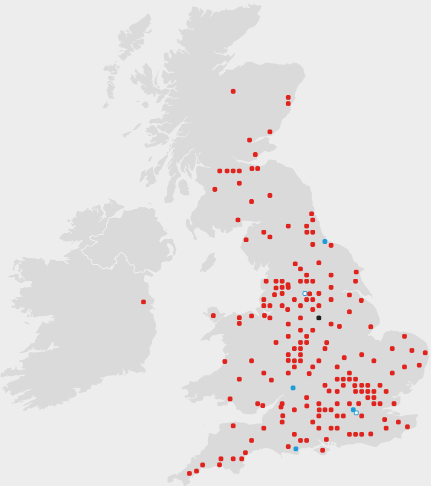
Public Sector
Proportion of revenue in public new build housing market
c.5%

OUR ROUTE TO MARKET

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

SEE PAGE 8 FOR MORE INFORMATION

Where we operate



- Eurocell locations
- New Head office, Alfreton
- New branch locations in 2020
- Closed branches in 2020

Number of branches

208

Eurocell Recycle
12.4k tonnes[3]
of recycled compound consumed (23% of profile raw material consumed)

TWO RECYCLING SITES

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

SEE PAGE 40 FOR MORE INFORMATION

RECYCLING

Mixed market drivers
STRONGER EUROCELL DRIVERS

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

EUROCELL MARKETS AND DRIVERS

Private RMI (c.85% Eurocell revenue)

Generally mixed market drivers:

- **Renovation activity, stimulated by:**
  - In H2 2020 – impact of COVID and desire to improve / extend homes drove a strong RMI market
  - More generally – pension draw down and consumer desire for maintenance free property
  - Or change of family circumstances
- **Consumer confidence / uncertainty**
  - Unclear how COVID impact will develop in 2021
  - Potential for significant level of redundancies
  - Brexit risk and other macro factors

Generally stronger Eurocell drivers:

- **Increase propositions in EBP**
  - New larger format stores
  - Maturing branches
  - Conservatory roof development
  - Outdoor living products
  - Retail proposition
- **Sales of windows through branches**
- **Strong market and competitive position with trade fabricators serving the RMI market in Profiles**

New build (c.10% Eurocell revenue)

Generally mixed market drivers:

- In H2 2020 – high levels of mortgage approvals
- Help to Buy continues to support demand, but restricted to first time buyers from 2021
- Large builders maintaining conversions
- Long term shortage of housing may attract government intervention to boost volumes
- Public sector: Right to Buy enables housing tenants to buy their homes at a discount
- COVID stamp duty holiday ends March 2021
- Macro – affordability remains a key issue

Generally stronger Eurocell drivers:

- Continue to benefit from differentiated specifications
- Strong market and competitive position with new build fabricators
- Low cost fabricators leaving market and work being taken by Eurocell fabricators
- Growth of Cavalok cavity closer product (65% share) driving contact with house builders
- Vista increasing market share of doors

Commercial (c.5% Eurocell revenue)

Generally mixed market drivers:

- Slow to return post COVID in H2 2020
- Continued hesitancy caused by delays to funding release from government

Generally stronger Eurocell drivers:

- Only brand maintaining a sizable salesforce displacing aluminium with PVC
- Better U-values and 30% cheaper
- More fabricators working in commercial

Despite generally mixed signals and a significant level of uncertainty over how markets will develop in 2021, we have good potential to outperform – capitalising on our strong market positions and clear strategy.

EXTERNAL MARKET DATA

GDP

After an estimated fall of 10% in 2020, real UK GDP is forecast to grow by 5% in 2021.

Interest rates

UK interest rates remain at all time low of 0.1%.

Construction

Total construction activity was down 14% in 2020, but is forecast to recover and grow by 14% in 2021 and 5% in 2022 (i.e. 2021 is forecast to be 2% down on 2019).

Housing market

Total activity housing was down 20% in 2020, but is forecast to recover and grow by 15% in 2021 and 7% in 2022 (i.e. 2021 is forecast to be 7% down on 2019).

The private housing RMI1 market was down 12% in 2020, but is forecast to recover and grow by 10% in 2021 and 3% in 2022 (i.e. 2021 is forecast to be 3% down on 2019).

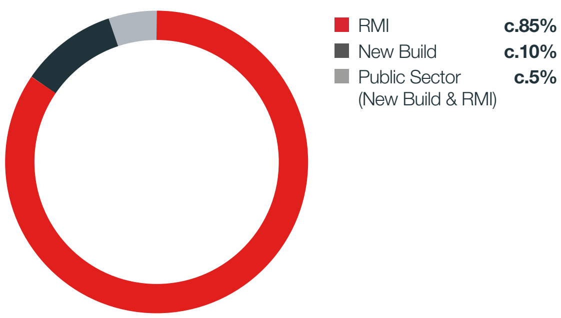
Sources: Bank of England forecasts for the UK economy (published February 2021), Construction Industry Forecasts 2020-22 (published January 2021).

Key to potential impact on demand for Eurocell products:

Positive Neutral Negative

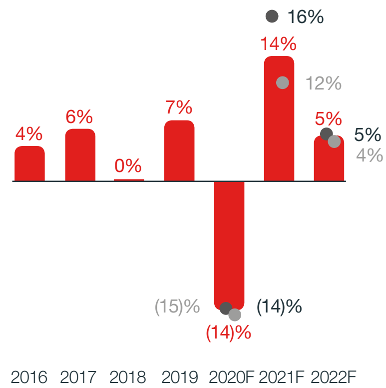
Eurocell Revenue by Market (%)

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

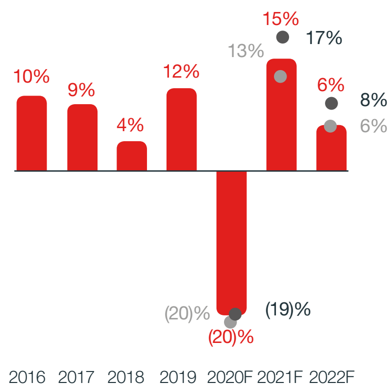


CPA Construction Industry Forecasts (2020-2022)

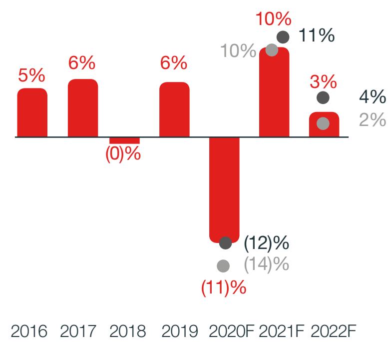
Total construction output growth



Total housing growth



Private housing RMI growth



Central scenario
Upper scenario
Lower scenario

Chief Executive Officer's Report

Well positioned FOR 2021

> *We took decisive action in response to COVID-19 to protect the business and our stakeholders. After a strong second half operating and financial performance, we are well-placed to capitalise on opportunities as markets develop."*

Mark Kelly
Chief Executive Officer

Introduction

We started 2020 in a good position. With manufacturing constraints resolved through investment in 2019, our intended focus for the year was the delivery of operating efficiencies and the successful transition to our new warehouse. However, 2020 was shaped by the challenges posed by COVID-19.

The initial measures implemented by the UK Government to control the pandemic had a major impact on our operations and financial performance in the first half. However, we took decisive action to protect our employees, the business and our other stakeholders, leaving the Group well-placed to capitalise on opportunities as we emerged from the first lockdown towards the end of Q2. Since then, our operating performance has been strong.

The repair, maintenance and improvement (RMI) market was stronger than we anticipated throughout the second half. House building activity has also been increasing, supported by high levels of mortgage approvals. Our products have resonated well with customers seeking, possibly as a result of the pandemic, to improve their homes and create more usable space, both inside and outside of their properties. Products such as conservatories, warm roofs and garden rooms have been particularly strong.

With H2 sales exceeding expectations and good operating efficiencies delivered throughout this period, we were very pleased to report good financial performance and strong profit growth for the second half.

Actions in response to COVID-19

Operational actions

In line with UK Government guidance issued towards the end of March 2020, we closed our manufacturing plants, branch network, distribution and recycling operations. The shut-down was carefully controlled, in order to leave the business ready to recommence operations and trading when appropriate to do so.

Following updated guidance from the Government in mid-May, which permits tradesmen to work in domestic dwellings so long as appropriate precautions are taken, we commenced a phased reopening. This process was successful, with COVID protection measures working effectively. All sites have been open since July and operating efficiencies since then have been good.

Health and safety actions

Prior to reopening, we conducted a thorough review of work practices and implemented a range of COVID protection measures. Extensive work was undertaken to examine how COVID risks would impact operational activities; to define more extensive standards for protection (referencing UK Government and HSE guidance); and to develop programmes for effective implementation. Our employees were very actively engaged in supporting this process. The approach addressed various aspects, including: social distancing, physical barriers, screen and other protections, workplace hygiene and cleaning, personal hygiene and handwashing, personal protective equipment and swift case/symptom reporting, response and post-case sanitisation.

The restart was carefully phased and controlled to ensure that our COVID protection measures were effective with rising employee numbers. Employees returning to work were provided with relevant training, and personal protective equipment where necessary, before re-entering their workplace.

Thereafter, we have continued to review and develop our protection measures in accordance with official guidance and emerging best practice. We continually monitor the effectiveness of and compliance with these measures.

Financial actions

We increased our bank facility from £60 million to £75 million in March 2020.

At the outset of the pandemic, we took several actions to conserve cash, including the deferral of non-essential capex and other discretionary expenditure and cancellation of the proposed final dividend for 2019. In April we raised £17.1 million (net) by way of a share placing, with the proceeds to be used to ensure we retain headroom on our bank facility, even under an extended shut-down, and to provide sufficient liquidity to continue investment in the new warehouse. We also utilised Government support measures, including the Job Retention Scheme, through which we received payments of £6.5 million.

Cash flow management has continued to be a key priority for the business and the measures taken in 2020 to improve our cash position have been effective, with net debt at 31 December 2020 on a pre-IFRS 16 basis reduced to £9.9 million (31 December 2019: £34.6 million), demonstrating significant headroom on our bank facility.

Cost savings and operating efficiency improvements

During the year, we performed a full review of our operating, support and management structures to ensure that the business is as efficient as possible. We identified several opportunities to streamline the organisation, which resulted in a small reduction in headcount. Approximately 50 positions (representing c.3% of our workforce) were impacted, although a significant proportion relate to vacancies that were not filled. As a result, non-underlying restructuring costs of £0.6 million were incurred in H2 (primarily redundancy). These changes result in a more efficient structure and deliver fixed cost savings, but have no impact on production capacity or our ability to satisfy customer demand.

We were concerned that COVID-safe working methods might impact on our operating efficiencies, but through careful management and with the full cooperation of our employees, we have seen no negative impact.

Our COO, Mark Hemming, is leading the work to continually improve operational efficiencies, which will be further enhanced as anticipated when the new warehouse is fully operational, expected to be in Q2 2021.

Financial results

Sales for the year were £258 million, or 8% below 2019. We reported an adjusted profit before tax of £8.5 million (2019: £22.7 million).

As described above, the first lockdown had a major impact on our H1 performance. Sales for the first six months of 2020, which includes the period from late-March to mid-May when the business was closed, were 31% below H1 2019, and we reported an adjusted loss before tax, driven by significantly lower sales volumes and the impact of operational gearing.

However, throughout the second half our markets were stronger than we had anticipated, we continued to gain share and our operational performance was good. Sales for the six months ended 31 December 2020 grew by 15% on H2 2019, and we reported an adjusted profit before tax for the period well up on H2 2019.

The statutory loss before tax for the year was £1.5 million, which includes a non-cash goodwill impairment charge of £5.8 million and dual running costs of the new warehouse of £2.7 million. Further information on our financial performance is included in the Chief Financial Officer's Report and Divisional Reviews.

Operational performance

Health and safety

The safety and well-being of our employees and contractors is always our first operational priority and we continue to maintain good health and safety performance. Our Lost Time Injury Frequency Rate ('LTIR') was 0.7 in 2020, compared to 0.9 in 2019. There were no major injuries and 19 minor accidents (2019: no major injuries, 17 minor injuries) recorded under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 ('RIDDOR').

Production

In 2020 we manufactured 45.5k tonnes of rigid and foam PVC profiles at our primary extrusion facilities, down from 54.6k tonnes in 2019, a decrease of 17%. This reflects lower sales in H1 2020 as a result of the first COVID lockdown. In addition, 2019 production included a stock build programme to increase availability at our branches and mitigate the risk of raw material supply interruption due to Brexit.

Also in 2019, we completed a substantial capex programme, at a cost of c.£5 million, to improve manufacturing efficiency and increase co-extrusion and foam capacity by 30% and 15% respectively. In extrusion, Overall Equipment Effectiveness ('OEE'), a measure which takes into account machine availability, performance and yield, improved to 75% in 2020 (2019: 73%).

Recycling

We used 12.4k tonnes of recycled PVC compound alongside virgin resin in the manufacture of co-extruded rigid profiles, representing 25% of overall material consumption, up from 23% (13.4k tonnes) in 2019, driving a substantial saving compared to the cost of using virgin material.

Brexit and supply chain

We took several steps to protect the business from the potential negative effects of Brexit. In this context, it is worth noting that over 95% of our sales are to UK-based customers and that the vast majority of our workforce has the right to work in the UK.

Some of our key raw materials do originate from Europe, so any disruption in supplies could impact our manufacturing operations. With that in mind, whilst we have only limited capacity to hold additional raw materials at our own sites, we completed a significant investment in additional stocks in 2019, adding c.£5 million to finished goods for key product lines, most of which remained in place throughout 2020.

Now that the nature of the future trading relationship between the UK and the EU has been substantially defined, the risks relating to the imposition of import tariffs are largely behind us.

More generally, whilst the impact of increased demand, supplier production outages and new administrative requirements for EU imports have together put sector supply chains under pressure, we have continued to secure the raw materials we require. So far, we have not experienced any significant adverse effects from the delays at UK ports.

However, PVC resin prices began to increase towards the end of 2020 and this trend has continued into the new year. We are therefore implementing selling price increases, starting in February 2021, to recover this and other cost inflation.

Warehousing capacity expansion

Towards the end of 2019 we concluded that our existing main warehouse was a major constraint to future growth and operating efficiency. Early in 2020 we secured a new facility, located within three miles of our primary manufacturing site, existing main warehouse and head office. The new site has 260,000 square feet of high bay, state-of-the-art warehouse accommodation, dedicated office space and car parking.

In designing the new facility, we have taken the opportunity to modernise our storage solutions, using cantilever racking to store up to 12 stillages high (our existing warehouse is restricted to seven); and mobile racking to allow high density storage, which has increased capacity by more than 60%. Similarly, we have modernised picking processes, with the use of mobile platforms to replace manual techniques, thereby providing a safer and more productive solution.

The project to fit-out the new warehouse has progressed well and remains on track. We achieved a major milestone in January 2021, with commercial operations beginning successfully from the new site. In line with our plans, transition will continue over the coming weeks, with the final stages expected to complete in Q2 2021.

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

We are excited about the opportunities for growth opened up by this investment. As well as being central to increasing capacity, the new warehouse is key to delivering anticipated improvements in operating efficiencies.

Strategy

Strategic priorities overview

Our overall strategic objective is to deliver sustainable growth in shareholder value by increasing sales and profits at or above market growth rates. Over the last five years we have targeted five strategic priorities to help us achieve this objective and have delivered significant progress in each of them as follows:

- Grow market share in Profiles – now the largest supplier of rigid PVC profile to the UK market (c.17% share)
- Expand the branch network – 208 sites in 2020 compared to 141 in 2015
- Increase the use of recycled materials – 25% of material consumption in 2020 compared to 9% in 2015
- Develop innovative new products – sales from products introduced since 2017 were c.£24 million of 2020 revenue
- Explore potential bolt-on acquisition opportunities – six acquisitions completed since 2015

Further information in relation to these priorities is set out in the following paragraphs. More recently, we have assessed whether they remain relevant for the next five years and our conclusions are also described below.

Grow market share in Profiles

In 2018 we became the leading supplier of rigid PVC profile to the UK market, with a share of c.15%[1]. We continue to consolidate our position and believe we now have a share of around 17%[1]. Our objective is to increase this to at least 20%.

In the Profiles division, trade fabrication currently represents c.60% of sales. There is a compelling case for larger trade fabricators to switch to Eurocell. This includes: a strong product range, continued product development, the benefits of pull-through profile and hardware specifications and the opportunity to supply our branches, all delivered via best-in-class service.

New build represents c.30% of Profiles sales. Expanding our share of the new build market has been a key driver of recent growth and we believe favourable market dynamics and low interest rates are set to continue. We have strong relationships with large and medium-sized housebuilders, maintained by our specification and technical teams. In addition, with a focus on sustainability, we believe our use of recycled material is becoming increasingly attractive to housebuilders.

In the commercial sector (c.10% of profiles sales), energy efficiency and lower cost underpin a strong case for the benefits of using PVC profile over aluminium, particularly in sub-sectors such as private rentals, build-to-rent, purpose-built student accommodation, education and local authority refurbishment – all habitual users of aluminium.

Expand the branch network

Our strategic objective for Building Plastics is to achieve sector-leading operations from 270 - 300 sites. The growth will come mostly at the expense of independent operators, who currently have more than 60% market share.

In the existing estate (208 branches at 31 December 2020), we are implementing plans to improve up-selling and cross-selling opportunities, to target lapsed customers, and to tighten margin controls. We also intend to enhance promotional activities with support from key suppliers. In terms of products, we are focusing on improving conversion rates for high value made-to-order items and extending our range, including the introduction of a new suite of outdoor living products.

With additional warehousing capacity now coming on line, we plan to open up to 12 new sites in 2021, with the final number to be determined based on the economic environment and business performance. Up to six of these will be in a new, larger format store, with expanded trade counter and showroom-style displays designed to engage customers and drive big-ticket purchases such as windows and doors. This follows successful trials of this format in 2019/20.

We continue to robustly test an opportunity to develop and implement a sector-leading consumer online windows and doors proposition, using our branch network to provide infrastructure where needed (e.g. delivery point for installers). We began a trial in the North West in Q3 2020 and will provide an update on our progress later in 2021. This proposition directly aligns with our commercial strategy of continuing to create pull-through demand for our products.

Increase the use of recycled material

Expanding the use of recycled material increases our profits, because the cost of recycled compound is typically lower through the cycle than the price of virgin material, and it reduces our exposure to volatile commodity prices. It also improves product and business sustainability, with less plastic going to landfill. Closed-loop recycling (where windows being replaced are recycled into the new product) is attractive to decision makers such as local authorities and architects, which helps us develop tight specifications for our products.

We have been investing to increase our recycling capability through the expansion of Eurocell Recycle Midlands, the acquisition of Eurocell Recycle North and by investment in new co-extrusion tooling, which allows a greater proportion of recycled material to be used in our products.

We have become the leading UK-based recycler of PVC windows. Our use of recycled material increased from 4.1k tonnes (or 9% of materials consumed) in 2015 to 13.4k tonnes (or 23% of consumption) in 2019 and 12.4k tonnes (or 25% of consumption) in 2020, with volumes in the latter reduced by the impact of COVID. In doing so, in both 2019 and 2020 we saved the equivalent of c.3 million window frames from landfill.

We expect internal demand for recycled material to increase. This can be satisfied largely through the expansion of Eurocell Recycle North.

1 Eurocell estimates.

Develop innovative new products

We are committed to maintaining market leadership by offering the very latest in product improvement, both through development of existing products and the introduction of new ones. We work closely with our customers and technical advisors on development and to help maintain our product pipeline. Recent highlights for Profiles include the introduction of a flush window sash for the popular Logik range, a new sliding patio door system (Syncro) and development of a through-colour grey substrate profile. In Building Plastics, the Equinox conservatory roof system has been developed to include a skylight (Vega) and our new suite of outdoor living products, including the Kyube garden room, has been very well received.

Explore potential bolt-on acquisitions

We have completed six acquisitions since our IPO in 2015. We will continue to assess and consider bolt-on acquisition opportunities in the markets in which we operate over the medium term. However, our focus for 2021 will be delivering operating efficiencies from recent investments in manufacturing and warehousing capacity.

2021 strategy update

Early in 2021 we conducted a review of the Group's strategy, our markets and activities. We reaffirmed our overall strategic objective of sustainable growth in shareholder value. We also decided that, whilst the five priorities described above remain relevant, we would refine one of them and introduce two new priorities, making seven in all.

It is therefore our intention in 2021 to develop the existing recycling priority into a 'sustainability strategy' for the whole business. We are working now to define long-term sustainability objectives, linked to the relevant UN Sustainable Development Goals and the UK Government's transition towards a net zero carbon economy, along with an implementation plan and appropriate KPIs against which to measure progress. We will communicate further on sustainability later in 2021.

We will also introduce a new strategic priority to 'deliver sustained operational excellence'. Through 2016-19, the success of our commercial strategies resulted in a strong compound annual growth rate in sales of 12%. However, profits for that period were impacted by sales running substantially ahead of our expectations, thereby exceeding the available operating capacity thus leading to inefficiencies and extra costs. Manufacturing and warehousing constraints have now been resolved through major investments in new capacity. Looking ahead, we expect sustained operational excellence to result in the benefit of our sales growth flowing through to improved profits and margins.

Finally, we will introduce a new strategic priority to 'develop a sector-leading digital proposition'. Stakeholders in most organisations increasingly require full end-to-end digital solutions; a trend exacerbated by the COVID pandemic. We now intend to make the continued development of our digital proposition a strategic priority. We expect a sector-leading digital proposition to act as an enabler to our other priorities and improve the supplier, customer and employee experience, making Eurocell an even better business partner all round.

Overall, we are confident that, through the successful progression of our strategic priorities, we will outperform our markets and deliver sustainable growth in shareholder value.

Outlook

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

In response to the pandemic, we took a number of decisive actions to safeguard our future and ensure the business was well-placed to capitalise on opportunities as markets developed.

The RMI market was stronger than we anticipated throughout the second half. Sales exceeded our expectations, particularly in the branch network, operating efficiencies were good and gross margins improved as volumes increased. As a result, we were very pleased to report strong profit growth for H2.

Our focus now includes completing the warehouse transition successfully, thereby facilitating future growth and the delivery of anticipated operating efficiencies. Whilst the current levels of uncertainty mean it is difficult to predict the outcome for the year, 2021 has started well with sales to the end of February up 8% on 2020 and it remains our intention to return to paying dividends this year. We continue to see good potential to outperform our markets, take share and deliver further progress.

Mark Kelly
Chief Executive Officer

Our COVID-19 Response

Well positioned FOR 2021

In response to the pandemic, we took a number of decisive actions to safeguard our future, ensuring the business was well-placed to capitalise on opportunities as markets developed.

Q1

Controlled closure

- All operations closed in late March, in line with Government guidance
- Bank facility increased from £60m to £75m
- Final dividend for 2019 cancelled

Q2

Securing the future

- £17m raised via share placing
- Deferral of non essential and discretionary expenditure
- Q2 VAT payments deferred and rental payments switched to monthly in advance (from quarterly)
- Utilisation of Government support measures, including Job Retention Scheme and business rates relief
- Frequency of Board/ Executive Committee meetings increased
- Salaries for Board and senior Executive committee members temporarily reduced

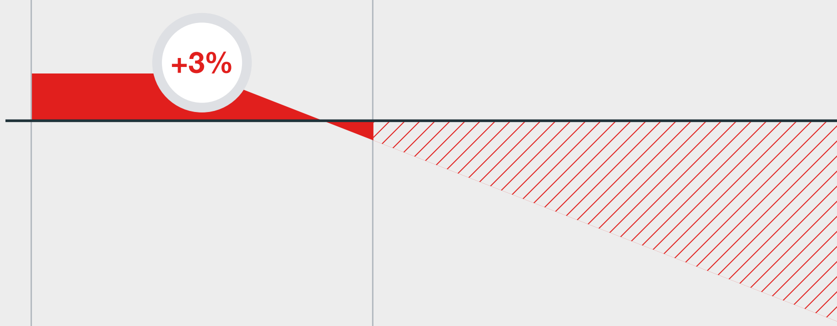
COVID RESPONSE TIMELINE

Open

Closed

April

Like-for-like[2] sales growth (vs 2019)



Net debt[3] – pre IFRS 16 (at quarter-end) £39m £24m

Notes:

1 RMI is Repair, Maintenance and Improvement.
2 Like-for-like sales growth excludes acquisitions and new branches opened in 2019/20, and is calculated by comparing average sales per trading day.
3 Group net debt – pre IFRS 16 is cash and cash equivalents less bank overdrafts and borrowings.

Moving forward together

Managed return

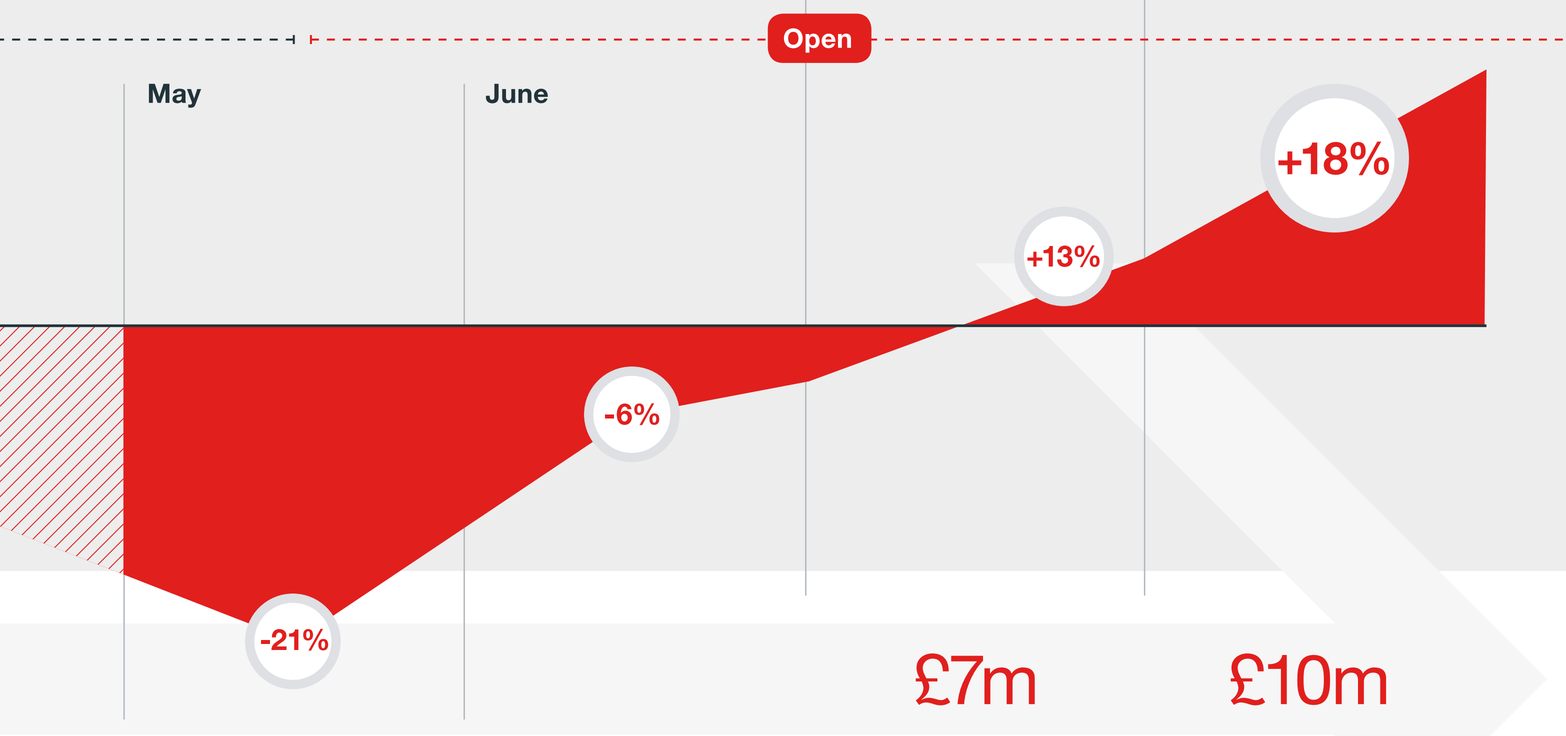
- Phased re-opening from mid-May 2020, following government guidance and introduction of COVID-safe working practices
- Organisational structures and operating processes streamlined
- Working from home wherever possible
- Credit terms temporarily extended for selected customers

Q3
Strong recovery

- All sites open by July and all colleagues returned to work by early October
- Stronger RMI[1] market than anticipated post lockdown
- Products resonating with customers seeking to improve / extend their homes
- Improved operating efficiencies

Q4
Continued growth

- In Building Plastics – strong sales across our range of own-manufactured products and traded goods, and excellent start for our new outdoor living range
- In Profiles – increasing demand from trade fabricators, who are substantially focused on the RMI market and increasing house building activity, supported by high levels of mortgage approvals
- Continued gains in market share
- Deferred VAT payments repaid and rental payments switched back to quarterly in advance (from monthly)
- All suppliers and landlords paid to terms



Our COVID-19 Response continued

Decisive actions
TO SAFEGUARD THE BUSINESS AND OUR PEOPLE

As the coronavirus spread to the UK and case numbers began rising, we took decisive operational, health and safety and financial actions to safeguard the business and our stakeholders.

