

The Eurocell logo consists of the word "eurocell" in a white, lowercase, sans-serif font, enclosed within a red rounded rectangular border. A registered trademark symbol (®) is located at the top right of the red border.

eurocell®

All together better

A photograph of a two-story house with a stone facade and grey window frames. The house features a dark grey roof with two chimneys. A balcony with a glass railing is visible on the right side. The image is partially obscured by a white diagonal shape on the left and bottom-left corners.

**DELIVERING
SUSTAINABLE
GROWTH**

Eurocell plc
Annual Report
and Accounts 2021

WE ARE EUROCELL

The UK's leading manufacturer, distributor and recycler of UPVC building products.

“We have delivered a very good sales performance for the year, underpinned by the success of our commercial strategies and ongoing high levels of demand in the market.”

Mark Kelly
Chief Executive Officer



2021 HIGHLIGHTS

Revenue

£343.1m

▲ 33%

2020: £257.9m

Gross Margin

50.5%

▲ 110bps

2020: 49.4%

Profit/(Loss)
Before Tax

£27.0m

▲ £28.5m

2020: £(1.5)m

Adjusted Profit
Before Tax¹

£27.0m

▲ 218%

2020: £8.5m

Basic Earnings/
(Losses) Per Share

18.9p

▲ 20.9p

2020: (2.0)p

Adjusted Basic
Earnings Per
Share¹

18.9p

▲ 12.4p

2020: 6.5p

Adjusted EBITDA¹

£51.7m

▲ 73%

2020: £29.8m

Net Debt

£69.7m

▲ £11.4m

2020: £58.3m

Pre-IFRS 16
Net Debt

£11.0m

▲ £1.1m

2020: £9.9m

¹ Adjusted measures are stated before non-underlying income and costs, and the related tax effect (see page 55). We use alternative 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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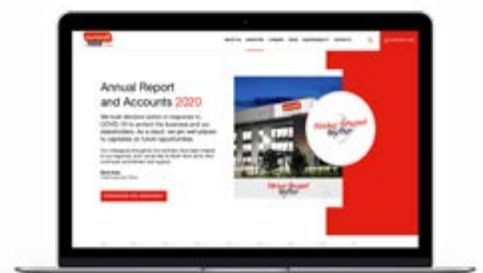
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View the latest
results online at
investors.eurocell.co.uk



TWO DIVISIONS LEADING THE WAY



We manufacture

Manufacturing expertise

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



We recycle

Sustainable sourcing

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



We distribute

Distribution network

We distribute through our nationwide network.

57.2k tonnes

Total amount of profile produced

16.8k tonnes

Recycled product used in our rigid PVC profile

219

Number of branches

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 below). 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:



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.

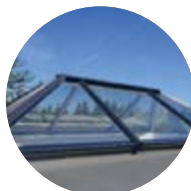
The Building Plastics division also includes:



Supplier of locks and hardware



Ranges of window and door profile



Skypod pitched skylights



Conservatories and Equinox tiled roofs



Aspect bi-fold doors



Fascias, soffits and guttering



Traded goods

DELIVERING SUSTAINABLE GROWTH



Bob Lawson
Chair

“We are well placed to capitalise on opportunities as markets develop and deliver sustainable growth in shareholder value.”



Introduction

The business has responded remarkably well to the impact of COVID-19, and to the new challenges posed in 2021, including supply chain disruption, major raw material cost inflation and tight labour markets. 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 2021 is testament to their commitment, hard work and dedication during a period of continuing and unprecedented uncertainty.

Financial and operating performance

The business has delivered good results for 2021, underpinned by a strong repair, maintenance and improvement ('RMI') market and the continued successful deployment of our strategy. We acted decisively in response to significant supply chain challenges, recovered successfully the impact of unprecedented raw material cost inflation and secured the resources we need to service demand, despite tight labour markets.

Fit-out of our new warehouse was completed during the year, alongside the next phase of our manufacturing capacity expansion, leaving the business well placed to deliver ongoing sustainable growth with good operating efficiencies and improving returns.

Sales for the full year were £343 million, up 23% compared to 2019 and 33% compared to 2020, and profit before tax was £27.0 million (2020: loss of £1.5 million; 2019: profit of £22.7 million).

Net debt at 31 December 2021 on a pre-IFRS 16 basis stood at £11.0 million (31 December 2020: £9.9 million), demonstrating significant headroom on our bank facility. We have a strong balance sheet, which provides flexibility and options for the future.