Screens introduced in welfare facilities, office and toolroom areas maintain protection where social distancing is difficult

In this section, we have focused on the operational impact on our workforce and the controls and management systems we introduced to minimise the risk of infection and protect our colleagues, customers and suppliers.

Financial actions are described in more detail in the Chief Executive Officer's Report and Chief Financial Officer's Report.

Workforce impacts

In line with UK Government guidance issued towards the end of March, we closed our manufacturing plants, branch network, distribution and recycling operations.

During the early phase of the shutdown, the majority of our c.2,000 employees were furloughed, using the Government’s Job Retention Scheme. A skeleton staff of around 100 employees was retained, to provide essential services and administration, perform important maintenance work and, importantly, to ready the sites and branch locations for re-opening.

This included the design and testing of a range of COVID protection measures. We assessed how COVID risks would impact operational activities in order to define standards for protection in line with UK Government and HSE guidance and developed plans for implementation. The approach adopted includes the measures shown here, as well as swift case/symptom reporting, response and post-case sanitisation.

In addition, working with our third party project partners, the fit-out of our new warehouse and head office continued through this period, whilst at all times ensuring the safety of the teams involved. A certain amount of planned recruitment also took place, with a number of new colleagues joining Eurocell during the shutdown period and shortly afterwards.

A controlled re-start

Following updated guidance from the Government in mid-May, which allowed tradesmen to work in domestic dwellings so long as appropriate precautions are taken, we commenced a phased re-opening.

A phased approach allowed us to test the new controls with low numbers of employees on site. Pre-return protocols ensured we brought back our colleagues safely into the business. Employees returning were provided with video inductions, sharing key information before they set foot on the premises, followed by relevant training and personal protective equipment (PPE) where necessary.

This process was successful, bringing confidence that our upgraded COVID safety measures provide good protection and allow for the effective management of risks and suspected cases, as employee numbers increased through the return.

Simple screening aids separation from customers

Manager checklist

Returning an employee to work from Furlough

This document should be used when contacting employees returning to work from Furlough. Managers should allow a minimum period of 3 days notification when planning a return to work.

Section One

Name of Employee:		
Name of Manager:		
Department:		
Date:		
Date that the employee is expected to RTW:		
Are they fit to RTW? (if NO follow guidance in section 2)	Yes	No
Are they required to work from home?	Yes	No
Has the employee had or had symptoms of COVID-19 during the period of closedown which has been confirmed?	Yes	No
If yes When did you have the symptoms or, had COVID? Are you fully recovered?	Date Yes	No
Do you have any condition that would make you more vulnerable to return to work?	Yes (record in box below)	No
Advise employee that a letter will be sent to them confirming their return to work (tick)		
Record employees personal email address:		
Confirm the employee agrees to return to work:	Yes	No (record in box below)
Record reasons for none return to work:		

Walkways form part of one-ways systems to reduce interaction and proximity

Our COVID-19 Response continued

Protecting our colleagues

Creating COVID-safe conditions across the business involved defining standards for control and converting those standards into practical workplace measures and systems.

Every one of our locations and facilities implemented a combination of physical, procedural and PPE controls, backed-up by extensive information and communication programmes to ensure that our employees can work safely.

Reverse parking

Reverse parking ensures maximum distancing as employees exit their vehicles.

Facial and body temperature recognition

Facial and body temperature recognition clocking-in systems eliminate multiple touch points and measure temperature, with all records retained.

Hand-washing and sanitising stations

Hand-washing and sanitising stations have been installed throughout the business.

Temperature checks and health Q&A

Employees are temperature checked and answer health questions before entering our premises.

Protection screening

Screens introduced in welfare facilities, office and toolroom areas maintain protection where social distancing is difficult.

One-way systems and walkways

Walkways form part of one-ways systems to reduce interaction and proximity.

Signs and posters

Signs and posters form a key part of our communications and message reinforcement programmes.

Protecting our customers

Maintaining a COVID-safe environment in our branch network posed different challenges. In addition to physical changes, such as one-way systems and screening, we pioneered a 'virtual queuing' system to manage customer flow, minimise physical interaction and reduce inconvenience for our customers.

Virtual queuing, one-ways systems and screen protection for branches

Virtual queuing allows customers to reserve a place in the 'queue' and only enter the branch when it is safe to do so. One-way systems and screening provide further protection.

Benefits from our COVID response

All our sites have been open since July. We continually monitor the effectiveness of and compliance with our COVID protection measures. Whenever necessary, they are updated in accordance with official guidance and emerging best practice.

We also recognise that our COVID-19 response has delivered several small, yet valuable benefits:

- Reverse parking offers safety benefits that will continue beyond the pandemic
- Focus on walkways, one-way systems and other workplace process streamlining has supported improved operational efficiencies
- The pandemic has driven customer traffic to our website, helping us to kickstart our digital journey
- Virtual queuing at branches offers benefits at busy times of the day
- The increased use of video conferencing has freed-up travel time that would be lost through a reliance on in-person meetings

WHAT WE DO

WE MANUFACTURE

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

46k tonnes
produced in 2020

WE DISTRIBUTE

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

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

>3 million products
delivered in 2020

WE RECYCLE

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

c.3 million windows
recycled in 2020

HOW WE CREATE VALUE

Vertically integrated model	The coordination of our procurement, manufacturing and distribution processes enables us to capture margin throughout all stages of our value chain. Our recycling activities help lower material costs and improve product stability.
Scale	We operate well-invested and modern extrusion facilities. We are the UK's largest window recycler. Our extensive branch network is a driver of sales growth and market share. It also helps improve manufacturing efficiency, with pull-through demand driving higher factory utilisation.
Innovative products	We are committed to a strategy of continually developing new and existing products. We support the use of Building Information Modelling ('BIM') software, giving architects and contractors access to a library of Eurocell products, making it easier to specify them.
Brand strength	We have a strong brand image and our marketing activities seek to maximise our brand awareness.
People and culture	Our experienced management team have a proven track record of achieving growth. Our corporate culture is one of openness, trust, encouragement and clarity of purpose. We train and empower our people to help our customers grow their businesses.
Local footprint	Our branches are conveniently located and have readily available inventory, thereby providing excellent service to local customers and national groups alike. We also strive to help our customers through the provision of technical, business development and marketing support services.

OUTPUTS

Sales growth	Our initiatives to support sales and deliver high levels of customer service differentiate Eurocell from our competitors. We expect this to drive good sales growth.	**Like-for-like[1] sales growth** 6% **Reported sales down 8%**
Solid profitability	We have a track record of solid profitability. We experienced some challenges with incremental volume in 2018/19, but our continued investment in expanding capacity and improving operational efficiency, coupled with strong sales growth, should drive increased returns. Expanding the branch network (including larger format branches), whilst dilutive until new branches become established, should deliver healthy medium-term results as new branches mature. Increased use of recycled materials can help mitigate raw material pricing pressure.	**Adjusted Profit Before Tax[2]** £8.5m
Good cash generation	Our operating cash flow conversion is good, particularly in Building Plastics, where a high proportion of customers pay at point of sale or shortly thereafter. This has allowed us to invest in working capital to support sales growth and protect the business from any raw material supply interruption that may take place.	**Net cash generated from operating activities** £32.9m
Good return on sales	Our strong brand, well-invested facilities and capital-light branch expansion programme deliver a good return on sales.	**Return on sales[3]** 12%
Progressive returns to shareholders	Our dividend policy, supported by sales growth and cash generation, deliver progressive dividend returns to shareholders.	**Total dividends returned to shareholders since the IPO in 2015** £38m

1 Like-for-like excludes acquisitions and new branches opened in 2019/20, and is calculated by comparing average sales per trading day in 2020 (i.e. 212 days, excluding days closed) with average sales per trading day in 2019 (249 days).
2 Adjusted Profit Before Tax is stated before non-underlying items.
3 Return on sales is Adjusted EBITDA (including impact of IFRS 16) divided by revenue.

KEY BENEFICIARIES

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

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

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

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

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

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

Our Strategy

We have seven key STRATEGIC PRIORITIES

Our overall objective is to deliver sustainable growth in shareholder value by increasing sales and profits at above market growth rates through leadership in products, operations, sales, marketing and distribution.

Strategic priority — **2020 progress**

Target growth in market share

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

- Profiles like-for-like sales growth of 11% in H2.
- H2 growth driven by existing and new accounts and strong contribution from Vista Panels.
- 14 new accounts (following 60 in 3 years 2017-19.
- H2 growth includes good contributions from trade fabricators.
- New build and commercial markets began H2 slowly, but run rates started to improve from September.

Expand our branch network

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

- Building Plastics like-for-like sales growth of 19% in H2.
- H2 growth driven by strong performance in manufactured and traded goods and an excellent start for new outdoor living range.
- 4 new sites opened, including 3 larger format branches.
- Total estate at 208 branches at 31 December 2020, with 67 (net) new branches opened from 2015.

Increase the use of recycled materials

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

- Continued investment to expand capacity and improve reliability in both recycling plants, with capex of £1.5 million (2019: c.£5.7 million).
- Increased use of recycled material for primary extrusion in 2020 to 25% of consumption 12.4k tonnes (2019: 23% or 13.4k tonnes).
- Further 8.7k tonnes produced for use in extrusion of products with 100% recycled content, or sold to trade extruders (2019: 11.5k tonnes).

Develop innovative new products

Maintain market leadership by offering the latest in product innovation.

- Development and introduction of:
  - Flush sash for Logik range.
  - Through-colour grey substrate profile.
  - New sliding patio door system (Synco).
  - New tiled roofing products ("Envirotile").
  - Full height glazing panels for Equinox Roof Systems ("Equinox Vega").
  - Outdoor living range extension, including Kyube garden room.
  - Aluminium powder-coated rafter top caps ("Skypod Plus").
  - Aspect flush French and residential doors.

Explore potential bolt-on acquisitions

Consider acquisition opportunities when they arise.

- We have completed 6 acquisitions in the period since our IPO in 2015
- However, our principal focus for 2020 was on progressing the project to expand our warehousing capacity.
- We also made good progress with the integration and expansion of Eurocell Recycle North.

Deliver sustained operational excellence

Optimise returns on recent investment in manufacturing and warehousing capacity to enhance profits and return on sales.

- Began to optimise operational footprint and supply chain to support growth:
  - Project to fit our new warehouse remains on track, with major milestone reached in January 2021, as commercial operations began from the new site.
- Began improving operational capability:
  - Developed KPI suite aligned to strategy and objectives.
  - Implemented standard operating system across all operational sites.
  - Visual factory enhancements to empower employees.
  - Improved factory OEE[1] and customer OTIF[2] levels through H2 peak period.

Develop a sector-leading digital proposition

Develop end-to-end digital solutions to enable our strategic priorities and improve the supplier, customer and employee experience.

- Recruitment of new Director of IT.
- Developed IT road map.
- Approved investment in people and technology to progress road map.

1 OEE is overall equipment effectiveness, a KPI measuring our manufacturing efficiency which takes into account machine availability, performance and yield.
2 OTIF is on time in full, a KPI measuring the efficiency and accuracy of our logistics and delivery operation. Estimate 2020 OTIF at > 90% excluding the impact of COVID.

Over the last 5 years, we have targeted five strategic priorities to deliver this objective and we have made good progress against each of them. Early in 2021 we conducted a review of the Group's strategy, our markets and activities. We decided that, whilst the five existing priorities remain relevant, we would refine one of them and introduce two new priorities, making seven in all.

It is therefore our intention in 2021 to develop our existing strategic priority to increase the use of recycled material, into a 'sustainability strategy' for the whole business. We will also introduce new strategic priorities to 'deliver sustained operational excellence' and 'develop a sector-leading digital proposition'. The seven priorities are summarised below:

KPIs	2021 focus
Estimated market share in Profiles: c.17% (2015: c.12%)	• Exploit compelling case for trade fabricators to switch to Eurocell, with clear points of differentiation through specification, service, opportunities to supply branch network and product range / development. • Extend market share gains in new build through continued development of technical specifications with housebuilders, and a focus on sustainability with our use of recycled material. • Continue to target commercial sector projects, where energy efficiency and lower cost underpin a strong case for using PVC over aluminium in sub-sectors such as build-to-rent, and education.
Estimated market share in Building Plastics (foam PVC profiles): c.24% (2015: c.20%)	• Continuous improvement in existing estate focused on: – Customers: up-selling, cross-selling, target lapsed accounts, margin control. – Trading: promotional activities, focus on bottom 20 performing branches. – Products: improving conversion rates for high value items, and range extension, particularly conservatory roof development and outdoor living products. • Up to 12 new sites, of which up to 6 will be larger format. • Continue to reduce time to break-even for new branches. • Continue trial for sector-leading consumer on-line window and door proposition.
Total tonnes of waste processed in the recycling plants: 33.7k (2019: 41.3k)	• Maximise throughput and operational efficiency / reliability at both recycling sites to support business sustainability and growth. • Develop the recycling priority into a sustainability strategy for the whole business. – Define long-term sustainability objectives, linked to the relevant UN Sustainable Development Goals and the UK Government's transition towards a net zero carbon economy, along with an implementation plan and appropriate KPIs against which to measure progress.
Product ranges launched: 12	• Development and introduction of (amongst others): – Vertical slider enhancements. – Stronger window profile to facilitate extended thresholds. – New composite door system. – Further extension to outdoor living range (e.g. pergolas, gazebos and fencing). • Other enhancements to existing products (e.g. Skypod and Envirotile) and complementary new product offerings.
No acquisitions completed in 2020	• Our principal focus for 2021 will be delivering operating efficiencies from recent investments in manufacturing and warehousing capacity. • However, we will continue to assess and consider bolt-on acquisition opportunities in the markets in which we operate over the medium-term.
OEE[1]: 75% (2019: 73%) OTIF[2]: 88% (2019: 89%)	• Operational footprint: – Complete transition to new warehouse in Q2. – Begin conversion of the existing warehouse to a specialist manufacturing site for foiling and conservatory roofs. • Continued improvement in operational capability.
KPIs to be developed in 2021	• Progress prioritised road map projects: – Data: improve Product Information Management (PIM). – Digital: consolidate and develop website and ecommerce platforms. – Customer Relationship Management (CRM): consolidate to one view of the customer. – Enterprise Resource Planning (ERP): leverage new and improved functionality to provide access to real time analytics, support process improvement and operational efficiency. – HR: investment in employee management systems and improved employee communication platform.

Delivering OPERATIONAL EXCELLENCE

Through 2016-19, the success of our commercial strategies resulted in a strong compound annual growth rate in sales of 12%. However, profits for that period were impacted by sales running substantially ahead of our expectations, thereby exceeding the available operating capacity and leading to inefficiencies and extra costs.

However, manufacturing and warehousing constraints have now been resolved through major investments in new capacity. We have therefore introduced a new strategic priority to 'deliver sustained operational excellence', which, looking ahead, we expect to result in the benefit of our sales growth flowing through to improved profits and margins.

Focus in 2020

Throughout 2020, our operational teams have been engaged in responding to the challenges posed by COVID-19. As described in Our COVID Response on pages 16 to 21, this included the design and on-going implementation of COVID protection measures and streamlining operational processes.

Alongside the COVID work, in Operations we have been focused on improving our execution in terms of efficiency and accuracy and on preparing the business for growth. This work has been concentrated in two key areas: (i) optimising the operational footprint and supply chain to support efficient growth; and (ii) developing our operational capability.

Optimising the operational footprint

At the centre of this aspect has been the project to fit-out our new warehouse, which unlocks the operational footprint of the business to support growth and deliver improvements in operating efficiencies.

2020 Capital Expenditure allocation

New warehouse

£8.0m

Manufacturing maintenance

£2.5m

Towards the end of 2019 we concluded that our existing main warehouse was a major constraint to future growth and operating efficiency. Early in 2020 we secured the new facility, located within 3 miles of our primary manufacturing site, existing main warehouse and head office. The new site has 260,000 square feet of high bay, state-of-the-art warehouse accommodation, dedicated office space and car parking.

The fit-out delivers high density storage using state of the art mobile cantilever racking, and efficient processing through GPS guided picking equipment with proximity and obstacle awareness sensors. With this racking we can store up to twelve stillages high (our existing warehouse is restricted to seven) and increase capacity by more than 60%. The mobile platforms replace manual techniques, thereby providing a safer and more productive solution. The warehouse management systems behind the physical attributes allow us to store product in the areas of the racking for optimal efficiency based on shipping velocity.

The fit-out project reached a major milestone in January 2021, with commercial operations beginning successfully from the new site. We have now proved the ability pick at 3x the efficiency of our traditional methods, with significantly more output capacity. Our intention is to 'turn' the operation fast, making it the cornerstone of our supply chain for many years of future growth.

In line with our plans, transition will continue over the coming weeks, with the final stages expected to complete in Q2 2021. The site has also become our new HQ, with the office fit-out described on page 49.

The new warehouse also unlocks the operational footprint for the whole group. We will convert our existing warehouse to a specialist manufacturing site, relocating, beginning later in 2021, secondary operations including foiling and conservatory roofs. This will free up space to future-proof extrusion capacity.

Developing our operational capability

In developing our operational capability in 2020, we have worked with our teams to ensure all colleagues are engaged in the overall business strategy deployment and understand what is important to our customers and other stakeholders.

We have developed our operational key performance indicators (KPI's) to be better aligned with our strategy and objectives and implemented a standard operating system across all operational sites.

"In Operations, we have been focused on improving our execution and on preparing the business for growth."

Mark Hemming
Chief Operating Officer

This work has been supported with investment in areas such as automated data gathering to support our KPI's for key processes and visual factory enhancements to empower employees.

We were very pleased to see this work begin to pay off in the second half of 2020, when operating efficiencies across the business were good at a time of very high demand. Most of our operational sites delivered record monthly and weekly output levels and efficiencies H2, demonstrating the strong foundation we have built.

In summary, we are developing a footprint, operational controls and a continual improvement culture which will support our growth and performance for years to come.

Moving forward together

260,000
square feet

Developing our APPROACH TO SUSTAINABILITY

As described in the Chief Executive Officer's Report, our intention in 2021 is to develop our existing strategic priority to increase the use of recycled material into a sustainability strategy for the whole business.

Developing our approach

We recognise increasingly the importance of a strategic, coordinated approach to the many elements and aspects that feed into the broader concepts of sustainability, corporate social responsibility (CSR) and environmental, social and corporate governance (ESG).

The Responsible business section on pages 36 to 51 describes the key aspects of our work on CSR and ESG.

We are working now to define long-term sustainability objectives, linked to the relevant UN Sustainable Development Goals and the UK Government's transition towards a net zero carbon economy, along with an implementation plan and appropriate KPIs against which to measure progress. Our strategic intent and actions under consideration are set out below. We will communicate further on sustainability later in 2021.

Leading UK-based recycler of PVC windows

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

Closed-loop recycling (where windows being replaced are recycled into the new product) is attractive to decision makers such as local authorities and architects, which helps us develop tight specifications for our products.

We have been investing to increase capacity at our two our recycling plants and have become the leading UK-based recycler of PVC windows. Use of recycled material in our primary extrusion operations increased from 4.1k tonnes (or 9% of materials

RELEVANT U.N. SUSTAINABLE DEVELOPMENT GOALS

OUR STRATEGIC INTENT

- Progressive pay
- Incentive schemes
- Pension and benefits

- Health & safety priority
- Healthy work environment
- COVID-safe operations

- Learning opportunities for all colleagues

- Equal opportunities employer
- Promote female and minority applicants

ACTIONS

- Living wage
- Good pay awards
- Incentives shared widely
- Benefits scorecard

- Health & safety training
- In-work health check, and support
- Virtual queuing

- Training and development programme
- Apprentice and Kickstart schemes

- Close gender pay gap
- First-class facilities
- Flexible and home working

consumed) in 2015 to 13.4k tonnes (or 23% of consumption) in 2019 and 12.4k tonnes (or 25% of consumption) in 2020, with volumes in the latter reduced by the impact of COVID. In addition, in 2020 we produced a further 8.7k tonnes of recycled material (2019: 11.5k tonnes), which is used either for our products made from 100% recycled material, such as window cavity closers, or sold to a variety of trade extruders.

Our total output for recycled material in 2020 was 21.1k tonnes (2019: 24.9k tonnes) and as a result we saved the equivalent of c.3 million window frames (2019: c.3.2 million) from landfill.

Carbon savings

- An independent study by the University of Manchester[1] found that displacing 1 tonne of virgin PVC with 1 tonne of recycled window PVC results in a reduction of approximately 1.7 tonnes of CO_2 emissions. This calculation compares the full lifecycle carbon emissions associated with the production of virgin PVC with emissions from the window recycling process. As a result, we estimate that our recycling operation saved approximately 36k tonnes of carbon in 2020 (2019: 42k tonnes), compared to the use of virgin PVC.

What does 36k tonnes of CO_2 look like?

- Driving an average car 300 million kilometres[2] (to the moon and back 380 times).
- The CO_2 output of over 6,000 UK homes[3].
- The carbon sequestered by 600,000 tree seedlings grown for 10 years[4].

What does this mean for house builders and home owners?

A house builder constructing 2500 semi-detached houses will save around 500 tonnes of CO_2 equivalent per year by using Eurocell windows and cavity closures, compared to a competitor using full virgin PVC windows.

Home owners can rest safe in the knowledge that, as well benefiting from the thermally efficient properties of PVC compared to other materials, by using Eurocell windows they are helping to reduce carbon emissions.

OUR STRATEGIC INTENT

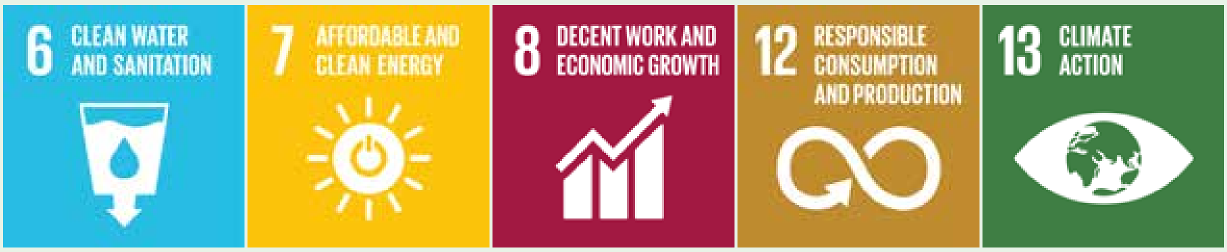
- Sustainable water management

- Increase use of clean energy
- Improve operational efficiency

- Sales and profit growth strategy
- Invest in local employees and communities

- Increase use of recycled material
- Reduce scrap materials

- Reduce carbon footprint reduction plan for all sites



ACTIONS

- Closed-loop cooling to recycle water at production sites

- Power sourcing
- Single-minute exchange of dies
- Scrap reduction
- LED lighting

- Invest in expansion
- Employer of choice
- Reduce reliance on agency staff

- Expand recycling

- Reduction plans
- Lower site waste
- Electric vehicles

1 "Life Cycle Assessment of Re-cycling PVC Window Frames", Heinz Sticchnothe, School of Chemical. Engineering and Analytical Science, University of Manchester.
2 Assumes vehicle emissions of $122gCO_2/km$.
3 Based on 2017 UK national figures.
4 Source: US Environmental Protection Agency.
5 Based on typical semi-detached home with 7 windows and french doors.

New products RESONATED WELL WITH CUSTOMERS

Coastline Cladding

Our Coastline cladding product continues to grow in the new build and RMI markets. It can transform existing low-rise housing stock, giving it a modern, contemporary feel, or provide new properties with kerb appeal. It is versatile and can be installed on buildings up to three storeys high and benefits from BBA certification fire testing (conforming with BS EN 13501, Fire Classification for Construction Products).

Coastline is made from an innovative composite material, which guarantees up to 10 years of weatherproof performance, and offers minimal contraction and expansion whatever the weather conditions. Compared to cement boards, it is lightweight, easy-to-handle, fade-resistant, 100% recyclable and does not release harmful silica dust when cut to length.

Garden rooms

We expanded our range of outdoor living products in 2020, with the introduction of Kyube garden rooms. This product captured the imagination of customers and installers alike and meets the growing demand for affordable extra work and leisure spaces at home.

Kyube is a modular, bespoke building design that can be used as a summer house, playroom, fitness room or – as more and more people adjust to working from home – a dedicated office space. It comes in a variety of configurations and are finished off with our own Coastline cladding.

"Our products have resonated well with customers seeking, possibly as a result of the pandemic, to improve their homes and create more usable space, both inside and outside of their properties."

Envirotile

Envirotile expands our growing range of roof products. This innovative roofing system utilises polymer materials to create a tile that is just one-fifth of the weight of a traditional concrete tile, whilst providing improved foot grip for installers. These features mean it is one of the safest roofing tiles to work with, reducing carrying loads and slip risk. With no dust during cutting, this system can also help to eliminate the risk of lung-related health problems.

Envirotile also provides excellent green credentials; attractive to homeowners and housing providers. The unique polymer design is made from over 75% recycled materials.

Other outdoor living products

In 2020 we also introduced a new range of stylish and contemporary composite hollow decking products.

Hollow decking is perfect for gardens and patios. Its recycled wood / polymer construction makes it more durable than timber, with added resistance to damage from the common threats to decking appearance, such as colour degradation. Concealed fixings give the product a neat, flawless finish, which can be quickly and easily installed.

Divisional Review

Profiles

The Profiles division manufactures extruded rigid and foam PVC profiles.

PROFILES HIGHLIGHTS

Market share

c.17%
(2015: c.12%)

Like-for-like[2] sales

↔Flat

New accounts

14 (2017-2020: 74)

Total accounts

c.400 fabricators

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

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

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

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

Profiles	**2020 £m**	2019 £m	Change %
Third-party Revenue	**99.7**	115.7	(14)
Inter-segmental Revenue	**56.4**	59.5	(5)
Total Revenue	**156.1**	175.2	(11)
Adjusted operating profit[1]	**7.9**	17.9	(56)
Operating (loss)/profit	**(1.0)**	17.9	n/a

1 Before non-underlying items.

Revenue

Profiles third-party revenue for the year was down 14% to £99.7 million (2019: £115.7 million). This is equivalent to a flat like-for-like sales performance as follows:

	H1	H2	Full Year
Profiles division like-for-like[2] sales growth	(14)%	11%	Flat

2 Like-for-like excludes acquisitions (none in either period) and is calculated by comparing average sales per trading day in 2020 (i.e. 212 days, excluding days closed) with average sales per trading day in 2019 (249 days).

H1 like-for-like sales down 14% reflects the impact of the first COVID-19 lockdown. However, sales increased progressively from re-opening, and like-for-like growth of 11% in H2 includes good contributions from trade fabricators, who are substantially focused on the RMI market. New build and commercial markets began the second half slowly, but run rates started to improve from September. Sales also include a very strong performance from Vista Panels, which finished the year 4% ahead of 2019 on a reported basis, driven by higher sales of composite doors to new build. Across the Profiles division, new build represents approximately 30% of sales.

Following the introduction of c.60 new accounts over the last three years, in 2020 we have selectively added a further 14 accounts (most in H2) and our prospect pipeline remains strong.

Operating profit

Adjusted operating profit for 2020 was £7.9 million (2019: £17.9 million), comprised of a loss in H1 and good profit growth in H2. The H1 loss reflects reduced sales volumes and the impact of operational gearing, and is stated net of support received under the Coronavirus Job Retention Scheme (c.£3.5 million), offset by an increase to the IFRS 9 impairment charge (bad debts) in respect of certain fabricator customers (£0.7 million). The profit in H2 represents good growth on H2 2019 and is driven by strong sales and good operating efficiencies.

The overall operating loss of £1.0 million (2019: profit of £17.9 million) is stated after non-underlying charges of £8.9 million, comprising the impairment of goodwill (£5.8 million), the impairment of right-of-use assets (£0.6 million), warehouse dual running costs (£2.3 million) and restructuring costs (£0.2 million). Further information on non-underlying charges is included in the Chief Financial Officer's Report.

Moving forward together

Use of recycled material attractive to house builders:

- 12.4k tonnes of recycled material used to extrude our rigid profiles.
- 36.0k tonnes of carbon saved compared to the use of virgin PVC.
- A house builder constructing 2,500 semi-detached houses will save around 500 tonnes of CO_2 equivalent per year by using Eurocell windows and cavity closures, compared to a competitor using full virgin PVC windows.

Building Plastics

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

BUILDING PLASTICS HIGHLIGHTS

Market share

24% (2015: 20%)

Like-for-like[3] sales

↑14%

New branches

4 (2017-2020: 51)

Total estate

208 branches

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

Distribution is through our national network of 208 branches to window and roofline installers, small and independent builders, house builders and nationwide maintenance companies. The business also sells roofline products to independent wholesalers.

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

Building Plastics	2020 £m	2019 £m	Change %
Third-party Revenue	**158.2**	163.4	(3)
Organic	**157.5**	162.9	(3)
Trimseal[1]	**0.7**	0.5	40
Inter-segmental Revenue	**1.3**	1.3	–
Total Revenue	**159.5**	164.7	(3)
Adjusted operating profit[2]	**4.0**	8.6	(53)
Operating Profit	**3.4**	8.6	(60)

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

Revenue

Building Plastics third-party revenue for the year was down 3% to £158.2 million (2019: £163.4 million). This is equivalent to like-for-like sales growth of 14% as follows:

	H1	H2	Full Year
Building Plastics division like-for-like[3] sales growth	3%	19%	14%

3 Like-for-like excludes acquisitions and new branches opened in 2019/20, and is calculated by comparing average sales per trading day in 2020 (i.e. 212 days, excluding days closed) with average sales per trading day in 2019 (249 days).

Like-for-like sales in H1 reflect the impact of the first COVID-19 lockdown. However, like-for-like growth of 19% for H2 includes a strong performance across our full range of own-manufactured products and traded goods, as well as a good start for the new outdoor living range.

In terms of new branches, we opened four sites in 2020 (2019: also four), of which three were the new large format store. Sales from this format (now five branches in total), continue to be encouraging. Branches opened in 2019/20 added £2.0 million to sales in 2020.

Two loss-making branches were closed during the year under the restructuring programme announced with our half-year results, with customers transferred to neighbouring locations. We now have a total of 208 branches providing national coverage across the UK.

Operating profit

Adjusted operating profit for 2020 was £4.0 million (2019: £8.6 million), comprised of a loss in H1 and strong profit growth in H2. The H1 loss reflects reduced sales volumes and the impact of operational gearing, and is stated net of support received, including the Coronavirus Job Retention Scheme (£3.0 million) and retail grants / business rates relief (£1.8 million), offset by an increase to the IFRS 9 impairment charge (bad debts) to reflect higher risk in the Building Plastics receivables book (£1.5 million). The profit in H2 represents excellent growth on H2 2019 and is driven by strong sales and good cost control.

Overall operating profit of £3.4 million (2019: £8.6 million) is stated after non-underlying costs of £0.6 million, comprising right-of-use asset impairment charges (£0.3 million) and restructuring costs (£0.3 million). Further information on non-underlying charges is included in the Chief Financial Officer's Report.

We plan to open up to 12 new sites in 2021, with the final number to be determined based on the economic environment and business performance, with up to six of these in the larger format. New branches are a driver of sales and profit growth in the medium term, but they can create downward pressure on profitability in the short term due to the investment in our teams at new sites and in supporting central infrastructure. However, our initiatives to reduce time to break-even have now driven this point below 24 months. We do not expect the branches to be opened in 2021 to have a meaningful impact on profit for the year.

Branch network

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

Average revenue per branch (£000)

Indicative branch economics (rounded)

Branch open	< 2 years	2–4 years	> 4 years
No. of Branches	15	50	143
Average Sales per Branch (£000)	380	480	700
Return on Sales per Branch (%)[1]	Small loss	Up to 10%	Mid-teen %

1 EBITDA as % of revenue, before regional infrastructure and central costs, and IFRS 16 adjustments.

One team operating A RESPONSIBLE BUSINESS

In operating a responsible business, our main areas of focus are governance, including ethics and business conduct, our people, their wellbeing and the environment in which they live and work, and finally working with others, both stakeholders and the community.

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

Minimising our environmental impact

Valuing our people

Working responsibly

Reporting Requirement	Policies and standards which govern our approach[1]	Information necessary to understand our business and its impact, policy, due diligence and outcomes.
Environmental matters	• Corporate Vision and Values • Corporate Social Responsibility Policy	• Environment **pp.38** • Investing in recycling **pp.40**
Employees	• Corporate Vision and Values • Corporate Social Responsibility Policy • Employee Handbook	• People **pp.44**
Respect for human rights	• Corporate Vision and Values • Corporate Social Responsibility Policy • Privacy Policy • Recruitment Policy • Anti-Slavery and Human Trafficking Policy • Anti-Bullying and Harassment Policy • Various information Security Policies • Whistleblowing Policy	• Equality and diversity **pp.46** • Modern slavery **pp.51**
Social matters	• Corporate Social Responsibility Policy	• Customers **pp.51** • Community **pp.50**
Anti-corruption and anti-bribery	• Corporate Social Responsibility Policy • Anti-bribery policy	• Whistleblowing and bribery **pp.84**
Description of principal risks and impact of business activity		• Risk Management **pp.56** • Principal risks and uncertainties **pp.57**
Description of the business model		• Overview **pp.6** • Our business model **pp.22**
Non-financial key performance indicators		• Operational Performance **pp.12**

1 Certain Group Policies and internal standards as guidelines are not published externally.

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

Minimising our ENVIRONMENTAL IMPACT

UK leader
Eurocell Recycle, is the largest UK-based recycler of PVC-U window and door profiles (by tonnes processed).

Accreditation
We are a member of VinylPlus, Recovinyl, British Plastics Federation (BPF) and Operation Clean Sweep - an industry-wide voluntary commitment to develop more ecologically responsible ways to produce, use and recycle PVC.

Our footprint
Since 2014, we have reduced total emissions by c.38%, along with a steady downward trend in emission intensity, as consumption has dropped through energy efficiency programmes whilst revenues have generally been increasing (source: Eurocell Greenhouse Gas Report, Inenco Group, February 2021).

Recognition
We have been proud winners of:
- the Future Manufacturing Awards - Sustainability 2018;
- the MRW Recycling Awards - Manufacturer of the Year 2018 and, more recently; and
- the National Fenestration Awards 2020 — Recycling Company of the Year.

We are committed to protecting and minimising our impact on the environment. Our policy is as follows:

- We recognise that our operations result in emissions and waste and we are committed to control, recover and reuse PVC waste wherever possible. We operate in compliance with all relevant environmental legislation and we strive to use pollution prevention and environmental best practice in all that we do. The company experienced no reportable environmental incidents during 2020.
- We promote the efficient use of all materials and resources throughout our facilities, particularly non-renewable resources, and continue our development of sustainably sourced products using recycled materials wherever possible.
- Environmental concerns and impacts are a consideration in all of our decision making and activities. We promote environmental awareness amongst our employees and encourage them to work in an environmentally responsible manner. This is achieved through training and education, informing our employees about environmental issues that may affect their work.
- Emergency response procedures are maintained where required by legislation or where significant health, safety or environmental hazards exist.
- Our general environmental objectives are set in alignment with legislation and are continually reviewed to ensure they are being met. Our environmental policies apply to all our operations and we make sure sufficient resources are made available to ensure that they are implemented. We strive to continually improve our environmental performance and review our policies regularly in the light of planned future activities.

In the following paragraphs we have described the key aspects of our environmental performance, including the recycling operation and greenhouse gas emission reduction.

Greenhouse Gas Emissions
We report our greenhouse gas ('GHG') emissions as part of our Strategic Report and our GHG reporting period is 1 October 2019 to 30 September 2020, with comparatives for the corresponding period in the previous year. Reliable reporting of GHG emissions on a calendar year basis is not possible due to difficulties in collating actual data for the final months of the year due to timing lags on supplier invoicing.

GHG emissions for the Group for the period ending 30 September 2020 in tonnes of carbon dioxide equivalent (tCO_2e) is as follows:

Source	2020	2019	Change
Fuel Combustion (stationary)	**274**	335	(18)%
Fuel Combustion (mobile)	**6,325**	7,910	(20)%
Facility operation	**104**	91	14%
Purchased electricity	**11,441**	16,061	(29)%
Total	**18,144**	24,397	(26)%

Total emissions decreased by 26% compared to the corresponding 2019 period. Although sales for the 2020 calendar year were down 8%, primarily as a result of impact of the first COVID-19-related lockdown, emissions from purchased electricity fell by 29%. This includes the impact of a significant reduction in emission intensity of 20% from UK grid electricity (see table below). Although there was a 14% increase in the emissions from the operation of facilities, in our case the fugitive emissions from the operation of refrigeration equipment, these accounted for less than 1% of the Group's total emissions.

Annual comparison and emissions intensity:

tCO_2e	**2020**	2019	Change
Total emissions	**18,144**	24,397	(26)%
Emission intensity[1]	**70**	87	(20)%

1 Expressed in tCO_2e per £m revenue.

This information was collected, calculated and reported in line with the methodology set out in the UK Government's Environmental Reporting Guidelines, 2019 (PB 13944). Emissions have been calculated using the 2020 conversion factors provided by Department of Business, Energy and Industrial Strategy.

Electricity consumption (66% of 2020 emissions)

We continue to encourage behavioural changes to reduce consumption levels, to be less wasteful and drive operational efficiencies, including reducing idle time and optimising temperatures on extrusion lines and chillers. We will also investigate LED lighting in 2021.

Operation Clean Sweep®

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

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

Pollution prevention and waste management

In 2020 we took our first steps towards increasing recycling rates for operational waste streams and move towards a 'zero to landfill' approach. This will be a key area of focus for 2021.

We continue to encourage the use of electric/hybrid vehicles by our colleagues when the lease term on current vehicles expire. In 2020 we installed 6 vehicle charging points across the Group.

An extended trial was conducted in 12 Eurocell branches during the year to encourage recycling of PVC-U waste products by our branch customers. Waste bins sited at the branch allow customers to deposit PVC-u waste for return to our recycling plants. In addition to the environmental benefits and increase in recycling rates, the scheme reduces the burden on our customers and provides them with a simple, easily-accessible disposal route.

INVESTING IN RECYCLING

Recycling sits at the very heart of our operations and we are proud to be the leading recycler of PVC windows in the UK.

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

What we do

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

We have two recycling plants, which are located in Ilkeston (Eurocell Recycle Midlands) and Selby (Eurocell Recycle North).

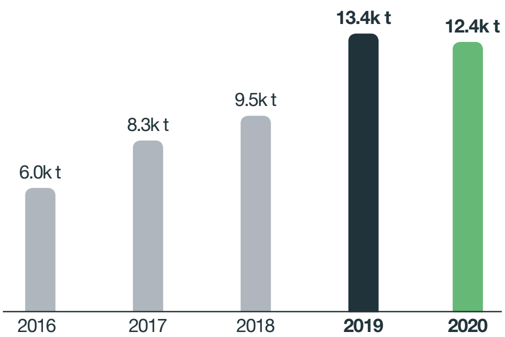
Both sites operate under IPPC permit conditions and both successfully retained their permitted status. The environmental management systems and manuals forming the basis of our ISO14001 accreditations continue to evolve, with particular progress being made at Eurocell Recycle North. All accreditations were successfully maintained in 2020.

How much we recycle

The first half of 2020 was dominated by the impact of the first lockdown, with both recycling sites temporarily closed from late March until early June (Eurocell Recycling Midlands) and early July (Eurocell Recycling North).

Nevertheless, during the year our two sites recycled 27.0k tonnes (equivalent to c.3 million frames) of post-consumer waste, which would have otherwise been sent to landfill, and 6.7k tonnes of post-industrial waste. Together the two sites used this waste to produce 21.1k tonnes of recycled material.

Use of recycled PVC in Eurocell manufacturing



Of the recycled material produced, 12.4k tonnes (generated predominately from post-consumer waste) was used alongside virgin resin in the manufacture of many of our PVC rigid profiles, representing c.25% of total raw material consumption.

The remaining 8.7k tonnes of recycled material produced is used either in products which are manufactured from 100% recycled material, including thermal inserts and cavity closer systems (which are almost exclusively derived from post-industrial waste), or sold to a range of trade extruders.

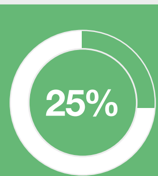
We were pleased to see that the average yield in our recycling plants improved from 60% in 2019 to 63% in 2020, reflecting the benefit of our recent investments. In addition, we have learned to use more of the coloured products and smaller particle sizes, resulting in a reduction in waste sent to landfill.

k tonnes	2020	2019	Change	Change %
Inputs – waste recycled				
Post-consumer	27.0	31.4	(4.4)	(14)%
Post-industrial	6.7	9.9	(3.2)	(32)%
	33.7	41.3	(7.6)	(18)%
Output – recycled material produced	**21.1**	**24.9**	**(3.8)**	**(15)%**
Yield %	**63%**	**60%**	**3%**	**5%**
Usage				
Primary extrusion	**12.4**	**13.4**	**(1.0)**	**(7)%**
Products made from 100% recycled material	4.3	6.7	(2.4)	(36)%
Sales to trade extruders	3.4	5.1	(1.7)	(34)%
	20.1	**25.2**	**(5.1)**	**(20)%**
Primary extrusion usage as % of total consumption	**25%**	**23%**		

Strong on sustainability

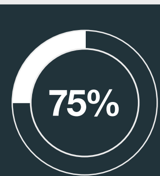
Eurocell continues to consume a significant proportion of recycled plastic in its windows and doors

LESS IS MORE



Recycled

Proportion of recycled plastic consumption



Virgin

Proportion of virgin compound consumption

How much we invest

Between 2016 and 2020, we invested c.£6 million to expand our Eurocell Recycle Midlands site, to increase output and improve reliability, including new co-extrusion and other tooling to support the increased usage of recyclate on key product lines.

We acquired Eurocell Recycle North in August 2018 for a consideration of £6 million (including debt assumed). As expected, investment was required to improve the operating environment and reliability of the plant, to eliminate bottlenecks from production processes and to expand capacity. Total investment post-acquisition is c.£4 million.

As a result of these investments, our use of recycled material in primary extrusion increased from 4.1k tonnes in 2015 (or 9% of materials consumed) to 13.4k tonnes in 2019 (23% of consumption) and 12.4k tonnes in 2020 (or 25% of consumption), with volumes in the latter reduced by the impact of COVID. Our total output of recycled material, including that used in products made from 100% recycled material or sold to trade extruders, increased from 11.6k tonnes in 2016 to 21.1k tonnes in 2020.

As well as driving a substantial cost saving, as described in Strategy in Action on pages 28 and 29, we estimate that our recycling operation saved approximately 36k tonnes of carbon in 2020 (2019: 42k tonnes), compared to the use of virgin PVC.

HOW WE RECYCLE

Our Eurocell Recycle 9-step factory process:

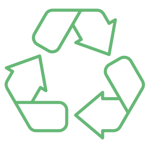
9 Extrude finished products
The loop is closed as we manufacture the PVC-U into new products, frequently to higher specification than those being recycled. Such ‘upcycling’ is key to being a sustainable part of the Circular Economy.

8 Bulk transportation
A proportion of the recycled material is used onsite, whilst the rest is transported in tankers to our main extrusion facility, minimising our carbon footprint.

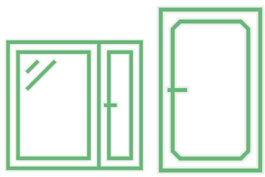
7 Pelletisation / Pulverisation
The PVC-U granules are processed into finished material ready for extrusion.

6 Washing
Using a series of water tanks, contaminants are ‘floated’ out.

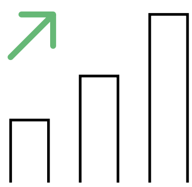
5 Colour sorting
An advanced process utilising high speed cameras, ultra-violet light and jets of air filters out the granules of rubber leaving only clean, colour sorted PVC-U.



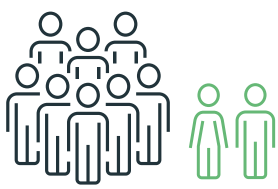
c.3 million
end-of-first life frames recycled in 2020



9
Manufactured product ranges from recycled PVC-U



82%
Increase in recycled material produced since 2016



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

1
Waste collection
Waste is taken from 3 sources:
- Post-consumer windows
- Fabricator off-cuts
- Bar length

2
Shredding
Waste is shredded into processable pieces.

3
Separation
Using magnetic processes, metals are separated from the rest of the waste and recycled separately.

4
Granulation
The waste is granulated into uniform size. At this stage rubber gaskets are still present.

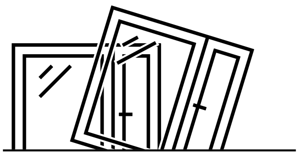
BENEFITS OF EUROCELL RECYCLING

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

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

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

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



c.58k

Windows recycled per week, on average, during 2020

Valuing OUR PEOPLE

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

Our people and their response to COVID-19

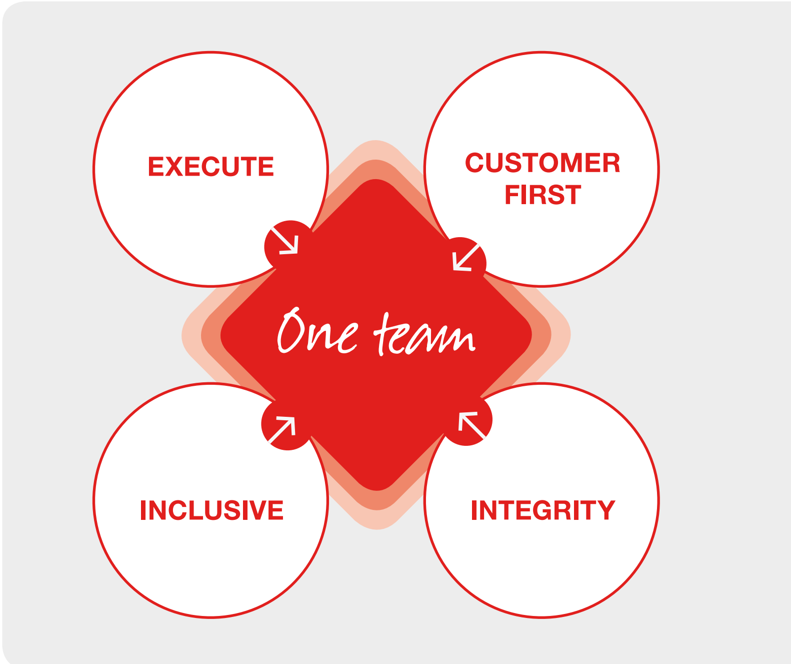
Our response to COVID-19 is set out in full on pages 16 and 21. The Eurocell team rose to the challenges posed by the pandemic, with our teams across Group working together to keep each other, our customers and suppliers safe during this challenging period.

For our operational and branch teams, where jobs require colleagues to be on-site, we implemented a comprehensive range of COVID safety measures to support our continued production and trading. We also provided the required equipment and support for our back office colleagues to work from home wherever possible.

Our Safety, Health, Environment and Quality (SHEQ) and Human Resources teams have worked hard on employee communications, ensuring we reach out regularly to our c.2,000 colleagues, to keep them informed and up to date with the ongoing changes to safety measures and on our business performance.

Communications included the introduction of short awareness videos delivered on-line, and regular updates from our Chief Executive Officer.

We also increased in our communications on health and wellbeing. For example, in May we ran a successful campaign during Mental Health awareness week and promoted our Employee Assistance Programme (EAP) for those who need more specialised help beyond that provided in-house through our management teams and Human Resources business partners.



Resourcing and recruitment

Despite the challenges of 2020, we have continued to develop our resourcing systems to ensure that we attract the best people into our business as vacancies arise and provide a better candidate experience. Our commitment to internal development also continues to be a vital component of our people plan, as we work to ensure people are in the right jobs at the right time with the right training.

During the second half of the year, we successfully transferred c.140 agency workers into fixed term or permanent contracted positions, giving those individuals stability in a time of great upheaval and ensuring the business had the capacity to fulfil orders during a very busy period.

Eurocell's recruitment policy ensures that full and fair consideration is given to all applicants based purely on their aptitude and ability and irrespective of any declared disability. For employees who become disabled and declare this to us, we have mechanisms in place through occupational health providers to support new ways of working where this is desirable by the individual and possible with reasonable adjustment and training in the workplace.

Apprenticeships KICKSTART SCHEME gov.uk/kickstart

Talent pipelines through the Apprenticeships and Kickstart schemes

We were pleased that we were able to support our Apprentices throughout the upheaval and uncertainty of 2020. Our 'Trade Supplier' apprentice programme continued throughout lockdown, with virtual meetings and online support from the tutors. We expect this group of apprentices to complete their qualification on time in 2021.

We have continued to support the recruitment of new apprentices and the transition of existing employees into apprenticeship programmes in 2020, with c.12 appointments spanning finance, procurement, administration and manufacturing roles.

Eurocell is also delighted to be part of the Government's new Kickstart scheme and we were granted funding for 69 new roles which we will recruit in Q1 2021.

These initiatives are vital to our philosophy of talent development and internal growth and we look forward to supporting all of our young apprentices in 2021.

Performance and Development Review ('PDR')

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

Following the launch of the new PDR process and tools in 2019, we made steady progress in 2020 and began to embed this new approach to performance management. We have focused particularly on our branch network, where the large number of small sites presents a unique challenge in this area, The senior management team are working hard at ensuring our people are clear about the expectations of their role, their behavioural competencies in line with company values and in identifying development needs.

Plans are in place to introduce this new approach and PDR process across the rest of the business in 2021 to help engage all colleagues in their work and the part they play in Eurocell's overall success.

Incentives and rewards

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

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

The incentive and reward framework for our sales force in our branches was revised in 2020, enabling a clearer line of sight between company targets and individual reward.

Also during the year, the Group's inaugural Save As You Earn (SAYE) scheme , launched in 2017, reached its maturity with gains made by all participants and increased share-ownership by our colleagues. We intend to continue to launch SAYE schemes on an annual basis.

The Eurxtras platform continues to operate as a communication tool and provide a range of savings and special offers to employees. Through the pandemic, and particularly whilst the business was closed during the UK's first lockdown, when a high number of our colleagues were furloughed, we took particular care to ensure employees were made well aware of everything they were entitled to.

Learning and development

We are committed to continuously improving the availability and quality of training and development for employees at all levels across the Group.

During 2020, in light of the COVID restrictions, we stepped up the use of video and online training to ensure our compliance and induction training continued.

During the latter months of the year, our programme focused on training our warehouse colleagues in new manual handling equipment and new ways of working at the new site. Our external partners have been pivotal to this hands-on training rollout and we are very grateful for their support.

We continue to embed the use of our Learning Management System, particularly within the branches, using on-line tools to continue with compliance and product training at pace across the whole of the network, without the need for physical meetings.

Diverse and inclusive culture

In line with our Company Values, we continue to enhance our policies, procedures and associated management training to further develop a culture of diversity and inclusiveness at Eurocell.

The recruitment platform and processes we introduced in 2020 ensure that our equality and diversity standards are transparent and this enables us to make decisions without bias or discrimination.

We provide specific support for specific groups and individuals throughout our business, including the provision of free English and Maths tuition for non-English speakers, access to improved Occupational Health support, mental wellbeing support and a free Employee Assistance Programme. We have stepped up our communication in a variety of methods this year to enable our people to access what they need in order to feel supported and included, whatever their background or needs.

Our objective is to make Eurocell an employer of choice across the UK. We have actively embedded our values and behavioural standards into the new PDR process described above. We are now planning the rollout of a new and complementary talent development review process, a new leadership development programme and a consistent corporate induction programme for 2021. We aim to ensure that all our employees feel included in our successes and reach their potential, whatever their current capabilities or background.

We recognise the benefits of encouraging diversity across the business and believe that this will contribute to our continued success. All appointments are made based on merit and are measured against specific objective criteria, including the skills and experience needed for the position. We remain committed to increasing the participation of women throughout the Group while recognising we operate in a historically male-dominated industry.

Gender analysis	Male no.	%	Female no.	%	Total average no.
Directors	5	83%	1	17%	6
Executive Committee	5	100%	–	–	5
Other senior management	30	71%	12	29%	42
Senior management	**40**	**75%**	**13**	**25%**	**53**
Other employees	1,657	88%	235	12%	1,892
Total	**1,697**	**87%**	**248**	**13%**	**1,945**

New policies and procedures

The health and wellbeing of our colleagues is of the upmost importance to us. We have continued to review and develop our company policies and procedures in this area to reflect our evolving business and the environment in which we operate. These revised policies provide our people with the help, support and guidance on all employee related issues. For example, during 2020 we have significantly increased our occupational health provision. We also introduced an improved 'Managing Absence' policy to support our health and wellbeing plans.

Health and safety

We employ over 2,000 people and the safety and the well-being of these employees and our contractors is our first operational priority.

	2020	2019
Injury frequency rate[1]	**3.6**	4.8
Lost time injury frequency rate[2]	**0.7**	0.9

1 Injuries per 100,000 hours worked.
2 Lost time accidents per 100,000 hours worked.

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

The generally positive trend in incident-related performance, established through 2018 and 2019, continued through 2020 with significant reductions in both of our two primary incident rate measures.

Lost Time Injury Frequency Rate (LTIFR) decreased by 22% to 0.7 lost time incidents per 100,000 hours worked, while Injury Frequency Rate for all incidents fell by 25% to 3.6 injuries per 100,000 hours worked although the number of RIDDOR-reportable injuries rose slightly to a total of 19 across the Group (2019: 17), all of which were classified as minor.

As a result, further accident reduction targets have been set, as part of a suite of linked KPIs for 2021, supported by a new, more robust, incident investigation process which is currently being trialled for full introduction across the Group. This will provide a greater degree of structure and guidance to lead operational management teams towards more thorough investigation and the identification of more effective countermeasures.

Recent changes to the structure and approach of the Health and Safety team will allow closer and more collaborative working relationships with operational management teams. This change, along with the scheduled improvement programmes, should see an acceleration in the rate of improvement and bring further confidence in our ability to effectively control our risks.

During the year, our two profile manufacturing sites achieved successful transition from OHSAS18001 to the new ISO45001 health and safety management standard, thereby demonstrating the Company's commitment to the protection of our employees, partners and customers.

Our ability to monitor performance and identify potential areas of weakness continues to evolve. Using smart phone technology, audit records are stored online and can be used to generate analysis which can be used to quickly and easily identify trends and areas of strength or weakness.

Programmes for improving workplace standards and reducing injury potential have also continued across our businesses.

For example, Vista Panels invested further in the provision of bespoke racks and trolleys to ensure that large, bulky and heavy composite doors and other products can be stored and transported safely, significantly reducing manual handling risks.

A major yard clean-up operation carried out at our two recycling plants to remove unusable waste, reduce the number of waste skips, clean up spillages and dig out overgrown vegetation has resulted in a reduction in injury risk, the generation of more useable operational space and the creation of a significantly-improved visual impression of the sites.

Finally, good progress has been made with regard to the sharing of safety performance information with the introduction of the Eurocell Safety Wall at our extrusion facility. The wall draws together various information sources and creates a focal point around which powerful safety conversations can be held.

WORKING TOGETHER THROUGH HARD TIMES

Despite the challenges posed by COVID-19, our colleagues achieved some great successes in 2020.

Award winners

Eurocell won two awards at the National Fenestration Awards 2020:

- Recycling Company of the Year; and
- Trade Counter of the Year.

We were also awarded second place in the Conservatory Roof Manufacturer category.

These independent awards, which recognise the best in our sector, highlight our strong sustainability credentials as well as the commitment and dedication of our teams.

"We are extremely honoured that the hard work of our teams has been recognised by the industry. After such a difficult year, we are delighted to have received two awards at the National Fenestration Awards 2020."

Andy McDonnell
Managing Director, Eurocell Building Plastics

Apprenticeship schemes

Early in 2020, working in collaboration with Interserve, we launched a new and exciting apprenticeship scheme: the 'Trade Supplier Development Programme'. The scheme provides our branch colleagues with the opportunity to achieve a Level 2 Trade Supplier qualification. 26 of our Trade Counter colleagues successfully passed the selection process and were enrolled in the scheme.

The programme continued on track throughout the year, despite the disruption caused by COVID, with the branch network temporarily closed for a period in Q2, and the very strong demand experienced in the business during H2. Training was delivered on-line and using virtual meetings. We expect a good proportion of the group to complete their apprenticeship and graduate in 2021 as planned.

"We prioritised working with Interserve to deliver the Trade Supplier Development Programme in 2020, demonstrating our on-going commitment to invest in our people at all levels right across the business."

Bruce Stephen
Group Human Resources Director

New Head Office fit-out

The project to fit out our new 260,000 square feet warehouse is described in full on pages 26 and 27.

The major components of this project have been the installation of mobile cantilever racking, the use of mobile platforms for put-away and picking processes and the implementation of IT systems to facilitate efficient operations. However, the project also included the fit-out of our new Head Office and welfare facilities, covering four floors and over 25,000sq.ft. of office and work space.

The office fit-out work, which began at the height of the first COVID lockdown, was completed by our own in-house property team. This group is responsible for our branch development work, including the fit-out of new branches and the refurbishment of older sites. This year they also installed the infrastructure for COVID-safe branch operations, including safety screens for our trade counters.

The Head Office work was completed successfully on time and within budget, despite the very challenging conditions. In order to comply with the new COVID-19 guidelines and legislation, the team lived on site, staying away from their homes and family for several weeks at a time.

"The in-house team did a fantastic job on the new Head Office – we now have modern, flexible workspace for our teams to enjoy. I would like to thank them for the sacrifices they made in order to get the job done during such a challenging period."

Mark Hemming
Chief Operating Officer

Working RESPONSIBLY

Community and charity

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

Children in hospital

Our staff donated Christmas presents to children spending the festive period in 2 local hospitals.

National Health Service

S&S Plastics recommenced operations in April (while the rest of the Eurocell Group still remained closed) to specifically produce components urgently needed by the NHS for:

- Critical power supply and distribution – used in the NHS Nightingale hospitals; and
- Oxygenators – used in some circumstances for the treatment of COVID-19 patients.

NHS

Physical and mental health

We sponsored the team strips at a local basketball club, run by a long-serving Eurocell colleague, providing opportunities for both adults and children to improve both their physical and mental health.