Dividends

We paid an interim dividend of 3.2 pence per share in October 2021. The Board proposes a final dividend of 6.4 pence per share, resulting in total dividends for the year of 9.6 pence per share. No dividends were paid in respect of 2020 due to the impact of COVID-19.

Strategy

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

In 2021, we made further progress developing our approach to improving the sustainability of the Group, including carbon footprint and emissions reduction, supporting our people and their wellbeing, and improving the environment in which they work. Further information on our sustainability initiatives is included in the Responsible Business section.

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

Governance

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

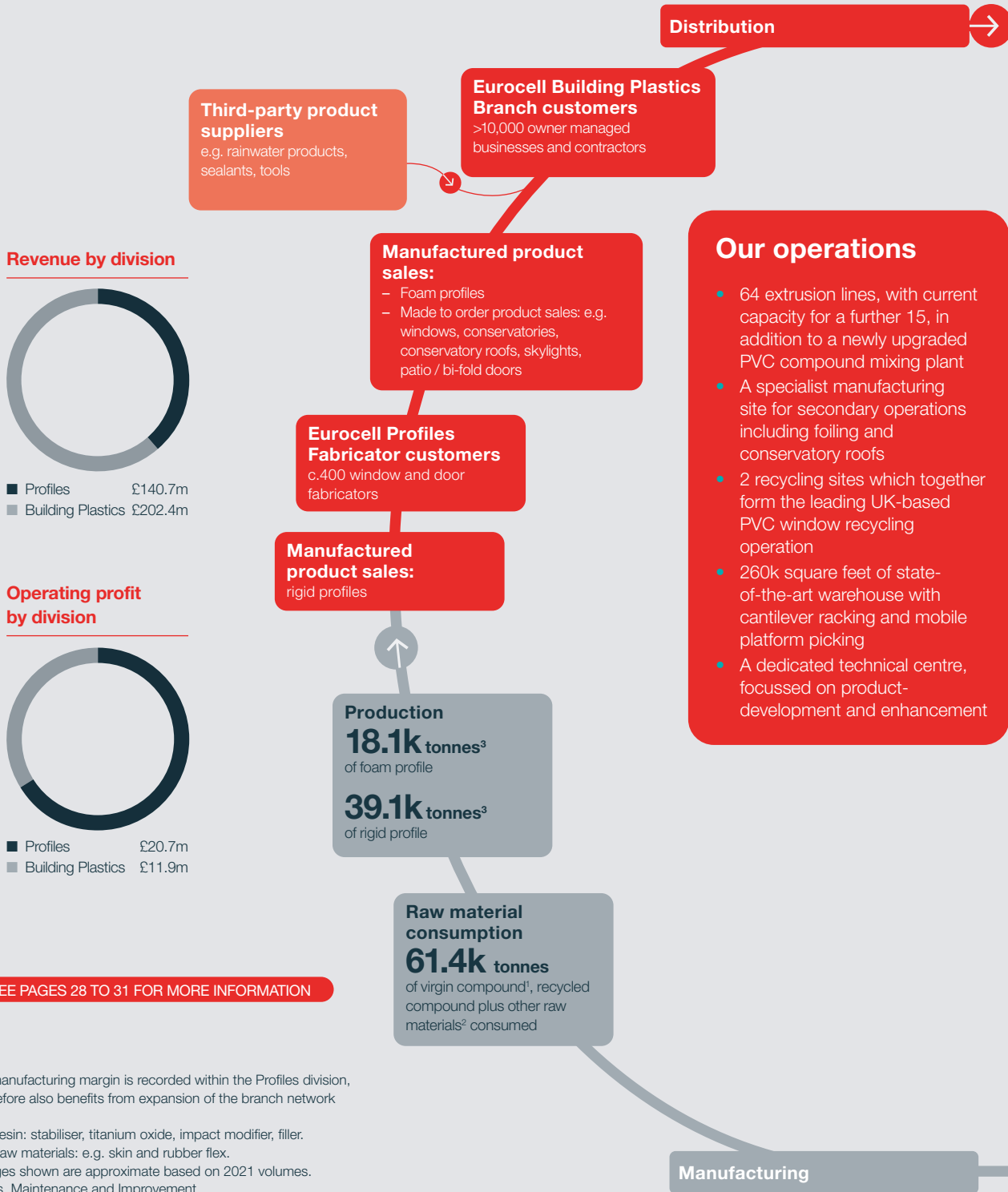
After 7 enjoyable years as Chair of Eurocell, I have notified the Board of my intention to step down and a process to recruit my successor has begun, led by Frank Nelson, the Senior Independent Director. During my tenure, it has been a delight to lead the Board and witness the transformation of Eurocell by the executive team, to become the market-leading business that it is today.

I would like to thank my fellow Board and Committee members for their valuable contribution and support throughout my whole tenure.

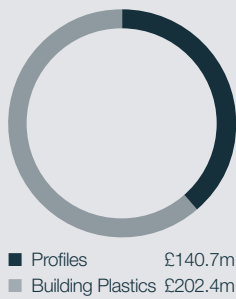
Finally, I would like to wish everyone at Eurocell, and all of its stakeholders, continued success for the future.

Bob Lawson
Chair

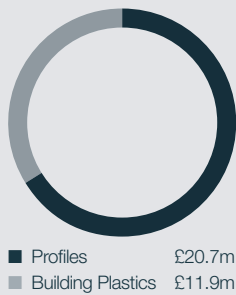
A VERTICALLY INTEGRATED MODEL TO MAXIMISE EFFICIENCY



Revenue by division



Operating profit by division



SEE PAGES 28 TO 31 FOR MORE INFORMATION

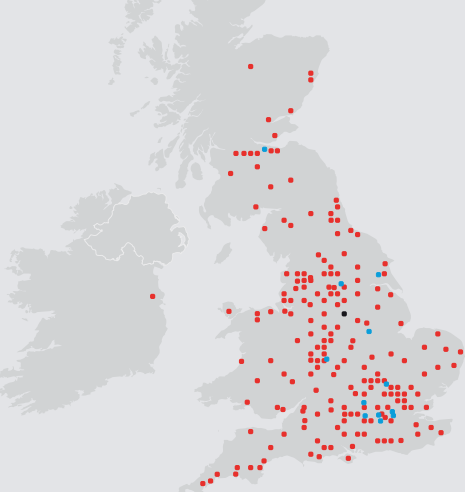
All of our manufacturing margin is recorded within the Profiles division, which therefore also benefits from expansion of the branch network

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 2021 volumes.
4 Repairs, Maintenance and Improvement.

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

Our markets

Where we operate



- Eurocell locations
- New Head Office, Alfreton
- New branch locations in 2021

219
Number of branches

RMI⁴
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

Eurocell Recycle
16.8k tonnes³
of recycled compound consumed
(27% of raw materials 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 38 FOR MORE INFORMATION

← Recycling

GENERALLY SUPPORTIVE MARKET DRIVERS AND STRONG 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

The Construction Products Association ('CPA') Industry Forecasts (published January 2022) show a strong recovery in the private housing RMI market in 2021, with growth of 17% following a COVID-19 driven decline of 12.5% in 2020. The CPA forecasts a flat year for private housing RMI in 2022 and a small decline in 2023. In this context, it is important to note that Eurocell has consistently outperformed CPA market growth estimates.

Market conditions at present are generally supportive and we have good potential to outperform, capitalising on our strong market positions and clear strategy.

Private RMI (c.85% Eurocell revenue)

Market drivers:

- **Renovation activity driven by:**
 - c.1-in-16 homes changed hands in 2021
 - Desire to improve / extend homes, especially post-COVID
 - Pension drawdown and desire for maintenance-free property
 - Change in family circumstances
- **Consumer confidence / uncertainty**
 - Unclear how post-COVID markets will develop in 2022, especially H2, but likely full employment will continue
 - Potential for RMI super-cycle, driven by under-investment and permanent hybrid working
 - Potential adverse impact of high inflation and situation in Ukraine

Eurocell drivers:

- **Increase propositions in Building Plastics**
 - Maturing branches
 - Conservatory / roof development
 - Outdoor living products
 - New larger format stores
- **Strong competitive position in Building Plastics**
- **Sales of windows and other big ticket made-to-order products through branches**
- **Strong competitive position in Profiles with trade fabricators serving the RMI market, and competitor difficulties**
- **Good pipeline of potential new trade fabricator customers in Profiles**

New build (c.10% Eurocell revenue)

Market drivers:

- Mortgage remains attractive vs rental cost
- High levels of mortgage approvals currently, with mortgage guarantee scheme available until December 2022
- Help to Buy remains, but restricted to first-time buyers
- Large builders maintaining conversions
- Long-term shortage of housing may attract government intervention, but affordability remains an issue
- Right to Buy in public sector

Eurocell drivers:

- Benefit of differentiated specifications
- New build competitor difficulties may present a significant opportunity to grow share
- Strong competitive position with new build fabricators
- Opportunity to leverage Environmental, Social and Governance ('ESG') credentials
- Building regulations (Future Homes Standard) beneficial to Eurocell skill set
- Low-cost fabricators leaving market and work taken by Eurocell fabricators
- Growth of Eurocell cavity closer driving contact with house builders
- Vista increasing market share in doors

Commercial (c.5% Eurocell revenue)

Market drivers:

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

Eurocell drivers:

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

External Market Data

GDP



After an estimated fall of 10% in 2020, real UK GDP recovered with growth of 8% in 2021 and is forecast to grow by a further 2% in 2022 and 1% in 2023.