Childhood literacy

We donated to Stoneydelf Primary School, Tamworth to purchase books as part of the restoration of their school library, to help the children improve literacy and support staff and parents in a challenging environment.

Local community

We donated external cladding to Easthouses Lily Miners Welfare Football Club to help them renovate their facilities which form an important part of the local community.

Living with cancer

We donated to Macmillan Nurses to support the invaluable work they do with people living with cancer, especially where treatment has not been able to progress due to the impact of COVID-19.

MACMILLAN CANCER SUPPORT
RIGHT THERE WITH YOU

Customers

Service levels

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

Quality Policy Statement

Customers

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

Quality

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

Constant improvement

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

Everyone's responsibility

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

Sustainable and quality products

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

Suppliers

Ethical and sustainable sourcing

We strive to develop and maintain supplier relationships which are ethical, sustainable and responsible, forming the basis of our commitment to responsible sourcing. In addition, we have established supplier pre-appointment checks to evaluate the environmental and humanitarian impact of our products and supply chain.

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

We have a loyal supplier base, of which a significant majority have been suppliers to Eurocell for several years. All supply and tender agreements include the following statement:

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

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

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

Modern slavery

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

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

Our full Anti-Slavery and Human Trafficking Statement is published on our website at investors.eurocell.co.uk.

Government

Taxation

Fair Tax

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

Since August 2019, we have been certified as an accredited Fair Tax Mark business, following successful assessments against the Fair Tax Mark criteria.

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

Chief Financial Officer's Report

Well positioned FOR 2021

“

The actions we took at the outset of the pandemic secured our financial position. We have a strong balance sheet and significant headroom on our bank facility, providing flexibility and options for the future.

Michael Scott
Chief Financial Officer

COVID-19

Our financial performance in 2020 reflects the major impact of COVID-19 on the business in the first half, followed by a strong recovery in H2, when the RMI market was better than we had anticipated. The decisive actions we took at the outset of the pandemic and subsequently to control costs, preserve cash and improve liquidity, secured our financial position. This continued focus, combined with an excellent operational and financial performance in H2, ensured the business is now ready to capitalise on opportunities as markets develop.

Revenue

Revenue for 2020 was down 8% to £257.9 million (2019: £279.1 million), comprised of H1 sales down 31%, reflecting the temporary closure from late March to mid-May, and a strong second half, with sales up 15% compared to H2 2019. This is equivalent to like-for-like sales growth of 6% for the year as follows:

	H1	H2	Full Year
Group like-for-like[1] sales growth	(4)%	16%	6%

1 Like-for-like excludes acquisitions and new branches opened in 2019/20, and is calculated by comparing average sales per trading day in 2020 (i.e. 212 days, excluding days closed) with average sales per trading day in 2019 (249 days).

Gross margin

Overall, our gross margin for the year was down 180 basis points to 49.4%. The margin was lower in H1 at 46.8%, reflecting reduced production volumes and therefore a lower recovery of direct costs. It improved to 50.9% in H2, as volumes and operating efficiencies increased. Gross margin for the year also includes an increase to the stock provision, following a range rationalisation to eliminate some of the least profitable and least popular products.

PVC resin prices began to increase towards the end of 2020 and this trend has continued into the new year. We are therefore implementing selling price increases, starting in February 2021, to recover this and other cost inflation.

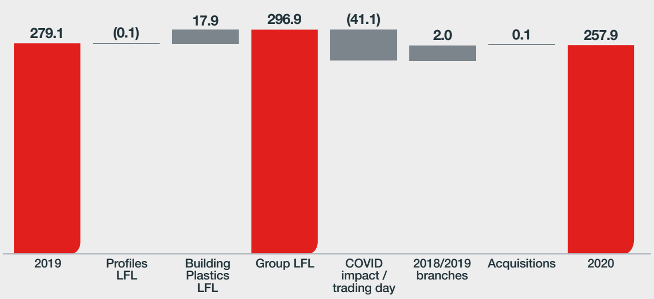
Distribution costs and administrative expenses (overheads)

Underlying overheads were £93.9 million compared to £99.0 million in 2019, a decrease of £5.1 million. The decrease includes COVID-related UK Government support of £8.3 million, comprising receipts under the Job Retention Scheme of £6.5 million (substantially H1), retail grants of £0.7 million (all H1) and retail rates relief of £1.1 million.

Group	2020 £m	2019 £m
Revenue	**257.9**	279.1
Gross profit	**127.4**	142.9
Gross margin %	**49.4%**	51.2%
Overheads	**(93.9)**	(99.0)
IFRS 9 impairments and bad debt charges	**(3.7)**	(1.5)
Adjusted[1] EBITDA	**29.8**	42.4
Depreciation and amortisation	**(19.5)**	(17.8)
Adjusted[1] operating profit	**10.3**	24.6
Finance costs	**(1.8)**	(1.9)
Adjusted[1] profit before tax	**8.5**	22.7
Tax	**(1.5)**	(3.4)
Adjusted[1] profit after tax	**7.0**	19.3
Adjusted[1] basic EPS (pence per share)	**6.5**	19.3
Non-underlying items	**(10.0)**	—
Tax on non-underlying items	**0.8**	—
Reported operating profit	**0.7**	24.6
Reported (loss)/profit before tax	**(1.5)**	22.7
Reported basic (loss)/profit after tax	**(2.2)**	19.3
Reported basic (losses)/earnings per share (pence)	**(2.0)**	19.3

1 See adjusted performance measures.

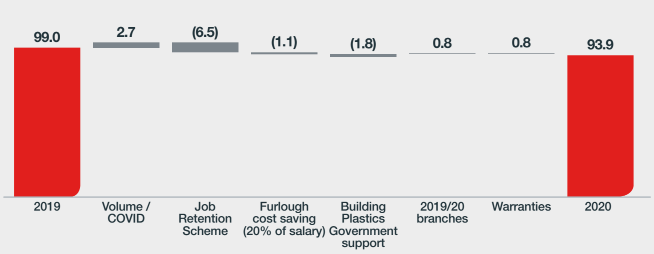
Revenue (£m)



1 Like-for-like sales up 6%.

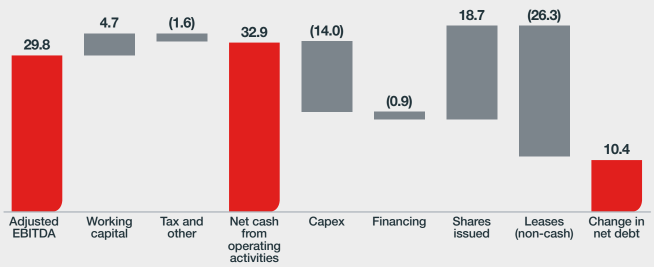
Gross profit (£m)

Overheads[2] (£m)



2 Distribution costs and administration expenses.

Cashflow (£m)



IFRS 9 impairments and bad debt charges

Our sector closed down abruptly in March, and consequently receipts from customers fell sharply in Q2. At the half year end, the sales ledger ageing profile for several accounts had deteriorated significantly compared to the pre-COVID period, and a number of customers were finding it difficult to bring their accounts into terms. We therefore assessed the level of credit risk to have increased materially as a direct impact of COVID and, as a result, IFRS 9 impairment charges of c.£3.5 million were reflected in the income statement for H1.

Whilst cash receipts from customers improved in H2, given current levels of uncertainty, we do not believe credit risk has changed materially, particularly given the prevailing uncertainty surrounding the timing and extent of the easing of COVID restrictions, and therefore the bad debt provision at 31 December 2020 remains at a similar level to the half year end.

Depreciation and amortisation

Depreciation and amortisation was £19.5 million on an underlying basis, and £20.8 million in total (2019: £17.8 million).

Adjusted performance measures

Alternative performance measures are used 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.

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.

Pre-IFRS 16 EBITDA is stated inclusive of operating lease rentals under IAS 17 Leases. Pre-IFRS 16 net debt is defined as total borrowings and lease liabilities less cash and cash equivalents, excluding the impact of IFRS 16 Leases.

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

Non-underlying items

Non-underlying items for 2020 of £10.0 million includes a non-cash goodwill impairment charge of £5.8 million, right-of use asset impairment charges of £0.9 million, restructuring costs of £0.6 million and warehouse dual-running costs of £2.7 million. The warehouse dual-running costs include £1.3 million right-of-use asset depreciation charges and £0.4 million of lease finance costs. No non-underlying items were recognised in 2019.

The non-cash goodwill impairment charge of £5.8 million relates to Eurocell Recycle North. This arises because, as a result of the pandemic, the increase in production volumes (and therefore profitability) of the site is now expected to occur later than previously planned and because of reduced demand in the short-term, as well as lower selling prices for recycled material at the time of the impairment test. However, the business is now running much closer to its capacity, and we expect to make further progress in 2021.

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

Finance costs and taxation

Finance costs for 2020 are £1.8m on an underlying basis, and £2.2 million in total (2019: £1.9 million), with £0.4 million of IFRS 16 lease interest classified as non-underlying as it relates to warehouse dual-running costs (see Non-underlying items).

The tax charge for 2020 was £1.5 million on an underlying basis and £0.7 million in total (2019: £3.4 million). The effective tax rate on underlying profit before tax for 2020 of 17.6% is lower than the standard corporation tax rate due to the benefit of Patent Box relief, partially offset by the impact of a change in the deferred tax rate from 17% to 19% (which follows cancellation of a reduction in the standard corporation tax rate, which had been due to come into effect during the year).

The effective tax rate on non-underlying items is 7.0% due to the £5.8 million goodwill impairment charge being non-deductible for tax purposes.

We were pleased to retain the Fair Tax Mark accreditation in 2020, reflecting our commitment to paying the right amount of tax at the right time.

(Loss)/profit before tax and (losses)/earnings per share

The adjusted profit before tax for the year was £8.5 million (2019: £22.7 million), comprised of a loss in H1, reflecting lower sales volumes and the impact of operational gearing, and a profit in the second half well up on H2 2019, driven by strong sales and good operating efficiencies.

The reported loss before tax for the year was £1.5 million (2019: profit of £22.7 million).

Adjusted basic earnings per share for the year were 6.5 pence (2019: 19.3 pence). Reported basic losses per share for the year were 2.0 pence (2019: earnings per share of 19.3 pence). As a loss was recorded for the period, share options are not considered to have a dilutive effect.

Dividends

Due to the impact of COVID-19, the dividend declared in March 2020 was subsequently cancelled and no dividends will be paid in respect of 2020. However, it remains our intention to return to paying dividends in 2021.

Retained earnings as at 31 December 2020 were £65.5 million (2019: £67.1 million). The Company takes steps to ensure distributable reserves are maintained at an appropriate level through intra-Group dividend flows.

Capital expenditure

Capital expenditure for 2020 was £13.7 million (2019: £15.2 million). 2020 investment in the new warehouse was £8.0 million, which includes some extra costs incurred to implement COVID-19 protection measures and support social distancing. We expect further capital expenditure of c.£1 million in 2021 to complete the project. Other capital expenditure in 2020 of £5.7 million includes new / refurbished branches, IT and maintenance capex.

Cash flow

Cash flow and working capital management has continued to be a key priority for the business. The measures taken in 2020 to improve our cash position have been effective and we now have significant headroom on our bank facility. Notwithstanding the current level of uncertainty and credit risk, cash receipts from customers were good throughout the second half and, as at 31 December 2020, substantially all our suppliers and landlords had been paid in accordance with terms. We are also up to date with all VAT, corporation tax and other tax payments.

Net cash generated from operating activities was £32.9 million (2019: £26.4 million).

Effective cash flow management resulted in a net inflow from working capital for 2020 of £4.7 million, comprising an increase in stocks of £0.8 million, a decrease in trade and other receivables of £2.4 million and an increase in trade and other payables of £3.1 million. This compares to a net outflow from working capital of £13.0 million in 2019.

Other items include payments for capital investments of £14.0 million, including a December 2019 capital creditor of £0.3 million (2019: £16.3 million) and financing costs paid of £0.7 million (2019: £0.9 million). Tax paid in the year was £1.0 million (2019: £2.6 million). No dividends were paid in 2020.

In April we completed a share placing, with the net proceeds of £17.1 million to be used to ensure we retain headroom on our bank facility, even under an extended shut-down, and to provide sufficient liquidity to continue investment in the new warehouse. A further £1.6 million of cash proceeds were received during the year from employees in respect of vested Save As You Earn share options, which were settled via the issue of new shares.

The principal elements of lease payments of £10.7 million (2019: £9.8 million) are presented within cash flows arising from financing activities. The finance elements of lease payments were £1.3 million (2019: £0.9 million).

Net debt

Net debt on a pre-IFRS 16 basis at 31 December 2020 was £9.9 million (31 December 2019: £34.6 million).

Lease liabilities increased by £14.3 million, which includes £17.2 million for the new warehouse, offset by payments and other items of £2.9 million. Reported net debt at 31 December 2020 was £58.3 million (31 December 2019: £68.7 million).

	2020 £m	2019 £m	Change £m
Cash	**2.6**	4.9	(2.3)
Borrowings	**(12.5)**	(39.5)	27.0
Net debt (pre-IFRS 16)	**(9.9)**	(34.6)	(24.7)
Lease liabilities	**(48.4)**	(34.1)	(14.3)
Net debt (reported)	**(58.3)**	(68.7)	10.4

Bank facility

We have an unsecured revolving credit facility which matures in 2023. The facility was increased by £15 million up to £75 million in March 2020, in order to provide additional flexibility and options for the future. There were no changes to pricing or key terms as a result of the uplift. However, we were very pleased to convert the facility into a Sustainable RCF, where modest adjustments to the margin will be applied based on our achievement against annual recycling targets. We operate comfortably within the terms of the facility and in compliance with our financial covenants, which are measured on a pre-IFRS 16 basis.

Michael Scott
Chief Financial Officer

Risk MANAGEMENT

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

Approach to Risk Management

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

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

Risk Management Process

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

How we manage risk

Risk is managed across the Group in the following ways:

- The Board meets annually to review strategy and set the risk appetite.
- Risks faced by the Group are identified during the formulation of the annual business plan and budget process, which sets objectives and agrees initiatives to achieve the Group's goals, taking account of the risk appetite set by the Board.
- Senior management and risk owners consider the root cause of each risk and assess the impact and likelihood of it materialising. The analysis is documented in a risk register, which identifies the level of severity and probability, ownership and mitigation measures, as well as any proposed further actions (and timescale for completion) for each significant risk.
- The Group has an executive Risk Management Committee, chaired by the Chief Financial Officer. This Committee meets on a regular basis. The status of the most significant risks and mitigations are reviewed at each meeting, with other risks reviewed on a cyclical basis.
- The Executive Directors also meet with senior managers on a regular basis throughout the year. This allows the Executive Directors to ensure that they maintain visibility over the material aspects of strategic, financial and other risks.
- The Group's Audit and Risk Committee assists the Board in assessing and monitoring risk management across the Group. The role of the Committee includes ensuring the timely identification and robust management of inherent and emerging risks, by reviewing the suitability and effectiveness of risk management processes and controls. The Committee also reviews the risk register to ensure net risk and proposed further actions are together consistent with the risk appetite set by the Board.
- See also Impact of COVID-19 on page 58.

Principal risks

Each of the principal risks set out below includes an assessment of the impact of COVID-19 where appropriate (and therefore COVID is not included as a separate risk).

01 Macroeconomic conditions

02 Cyber security

03 Regulatory risks, including health & safety

04 Raw material supply

05 Raw material and traded goods pricing

06 Customer credit risk

07 Sustainability

08 Manufacturing capacity constraints

09 Warehousing and distribution capacity constraints

10 Unplanned plant downtime

11 Ability to attract and retain key personnel and highly skilled individuals

12 Shortages or increased costs of appropriately skilled labour

13 Failure to develop new products

14 Competitor activity

15 Failure to identify, complete and integrate bolt-on acquisitions

16 Digital and IT system development

Internal control

The Group has well-defined systems of internal control.

The Group has a robust process of financial planning and monitoring, which incorporates Board approval of operating and capital expenditure budgets. Performance against the budget is subsequently monitored and reported to the Board on a monthly basis. The Board also monitors overall performance against operating, safety and other targets set at the start of the year.

Performance is reported formally to shareholders through the publication of results both annually and half-yearly. Operational management regularly reports on performance to the Executive Directors.

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

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

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

Impact of COVID-19

As described in the Corporate Governance Statement on page 66, in response to the COVID-19 pandemic, the Board increased its activity with respect to the Company, in order to support the Executive team and properly discharge its governance responsibilities. Since the onset of the first lockdown, more regular and frequent virtual Board update meetings have been held, on a weekly basis at certain times, to consider emerging risks, discuss financial and operational matters and monitor performance against revised targets.

In addition, with the Group's finance and administrative teams working substantially from home during the period, controls related to the processing of cash payments and receipts were enhanced during lockdown periods (e.g. higher levels of approval required for transactions over certain limits). More generally, the Group's IT team have remained particularly vigilant and alive to cyber risks during this period and we continue to invest in our cyber security.

In conclusion, with the assistance of the Audit and Risk Committee, the Board has reviewed the effectiveness of the system of internal control, taking into account the impact of COVID-19. Following its review, the Board determined that it was not aware of any significant deficiency or material weakness in the system of internal control.

Risk profile

The principal risks monitored by the Board are as follows:

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
MACROECONOMIC CONDITIONS Our products are used in the residential and commercial building and construction markets, both within the RMI sector, for new residential housing developments and for new construction projects. Our private RMI business is strongly correlated to the level of household disposable incomes. Our new-build business is particularly influenced by the level of activity in the house-building industry. As such, our business and ability to fund ongoing operations is dependent on the level of activity and market demand in these sectors, itself often a function of general economic conditions (including interest rates and inflation) in the UK. Government economic and social policy can also have a significant impact on our business.		• Notwithstanding macro conditions, we expect our strategic priorities and self-help initiatives to support sales and profit growth and drive good cash conversion. • Initiatives include: growing market share, expanding the branch network, delivering sustained operational excellence and increasing recycling. • Actions taken in response to the COVID-19 pandemic have secured our financial position. • We operate comfortably within the terms of our bank facility and related financial covenants.	• The UK economy is experiencing a severe downturn due to the ongoing impact of the COVID-19 pandemic. • Now that key aspects of the UK's trading relationship with the EU have been defined, and the first two months of 2021 have passed without significant interruption to raw material imports for our business, Brexit related uncertainty has reduced. The medium-term impact of Brexit on the UK economy remains unclear. • CPA now forecast the private housing RMI market to grow 14% in 2021 (after a 14% decline in 2020). • The UK is also experiencing high levels of mortgage approvals. • UK base rate is at its lowest ever level.	▲
CYBER SECURITY A breach of IT security (externally or internally) could result in an inability to operate systems effectively (e.g. viruses) or the release of inappropriate information (e.g. hackers).		• Ongoing investment in cyber risk detection and prevention tools. • Physical security of servers at third-party off-site data centre, with full disaster recovery capability. • Password and safe-use policies in place, internet usage monitored and anti-malware used. • External cyber review and internal audit reviews conducted periodically, resulting in significant enhancements in defence. • Cyber awareness/IT security campaign active for all employees. • Enhanced monitoring and vigilance in response to increased remote working in 2020. • Financial crime protection and cyber liability insurance in place.	• Increased home working in response to the COVID-19 pandemic has elevated cyber risk. • This remains a high-profile area and continues to receive considerable management attention.	▲

Movement key:

Increase No change Decrease

Strategic Priorities key:

Target growth in market share

Develop innovative new products

Explore potential bolt-on acquisition opportunities

Deliver sustained operational excellence

Expand our branch network

Develop the sustainability of our business, products and operations

Develop a market-leading digital proposition

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
REGULATORY RISKS, INCLUDING HEALTH & SAFETY We may be adversely affected by the crystallisation of unexpected corporate or regulatory risks. These include health & safety, data, reputational and environmental risks (including regulations related to our recycling operations), or other legal, taxation and compliance matters.		• Procedures and policies in place to support compliance with all relevant regulations. • Regular communication and training on policy compliance. • Monitoring procedures in place, including near miss and potential hazard reporting for health & safety matters. • Introduction of a range of COVID-safe protection measures, in line with recommended guidance and designed and implemented collaboratively with input from the workforce. • Employees returning to work post H1 2020 shut-down provided with training and personal protective equipment where necessary. • Internal and third-party site audits to test compliance with our policies.	• COVID-19 has significantly increased health & safety risks. • More generally, recent developments widen the scope and increase the penalty regime for breaches in these areas. For example: Corporate Criminal Offence of Failure to Prevent the Facilitation of Tax Evasion ('CCO') legislation came into force on 30 September 2017, and General Data Protection Regulations ('GDPR') came into effect in May 2018.	
RAW MATERIAL SUPPLY There are only a limited number of PVC resin and certain other raw material suppliers and we operate with limited raw material storage capacity. The recycling feedstock supply market is fragmented and can be unpredictable. Failure to receive raw materials on a timely basis could impact on our ability to manufacture products and meet customer demand.		• We generally operate with at least two suppliers for all critical raw materials, including PVC resin, to support security of supply. • On-going raw material tests to identify potential alternative suppliers. • A spot market exists for resin, that we are able to access at certain times. • Contractual arrangements for certain key suppliers include liquidated damages for failure to supply. • Regular reviews to test financial stability of key suppliers. • Potential remains for increased resin supply originating from the US to come on line and deliver into Europe.	• A number of European PVC resin suppliers issued force majeure notices on material supply in H2 2020, following plant outages and other operational issues. • Strong demand for PVC resin exacerbated supply constraints in H2 2020. • Knock-on effect into recycling feedstock supply market also tightening in 2020. • The PVC resin supply market remains tight at the beginning of 2021, which is also impacting pricing (see below).	
RAW MATERIAL AND TRADED GOODS PRICES Our manufacturing operations depend on the supply of PVC resin, a material derivative of ethylene which in turn is a derivative of crude oil. The price of PVC resin can therefore be subject to fluctuations based on the markets for crude oil and ethylene, as well as the market for resin itself. In addition, although we pay for resin in sterling, crude oil and ethylene are priced in US dollars and euros respectively. As such, the price of resin in sterling is also impacted by international currency markets. Our ability to pass on resin and other raw material or traded goods price increases to our customers will depend on market conditions at the time.		• We generally operate with at least two suppliers for all critical raw materials and traded goods, including PVC resin, to provide competitive pricing. • Where possible we pass through raw material or traded goods price increases to our customers. • Increasing the use of recycled material in our manufacturing partially mitigates exposure to resin prices, although prices for recycling feedstock can also be volatile. • We consider fixed price supply arrangements with suppliers where it is economic to do so.	• Raw material prices fluctuated throughout 2020, primarily due to the impact of COVID-19 on the relevant markets. • Supply-side constraints resulted in increasing prices for PVC resin and recycling feedstock in H2 2020, continuing on into 2021. • We have elected not to enter into a fixed price contract for PVC resin so far in 2021, as the premium currently required by suppliers is prohibitive.	

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
CUSTOMER CREDIT RISK Default by a large customer or multiple smaller customers could result in a material bad debt(s). The loss of a major customer(s) could limit our ability to continue to grow the business.		• Regular process for in-depth credit reviews for existing and new customer accounts. • Following onset of COVID-19 pandemic and first lockdown, increased frequency of credit reviews and greater involvement of relevant Executive Committee members in managing position on key accounts. • Significant increase in bad debt provisions recorded in H1. Year end provisions remain at a similar level, reflecting continued prudent assessment of bad debt risk. • Credit insurance in place to the extent available for selected large accounts.	• Increased bad debt risk due to the impact of COVID-19 on our customer base, with some business failures and a deterioration in the age profile of receivables during the first lockdown in H1. • Some improvement in bad debt experience and age profile of receivables in H2, although significant uncertainty remains.	▲
SUSTAINABILITY Demonstrating improving business sustainability is becoming increasingly important to all stakeholders. We have a strong underlying position, driven by our expanding window recycling operation. We intend to widen this narrative into a Group-wide sustainability strategy, which will encompass all aspects of business sustainability. Failure to do so could lead to regulatory challenges (e.g. if sustainability regulation is tightened) and potentially reduced access to capital and difficulties with recruitment and retention.		• Strong underlying position driven by window recycling operation, which drives significant carbon savings compared to the use of virgin PVC resin. • Publication of verified carbon savings data in the 2020 annual report. • Work in progress to define and implement a Group-wide sustainability strategy, with long-term goals linked to relevant UN Sustainable Development Goals and the UK Government's transition towards a net zero carbon economy.	• Continued rise in importance of sustainability for all stakeholders.	▲
MANUFACTURING CAPACITY CONSTRAINTS Demand running above our manufacturing capacity may result in production related inefficiencies, as well as customer service issues if a backlog of customer orders develops. A shortage of capacity may also prevent the acquisition of new customers, thereby limiting our ability to continue to grow the business.		• Investment in 2019 to increase co-extrusion and foam capacity by 30% and 15% respectively. • Strengthened management team in critical areas, including Chief Operating Officer (joined Q3 2019). Team ensured peak periods in H2 2020 were navigated successfully. • COO has an improvement plan with c.100 actions targeting productivity gains in extrusion, foiling, warehousing and distribution. • New warehouse facility (see below) is a catalyst to free up space in the existing footprint to future-proof extrusion capacity.	• Customer demand in H2 2020 increased to such an extent that the business was running close to existing manufacturing capacity. • Competitor weakness has resulted in a clear opportunity to acquire new customers. • Investment in new extrusion capacity planned for 2021.	▲
WAREHOUSING AND DISTRIBUTION CAPACITY CONSTRAINTS We exceeded the capacity of our existing warehouse in 2018/19, resulting in significant inefficiencies and additional labour and distribution costs. A new central warehouse and distribution centre was approved early in 2020, which will deliver > 50% increase in capacity, improved efficiency and a safer operation. On-time execution of the fit-out project and successful operation from the new site are critical to unlocking future growth potential and the delivery of anticipated improvements in operating efficiencies.		• Strengthened management team in critical areas, including Chief Operating Officer and Head of Supply Chain (joined Q3 2019). Team ensured peak periods in H2 2020 were navigated successfully from existing facilities. • COO has an improvement plan with c.100 actions targeting productivity gains in extrusion, foiling, warehousing and distribution. • Fully resourced team hired to deliver new warehouse fit-out, including project management and technical expertise, supported by third party subject matter specialists.	• Despite strong customer demand in H2 2020, and existing capacity constraints, measures taken (including extra labour and temporary overflow site) to ensure safe and successful operation from the existing warehouse. • Fit-out of the new warehouse continued safely throughout 2020, despite COVID-related constraints, with the new site becoming operational early in 2021. • Transition to continue in 2021, with the final stages expected to complete in Q2.	▲

Movement key:

▲ Increase ◀▶ No change ▼ Decrease

Strategic Priorities key:

- Target growth in market share
- Develop innovative new products
- Explore potential bolt-on acquisition opportunities
- Deliver sustained operational excellence
- Expand our branch network
- Develop the sustainability of our business, products and operations
- Develop a market-leading digital proposition

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
UNPLANNED PLANT DOWNTIME The business is dependent on the continued and uninterrupted performance of our production facilities. Each of the facilities is subject to operating risks, such as: industrial accidents (including fire); extended power outages; withdrawal of permits and licences (e.g. the regulated operation of the recycling facility); breakdowns in machinery; equipment or information systems; prolonged maintenance activity; strikes or other extended workforce absences; natural disasters; and other unforeseen events.		• Regular planned maintenance to reduce the risk of plant failure, including maintenance capital investment of >£5 million per annum across the Group. • Extrusion facilities spread over three manufacturing sites. • Recycling facilities spread over two sites. • Group-wide disaster recovery plans in place. • Introduction of a range of COVID-safe protection measures, in line with recommended guidance and designed and implemented collaboratively with input from the workforce. • Employees returning to work post H1 2021 shut-down provided with training and personal protective equipment where necessary.	• Potential for COVID-19 to spread amongst the workforce and result in significant and extended absence.	▲
ABILITY TO ATTRACT AND RETAIN KEY PERSONNEL AND HIGHLY SKILLED INDIVIDUALS Our success depends inter alia, on the efforts and abilities of certain key personnel and our ability to attract and retain such people, with the appropriate skills and experience.		• Developing successful track record and clear strategic direction provides an attractive backdrop to joining the senior team at Eurocell. • Market rate compensation for all personnel, including leadership team. • Equity-based long-term incentive plans in place for senior team. • People plan includes focus on improving employee engagement and communication.	• Guaranteed long-term incentive plan awards issued to senior team in 2020 (excluding Executive Directors) to help mitigate impact of COVID-19 on existing in-flight schemes. • Progressive implementation of people plan.	◀▶
SHORTAGES OR INCREASED COSTS OF APPROPRIATELY SKILLED LABOUR We are subject to supply risks related to the availability and cost of labour, both in our manufacturing operations and in our branch business. Our headquarters and several manufacturing and operational sites are located in areas of generally full employment. We may also experience labour cost increases (including those related to the Minimum Wage) or disruptions in circumstances where we have to compete for employees with the necessary skills and experience in tight labour markets.		• Market level or better salaries and good benefits package. • Induction and training programme. • Annual SAYE share-save scheme available to all personnel. • Use of fixed-term contracts to secure sufficient labour through H2 2020 without longer-term commitment, due to inherent levels of uncertainty. • People plan includes focus on improving employee engagement and communication.	• Sufficient labour secured in H2 2020 via fixed-term contract initiative. • Fifth SAYE scheme planned for 2021. • Progressive implementation of people plan.	◀▶
FAILURE TO DEVELOP NEW PRODUCTS Failure to innovate could reduce our growth potential or render existing products obsolete. The launch of new products and new variants of existing products is an inherently uncertain process. We cannot guarantee that we will continuously develop successful new products or new variants of existing products. Nor can we predict how customers and end-users will react to new products or how successful our competitors will be in developing products which are more attractive than ours.		• We invest continuously in research and development through our in-house team. • The team is highly focused on new ways to develop existing products and to be innovative with new ones. • We work closely with customers and technical advisers on product development. • We have a strong product pipeline with more than 25 projects in development.	• Recent successes for Profiles include: introduction of a flush window sash for the Logik product range, a new sliding patio door system (Syncro) and development of a through-colour grey substrate profile. • In Building Plastics, the Equinox conservatory roof system has been developed to include a skylight (Vega) and our new suite of outdoor living products, including the Kyube garden room, has been very well received.	◀▶

Principal Risks and Uncertainties continued

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
COMPETITOR ACTIVITY We have a number of existing competitors who compete on range, price, quality and service. Increased competition could reduce volumes and margins on manufactured and traded products.		• Strong market and customer awareness, with good intelligence around competitor activity. • Absolute focus on customer proposition and points of differentiation in product and service offering. • We have developed a strong new customer pipeline.	• During the first lockdown period in H1 2020, the business prepared well for re-opening, from both an operational and commercial perspective. These activities supported further gains in market share delivered in H2 2020. • The more uncertain market environment may have weakened some of our competitors.	
FAILURE TO IDENTIFY, COMPLETE AND INTEGRATE ACQUISITIONS We may not be able to identify and complete appropriate bolt-on acquisitions (one of our strategic priorities). Any future acquisition we do make poses integration risks which may affect our results or operations. The acquisition and integration of companies is a complex, costly and time-consuming process involving a number of possible risks. These include diversion of management attention, failure to retain personnel, failure to maintain customer service levels, disruption to relationships with various third parties, system risks and unanticipated liabilities.		• Public communication of bolt-on acquisitions being a strategic priority. • Good knowledge of companies operating in our sector and related sectors. • Six acquisitions completed since our IPO in 2015. • Tried and tested procedure for the integration of new acquisitions and a good track record of recent success.	• Whilst we continue to assess and consider acquisition opportunities, our focus in 2020 and 2021 is delivering operational efficiencies from recent investments in manufacturing and warehousing capacity. • Previously reported delays with the project to expand Eurocell Recycle North (acquired in 2018) further impacted by H1 2020 shut-down. Performance is now improving towards delivering acceptable operational and financial performance.	
DIGITAL AND IT SYSTEMS DEVELOPMENT We have introduced a new strategic priority to develop a sector-leading digital proposition. Stakeholders in most organisations increasingly require full end-to-end digital solutions; a trend exacerbated by the COVID pandemic. Failure to develop a leading digital proposition could lead to a competitive disadvantage, hinder progression of our other priorities and detract from the supplier, customer and employee experience of working with Eurocell.		• Strengthened IT function with recruitment of New Director of IT with strong sector and digital experience (joined March 2020). • Developed three-year IT road map, including significant investment in additional resources and application landscape to support development of business efficiency and digital proposition.	• Increasing importance of digital for stakeholders.	

Viability Statement

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

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

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

In preparing the plan, we adopt a prudent forecast in respect of like-for-like sales growth, but assume other initiatives, in line with the published strategy. We have also taken into account the current and potential range of future impacts of COVID-19 and related economic uncertainty.

The plan is stress tested by applying the following scenarios:

Scenario 1

Macroeconomic conditions lead to a decline in sales

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

Scenario 2

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

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

Scenario 3

Scenario 1 and 2 combined

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

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

The Group has a £75 million Revolving Credit Facility. Monthly cash flow projections show significant headroom throughout the period to December 2023. The facility includes standard covenants for leverage and interest cover, which are measured twice per annum at June and December. The projections also show good headroom on the covenants at each measurement date to December 2023.

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

Going Concern

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

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

This Strategic Report was approved by the Board on 11 March 2021.

Mark Kelly
Chief Executive Officer

Michael Scott
Chief Financial Officer

Board of Directors

One team
ALL TOGETHER BETTER

Bob Lawson
Non-executive Chair

Date of appointment:
4 February 2015

Experience:
Bob was previously the Chair for Genus plc (until November 2020), Barratt Developments plc, Hays plc and the Federation of Groundwork Trust. Prior to this, he was Managing Director for the Vitec Group for 4 years, Chief Executive Officer of Electrocomponents plc for 11 years and subsequently Chair for a further 6 years.

External appointments:
- None

Committee membership:

Mark Kelly
Chief Executive Officer

Date of appointment:
29 March 2016

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

External appointments:
- None

Committee membership:

Michael Scott
Chief Financial Officer

Date of appointment:
1 September 2016

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

External appointments:
- None

Committee membership:
- None

Frank Nelson
Senior Independent Non-executive Director

Date of appointment:
4 February 2015

Experience:
Frank is a qualified accountant with over 30 years' experience in the housebuilding, infrastructure and energy sectors. He was previously a Non-Executive Director for McCarthy & Stone plc and Telford Homes Plc. Prior to this, Frank was Finance Director for Galliford Try plc for 12 years and Finance Director for Try Group plc. He is a fellow of the Chartered Institute of Management Accountants.

External appointments:
- Chair of Van Elle Holdings plc (AIM)
- Senior Independent Non-executive Director of HICL Infrastructure plc (FTSE 250)
- Chair of Nobel Topco Ltd (Private Equity)

Committee membership:

Martyn Coffey
Independent Non-executive Director

Date of appointment:
4 February 2015

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

External appointments:
- Chief Executive Officer of Marshalls plc (FTSE 250)
- Director of Mineral Products Association Ltd (Private)

Committee membership:

Sucheta Govil
Independent Non-executive Director

Date of appointment:
1 October 2018

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

External appointments:
- Chief Commercial Officer of Covestro AG and member of the Managing Board (German listed)
- Director of Liveorg Ltd (Private)

Committee membership:

Committee key:
Member of the Audit and Risk Committee
Member of the Remuneration Committee
Member of the Nomination Committee
★ Denotes Committee Chair

Bob Lawson
Chair

Dear Shareholder,

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

Inevitably, the activities and focus of the Board, and its Committees, during the year were heavily influenced by the impact of the COVID-19 pandemic. The temporary shut-down of our operations from late March to mid-May, and the inherent uncertainty that has existed since, led to the Board to increase its activity with respect to the Company, in order to support the Executive team and properly discharge its governance responsibilities.

Since the onset of the first lockdown, regular and frequent virtual Board update meetings have been held, on a weekly basis at certain times, to discuss financial and operational matters. I would like to thank my Board colleagues and the Executive team for their commitment and tenacity throughout this challenging period, and for their voluntary agreement to take a temporary reduction in salary during the early months of the pandemic.

Once again, I am very grateful for the continued strong shareholder support that we receive. In particular, the successful share placing in April helped secure our financial position, even in the event of an extended lockdown, and allowed us to continue investment in our state-of-the-art new warehouse facility, as planned.

I continue to believe that the composition of the Board, supported by the strengthened Executive Committee, provides an appropriate balance of skills, experience, independence and knowledge to take the business forward. The culture of open communication, mutual trust and honest assessment of our strengths and areas for development continues to underpin the effectiveness of our governance. This view is also supported by the conclusions of the externally facilitated review of the Board, and its Committees, which was conducted this year (see page 69).

Throughout the year, we have continued to apply the principles and provisions of the UK Corporate Governance Code (the 'Code'), under which this report has been prepared, and the following reports provide details of the Board's activities during the year, including how it, and its Committees, have discharged their governance duties.

Finally, I look forward to welcoming, hopefully in-person (subject to COVID-19 guidelines), our shareholders to the AGM, to be held on 13 May 2021, and to receiving and answering your questions.

Bob Lawson
Chair
11 March 2021

Role of the Board

The Board comprises a Non-executive Chair, three Non-executive Directors and two Executive Directors, who are equally and collectively responsible for the proper stewardship and leadership of the Company. Their biographical details are set out on pages 64 and 65.

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

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

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

Subject to those matters reserved for its decision, the Board has delegated to its Audit and Risk, Nomination and Remuneration Committees certain authorities.

Corporate Governance Statement

GOVERNANCE FRAMEWORK

Eurocell plc Board
Members:
Independent Non-executive Chair
3 Independent Non-executive Directors
2 Executive Directors

Audit and Risk Committee
Members:
3 Independent Non-executive Directors

The Audit and Risk Committee's role is to assist the Board with the discharge of its responsibilities in relation to financial reporting, internal controls, risk management, compliance and audit.

SEE COMMITTEE REPORT ON PAGES 80 TO 84

Remuneration Committee
Members:
Independent Non-executive Chair
3 Independent Non-executive Directors

The Remuneration Committee recommends the Group's policy on executive remuneration and determines the levels of remuneration for Executive Directors, the Chair of the Board and senior management.

SEE COMMITTEE REPORT ON PAGES 85 TO 100

Nomination Committee
Members:
Independent Non-executive Chair
3 Independent Non-executive Directors
1 Executive Director

The Nomination Committee assists the Board in reviewing the structure, size and composition of the Board and succession planning for senior management.

SEE COMMITTEE REPORT ON PAGES 77 TO 79

Executive Committee
The Executive Committee comprises senior managers, including the 2 Executive Directors who act as a bridge between the Board and this Committee. Management teams report to members of the Executive Committee. The Board receives regular updates from the Executive Committee in relation to business issues and developments.

SEE SENIOR LEADERSHIP TEAM ON PAGE 79

There are written terms of reference for each of these Committees which are available on the Group's corporate website, www.investors.eurocell.co.uk. Separate reports for each Committee are included in this Annual Report from pages 77 to 100.

Day-to-day management and the implementation of strategies agreed by the Board are delegated to the Executive Directors. Key to this delegation is the Executive Committee, which meets each month.

The Board meets regularly to discuss key business issues and prescribe actions as appropriate. The Group's reporting structure below Board level is designed so that all decisions are made by those most qualified to do so in a timely manner.

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

All the Directors have the right to have their opposition to, or concerns over, the operations of the Board and/or the management of the company, noted in the minutes.

During the year, no such opposition or concerns were noted.

The Chair and the Non-executive Directors met, either virtually or in-person, during the year without the Executive Directors present.

Role of the Chair

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

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

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

Role of the Chief Executive Officer

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

Role of the Senior Independent Director and Non-executive Directors

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

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

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

Board composition, commitment and election of Directors

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

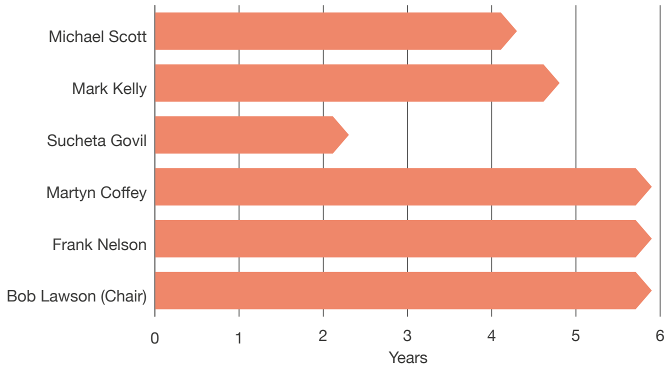
Prior to appointment, Board members, in particular the Chair and the Non-executive Directors, disclose their other commitments and agree to allocate sufficient time to the Company to discharge their duties effectively and ensure that these other commitments do not affect their contribution.

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

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

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

The current Board commitments of all Directors are shown on pages 64 and 65. Their terms of appointment are reported on pages 91 and 92 and length of service on the Board is set out in the chart below:



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

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

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

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

Board evaluation and effectiveness

In accordance with the Code, a formal evaluation of the performance of the Board, its Committees, the Chair and individual directors was conducted during the year, with the results presented and discussed at the March 2021 Board meeting.

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

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

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

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

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

Key strengths of the Board:

1. Chair's leadership style – Chair's leadership of meetings and the Board agenda.
2. Governance structure – role and responsibilities of the Board are clearly defined and the nature and composition of Board sub-committees serves the Company well.
3. Clarity of goals and objectives – good understanding of strategic goals and objectives.
4. Insight into industry and market developments, opportunities and threats – good level of awareness of the likely developments in the industry, the market opportunities and threats facing the organisation.
5. Tone from the top – Board and senior managers act as role models through their personal compliance with regulation and internal policies.
6. Review of performance – good procedures in place to review performance in line with strategic objectives.

Key areas for improvement:

Area	Detail	Proposed actions
Board engagement	Stakeholder engagement activities for the Board have been disrupted by COVID-19	Activities to be resumed wherever possible, including using alternatives mechanisms, to understand the views and interests of key stakeholders
Board composition	Diversity of the Board's composition, including length of tenure on the board	Succession planning work by the Nomination Committee to continue to address such issues
Board dynamics	Board's ability to interact has been disrupted by the restrictions imposed as a result of COVID-19	Mechanisms previously used to maintain connections to be reinstated at the earliest permissible opportunity
Professional development	Provision of relevant opportunities for Board members	Attendance of external professional advisers at Board meetings to be reviewed and developed as appropriate

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

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

Conflicts of interest

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

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

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

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

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

Board meetings and attendance

There were six regular Board meetings scheduled during 2020, four meetings of the Audit and Risk Committee, three meetings of the Remuneration Committee and two meetings of the Nomination Committee. Due to COVID-19, all of the meetings since 23 March 2020 were held virtually and therefore planned site visits by Non-executive Directors were postponed accordingly.

In addition, as a result of the unique challenges posed by the COVID-19 pandemic, a further 13 virtual Board update meetings were held, to ensure the highest possible standards of governance during this demanding period and to keep the Board fully updated on all financial and operational matters. Attendance at these additional meetings was c.95%, with any non-attendance due to unavoidable clashes with existing commitments as a result of the relatively short-notice given on certain occasions.

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

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

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

Number of meetings attended	Board	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Bob Lawson	6/6	—	3/3	2/2
Frank Nelson	6/6	4/4	3/3	2/2
Martyn Coffey	6/6	4/4	3/3	2/2
Mark Kelly	6/6	—	—	2/2
Michael Scott	6/6	—	—	—
Sucheta Govil	* 5/6	* 3/4	3/3	2/2

* Absence due to a re-arranged engagement at Covestro AG where attendance was required by statute.

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

The Group Company Secretary

All the Directors have access to the advice and services of the Group Company Secretary. The Group Company Secretary has responsibility for ensuring that all Board procedures are followed and for advising the Board, through the Chair, on all governance matters. The Group Company Secretary provides updates to the Board on regulatory and corporate governance issues, new legislation, and Directors' duties and obligations. The appointment and removal of the Group Company Secretary is one of the matters reserved for the Board.

Paul Walker has served as Group Company Secretary throughout the year.

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

Board induction, development and support

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

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

Risk management and internal control

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

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

The Strategic Report comments in detail (pages 56 to 62) on the nature of the principal risks and uncertainties facing the Group; in particular those that would threaten our business model, future performance, solvency or liquidity and the measures in place to mitigate them. In conducting its review, the Board has included a robust assessment of these risks and the effectiveness of mitigating controls.

The Audit and Risk Committee Report on pages 80 to 84 describes the internal control system and how it is managed and monitored.

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

Stakeholder engagement

Engagement with our shareholders and wider stakeholder groups plays a vital role across the Group, including at Board level. One of the primary areas of focus for the Board at any time is the impact its decisions or actions may have on key stakeholder groups represented within the Board's duty under s172 of the Companies Act 2006.

The Board is mindful of the levels of engagement with key stakeholder groups and how their respective views may be incorporated into relevant decision-making. Board discussions therefore seek to appropriately consider the impact of its decisions and views of key stakeholder groups thereon, whilst always ensuring the need to promote the success of the Company for the benefit of its members as a whole.

In doing so s172 requires the Directors to have regard (amongst other matters) to:

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

The Board considers information from across the organisation to help understand the impact of its operations and decisions, and the interests and views of our key stakeholders. This includes reviews of strategy, financial and operational performance, as well as information covering areas such as key risks, and legal and regulatory compliance.

This information is provided to the Board, and its Committees, through reports sent in advance of each meeting, and through in-person presentations, where appropriate. As a result of these activities, the Board has developed a good understanding of the interests and views of all stakeholders, and other relevant factors, which enables the Directors to comply with the requirements of section 172 of the Companies Act 2006.

The Board will sometimes engage directly with certain stakeholders on certain issues, but the size and distribution of our stakeholders and of the Eurocell group dictate that stakeholder engagement often takes place at an operational level.

The following table summarises the key matters considered by the Board during the year and notes the consideration given to the various stakeholder groups during its deliberations:

Matters considered by the Board in the year	Consideration given to stakeholders
Business Review, Operational Performance and Strategy	
• Approval of the Group's strategy at the annual strategy day and regular review of progress against that strategy during the year • Regular business updates and reviews of operational performance from the Chief Executive Officer	**Shareholders** – responsibility for shareholder relations rests with the Chief Financial Officer, who, in conjunction with the Chief Executive Officer, ensures that there is effective communication with shareholders on matters such as strategy and operational performance. An active dialogue is maintained through a planned programme of investor relations activities.* The Chairman, the Senior Independent Director and the other Directors are available to engage in dialogue with major shareholders as appropriate. Shareholders have the opportunity to meet members of the Board and the senior management team at the Annual General Meeting and to ask any questions they may have. The Group's strategy and operational performance were key topics of discussion during meetings held with shareholders during the year including, in particular, shareholders' views on the impact of COVID-19, progression of our five strategic priorities and the significant investment in the new warehousing facility. Stakeholder feedback was considered and noted by the Board. Discussions also took place regarding the Group's preparations for Brexit, including the potential effect on raw material supplies, and the preparatory work being undertaken. **Employees** – the Executive Committee strives to ensure the right level of support and engagement with employees throughout the Group, which includes briefings on operational and financial performance (see 'Engagement with the workforce' on page 75). Matters raised by employees through this engagement are fed back and considered at Executive Committee meetings. The Board regularly reviews Health & Safety KPIs and HSE communications, to ensure colleague safety remains our first operational priority and a paramount feature of all Board decisions. The Group also works hard to ensure we continue to offer market level compensation and benefits. **Customers** – regular contact takes place by senior management with key customers to discuss our operational performance, including service levels and other relevant matters. In addition, customer insight surveys take place on a regular basis to assess satisfaction and 'Net Promoter Score' along with quarterly forums held with customers, to discuss product design and innovation. Regular monitoring of social media platforms for relevant comments/issues, coupled with Trustpilot customer reviews/ratings of service and products and direct comments received from customers visiting our branches provide further customer insight. Feedback from these sources is considered by the Executive Committee in order to understand customers' views and how our operational performance is impacting them. **Suppliers** – regular review meetings are held between senior management and key suppliers to discuss relevant topics, such as pricing, supply continuity and service levels, in order to build and maintain a robust working relationship with our supply base and understand the key features of the Group's operations that impact upon them. **Community** – our major operations engage with and supports their local communities on an ongoing basis. We seek to recruit locally, retain a skilled local workforce, build relationships with local community organisations and to support charitable initiatives where we can. We work to ensure that any change in our operations which may have an impact on the local community is fully considered and assessed.

Matters considered by the Board in the year	Consideration given to stakeholders
	Industry-specific engagement – employees from the Company attend quarterly meetings of the British Plastics Federation (BPF), where we are members of both the Windows and Recycling groups, to discuss upcoming legislation and standard changes. In addition, we are a member of The British Fenestration Rating Council (BFRC), which verifies the energy performance of windows and doors, and we attend their meetings on a regular basis. These meetings are also attended by other manufacturers, as well as house builders and fabricators, all of which gives the Group the opportunity to engage with and obtain up-to-date information, views, priorities and concerns within the industry. This knowledge supports the debates held by the Board in relation to matters such as capital expenditure projects, new product development initiatives, technical initiatives, market opportunities and new business proposals.
Financial performance and investor relations	
• Regular updates from the Chief Financial Officer on financial performance, share price performance, investor relations and movements in the share register • Approval of the Group's budget and business plan • Approval of the half year and full year reports, including going concern and viability statements • Approval of the trading updates during the year • Approval of Group-wide policies and terms of reference	**Shareholders** – following the announcement of the Group's half year and full year results, formal presentations are made to institutional shareholders and analysts by the Chief Executive Officer and Chief Financial Officer, covering a range of key topics affecting the Group's financial performance. Ad hoc meetings are also held following trading updates and otherwise throughout the year. This ensures continued engagement with current and potential investors and, via feedback collected both directly and independently by the Group's brokers, a good understanding of their views. Meetings held during the first half of 2020 included discussions on the financial impact of COVID-19 and the Group's share placing in April. In the second half, discussion turned back to sales growth, operating margins, cash flow delivery and understanding investors' current views on dividends and leverage. Shareholders have the opportunity to ask questions about the financial results at the Company's AGM. Board members develop an understanding of the views of major shareholders through analysts' and brokers' briefings. **Finance providers** – regular meetings take place with our funding banks to discuss business and financial performance, including debt levels and headroom. Much of the discussion in 2020 related to the financial impact of COVID-19. The Chief Financial Officer provides regular updates to the Board on the views of our funding banks, which helps to shape Board discussions on investments and cashflow. **Employees** – engagement with employees, including briefing on operational and financial performance and consideration of feedback received is noted above. The cascade and dissemination of such information is also shared with the wider workforce through, inter alia, team briefings, internal newsletters and the Annual Leadership Conference.** **Government** – regular meetings are held with tax advisers to discuss tax compliance, HMRC correspondence and other relevant issues pertinent to Group's finances and tax position. **Other stakeholders** – financial information is also shared with customers, suppliers and other stakeholders by means of the Annual Report and Accounts and the Group's corporate website.
Legal and Governance	
• Regular updates on legal, governance and regulatory matters	**All stakeholders** – regular updates to the Board on legal, governance, regulatory, financial and HR matters ensure the Board is aware of current requirements and market practice and can therefore ensure its activities and decisions take account of these requirements and the potential impact on all its stakeholders.

* During 2020, a total of approximately 86 investor meetings were held, at which at least 47 institutions were represented, including those relating to the share placing which completed on 1 April 2020. In addition, a conference meeting was held in December specifically for retail investors at which there were c.30 attendees. Feedback from these meetings and other shareholder communications are provided to the Board. The Board also receives copies of analysts' and brokers' briefings.

** The Annual Leadership Conference, due to take place in March 2020, was cancelled due to COVID-19. In order to keep colleagues informed, especially during the suspension of all operations, a regular "Email from the CEO" was sent to all colleagues providing updates and reassurance.

Culture

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

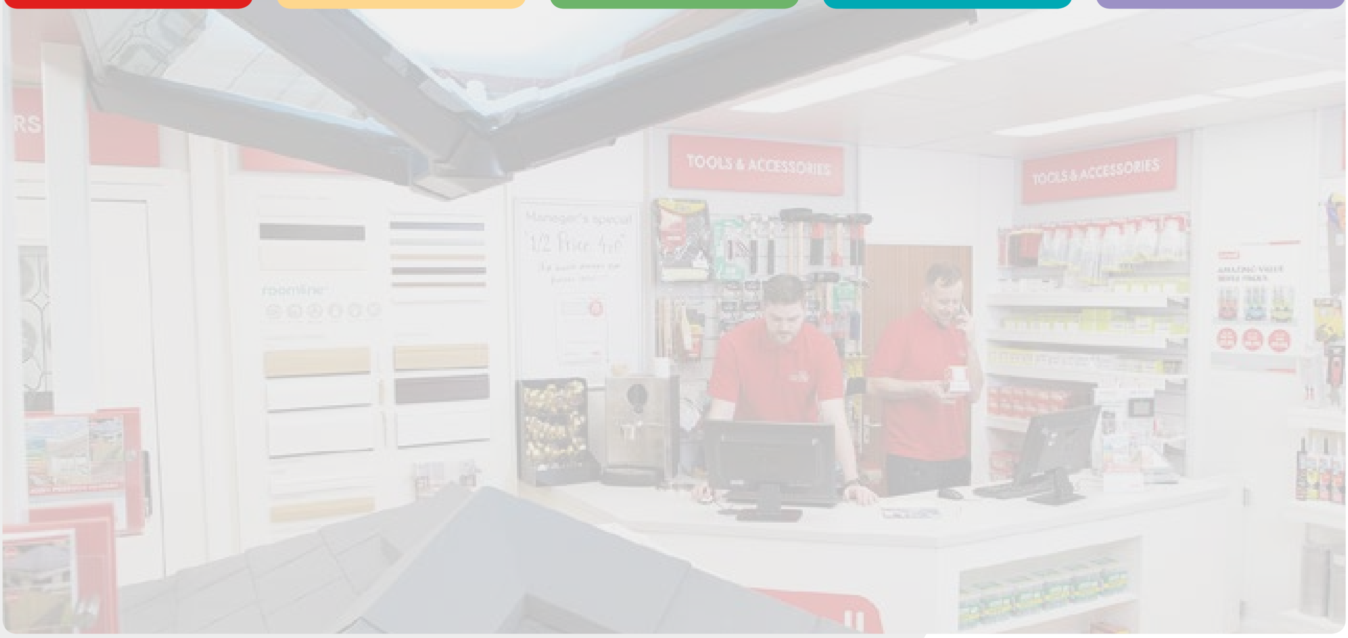
One team

ALL TOGETHER BETTER

OUR VISION:

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

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



Our Values:

We are one team, committed to working together to deliver our goals
We will: Empower, Be Collaborative, Be Committed, Deliver on Time

Customers are always our priority, we keep our promises
We will: Listen, Be Passionate about Quality & Services, Innovate, Drive Consistency

We conduct ourselves in a professional manner and we value honesty and trust
We will be: Honest, Trustworthy, Ethical, Accountable

We support, value & respect each other
We will be: Engaged, Supportive, Respectful, Fair

Together we will go the extra mile to achieve our targets
We will be: Entrepreneurial, Creative & Flexible, Tenacious, Resilient

Engagement with the workforce

The main methods and mechanisms by which the Board and management source the views of its colleagues include:

- Annual Leadership Conference (see footnote ** on page 73) – all Executive Committee members attend in order to meet and interact with the wider management teams and feedback to the Board.
- 'Meet Mark' focus group sessions – regular interactive meetings held by the CEO with various staff groups across the Group to share views.
- Site visits by senior management – regular visits made by Executive Committee members to branches, subsidiaries, warehouses and factories.
- Walking the shopfloor – factory/warehouse shifts worked by the COO to share the experiences, first-hand, of shopfloor colleagues.
- Whistleblowing and grievances – all reports are investigated and appropriate changes implemented to help prevent re-occurrence.

In addition, as reported last year, Sucheta Govil, the designated Non-executive Director, has the specific Board responsibility in this area and it was intended that she attend colleague focus groups during 2020. However, this was not possible due to the COVID-19 restrictions.

Nevertheless, subject to the relaxation of restrictions, it is intended that this will commence in 2021, along with the introduction of an employee-wide engagement survey, in order to compliment the health and safety forums, team briefings, continuous improvement workshops and newsletters currently in place.

The Board assesses and monitors culture through:

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

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

Some examples of the Eurocell culture, illustrating our colleagues going "above and beyond" are included on pages 48 to 49.

Statement of compliance with the Code

This Corporate Governance Statement, together with the Nomination Committee Report, the Audit and Risk Committee Report and the Remuneration Committee Report, provide a description of how the principles and provisions of the Code have been applied within Eurocell plc during 2020.

It is the Board's view that Eurocell plc was in compliance with the relevant provisions set out in the Code in all material respects. This statement complies with sub sections 2.1, 2.2(1), 2.3(1), 2.5, 2.7 and 2.10 of Rule 7 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority. The information required to be disclosed by sub-section 2.60 of Rule 7 is shown on pages 101 to 103.

Annual General Meeting

Our AGM will be held at our new Head Office (see Company Information on page 158 for details) on 13 May 2021. However, in-line with the 2020 AGM held in May, shareholder attendance in-person may be restricted in accordance with COVID-19 guidance for the safety for all concerned.

The notice of our AGM (including any related COVID-19 guidance), together with the Directors' voting recommendations on the resolutions to be proposed, is included on a separate circular to shareholders and will be dispatched at least 20 working days before the meeting. The notice will be available to view at investors.eurocell.co.uk.

Subject to COVID-19 restrictions, all Directors intend to attend the AGM, including the Chairs of the Audit and Risk, Remuneration and Nomination Committees, who are available to answer questions. The Board welcomes questions from shareholders who have an opportunity to raise issues informally or formally before or during the meeting.

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

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

Nomination Committee Report

Chair

Bob Lawson

Members

Frank Nelson

Martyn Coffey

Mark Kelly

Sucheta Govil

Dear Shareholder,

I am pleased to report to you on the main activities of the Committee and how it has performed its duties during 2020.

This year, the Committee's main focus has been on succession planning for the Board, given the length and concurrency of service of the Chair and the majority of the Non-Executive Directors.

In addition, the Committee has continued to oversee the development of the Executive Committee, and its members, which has been in its current form since Autumn 2019 (see page 79 for further details of the members).

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

Bob Lawson
Chair of the Nomination Committee
11 March 2021

Role and responsibilities:

The principal duties of the Nomination Committee are to:

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

Summary of activities during the year

The Nomination Committee met formally twice during the year and attendance at the meetings is shown on page 70.

The main activities of the Committee included:

- succession planning for the Board, given the length and concurrency of service of the Chair and the majority of the Non-executive Directors;
- overseeing the development of the Executive Committee to support the strategy and governance of the wider Group;
- the ongoing review of talent for the Board and senior management including an assessment of their training and development needs;
- considering the results of the externally-facilitated review of the Committee's effectiveness (see page 69 for further details);
- a review of Directors' time commitments and independence;
- consideration of the re-election of Directors at the Annual General Meeting; and
- approving updates to the Committee's Terms of Reference.

Composition

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

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

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

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

Diversity and inclusion

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

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

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

The Board recognises the Group operates in a historically male-dominated industry. At present, 17% (1 out of 6) of the Board is female, along with 26% (12 out of 47) of the senior management. We have an ongoing commitment to consider diversity as a key factor in future senior appointments. However, the overriding policy in any new appointment is to select candidates based on merit to ensure the continued success of the business.

Gender balance

The gender balance of those in the senior management and their direct reports is included within the Responsible Business section on page 46.

Succession planning

In 2020, the Committee increased its focus on succession planning for the Board, given the length and concurrency of service of the Chair (c.6 years) and the Non-executive Directors (c.6 years for two Non-executive Directors). It concluded that, in light of the requirements of the Code and best practice, whilst there is no immediate need for action, this matter should continue to be monitored to ensure any potential periods of transition are appropriately managed.

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

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

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

Executive Committee

(in addition to Mark Kelly and Michael Scott)

Paul Walker

Group Company Secretary

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

Mark Hemming

Chief Operating Officer

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

Bruce Stephen

Group Human Resources Director

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

Ian Kemp

Sales Director – Profiles division

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

Andy McDonnell

Managing Director – Building Plastics division

Andy joined Eurocell in May 2018, having previously held senior leadership positions in retail and trade at B&Q, TradePoint and Oak Furniture Land.

Audit and Risk Committee Report

Chair

Frank Nelson

Members

Martyn Coffey

Sucheta Govil

Dear Shareholder,

I am pleased to report to you on the Audit and Risk Committee's objectives and activities during 2020.

This report, which is part of the Directors' Report, explains how the Audit and Risk Committee has discharged its responsibilities during 2020.

During the year, the Committee's work has been dominated by the impact of COVID-19 on the Company's financial position, reporting and risk management.

In considering the Company's financial position and risk management processes, the Committee has considered short and medium-term profit and cash flow projections, in order to understand the range of potential outcomes and support the Executive in proactively managing the emerging effects of the pandemic on the Company's financing and cashflows.

In terms of financial reporting, the Committee has focused on the potential for the unique challenges posed by the pandemic to result in the impairment of assets, including stock, receivables, contract assets and goodwill. Our work, including a summary of the key accounting estimates and judgements made, is set out later in this report.

Further to last year's Audit and Risk Committee report, I can confirm that, following the completion of the 2019 audit, the transition to a new audit engagement partner concluded during the year and I am pleased to welcome Christopher Hibbs to the team.

Finally, I would like to thank my fellow Committee members, all of whom have served throughout the year, and both the internal and external auditors, for their valuable contribution and support during what has been a challenging period..

Frank Nelson
Chair of the Audit and Risk Committee
11 March 2021

Role and responsibilities:

The key responsibilities of the Committee are to:

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

Summary of activities during the year

The Audit and Risk Committee met formally four times during the year and attendance at the meetings is shown on page 70.

The areas of particular focus for the Committee in 2020, and up to the date of this Annual Report, were as follows:

- Reviewed the 2019 and 2020 Annual Reports, as well as the 2020 Half-Year Report, including preliminary announcements.
- Considered information presented by management on significant accounting estimates and judgements adopted in respect of the Group's 2019 and 2020 Financial Statements and the 2020 Half-Year Report.
- Specifically in relation to 2020 Financial Statements and the 2020 Half-Year Report, considered the impact of COVID-19 on the Company's financial position and reporting, including potential asset impairments and related disclosures.
- Reviewed documentation prepared to support the viability statement and going concern assumption set out on page 63.
- Reviewed the external auditors' plan for their audit for the year ended 31 December 2020.
- Reviewed reports from the external auditor setting out their findings as a result of their audits for the years ended 31 December 2019 and 2020, as well as their review of the 2020 Half-Year Report.
- Considered the impact of any new accounting standards and financial reporting requirements, including guidance issued by the Financial Reporting Council ('FRC').
- Considered reports by management related to the effectiveness of the Group's systems of risk management and internal control.
- Reviewed the Group's risk register, including principal and emerging risks.
- Considered reports prepared by the Group's outsourced internal audit function.
- Considered the results of the externally-facilitated assessment of the Committee's effectiveness.
- Approved updates to the Committee's Terms of Reference.
- Reviewed, and approved updates where applicable, to Group policies for anti-bribery, whistleblowing, capital expenditure and treasury, along with the Group tax strategy.

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

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

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

As part of that review process, the members of the Committee reviewed the Annual Report, including the adequacy of the disclosure with respect to going concern and viability reporting. The Committee considered the appropriateness of preparing the accounts on a going concern basis, including consideration of forecast plans, and supporting assumptions, as well as sensitivity analysis and concluded that the Company's financial position was such that it continued to be appropriate for accounts to be prepared on a going concern basis.

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

Composition

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

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

The Board considers that, by virtue of his extensive experience, details of which are set out on page 65, Frank Nelson, a Fellow of the Chartered Institute of Management Accountants, has recent and relevant financial experience and the Company complies with the requirements of the Governance Code in this respect. Furthermore, all Committee members have extensive relevant commercial and operational experience, particularly in building/construction and industrial organisations, which both benefit the Committee and collectively illustrate its competence relevant to the sector in which the Group operates.

Only members of the Committee have the right to attend Committee meetings, but both the internal and external auditors were invited to attend all meetings during the year, as a matter of course. Other individuals, such as the Chief Executive Officer, the Chief Financial Officer and other members of the Board were invited to attend the Committee meetings as and when appropriate.

Key accounting estimates and judgements

As described above, the Committee reviewed the key estimates and judgements used in the preparation of the Group's 2020 Financial Statements (including a review of PricewaterhouseCoopers LLP's report and a discussion of their observations and findings in this area) as follows:

Area	Estimate/Judgement	Management's approach	Committee's review
Inventory valuation	Provisions for slow-moving items and discontinued product lines	Assessment of the appropriate level of provisioning against obsolescence, undertaken in the context of current trading and the forecast for the next financial year and beyond	Critically reviewed the carrying value of the Group's inventory, the approach taken by management and assessed the reasonableness of the underlying assumptions and financial forecasts used
Accounts receivable recoverability	Provisions for bad and doubtful debts	Application of IFRS 9's expected credit loss approach to the impairment of receivables (which requires the use of forward-looking statistical modelling to determine the appropriate level of provision), plus overlays to take into account the potential impact of COVID-19 and credit insurance on recoverability	Critically evaluated the methodology with respect to setting provisions for potential bad and doubtful debts, including management's assessment of the impact of COVID-19 and macro uncertainty, as well as the absolute level of provisions held1
Contract asset valuation	Carrying value/ impairment of contract payments made to customers	Assessment of contract profitability and potential impairment, undertaken in the context of current and forecast trading levels and the potential impact of COVID-19 on contract performance	Considered the reasonableness of the key estimates and underlying assumptions and forecasts, including management's assessment of the impact of COVID-19 and macro uncertainty, as well the absolute asset value
Going concern	Application of the going concern basis in preparing the accounts	Forecasting of profitability and cashflows to December 2023, in conjunction with the commercial and operational teams, to consider various scenarios and the wide range of possible impacts from COVID-19, along with other factors such as Brexit	Considered the reasonableness of the key estimates and underlying assumptions used in the forecasting process, including management's assessment of the impact of COVID-19 and macro uncertainty, the headroom on the RCF facility and the associated covenant compliance
Asset impairment	Carrying value/ impairment of non-current assets	Assessment of supportable carrying values, calculated based on current trading and medium-term cash flow forecasts, which include the estimated impact of COVID-19	Considered the reasonableness of the key estimates and underlying assumptions and forecasts, including management's assessment of the impact of COVID-19 and macro uncertainty, as well the absolute asset value

Notes:
1 The Committee's review also considered the specific nature and characteristics of customers in the Group's 2 major divisions.

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

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

Risk management

The Group's risk management processes are set out in detail on pages 56 to 57.

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

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

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

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

Internal controls

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

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

In reviewing the effectiveness of the system of internal controls, the Audit and Risk Committee:
- reviews the risk register compiled and maintained by senior managers within the Group at least bi-annually and question and challenge where necessary;
- regularly reviews the systems of financial and accounting controls; and
- reports to the Board on the risk and control culture within the Group.

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

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

The internal control environment was strengthened in 2020 in response the impact of the COVID-19 pandemic. For example, as described in the Corporate Governance Statement on page 70, the Board increased the regularity and frequency of its business review meetings.

In addition, with the Group's finance and administrative teams working substantially from home during the period, controls related to the processing of cash payments and receipts were enhanced during lockdown periods (e.g. higher levels of approval required for transactions over certain limits). More generally, the Group's IT team have remained particularly vigilant and alive to cyber risks during this period and we continue to invest in our cyber security.

Other than as described above, there have been no changes in the Company's internal control systems during the financial year under review that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

The Board, with advice from the Audit and Risk Committee, is satisfied that an effective system of internal controls and risk management is in place which enables the Company to identify, evaluate and manage key and emerging risks and which accords with the guidance published by the FRC.

These processes have been in place since the start of the financial year and up to the date of approval of the accounts. Further details of specific material risks and uncertainties facing the business can be found on pages 58 to 62.

Internal audit

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

During early 2020, the Committee worked with KPMG LLP to agree the programme for the year, which included reviews of business continuity planning, tax risk, treasury management, expenses and whistleblowing/Code of Conduct.

However, as a result of the impact of COVID-19 on the availability of key staff, with the Committee's approval, the Internal Audit program was temporarily suspended during Q2 and Q3. However, it resumed in Q4 with a Brexit readiness review and a full programme, approved by the Committee, is planned for 2021.

The Committee also formally reviews the Group's progress in implementing the improvement recommendations raised through the internal audit process in conjunction with the Executive Committee members, who monitor a report on the status of the outstanding actions on a monthly basis. Whilst COVID-19 has caused some delays to implementation, overall progress remains satisfactory.

External audit and auditors' independence

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

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

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

In accordance with best ethical standards, PricewaterhouseCoopers LLP has processes in place designed to maintain independence, including the rotation of the audit engagement partner at least every five years. As a result of these processes, the previous audit engagement partner stepped-down following the conclusion of the 2019 audit and, following a handover period, the current audit engagement partner, Christopher Hibbs, assumed full responsibility.

The Committee has also adopted policies to safeguard the independence of its external auditors. Any work awarded to the external auditors with a value of more than £5,000 in aggregate in any financial year, other than an audit, requires the specific approval of the Committee. Where the Committee perceives that the independence of the auditors could be compromised, the work will not be awarded to the auditors. Details of amounts paid to PricewaterhouseCoopers LLP for audit and audit related assurance services in 2020 are set out on page 133. The audit related assurance services provided during the year were in relation to the half-year report (£35,000) and the sustainability measure which was introduced into the Company's banking facility (£25,000).

Prior to recommending the appointment of PricewaterhouseCoopers LLP at the forthcoming AGM to the Board, the Committee reviewed the audit process, the performance of the auditor and its ongoing independence, taking into consideration:

- an assessment of the lead audit partner and the audit team, including their responses to questions from the Committee;
- a review of the audit approach, scope, determination of significant risk areas and materiality;
- the execution of the audit and the audit findings reported;
- input from, and interaction with, management and communication with, and support to, the Committee;
- the quality of any recommendation points; and
- a review of independence, objectivity and scepticism.

Based on this review, the Committee concluded that the external audit process had been run efficiently and that PricewaterhouseCoopers LLP has been effective in its role as external auditor.

The Committee is satisfied that the independence of the external auditor is not impaired and the level of fees paid for non-audit services, details of which are set out in Note 5 to the Financial Statements, does not jeopardise its independence. In conclusion, the Committee has assessed the performance and independence of the external auditor and recommended to the Board the re-appointment of PricewaterhouseCoopers LLP as auditor until the AGM in 2022.

Whistleblowing and bribery

The Audit and Risk Committee monitors any reported incidents under our whistleblowing policy, which is available to all employees. This policy sets out the procedure for employees to raise legitimate concerns about any wrongdoing without fear of criticism, discrimination or reprisal.

During the year, there were no reports received through the whistleblowing process.

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

Directors' Remuneration Report

Chair

Martyn Coffey

Members

Bob Lawson

Frank Nelson

Sucheta Govil

Dear Shareholder,

I am pleased to report to you on the main activities of the Committee and how it has performed its duties during 2020.

As described elsewhere in this annual report, the business responded well to the unique challenges posed by COVID-19 and is now well-placed for the future.

The first half of the year was dominated by the impact of the first lockdown, with the business temporarily closed from late March until mid-May. However, we prepared well for re-opening, and benefited from good market conditions to deliver an excellent second half performance.

Actions taken at the outset of the pandemic to help secure our financial position included the decision to cancel all pay awards which were due to come into effect in April 2020, as well as a voluntary agreement by the Board and other members of the senior management team to a temporary 20% reduction in remuneration. I would like to thank our colleagues throughout the business affected by these decisions for their understanding and support.

Despite the strong H2 recovery, sales and profits for the full year were below 2019 levels. In delivering these results for 2020, the Committee has also been particularly conscious of the financial support the Group received in response to the pandemic, from both shareholders and Government.

It is in this context that the Committee has assessed 2020 outcomes, and approved new basic salary levels, awards and targets. These reflect performance in a challenging economic and political environment and provide stretching targets for future growth.

We were very appreciative of the strong level of support received from shareholders at the 2020 AGM, where the Annual Report on Remuneration was approved with 100% of votes in favour. As no changes are proposed to the existing policy, there will again only be one remuneration resolution tabled at the 2021 AGM i.e. the advisory shareholder vote on the Annual Report on Remuneration.

Elsewhere, I am pleased to report that the Group's inaugural SAYE scheme, launched in 2017, reached maturity in 2020, resulting in gains for participants and increased share-ownership by our colleagues.

Finally, I would like to thank my fellow Committee members, all of whom have served throughout the year, for their valuable contribution and support during such a challenging period.

Martyn Coffey
Chair of the Remuneration Committee
11 March 2021

Role and responsibilities:

The Committee's principal responsibilities are to:

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

Summary of activities during the year

The Committee met three times during 2020. The main Committee activities during the year (full details of which are set out in the relevant sections of this report) included:

- agreeing the performance against the targets and pay-out for the 2019 annual bonus awards;
- agreeing Executive Director and senior management base salaries from 1 April 2020;
- setting the performance targets for the 2020 annual bonus;
- agreeing the award levels and appropriate targets for the 2020 Performance Share Plan ('PSP') awards;
- agreeing the launch of the Group's 2020 Save as You Earn scheme;
- reviewing the Committee Terms of Reference;
- agreeing, in response to the COVID-19 pandemic, to the cancellation of all pay awards that were due to come into effect in April 2020; and
- agreeing to a voluntary temporary 20% reduction in remuneration by the Board and other members of the senior management team.

Impact of COVID-19

H1 was dominated by the impact of the first lockdown, with the business temporarily closed from late March until mid-May. However, we prepared well for re-opening, and benefited from a strong repair, maintenance and improvement (RMI) market, to deliver excellent sales and profit growth and good cash conversion in the second half. Also, good progress was made throughout the year with the project to fit-out our new warehouse, which remains on track.

Actions taken at the outset of the pandemic secured our financial position. These included self-help measures, such as the deferral of non-essential capital and other discretionary expenditure and cancellation of the final dividend payment for 2019. On remuneration, actions also included the decision to cancel all pay awards which were due to come into effect in April 2020, as well as a voluntary agreement by the Board and other members of the senior management team to a temporary 20% reduction in pay.

We are also grateful for the financial support we received in response to the pandemic from shareholders and the Government. In April we raised £17.1m (net) by way of a share placing, in order to retain good headroom on our bank facility, even under an extended shut-down, and to continue investment in the new warehouse. In addition, we have used various Government support measures, including the Coronavirus Job Retention Scheme, through which we recorded income of c.£6.5 million.

Outcome for 2020

Despite the strong H2 recovery, sales for the full year were 8% below 2019 and adjusted profit before tax was £8.5 million, compared to a profit in 2019 of £22.7 million. Following the success of the measures we took to conserve cash in H1, cash conversion was strong in the second half. Adjusted operating cash flow was £32.9 million, compared to £18.7 million in 2019.

Against stretching targets set before the onset of the pandemic, the outturn for both adjusted profit before tax and adjusted operating cash flow is below the threshold level of performance required under the Annual Bonus Plan and therefore no bonus is being awarded to the Executive Directors in respect of 2020. Further details of performance against the relevant targets can be found on page 95 of this report.

As a result of the pandemic, the grant of awards to Executive Directors under the PSP was delayed from the normal grant window until later in the 2020, so that the Committee could consider the appropriate level of grant and the most suitable performance conditions. PSP awards were therefore made in November 2020, with targets based on earnings per share and return on capital employed. Details can be found on page 96.

PSP awards originally granted in 2018 are expected to lapse in 2021 as a result of earnings per share and cash flow performance in the three years to 31 December 2020 being below threshold.

Implementation of the Remuneration Policy for 2021

The Remuneration Committee intends to operate the Remuneration Policy for 2021 as follows:

Base salaries

Salary levels are positioned to reflect experience and responsibility. Following cancellation of the salary increases that were due to come into effect in April 2020, Mark Kelly's and Michael Scott's current base salaries are £393,271 and £251,257 respectively. With effect from 1 April 2021, these salaries will be increased by 2.5% to £403,103 and £257,538 respectively.

Pensions/benefits

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

Annual bonus

The maximum annual bonus remains at 100% of salary. For 2021, 70% of the bonus will be based on adjusted profit before tax and 30% will be based on cash flow targets. The targets will be subject to a health and safety underpin. Any bonus in excess of 75% of salary will be deferred into shares for 3 years.

Long-term incentives

PSP awards are expected to be made in April 2021. Award levels will be set at 150% of salary for Mark Kelly and Michael Scott. Performance targets will be based on earnings per share (two-thirds of the award) and return on capital employed improvement (one-third) in the third year of the performance period.

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

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

Notwithstanding the fact that:

(i) we will not be seeking shareholder approval for any changes to our Remuneration Policy at the 2021 AGM; and
(ii) the relevant Regulations do not require us to reproduce our Remuneration Policy in this report;

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

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

No changes have been made to the policy since its disclosure in 2018 and therefore no further shareholder approval has been required.

Explanatory foreword

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

- Part A: The Directors' Remuneration Policy – which sets out a summary of the Remuneration Policy for which shareholder approval was obtained at the 2019 AGM and which will continue to apply without amendment for the forthcoming year.
- Part B: The Annual Report on Remuneration – which sets out payments and awards made to the Directors and details the link between Company performance and remuneration for 2020 and how the policy will be operated for 2021.

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

PART A: DIRECTORS' REMUNERATION POLICY

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

Executive Directors

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

Element and purpose	Policy and operation	Maximum	Performance measures
Pension To provide retirement benefits.	Executive Directors can receive pension contributions to personal pension arrangements or, if a Director is impacted by annual or lifetime limits on contribution levels to qualifying pension plans, the balance can be paid as a cash supplement.	The maximum employer's contribution is limited to up to 15% of base salary, although future Executive Director appointments will be offered a lower pension, to the extent this is possible, so as to align senior executive pension provision closer to workforce norms over time.	n/a
Annual Bonus Plan To motivate executives and incentivise delivery of performance over a one-year operating cycle, focusing on the short-to- medium-term elements of our strategic aims.	Annual Bonus Plan levels and the appropriateness of measures are reviewed annually at the commencement of each financial year to ensure they continue to support our strategy. Once set, performance measures and targets will generally remain unchanged for the year, except to reflect events such as corporate acquisitions or other significant events where the Committee considers it to be necessary in its opinion to make appropriate adjustments. Any annual bonus award above 75% of salary will be compulsorily deferred into Eurocell shares, under the Company's Deferred Share Plan ('DSP'), for 3 years from grant. The number of shares subject to vested DSP awards may be increased to reflect the value of dividends that would have been paid in respect of any ex-dividend dates falling between the grant of awards and the expiry of the vesting period. Malus and clawback provisions apply to the Annual Bonus Plan and DSP.	The maximum level of Annual Bonus Plan outcomes is 100% of base salary per annum for the duration of this policy.	The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate. Attaining the threshold level of performance for any measure will not produce a pay-out of more than 20% of the maximum portion of overall annual bonus attributable to that measure. However, the Annual Bonus Plan remains a discretionary arrangement and the Committee retains a standard power to apply its judgement to adjust the outcome of the Annual Bonus Plan for any performance measure (from zero to any cap) should it consider that to be appropriate.

Element and purpose	Policy and operation	Maximum	Performance measures
Long-term incentives To motivate and incentivise delivery of sustained performance over the long term, and to promote alignment with shareholders' interests, the Company operates PSP.	Awards under the PSP take the form of nil-cost options which vest to the extent performance conditions are satisfied over a period of at least 3 years. The number of shares subject to vested PSP awards may be increased to reflect the value of dividends that would have been paid in respect of any ex-dividend dates falling between the grant of awards and the expiry of the vesting period (or at the end of any holding period in respect of unexercised awards). A two-year post-vesting holding period applies to PSP awards granted to Executive Directors after the 2019 AGM. Malus and clawback provisions apply to PSP awards.	The PSP allows for awards over shares with a maximum value of 150% of base salary per financial year. The Committee expressly reserves discretion to make such awards as it considers appropriate within these limits.	The Committee may set such performance conditions on PSP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual). Performance periods may be over such periods as the Committee selects at grant, which will not normally be less than (but may be longer than) 3 years. No more than 25% of awards vest for attaining the threshold level of performance conditions.
Share ownership guidelines To further align the interests of Executive Directors with those of shareholders.	Executive Directors are required to retain 50% of the net of tax shares which vest under the PSP and DSP awards until the guideline is met.	No maximum limit (Guideline minimum target of 200% of base salary for all Executive Directors).	n/a
All-employee share plans To encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders.	These are all-employee share plans established under HMRC tax-advantaged regimes and follow the usual form for such plans. Executive Directors will be able to participate in all-employee share plans on the same terms as other Group employees.	The maximum participation levels for all-employee share plans will be the limits for such plans set by HMRC from time to time.	Consistent with normal practice, such awards will not be subject to performance conditions.

Chair and Non-executive Directors

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

Other elements of our policy include:

Recruitment remuneration policy

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

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

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

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

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

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

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

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

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

Service contracts

Executive Directors

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

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

The date of each Executive Director's contract is:

Mark Kelly	29 March 2016
Michael Scott	1 September 2016

Chair/Non-executive Directors

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

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

Name	Date of original appointment	Date of latest appointment	Term
Bob Lawson	4 February 2015	2 February 2021	3 years
Frank Nelson	4 February 2015	2 February 2021	3 years
Martyn Coffey	4 February 2015	2 February 2021	3 years
Sucheta Govil	1 October 2018	1 October 2018	3 years

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

Termination/change of control policy summary

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

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

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

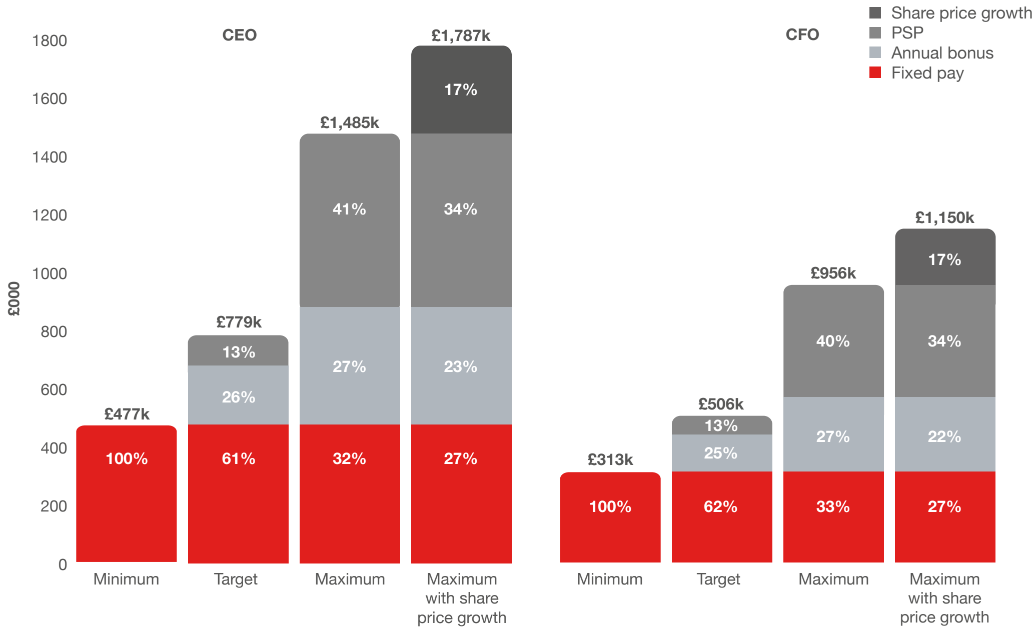
The Company has the power to enter into settlement agreements with Directors and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of the termination of an Executive Director, the Company may make a contribution towards that individual's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

Other policy matters

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

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

Illustrations of application of remuneration policy



The charts above aim to show how the remuneration policy for Executive Directors will be applied in 2021 using the assumptions in the table below.

Minimum

- Consists of base salary, benefits and pension.
- Base salary is the salary to be paid with effect from 1 April 2021.
- Estimated value of a full year's benefits, including car (and fuel) or car allowance, private family medical cover, permanent health insurance and travel insurance.
- Pension measured as the cash allowance in lieu of Company contributions at 15% of salary.

	Base salary	Benefits	Pension	Total fixed
Mark Kelly	£403,103	£13,560	£60,465	£477,128
Michael Scott	£257,538	£16,453	£38,631	£312,622

Target

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

Maximum

Based on the maximum remuneration receivable (excluding share price appreciation and dividends):
- Annual bonus: consists of maximum bonus of 100% of base salary.
- Long-term incentives: consists of the maximum level of vesting under the PSP.

Maximum with Share Price Growth

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

PART B: THE ANNUAL REPORT ON REMUNERATION

The Committee (unaudited information)

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

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

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

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

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

During the year, the Committee considered its obligations under the Code and concluded that:
- the Directors' Remuneration Policy supports the Company's strategy (including in the performance measures chosen); and
- remuneration for our Directors remains appropriate.

In addition, the Committee has ensured that the Directors' Remuneration Policy and practices are consistent with the six factors set out in Provision 40 of the Corporate Governance Code:
Clarity – Our Directors' Remuneration Policy is well understood by our senior executive team and has been clearly articulated to our shareholders and representative bodies (both on an ongoing basis and during a consultation when changes are being proposed).

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

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

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

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

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

FIT Remuneration Consultants LLP ('FIT'), signatories to the Remuneration Consultants Group's Code of Conduct, are appointed by the Committee and provide advice to the Committee on all matters relating to remuneration, including best practice. FIT provided no other services to the Group and, accordingly, the Committee was satisfied that the advice provided by FIT was objective and independent. FIT's fees in respect of 2020 were £9,272 (excluding VAT). FIT's fees were charged on the basis of the firm's standard terms of business for advice provided.

Audited information

Single total figure table (audited)

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

For the year ended 31 December 2020:

Director	Salary/fees[1] £000	Taxable benefits[2] £000	Pension £000	Total fixed remuneration £000	Bonus £000	Long-term incentives £000	Total variable remuneration £000	Total remuneration £000
Mark Kelly	380	29	57	466	—	—	—	466
Michael Scott	243	16	36	295	—	—	—	295
Robert Lawson	116	—	—	116	—	—	—	116
Frank Nelson	46	—	—	46	—	—	—	46
Martyn Coffey	44	—	—	44	—	—	—	44
Sucheta Govil	39	—	—	39	—	—	—	39

For the year ended 31 December 2019:

Director	Salary/fees £000	Taxable benefits[2] £000	Pension £000	Total fixed remuneration £000	Bonus £000	Long-term incentives £000	Total variable remuneration £000	Total remuneration £000
Mark Kelly	389	33	58	480	193	—	193	673
Michael Scott	248	21[3]	37	306	124	—	124	430
Robert Lawson	120	—	—	120	—	—	—	120
Frank Nelson	48	—	—	48	—	—	—	48
Martyn Coffey	45	—	—	45	—	—	—	45
Sucheta Govil	40	—	—	40	—	—	—	40
Patrick Kalverboer[4]	17	—	—	17	—	—	—	17

Notes:
1 The Directors took a 20% reduction in salary/fees, for 2 months, during the first lockdown period in 2020.
2 Taxable benefits comprise Company car (and fuel) or car allowance, private family medical cover, permanent health insurance and travel insurance.
3 Includes £5k relating to prior years.
4 Patrick Kalverboer stepped-down from the Board on 10 May 2019.

The aggregate emoluments (being salary/fees, bonuses, benefits and pension allowances) of all Directors for 2020 was £1,006,000 (2019: £1,373,000).

Further information on the 2020 annual bonus (audited)

In 2020, the annual bonus metrics were a blend of targets set before the onset of the COVID-19 pandemic, relating to adjusted profit before tax (70% of the bonus opportunity) and cash flow (30% of the bonus opportunity). In addition, a health and safety adjustment underpin applied which, if not achieved, could reduce the bonus pay-out (including to zero).

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

£m	Threshold	Target	Maximum	Actual	Pay-out (% of max)
Adjusted Profit before Tax (post IFRS 16)	22.0	23.2	24.9	8.5	0%
Adjusted cash flow (post IFRS 16)	39.0	41.0	44.1	32.9	0%

Performance below the threshold for both the adjusted profit before tax and the cash flow elements of the Annual Bonus Plan resulted in no bonus being awarded to the Executive Directors in respect of 2020.

PSP awards vesting in respect of 2020

The PSP values included under long-term incentives in the single figure table above (£nil) relate to awards granted in 2018 which vest in 2021, dependent on EPS and cash flow performance measured over the 3-year period ended 31 December 2020. As noted below, these share awards are not expected to vest, primarily reflecting the impact of COVID-19 on the financial results for 2020.

Under the EPS performance target (two-thirds of awards) which uses a sliding scale, 25% of this part of an award vests where the mean average annual growth of adjusted earnings per share of 4% p.a. is achieved over the three-year performance period, increasing pro-rata to full vesting where mean average annual growth of 10% p.a. is achieved.

Performance target	Base EPS	EPS at 31 December 2020	Average annual EPS growth	Threshold 4% p.a.	Maximum 10% p.a.	Vesting %
Adjusted EPS (pre IFRS 16)	20.4p	6.7p	(22.4)%	22.8p	26.5p	0%

Under the cash-flow target (defined as aggregate of EBITDA less working capital and excluding capital expenditure over the 3-year period) (one-third of awards), 25% of this part of an award vests for cash flow of £79.4m, increasing pro-rata to full vesting for cash flow of £97.0m.

Performance target	Threshold	Maximum	Actual	Vesting %
Cash flow	£79.4m	£97.0m	£63.3m	0%

As a result of EPS and cash flow performance, no PSP share awards are expected to vest in 2021.

Statement of Directors' shareholding and share interests (audited)

The table below details for each Director, the total number of Directors' interests in shares at 31 December 2020:

Director	Beneficially owned 31 December 2019[1]	Beneficially owned 31 December 2020[1]	Vested but unexercised awards	Unvested DSP	Unvested PSP[2]	Unvested SAYE	Shareholding Guideline (% of salary)[3]	Shareholding Guideline met?[3]
Mark Kelly	109,469	161,717	—	60,571	652,378	10,465	200	No
Michael Scott	14,215	38,488	—	38,697	416,796	10,465	200	No
Robert Lawson	87,026	101,311	—	—	—	—	—	n/a
Frank Nelson	43,376	49,090	—	—	—	—	—	n/a
Martyn Coffey	10,714	16,428	—	—	—	—	—	n/a
Sucheta Govil	—	5,714	—	—	—	—	—	n/a

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

PSP awards granted in 2020

The following awards were made under the PSP in 2020:

Director	Date of grant	Basis of award (% salary)	Share price[1]	Number of shares	Face value of award	Exercise period
Mark Kelly	17 November 2020	150%	191.0p	308,582	589,392	November 2023 to November 2024
Michael Scott	17 November 2020	150%	191.0p	197,149	376,555	November 2023 to November 2024

Notes:
1 Rounded to one decimal place for the purposes of presentation in this report.

The performance conditions, applying to the awards made in November 2020 relate to: (i) adjusted Earnings per Share for two-thirds of the award; and (ii) Group Return on Capital Employed for one-third of the award.

More specifically:

Adjusted EPS[1] for the year ended 31 December 2022	Portion of award vesting
Above 20.9p	100%
Between 19.3p and 20.9p	Pro rata on straight-line between 25% and 100%
19.3p	25%
Below 19.3p	0%

Group ROCE[2] for the year ended 31 December 2022	Portion of award vesting
Above 25%	100%
Between 20% million and 25%	Pro rata on straight-line between 25% and 100%
20%	25%
Below 20%	0%

1 Defined as adjusted earnings per share as shown in the consolidated audited accounts of the Company excluding non-underlying items for the third financial year of the performance period.
2 Defined as Group adjusted operating profit divided by average totals of opening and closing assets less trade and other payables for the third financial year of the performance period.

DSP awards granted in 2020

The following awards were made under the DSP in 2020 in respect to the 2019 annual bonus. Whilst not required under our Director's Remuneration Policy (which only requires annual bonus awards above 75% of salary to be deferred), 25% of the annual bonus paid to Mark Kelly and Michael Scott was deferred into shares to the one-year anniversary of the normal bonus payment date under the DSP.

Director	Date of grant	2019 Bonus Award (£)	Basis of deferred award (% bonus)	Share price[1]	Number of shares	Face value of award	Exercise period
Mark Kelly	9 September 2020	£193,415	25%	180.0p	26,863	£48,353	April 2021 to April 2022
Michael Scott	9 September 2020	£123,570	25%	180.0p	17,162	£30,892	April 2021 to April 2022

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

Outstanding share plan awards

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

Executive	Award type	Exercise price (p)	Grant date	Interest at 1 January 2020	Awards granted in the year	Awards lapsed in the year	Awards exercised in the year	Interest at 31 December 2020	Exercise period	Notes
Mark Kelly	PSP	0	04/04/17	148,148	—	(148,148)	—	—	Apr 20 – Apr 21	1
	PSP	0	18/04/18	173,549	—	—	—	173,549	Apr 21 – Apr 22	2
	PSP	0	24/04/19	170,247	—	—	—	170,247	Apr 22 – Apr 23	3
	PSP	0	17/11/20	—	308,582	—	—	308,582	Nov 23 – Nov 24	4
	DSP	0	04/04/17	45,502	—	—	(45,502)	—	Apr 20 – Apr 21	5
	DSP	0	18/04/18	33,708	—	—	—	33,708	Apr 21 – Apr 22	7
	DSP	0	09/09/20	—	26,863	—	—	26,863	Apr 21 – Apr 22	8
	SAYE	163.2	07/04/17	11,029	—	—	(11,029)	—	Jun 20 – Nov 20	9
	SAYE	172.0	09/04/20	—	10,465	—	—	10,465	Jun 23 – Nov 23	11
Michael Scott	PSP	0	04/04/17	94,650	—	(94,650)	—	—	Apr 20 – Apr 21	1
	PSP	0	18/04/18	110,879	—	—	—	110,879	Apr 21 – Apr 22	2
	PSP	0	24/04/19	108,768	—	—	—	108,768	Apr 22 – Apr 23	3
	PSP	0	17/11/20	—	197,149	—	—	197,149	Nov 23 – Nov 24	4
	DSP	0	04/04/17	12,724	—	—	(12,724)	—	Apr 20 – Apr 21	6
	DSP	0	18/04/18	21,535	—	—	—	21,535	Apr 21 – Apr 22	7
	DSP	0	09/09/20	—	17,162	—	—	17,162	Apr 21 – Apr 22	8
	SAYE	163.2	07/04/17	11,029	—	—	(11,029)	—	Jun 20 – Nov 20	10
	SAYE	172.0	09/04/20	—	10,465	—	—	10,465	Jun 23 – Nov 23	11

All figures above exclude dividend equivalent shares, where applicable.

Notes:
1 See 'PSP Awards Vesting in Respect of 2019' section in the 2019 Directors' Remuneration Report.
2 See 'PSP Awards Vesting in Respect of 2020' section above.
3 As disclosed in the 2019 Directors' Remuneration Report.
4 See 'PSP Awards Granted in 2020' section above.
5 DSP awards in respect of the deferred element of the 2016 annual bonus award. On 25 November 2020, an option was exercised by Mark Kelly when the share price was 212.5p. In accordance with the rules of the DSP, a further 5,547 shares were added to the original share award and therefore 51,049 shares were acquired under the option. 24,115 shares were sold immediately to cover the associated tax liabilities of the share vesting. The gain made by Mark Kelly was £108,479.
6 DSP awards in respect of the deferred element of the 2016 annual bonus award. On 25 November 2020, an option was exercised by Michael Scott when the share price was 212.5p. In accordance with the rules of the DSP, a further 1,549 shares were added to the original share award and therefore 14,273 shares were acquired under the option. 6,743 shares were sold immediately to cover the associated tax liabilities of the share vesting. The gain made by Michael Scott was £30,330.
7 DSP awards in respect of the deferred element of the 2017 annual bonus award
8 See 'DSP awards granted in 2020' section above.
9 On 9 September 2020, an option granted under the Eurocell plc Save as You Earn Scheme was exercised by a Mark Kelly when the share price was 180.0p. The gain made by Mark Kelly was £1,853.
10 On 14 October 2020, an option granted under the Eurocell plc Save as You Earn Scheme was exercised by a Michael Scott when the share price was 182.5p. The gain made by Michael Scott was £2,129.
11 Awards granted under the Eurocell plc Save As You Earn Scheme. Awards are based on a 3-year savings contract with an exercise price of 172.0p.

During the year ended 31 December 2020, the highest mid-market price of the Company's shares was 275p and the lowest mid-market price was 165p. At 31 December 2020 the share price was 208p.

The aggregate gains by all Directors during 2020 was £142,791 (2019: £nil).

Payments to past directors (audited)

No payments to past directors were made during the year.

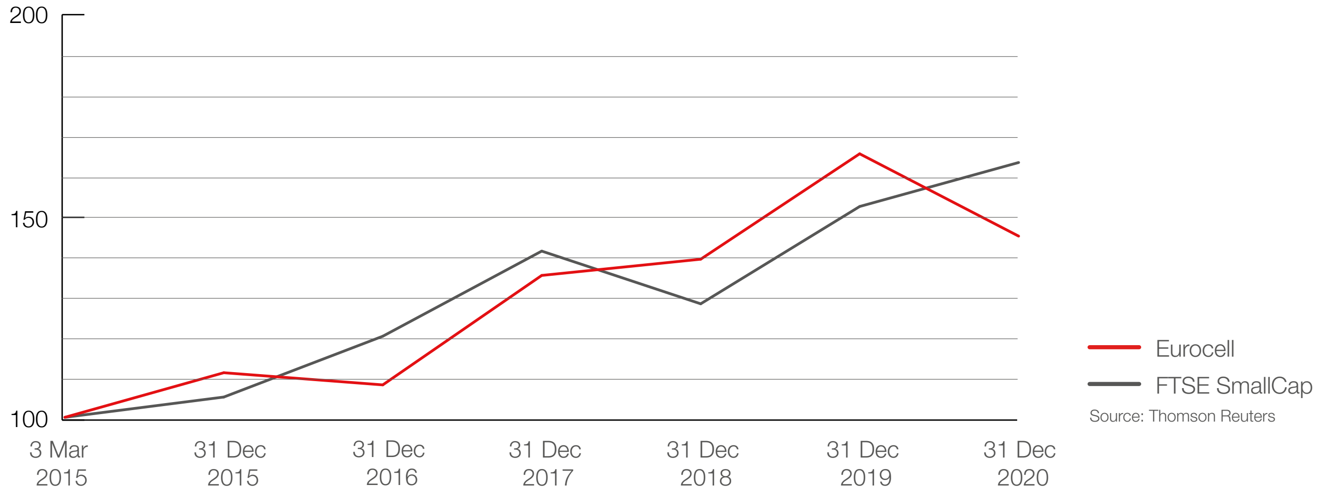
Payments for loss of office (audited)

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

Performance graph and CEO remuneration table (unaudited)

The following graph shows the Total Shareholder Return ('TSR') performance of an investment of £100 in Eurocell plc's shares from its listing in March 2015 to 31 December 2020, compared with a £100 investment in the FTSE SmallCap Index over the same period. The FTSE SmallCap Index was chosen as a comparator because it represents a broad equity market index of similar-sized companies.

Total Shareholder Return Index



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

Year	CEO	Single figure of total remuneration	Annual Bonus pay-out against maximum %	Long-term incentive vesting rates against maximum opportunity %	Year-on-year change in CEO remuneration %	Year-on-year change in employee remuneration %
2020	Mark Kelly	£465,945	0%	0%	(31)%	2%
2019	Mark Kelly	£673,262	49%	0%	47%	2%
2018	Mark Kelly	£459,294	0%	0%	(50)%	2%
2017	Mark Kelly	£916,442	40%	n/a	8%	2%
2016	Mark Kelly Patrick Bateman	£560,558 £284,457	80% 33%	n/a n/a	33%	2%
2015	Patrick Bateman	£637,098	87%	n/a	n/a	n/a

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

Annual change in remuneration of each director compared to employees (unaudited)

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

	Salary/fee increase/decrease[1] %	Annual bonus increase/decrease %	Taxable benefits increase/decrease %
Mark Kelly	(2)%	(100)%	(12)%[2]
Michael Scott	(2)%	(100)%	(24)%[3]
Robert Lawson	(3)%	n/a	n/a
Frank Nelson	(3)%	n/a	n/a
Martyn Coffey	(3)%	n/a	n/a
Sucheta Govil	(3)%	n/a	n/a
All employees	1%	(50)%	0%

Notes:
1 All the Directors took a 20% reduction in salary/fees during the first lockdown period in 2020.
2 Mark Kelly changed to a more tax-efficient car during 2020.
3 2019 taxable benefits for Michael Scott included c.£5,000 relating to prior years. Without this adjustment, his taxable benefits increase/decrease would be nil%.

CEO to employee pay ratio

The table below shows the CEO to employee pay ratio.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	Option B	23 : 1	19 : 1	15 : 1
2019	Option B	34 : 1	27 : 1	21 : 1

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

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

	Salary £'000			Total pay and benefits £'000		
Year	25th percentile	Median	75th percentile	25th percentile	Median	75th percentile
2020	19	24	30	20	25	31

Based on the salary profile of the Group's UK employees, the median pay ratio is consistent with the pay, reward and progression policies of the Group as a whole.

Relative importance of spend on pay (unaudited)

The table below details the change in total employee pay between 2019 and 2020 as detailed in Note 8 of the Financial Statements, compared with distributions to shareholders by way of dividend, share buybacks or any other significant distributions or payments.

	% change	**2020 £m**	2019 £m
Total gross employee pay	(7)%	**60.7**	65.5
Dividends/share buybacks	(100)%	**nil**	9.6

The average number of employees during the year was 1,945 (2019: 1,855).

Statement of voting at General Meeting

The following table shows the results of the binding Remuneration Policy vote at the 10 May 2019 AGM and the advisory Directors' Remuneration Report vote at the 14 May 2020 AGM.

	(Binding Vote) Approval of the Directors' Remuneration Policy		(Advisory Vote) Annual Report on Remuneration	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	87,361,882	99.41%	96,515,670	100%
Against	518,633	0.59%	0	0%
Votes withheld	1,737,500	—	600	—

Implementation of policy for 2021 (unaudited information)

Base salary

- Following cancellation of the salary increases that were due to come into effect in April 2020, Mark Kelly's and Michael Scott's current base salaries are £393,271 and £251,257 respectively. With effect from 1 April 2021, these salaries will be increased by 2.5% to £403,103 and £257,538 respectively.

Pension

- Contribution rates for Executive Directors will be 15% of salary in 2021.

Benefits

- Details of the benefits received by Executive Directors are set out in Note 2 to the Single Total Figure Table on page 95. There is no intention to introduce additional benefits in 2021.

Annual bonus

- The annual bonus opportunity for 2021 will be structured in a similar manner to 2020. The maximum bonus will be 100% of salary and will be payable based on performance against a blend of adjusted profit before tax (70% of the bonus opportunity) and operating cash flow (30% of the bonus opportunity) targets.
- These targets will be set in light of internal and external forecasts and will require significant outperformance to generate higher levels of pay-out. In addition, a health and safety adjustment underpin will apply which, if not achieved, could reduce the bonus pay-out. Any bonus earned above 75% of salary will be deferred into shares for three years.
- Given the competitive nature of the Company's sector, the specific performance targets for 2021 are considered to be commercially sensitive and, accordingly, are not disclosed at this time, although the targets will be disclosed in next year's report in relation to the 2021 bonus outturn.

Long-term incentives

- Awards will be made under the PSP in 2021 to the Executive Directors structured in a similar manner to the awards made in 2020, in that awards will be made which will vest subject to three-year earnings per share (two-thirds of the award) and return on capital employed (one-third) targets.
- Full details of these targets will be disclosed in next year's report, with these targets no less challenging in relative terms than the targets applied to the 2020 PSP awards.

Chair and Non-executive Directors' fees

- The fees of the Chair and Non-executive Directors will remain unchanged from 2020 levels.
- Robert Lawson receives a fee of £120,000 p.a. as Chair.
- The Non-executive Directors each receive a fee of £40,000 p.a., with an additional fee of £5,000 p.a. for each of the Chair of the Audit Committee and Chair of the Remuneration Committee and an additional fee of £3,000 p.a. for the Senior Independent Director.

Directors' Report

The Directors present their audited consolidated financial statements for the year ended 31 December 2020. Eurocell plc (the "Company") is a company incorporated and domiciled in the UK, with registration number 08654028, and is the holding company of the Eurocell Group of companies (the "Group"). All of the Group's activities are within the United Kingdom, with the exception of two overseas branches in the Republic of Ireland.

The shares of the Company have been traded on the main market of the London Stock Exchange throughout the year ended 31 December 2020.

The Directors' Report includes the Corporate Governance Statement set out on pages 67 to 76.

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

The Directors of the Company are listed on pages 64 and 65 and were in place on the date this Directors' Report was approved, all of whom served throughout the year, with no changes in the intervening period.

Strategic Report

As permitted by section 414C of the Companies Act 2006, certain information required to be included in the Directors' Report has been included in the Strategic Report, which is set out on pages 1 to 63. Specifically, this relates to information on the Group's strategy, business model, likely future developments and risk management.

UK Corporate Governance Code

Matters related to corporate governance and our compliance with the Code are set out in the Corporate Governance Statement on pages 67 to 76, which is incorporated herein by reference.

Results

Our Financial Statements for year ended 31 December 2020 are set out on pages 116 to 157. The Financial Statements should be read in conjunction with the Chief Executive Officer's Report, Divisional Reviews and the Chief Financial Officer's Report.

Dividends

Due to the impact of COVID-19, the final dividend for the year ended 31 December 2019, declared in March 2020, was subsequently cancelled.

Total dividends in respect of 2019 were therefore the interim dividend of 3.2 pence per share, paid in October 2019. No dividends were paid in the year to 31 December 2020 (2019: £9.4 million), as disclosed in the Consolidated Cash Flow Statement.

Also as a result of the COVID-19 impact, no dividends will be declared or paid in respect of 2020. It remains the Company's intention to return to paying dividends in 2021.

Tax governance

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

Tax Policy

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

Risk management of tax affairs

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

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

Tax planning

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

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

Engaging with HMRC

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

Share Capital

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

As at 31 December 2020, we had 111,486,709 (2019: 100,335,353) ordinary shares of 0.1 pence each in nominal value in issue (the 'issued share capital'). Details of the shares issued in the year are shown in Note 25 to the Consolidated financial statements.

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

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

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

Share schemes

The Company operates a number of Share schemes.

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

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

Related party transactions

Other than in respect of arrangements set out in Note 30 to the Financial Statements and in relation to the employment of Directors, details of which are provided in the Remuneration Committee Report on pages 85 to 100, there is no material indebtedness owed to or by us to any employee or any other person or entity considered to be a related party.

Substantial shareholders

As at 31 December 2020, the Company's major shareholders were as follows:

Shareholder	No. of Shares	% of voting rights
Soros Fund Management	18,894,866	17.0
Aberforth Partners	15,088,326	13.5
Alantra Asset Management	14,419,476	12.9
JO Hambro Capital Management	10,513,838	9.4
AXA Framlington Investment Managers	9,370,821	8.4
Schroder Investment Management	6,865,368	6.2
Chelverton Asset Management	5,744,411	5.2
Columbia Threadneedle Investments	4,380,121	3.9
Janus Henderson Investors	3,807,347	3.4

The Takeover Directive

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

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

Articles of Association

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

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

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

Directors' retirement by rotation

In accordance with above and in line with the Code, all Directors in office will retire and offer themselves for re-election at the 2021 AGM.

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

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

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

Directors' interests

Details of Directors' remuneration, interests in the share capital (or derivatives or other financial instruments relating to those shares) of the Company and of their share-based payment awards are contained in the Remuneration Committee Report on pages 85 to 100. No change in the interests of the Directors has been notified between 31 December 2020 and the date of this report.

Directors' indemnities

Pursuant to the Articles of Association, the Company has executed a deed poll of indemnity for the benefit of the Directors of the Company, and persons who were Directors of the Company, in respect of costs of defending claims against them and third-party liabilities. These provisions, deemed to be qualifying third-party indemnity provisions pursuant to section 234 of the Companies Act 2006, were in force during the year ended 31 December 2020 and remain in force. The indemnity provision in the Company's Articles of Association also extends to provide a limited indemnity in respect of liabilities incurred as a director, secretary or officer of an associated company of the Company.

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

Conflicts of interest

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

Legal and regulatory compliance

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

Health and Safety

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

Other matters

Employee disclosure (including Equality, Diversity and Disabled employees)

See Responsible Business section on pages 44 to 49.

Financial risk management

Please refer to Note 3 of the Financial Statements.

Research and development

The Group undertakes research and development work in support of it objectives. Further details of our research and development activities can be found in the Strategic Report on pages 1 to 63.

Payments to suppliers

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

Donations

In accordance with the Group's policy, no political donations were made and no political expenditure was incurred during 2020 (2019: £nil).

Greenhouse gas emissions

See Responsible Business section on page 38.

Disclosures required by Listing Rule 9.8.4R

There were no waivers of dividends during the year. There are no other disclosures to be made under the above listing rule.

By Order of the Board

Paul Walker
Group Company Secretary
11 March 2021

Statement of Directors' Responsibilities in respect of the Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in the corporate governance section on pages 64 and 65 confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union , give a true and fair view of the assets, liabilities, financial position and loss of the group;
- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and loss of the company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and company's auditors are aware of that information.

The Directors' Responsibility Statement was approved by the Board on 11 March 2021.

Mark Kelly
Chief Executive Officer

Michael Scott
Chief Financial Officer

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion
In our opinion:
- Eurocell plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's loss and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2020 (the "Annual Report"), which comprise: the Consolidated Statement of Financial Position and the Company Statement of Financial Position as at 31 December 2020; the Consolidated Statement of Comprehensive Income, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union
As explained in Note 1 to the group financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group.

Other than those disclosed in Note 5 to the financial statements, we have provided no non-audit services to the group in the period under audit.

Our audit approach
Overview

Audit scope
- A component was considered to be a company or division where discrete financial data was prepared. Financially significant components were determined to be those which contributed more than 15% of the underlying profit before tax (measured on an absolute basis).
- For components that were not financially significant audit work was performed over specific Financial Statement Line Items ("FSLI's") if they contributed more than 5% of the consolidated FSLI and were above group performance materiality. For all other balances/components disaggregated analytical review procedures were performed to group materiality.
- Work on the consolidation was considered separately to the component scoping exercise and performed to group materiality.
- All work was performed by the group audit team.

Key audit matters
- COVID-19 (group and company).
- Assessment of the valuation of inventory (group).
- Trade receivables provisions (group).
- Impairment of assets at a Cash Generating Unit ("CGU") level (group)
- Impairment to intercompany investments and intercompany receivables (company).

Materiality
- Overall group materiality: £891,000 (2019: £1,130,000) based on 5% of the average underlying profit before taxation for the past three years (2019: 5% of underlying profit before taxation for 2019).
- Overall company materiality: £647,000 (2019: £730,000) based on 1% of total assets.
- Performance materiality: £668,000 (group) and £485,000 (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to fraud, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management overstating the financial position and/or performance of the group as a result of pressure to meet expectations/objectives (for example loan covenants or analyst expectations). Audit procedures performed by the engagement team included:

- enquiry of management and those charged with governance around actual and potential frauds, litigations or claims against or by the group/company;
- reviewing financial statement disclosures and testing supporting documentation to assess compliance with applicable laws and regulations;
- auditing the risk of management override of controls, through testing journal entries (using our data analysis tools to confirm completeness of data) by adopting a risk based approach for appropriateness, testing significant accounting estimates (as defined in the notes to the financial statements) because of the risk of potential management bias, and evaluating the business rationale and accounting for significant or unusual transactions outside the normal course of business (for example claims under the Job Retention Scheme and the non-underlying items detailed in Note 7);
- auditing the risk of fraud in revenue recognition by using our data analysis tools to identify unusual credits to revenue for further investigation and through testing any material judgements within revenue recognition (such as customer incentives) and the year end accrued and deferred income balances; and.
- performing unpredictable audit procedures, which are changed year on year.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

COVID-19, Impairment to intercompany investments and intercompany receivables (company) and Impairment of assets at a Cash Generating Unit ("CGU") level (group) are new key audit matters this year. IFRS 16, which was a key audit matter last year, is no longer included because of the risk in the prior year related to the adoption of this new complex standard. With only one material new lease entered into in 2020, the impact and risk assessment for this year's audit has been reduced. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
COVID-19 (group and company) Refer to pages 56 to 62 (Risk management and Principal risks and uncertainties) and pages 80 to 84 (Audit and Risk Committee report). The impact of the first lockdown and the subsequent uncertainty caused by the global economic environment since this period has had an impact on the Group. This has specifically impacted forward looking key estimates (inventory provisions, trade receivable provisions, asset impairments and going concern). It has also resulted in material non-underlying charges in the year of £10million (2019: £nil) as detailed in Note 7. Due to the equity raised and extension of the financing facilities, both agreed in 2020, and the performance of the business in the second half of 2020 going concern was not considered a Key audit matter. The key estimates are linked to the below Key audit matters and therefore only the work performed in relation to non-underlying costs are detailed in this Key audit matter.	For work performed in relation to asset impairments please refer to the other key audit matters below. In relation to the classification of certain costs as non-underlying our audit work consisted of: • We obtained from management their analysis of items to be included as non-underlying and considered if these agreed with the requirements of IAS 1 and the group accounting policies; • We discussed with the Audit and Risk Committee the basis of management's assessment of these costs; • In relation to the impairment of goodwill and the costs associated with the dual running of the warehouse we noted that no such costs had been incurred in the prior five years; • We obtained an analysis of the non-underlying items and performed audit procedures to validate accuracy of management's analysis; and • We challenged management on the disclosure of these costs as non-underlying and the disclosures made of this key judgement within the Annual Report. Based upon the above audit procedures we concluded that these costs met the group accounting policy requirements to be treated as non-underlying. The disclosures and narrative in relation to these is appropriate and in line with the requirements of accounting standards, notably IAS1.
Assessment of the valuation of inventory (group) Refer to pages 56 to 62 (Risk management and Principal risks and uncertainties), pages 80 to 84 (Audit and Risk Committee report), Note 1 (Accounting Policies), Note 2 (Critical Accounting Estimates and Judgements) and Note 18 (Inventories). Inventory totalled £38.1 million as at 31 December 2020 (2018: £37.3million) after provisions of £4.2 million (2019: £1.4 million). We focused on this area because the Directors' assessment of the absorption of labour and overhead costs into inventory and the assessment of the recoverability of inventory involved complex and subjective judgements. Specifically, the determination of inventory provisions for slow moving, obsolete and discontinued line items, reflecting the level of inventory held across the branch network and manufactured goods at the year end, requires the exercise of judgement.	Our audit procedures over the initial valuation of inventory consisted of: • We understood the nature of the costs that the Directors absorbed into inventory and determined their appropriateness in line with IAS 2 'Inventories' ("IAS 2"); • We tested, on a non-statistical sampling basis, the valuation and calculation of costs absorbed into inventory; • We re-performed the valuations of inventory on a non-statistical sampling basis; and • We challenged management over the costs included within inventory, the setting of the standard costs and the accounting for variances. Our audit procedures over the impairment of inventory consisted of: • Our attendance at the physical inventory counts, conducted by management, highlighted no increased areas of concern, regarding excess / unused stock held at either the branches we visited or the manufacturing sites; • We understood the Directors' methodology for calculating inventory provisions. We evaluated the Directors' assumptions over future forecast usage and validated historic usage and compared this to forecasted future sales; • Where inventory provisions were based upon expected future demand or historical sales data, we tested the underlying report to validate the data on which management's calculations were based; • We selected an audit sample of inventory held as at 31 December 2020 and verified that sales recorded in 2021 were made above cost; and • Where specific impairments were made, outside of the standard impairment reviews, we challenged management of the completeness and appropriateness of these additional amounts. Based on the results of our audit work, we concluded that the inventory recognised by the Directors was at an appropriate and was consistent with the requirements of IAS 2. Appropriate disclosures regarding the above had also been made.

Key audit matter	How our audit addressed the key audit matter
Trade receivables provisions (group) Refer to pages 56 to 62 (Risk management and Principal risks and uncertainties), pages 80 to 84 (Audit and Risk Committee report), Note 1 (Accounting Policies), Note 2 (Critical Accounting Estimates and Judgements) and Note 19 (Trade and other receivables). The Group had gross trade receivables of £38.6 million at 31 December 2020 (2019: £36.9million) against which provisions of £4.4 million (2019: £1.6 million) were held in accordance with IFRS 9. We focused on this area because the Directors' assessment of the provisions required in respect of trade receivables included complex and subjective judgements. These increased in complexity this year due to the uncertain economic environment at 31 December 2020.	We understood the Directors' methodology for calculating trade receivables provisions across the Group and considered if these complied with IFRS 9. Audit procedures performed were: • We confirmed that the amounts included in the IFRS 9 model agreed back to the audited sales ledgers as at 31 December 2020; • We tested the ageing of amounts due at the balance sheet date to validate management had analysed the data correctly; • We tested the accuracy of the calculations in the model; • We reviewed the accuracy of past management estimates; • We considered the results of our other audit procedures over trade receivables (for example review of post year end payments made by customers) for inconsistencies with the IFRS 9 models; and • We challenged management over the increase in the expected credit loss percentage applied to each category. We identified no material exceptions from the procedures noted above. Based on the results of our audit work we concluded that the provisions recorded were materially accurate, calculated in line with the requirements of IFRS 9 and appropriate disclosures have been made.

Key audit matter	How our audit addressed the key audit matter
Impairment of assets at a Cash Generating Unit ("CGU") level (group) Refer to pages 56 to 62 (Risk management and Principal risks and uncertainties), pages 80 to 84 (Audit and Risk Committee report), Note 1 (Accounting Policies), Note 2 (Critical Accounting Estimates and Judgements) and Note 17 (Impairment). The group has intangible assets of £19.9million (2019: £27.0million) and total assets of £201.4million (2019: £189.6m). Management must perform an annual impairment assessment for Goodwill and for other assets where impairment triggers are noted. Management have therefore performed an impairment assessment at a CGU level for the group's assets. The recoverability of these assets, and in particular intangibles not subject to amortisation (for example Goodwill) require the use of significant judgement and estimates by management, which are further complicated by the impact of COVID-19. Management have prepared an analysis, as detailed in Note 17, regarding the recoverability of the assets within each CGU. During the year an impairment of £5.8million has been recognised in relation to the full impairment of the Goodwill relating to the acquisition of Eurocell Recycle North ("Ecoplas"). No other impairments have been noted as a result of management's CGU impairment review.	As the CGU's were defined to be in line with the legal structure of the group, with the exception of the S&S division of Eurocell Profiles Limited, we concurred that management had appropriately defined CGU's (these were also in line with the prior year). Audit procedures over the validity of management's impairment models and key estimates/data were: • We tested the integrity of the models (i.e calculations were being performed as expected); • We confirmed that the assets being considered for impairment were appropriately split by CGU and agreed back to the audited consolidated statement of financial position; • We tested the calculations for the Weighted Average Cost of Capital ("WACC") by reperforming management's calculations; • We agreed the cashflows for each CGU for 2021 to the latest board approved budgets. For the 2022 & 2023 periods we discussed with management the basis of any improvements in the underlying performance of each CGU and other key assumptions such as capital expenditure. We understood the basis for these key assumptions and considered them against of our experience from prior years (for example comparing forecasted gross margins and capital expenditure to historical levels); • We considered the prior accuracy of management's budgets and the impact this might have on management's assessment; • We challenged management on the key assumptions within the model being, 1) The WACC, 2) the terminal growth rate of 2% and 3) the underlying cash flow projections for the next three years (with the third year being utilised in the terminal value calculations); and • We audited the impairment assessment performed as at 30 June 2020 which resulted in the £5.8million impairment to Goodwill relating to Ecoplas. As noted in managements sensitivity disclosures, a significant change to WACC or the terminal growth rate would be required prior to further impairments being noted. In addition to the above procedures, we performed our own analysis to consider what level of underperformance would be required prior to further impairments being recorded. All CGU's apart from Ecoplas highlighted that underperformance against budgets, outside that experienced in recent history, would be required prior to further impairments being noted. We also compared the total of all the CGU's valuation to the market capitalisation of the group. We specifically challenged management on the latest projections for Ecoplas, given the impairment made in the year with headroom noted at the year end. No exceptions were noted during our audit testing. In line with the detailed requirements of IAS 36, the impairment made at 30 June 2020 regarding the goodwill of Ecoplas has not been reversed as at 31 December 2020. We therefore concluded that sufficient audit evidence has been obtained regarding management's impairment assessment. These have been performed in line with the requirements of IAS 36 with appropriate disclosures being made.

Key audit matter	How our audit addressed the key audit matter
Impairment to intercompany investments and intercompany receivables (company)) Refer to Note 34 (Accounting Policies), Note 35 (Critical Accounting Estimates and Judgements), Note 37 (Investments) and Note 38 (Trade and other receivables). The company has investments in subsidiary companies of £17.8million (2019: £17.8million) and intercompany receivables of £46.2million (2019: £55.2m). Material impairment to these could result in implications for future dividends.	We obtained managements impairment assessment regarding the investments carrying value and management's IFRS 9 expected credit loss model in respect of the intercompany receivables. The recoverability of the investments carrying value was based upon the same underlying data noted in the group impairment of non-current assets key audit matter above. We also noted that the market capitalisation of the group was circa £240million as at 31 December 2020 which is significantly in excess of the company's total assets. We considered the IFRS 9 model and noted that a significant change in the key assumption (being the expected loss of 0.1%) would be required prior to a material impairment being noted. The amounts owed to the company were due from profitable subsidiaries, with net assets and no history of losses being recognised. We tested the integrity of the models and the validity of the key data inputs. No exceptions were noted in the performance of the above procedures. We therefore concluded that the investments and intercompany receivables were accounted for in line with IFRS 9 and IAS 36, with appropriate disclosures being made.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Eurocell operates in the market of the extrusion of UPVC (unplasticised polyvinyl chloride) window and building products to the new and replacement window market and the sale of building plastics materials. The Group has sites throughout the UK with its headquarters in Alfreton.

The business is managed as two primary divisions:

- Eurocell Building Plastics, focusing on sales and distribution across just over 200 branches within the UK and two in Ireland to generally smaller scale customers. This segment includes the trading subsidiary companies Eurocell Building Plastics Limited and Security Hardware Limited; and
- Eurocell Profiles, focusing on manufacture and distribution to large-scale customers. This division includes the trading subsidiaries Eurocell Profiles Limited, Vista Panels Limited, and Ecoplas Limited.

Other than Vista Panels Limited, which has its own finance team, all finance and operational management functions are located at the Alfreton headquarters. Therefore, all audit work, including work on components, was completed by a single group audit team.

For the purposes of our audit of the group we considered components to be operations where there was discrete financial data maintained by management, including a separate trial balance. For the consolidated audit of Eurocell plc this related to the individual subsidiary companies, with Eurocell Profiles Limited being seen as two components (as S&S Plastics is now a division within Eurocell Profiles Limited).

A component was included within our full scope audit procedures, and considered to be a financially significant component, if it represented 15% or more of the reported underlying profit before taxation, measured on an absolute basis (as some entities act as cost centres then all results of components were added together and then if a component represented 15% or more of this total it was included as a financially significant component). In line with prior years, there were two financially significant components (Eurocell Profile Limited, excluding the S&S plastics division, and Eurocell Building Plastics Limited). These alone represented 86% of the reported consolidated revenues and 61% of the reported consolidated underlying profit before taxation on an absolute basis.

We then considered the remaining components to ascertain if further procedures would be required. Where these had an Individual Financial Statement Line Item ("FSLI") that represented more than 5% of the Consolidated FSLI and was individually above group planning materiality we included that specific FSLI within our scope of testing and performed audit procedures over this FSLI to group materiality. Due to the relative size of the acquisitions between 2015 and 2019 a number of additional FSLI's were included as a result of the above assessment, which increased the coverage over reported revenues to 93%. For all other balances not considered for detailed testing, analytical review procedures were performed, to group materiality.

There were no specific components or areas included within our group audit scope due to specific risk factors.

Work was performed over the consolidation adjustments separately to the above scoping of components, due to the relative simplicity of the group and the nature of the consolidation (performed by the head office finance function with mainly UK operations). This was performed using group materiality.

For the Eurocell plc company audit the only material transactions and balances related to the intercompany investments (including amounts owed by subsidiary companies) and the debt held by the Company. These were all included in the scope of our audit and tested using the company materiality by the group audit team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	£891,000 (2019: £1,130,000).	£647,000 (2019: £730,000).
How we determined it	5% of the average underlying profit before taxation for the past three years (2019: 5% of underlying profit before taxation for 2019).	1% of total assets
Rationale for benchmark applied	We believe that underlying profit before tax is the key measure used by the shareholders in assessing the performance of the group. This benchmark, which excludes the non-underlying items described in Note 7 to the financial statements, provides a consistent year on year basis for determining materiality by eliminating the non-recurring impact of these items. Due to the significant impact of the closure of business in the late March to early May 2020 first lockdown period, for this year we have applied an average, based upon the last three years of underlying financial results.	We believe that total assets is the primary measure used by the shareholders in assessing the financial position of the entity, and is a generally accepted auditing benchmark

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £630,000 and £815,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £668,000 for the group financial statements and £485,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £44,500 (group audit) (2019: £60,000) and £30,000 (company audit) (2019: £35,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Discussions with management and those charged with governance regarding the future plans and cash flow projections for the group. This included discussions around the forecast cash requirements and sufficiency of available facilities to deal with a severe but plausible downside to these projections;
- We obtained managements analysis and cash flow model. We checked this for consistency (i.e the integrity of the model) and that the base projections agreed to the approved budgets and were consistent with our work in other areas, for example the projections were consistent with those used for the impairment reviews;
- We considered the accuracy of managements forecasting in prior years by comparing actual to forecasted cash flows in the past three years (i.e the period for which the senior management team has remained materially unchanged);
- We discussed with management the basis of the "base case" and what factors had been considered in their downside "sensitised case". We recalculated management's assessment of the impact of these scenarios on the forecasted compliance with financial covenants and sufficiency of facilities/available cash;
- We considered the reported headroom on facilities at each month end for the review period (i.e until 31 December 2023);
- We challenged management around which scenarios would be required prior to the covenant facilities being breached or available facilities being breached and considered if these were plausible or possible. This included performing our own sensitivities to ascertain the levels of underperformance required to a breach;
- We reviewed the debt facilities to ascertain if management had correctly factored in financial covenants to their model, including that covenants were appropriately calculated at each measurement point;
- We audited management's compliance with the covenants during 2020; and
- We critically assessed the disclosures in relation to going concern compared to the evidence obtained above, our understanding of the group and the various requirements detailed within Company Law, the Listing Rules and accounting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report and Accounts 2020 that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit and Risk Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the directors on 29 April 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ended 31 December 2015 to 31 December 2020.

Christopher Hibbs
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
11 March 2021

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 Underlying £m	Year ended 31 December 2020 Non-underlying[1] £m	Year ended 31 December 2020 Total £m	Year ended 31 December 2019 Underlying £m	Year ended 31 December 2019 Non-underlying[(1)] £m	Year ended 31 December 2019 Total £m
Revenue	4,9	**257.9**	**–**	**257.9**	279.1	–	279.1
Cost of sales		**(130.5)**	**–**	**(130.5)**	(136.2)	–	(136.2)
Gross profit		**127.4**	**–**	**127.4**	142.9	–	142.9
Distribution costs		**(15.8)**	**–**	**(15.8)**	(18.7)	–	(18.7)
Administrative expenses		**(97.6)**	**(3.8)**	**(101.4)**	(98.1)	–	(98.1)
Impairment of goodwill[2]		**—**	**(5.8)**	**(5.8)**	–	–	–
IFRS 9 impairments and bad debt charges[2]		**(3.7)**	**—**	**(3.7)**	(1.5)	–	(1.5)
Operating profit	9	**10.3**	**(9.6)**	**0.7**	24.6	–	24.6
Finance expense	10	**(1.8)**	**(0.4)**	**(2.2)**	(1.9)	–	(1.9)
Profit/(loss) before tax	9	**8.5**	**(10.0)**	**(1.5)**	22.7	–	22.7
Taxation	11	**(1.5)**	**0.8**	**(0.7)**	(3.4)	–	(3.4)
Profit/(loss) for the year and total comprehensive (expense)/income		**7.0**	**(9.2)**	**(2.2)**	19.3	–	19.3
Basic earnings/(losses) per share	12	**6.5p**		**(2.0)p**	19.3p		19.3p
Diluted earnings/(losses) per share	12	**6.5p**		**(2.0)p**	19.2p		19.2p

1 Non-underlying items are detailed in Note 7. The Group's policy regarding the recognition of non-underlying items is outlined on page 122.
2 The impairment of goodwill and IFRS 9 impairments have been disclosed on the face of the Consolidated Statement of Comprehensive Income due to the material nature of the charges in 2020.

The Notes on pages 116 to 148 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position

As at 31 December 2020

	Note	2020 £m	2019 £m
Assets			
Non-current assets			
Property, plant and equipment	14	**50.8**	44.2
Right-of-use assets	15	**47.0**	35.3
Intangible assets	16	**19.9**	27.0
Total non-current assets		**117.7**	106.5
Current assets			
Inventories	18	**38.1**	37.3
Trade and other receivables	19	**38.5**	40.9
Cash and cash equivalents		**7.1**	4.9
Total current assets		**83.7**	83.1
Total assets		**201.4**	189.6
Liabilities			
Current liabilities			
Trade and other payables	21	**(42.8)**	(39.8)
Lease liabilities	22	**(8.9)**	(8.3)
Bank overdrafts		**(4.5)**	–
Provisions	23	**(0.8)**	(0.2)
Corporation tax		**(0.7)**	(1.8)
Total current liabilities		**(57.7)**	(50.1)
Non-current liabilities			
Borrowings	20	**(12.5)**	(39.5)
Trade and other payables	21	**(0.3)**	(0.5)
Lease liabilities	22	**(39.5)**	(25.8)
Provisions	23	**(0.7)**	(0.6)
Deferred tax	24	**(3.5)**	(2.6)
Total non-current liabilities		**(56.5)**	(69.0)
Total liabilities		**(114.2)**	(119.1)
Net assets		**87.2**	70.5
Equity attributable to equity holders of the parent			
Share capital	25	**0.1**	0.1
Share premium account	25	**21.1**	2.4
Share-based payment reserve	26	**0.5**	0.9
Retained earnings		**65.5**	67.1
Total equity		**87.2**	70.5

The Financial Statements on pages 116 to 148 were approved and authorised for issue by the Board of Directors on 11 March 2021 and were signed on its behalf by:

Mark Kelly
Director

Michael Scott
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 £m	Year ended 31 December 2019 £m
Cash generated from operations	31	**33.9**	29.0
Income taxes paid		**(1.0)**	(2.6)
Net cash generated from operating activities		**32.9**	26.4
Investing activities			
Acquisition of subsidiaries and payment of deferred consideration		**—**	(1.1)
Purchase of property, plant and equipment		**(13.8)**	(15.1)
Purchase of intangible assets		**(0.2)**	(0.1)
Net cash used in investing activities		**(14.0)**	(16.3)
Financing activities			
Proceeds from new share capital issued	25	**19.2**	—
Costs relating to issuance of new share capital	25	**(0.5)**	—
Proceeds from bank borrowings		**—**	10.0
Repayment of bank and other borrowings		**(27.2)**	(0.1)
Principal elements of lease payments		**(10.7)**	(9.8)
Finance elements of lease payments		**(1.3)**	(0.9)
Finance expense paid		**(0.7)**	(0.9)
Dividends paid to equity Shareholders	13	**—**	(9.4)
Net cash used in financing activities		**(21.2)**	(11.1)
Net decrease in cash and cash equivalents		**(2.3)**	(1.0)
Cash and cash equivalents at beginning of year	32	**4.9**	5.9
Cash and cash equivalents at end of year	32	**2.6**	4.9

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Note	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2020		**0.1**	**2.4**	**0.9**	**67.1**	**70.5**
Comprehensive expense for the year						
Loss for the year		**–**	**–**	**–**	**(2.2)**	**(2.2)**
Total comprehensive expense for the year		**–**	**–**	**–**	**(2.2)**	**(2.2)**
Contributions by and distributions to owners						
Issue of new share capital	25	**–**	**17.1**	**–**	**–**	**17.1**
Exercise of share options	26	**–**	**1.6**	**(0.6)**	**0.6**	**1.6**
Share-based payments	26	**–**	**–**	**0.3**	**–**	**0.3**
Deferred tax on share-based payments	24	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Total transactions with owners recognised directly in equity		**–**	**18.7**	**(0.4)**	**0.6**	**18.9**
Balance at 31 December 2020		**0.1**	**21.1**	**0.5**	**65.5**	**87.2**

	Note	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2019		0.1	2.4	0.4	57.2	60.1
Comprehensive income for the year						
Profit for the year		–	–	–	19.3	19.3
Total comprehensive income for the year		–	–	–	19.3	19.3
Contributions by and distributions to owners						
Exercise of share options	26	–	–	–	–	–
Share-based payments	26	–	–	0.4	–	0.4
Deferred tax on share-based payments	24	–	–	0.1	–	0.1
Dividends paid	13	–	–	–	(9.4)	(9.4)
Total transactions with owners recognised directly in equity		–	–	0.5	(9.4)	(8.9)
Balance at 31 December 2019		0.1	2.4	0.9	67.1	70.5

1 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.

Company Statement of Financial Position

As at 31 December 2020

	Note	2020 £m	2019 £m
Assets			
Non-current assets			
Investments	37	**17.8**	17.8
Total non-current assets		**17.8**	17.8
Current assets			
Trade and other receivables	38	**46.7**	55.6
Deferred tax	39	**0.1**	0.3
Cash and cash equivalents		**0.1**	–
Total current assets		**46.9**	55.9
Total assets		**64.7**	73.7
Liabilities			
Current liabilities			
Trade and other payables	40	**–**	(0.1)
Total current liabilities		**–**	(0.1)
Non-current liabilities			
Borrowings	41	**(12.5)**	(39.5)
Total non-current liabilities		**(12.5)**	(39.5)
Total liabilities		**(12.5)**	(39.6)
Net assets		**52.2**	34.1
Issued capital and reserves attributable to owners of the Company			
Share capital	25	**0.1**	0.1
Share premium account	25	**21.1**	2.4
Share-based payment reserve	26	**0.5**	0.9
Retained earnings		**30.5**	30.7
Total equity		**52.2**	34.1

A separate Statement of Comprehensive Income for the Company is not presented, in accordance with Section 408 of the Companies Act 2006. The Company recognised a loss of £0.8 million in the year (2019: profit of £13.8 million). Dividend income from subsidiary undertakings included in the results was £nil (2019: £15.0 million).

The Financial Statements on pages 149 to 157 were approved and authorised for issue by the Board of Directors on 11 March 2021 and were signed on its behalf by:

Mark Kelly
Director

Michael Scott
Director

Company Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2020	**0.1**	**2.4**	**0.9**	**30.7**	**34.1**
Comprehensive expense for the year					
Loss for the year	**–**	**–**	**–**	**(0.8)**	**(0.8)**
Total comprehensive expense for the year	**–**	**–**	**–**	**(0.8)**	**(0.8)**
Contributions by and distributions to owners					
Share capital issued	**–**	**17.1**	**–**	**–**	**17.1**
Exercise of share options	**–**	**1.6**	**(0.6)**	**0.6**	**1.6**
Share-based payments	**–**	**–**	**0.3**	**–**	**0.3**
Deferred tax on share-based payments	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Total transactions with owners recognised directly in equity	**–**	**18.7**	**(0.4)**	**0.6**	**18.9**
Balance at 31 December 2020	**0.1**	**21.1**	**0.5**	**30.5**	**52.2**

	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2019	0.1	2.4	0.4	26.3	29.2
Comprehensive income for the year					
Profit for the year	–	–	–	13.8	13.8
Total comprehensive income for the year	–	–	–	13.8	13.8
Contributions by and distributions to owners					
Exercise of share options	–	–	–	–	–
Share-based payments	–	–	0.4	–	0.4
Deferred tax on share-based payments	–	–	0.1	–	0.1
Dividends paid	–	–	–	(9.4)	(9.4)
Total transactions with owners recognised directly in equity	–	–	0.5	(9.4)	(8.9)
Balance at 31 December 2019	0.1	2.4	0.9	30.7	34.1

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

34 ACCOUNTING POLICIES (COMPANY)

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

The Company is principally engaged as a holding company for its subsidiaries which are engaged in the extrusion of PVC window and building products to the new and replacement window market and the sale of building materials across the UK.

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

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

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

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

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

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

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

In assessing going concern, the Directors have considered financial projections for the period to December 2023, which is consistent with the Board's strategic planning horizons. These forecasts have been compiled based on the best estimates of our commercial and operational teams. This includes a 'Downside' scenario, which reflects demand for our products being severely weakened, either by the impact of further COVID-19 disruption on consumer confidence, or by widened consumer choices when restrictions are lifted.

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

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

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

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

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

34 ACCOUNTING POLICIES (COMPANY) continued

Financial assets

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

Financial assets are non-derivative assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of funding to Group companies, but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Company applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for intra-group receivables.

Expected loss rates are derived based upon the payment profile of Group companies over a three-year period up to the reporting date, and the corresponding credit losses experienced. These rates are then adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of Group companies to settle receivables, including GDP, the rate of unemployment, new housing starts, interest rates and household disposable income. Where the adjusted loss rates are different from the original estimate, there is an impact on the carrying value of amounts owed by Group undertakings and the amount credited or charged on a net basis to operating expenses within the Statement of Comprehensive Income.

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

Financial liabilities

The Company classifies its financial liabilities as other financial liabilities which include the following items:

- Bank borrowings which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Further information is provided in Note 3.
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Deferred taxation

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

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

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

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

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

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

Share capital

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

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

Further information regarding dividends is provided in Note 13.

FRS 101 exemptions
The following exemptions from the requirements of IFRS have been applied in the preparation of the Company Financial Statements, in accordance with FRS 101:

Paragraphs 45(b) and 46 to 52 of IFRS 2, Share-based Payment (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).

Paragraph 38 of IAS 1, Presentation of Financial Statements, comparative information requirements in respect of:
i. paragraph 79(a)(iv) of IAS 1;
ii. paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
iii. paragraph 118(e) of IAS 38 Intangible Assets (reconciliations between the carrying amount at the beginning and end of the period).

The following paragraphs of IAS 1, Presentation of Financial Statements:
- 10(d), (statement of cash flows);
- 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its Financial Statements, or when it reclassifies items in its Financial Statements);
- 16 (statement of compliance with all IFRS);
- 38A (requirement for minimum of two primary statements, including cash flow statements);
- 38B-D (additional comparative information);
- 40A-D (requirements for a third statement of financial position);
- 111 (cash flow statement information); and
- 134-136 (capital management disclosures).

Paragraph 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

Paragraph 17 and 18A of IAS 24, Related Party Disclosures (key management compensation).

The requirements in IFRS 7 Financial Instruments: Disclosures.

The requirements in IAS 24, Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

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

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

a) Carrying value of investments

The Company assesses the carrying value of its investments at least annually, or when an indication of impairment arises. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly. Recoverable amounts are determined from value-in-use calculations applied to each investment, which have been predicated on discounted cash flow projections from approved budgets and forecasts covering a three-year period.

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

The key estimates are the discount rate and the level of profit growth assumed in perpetuity. If the discount rate increased by 100 basis points, or if the level of profit growth in perpetuity was zero, none of the Company's investments would be at risk of material impairment, and therefore no further sensitivity disclosures have been provided.

35 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS continued

b) Recoverability of amounts owed by Group undertakings

The Company applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for amounts owed by Group undertakings. Expected loss rates are derived based upon the payment profile of Group companies over a three-year period up to the reporting date, and the corresponding credit losses experienced. These rates are then adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of Group companies to settle receivables, including GDP, the rate of unemployment, new housing starts, interest rates and household disposable income.

Where the adjusted loss rates are different from the original estimate, there is an impact on the carrying value of amounts receivable from Group undertakings and this amount is credited or charged on a net basis to operating expenses within the Statement of Comprehensive Income. The key judgement is the extent to which macroeconomic factors impact upon the recoverability of amounts owed by Group companies.

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

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

The Company has applied the going concern basis in preparing the accounts. In assessing going concern, the Directors have considered the Group's financial projections for the period to December 2023, which is consistent with the Board's strategic planning horizons. These forecasts have been compiled based on the best estimates of our commercial and operational teams.

The various scenarios take into consideration a wide range of possible impacts from COVID-19, along with other factors such as Brexit. This includes a 'Downside' scenario, which considers the impact of further COVID-19 infections, leading to a series of enhanced localised lockdown measures over the course of 2021.

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

36 EMPLOYEE BENEFITS EXPENSE

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

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

Key management personnel compensation and Directors' remuneration

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

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

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

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

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

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

37 INVESTMENTS

Cost	Investments in subsidiary undertakings £m
At 31 December 2020 and at 31 December 2019	17.8

The subsidiaries of Eurocell plc, all of which have been incorporated in the United Kingdom, are included in these Consolidated Financial Statements, as follows:

		Holding	
Name	Principal activity	**2020**	2019
Eurocell Holdings Limited*	Holding company	**100%**	100%
Eurocell Group Limited	Holding company	**100%**	100%
Eurocell Building Plastics Limited	Sale of building plastic materials	**100%**	100%
Eurocell Profiles Limited	Manufacture and sale of building plastic materials	**100%**	100%
Vista Panels Limited	Manufacture and sale of doors	**100%**	100%
Security Hardware Limited	Sale of locks and security hardware products	**100%**	100%
Ecoplas Limited**	Recycler of PVC windows	**95%**	95%
Kent Building Plastics Limited	Dormant	**100%**	100%
Trimseal Limited	Dormant	**100%**	100%
S&S Plastics Limited	Dormant	**100%**	100%
Fairbrook Group Limited	Dormant	**100%**	100%
Fairbrook Limited	Dormant	**100%**	100%
Fairbrook Holdings Limited	Dormant	**100%**	100%
Eurocell Window Systems Limited	Dormant	**100%**	100%
Eurocell Plastics Limited	Dormant	**100%**	100%
Cavalok Building Products Limited	Dormant	**100%**	100%
Merritt Plastics Limited	Dormant	**100%**	100%
Merritt Engineering Limited	Dormant	**100%**	100%
Deeplas Limited	Dormant	**100%**	100%
Deeplas Building Plastics Limited	Dormant	**100%**	100%
Ampco 113 Limited	Dormant	**100%**	100%

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

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

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

37 INVESTMENTS continued

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

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

38 TRADE AND OTHER RECEIVABLES

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

Amounts owed by Group undertakings attract interest of 2% and are repayable on demand.

The Company applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all financial assets. In measuring expected credit losses, receivables have been grouped based on shared characteristics and days past due.

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

39 DEFERRED TAX

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

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

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

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

	Asset 2019 £m	Liability 2019 £m	Net 2019 £m	Statement of Comprehensive Income 2019 £m	Equity 2019 £m
Other temporary differences	0.3	–	0.3	0.1	0.1
Net tax assets	0.3	–	0.3	0.1	0.1

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

40 TRADE AND OTHER PAYABLES

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

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

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

41 BORROWINGS

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

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

Borrowings

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

Borrowings of £13.0 million were drawn down at 31 December 2020 (2019: £40.0 million). Total unamortised costs, which are presented as a deduction to borrowings, were £0.5 million as at 31 December 2020 (2019: £0.5 million).

Interest is charged at an excess over base rate of between 1.25% and 2.25% per annum and is dependent upon the ratio of total net debt to consolidated EBITDA (on a pre-IFRS 16 basis).

Based upon current economic and market trends, management consider that the sterling LIBOR rate (or SONIA, which is due to replace LIBOR in 2021) will remain relatively stable during the next year, and any changes, when applied to the current bank borrowings of £13.0 million would not lead to a significant change in finance expense.

All borrowings are denominated in Sterling.

42 RELATED PARTY TRANSACTIONS

Transactions with key management personnel

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

Other related party transactions

Kalverboer Management UK LLP is controlled by P H L Kalverboer, who until May 2019 was a Director of Eurocell plc. Kellmann Recruitment Limited is controlled by T Kelly, a close family member of M Kelly who is a Director of Eurocell plc.

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

The following balances are outstanding at the balance sheet date:

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

Company Information
For the year ended 31 December 2020

Directors	Bob Lawson Frank Nelson Martyn Coffey Sucheta Govil Mark Kelly Michael Scott
Registered Number	08654028
Registered Office	Eurocell Head Office and Distribution Centre High View Road South Normanton Alfreton DE55 2DT
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors One Chamberlain Square Birmingham B3 3AX
Bankers	Barclays Bank plc 1 Churchill Place London E14 5HP HSBC UK Bank plc 1 Centenary Square Birmingham B1 1HQ

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For more investor information,
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