Interest rates



UK interest rates remain very low at 0.5% and are expected to remain low relative to historical levels in the medium-term.

Construction



Total construction activity was down 15% in 2020, but recovered with growth of 13% in 2021 and is forecast to grow by a further 4% in 2022 and 3% in 2023.

Housing market



Total housing activity was down 21% in 2020, but recovered with growth of 17% in 2021 and is forecast to grow by a further 3% in 2022 and 3% in 2023.



The private housing RMI market was down 13% in 2020, but recovered very strongly with growth of 17% in 2021 and is forecast to be flat in 2022 and down 2% in 2023.

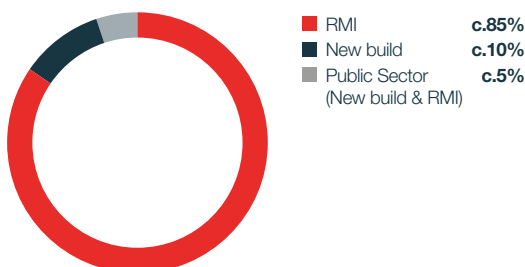
Sources: Bank of England forecasts for the UK economy (published February 2022), CPA Forecasts 2021-23 (published January 2022).

Key to potential impact on demand for Eurocell products:

Positive
 Neutral
 Negative

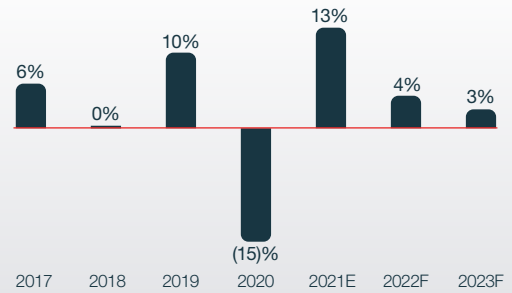
Eurocell Revenue by Market (%)

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

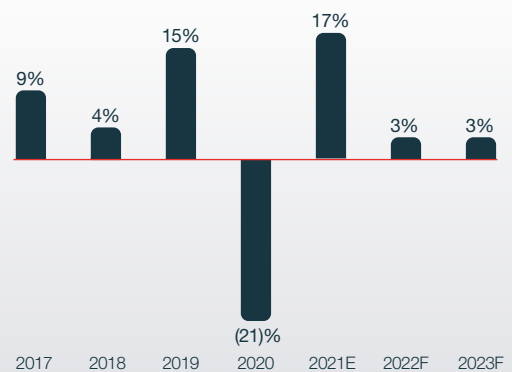


CPA Construction Industry Forecasts (2021-23)

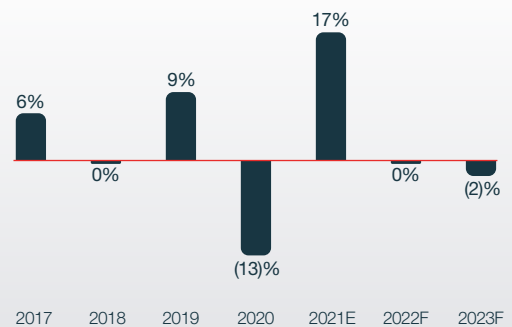
Total construction output growth



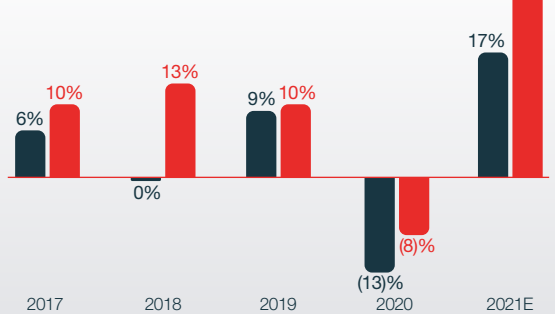
Total housing growth



Private housing RMI growth



Eurocell sales growth and private housing RMI growth



CPA central scenario
 Eurocell

Sources: CPA Construction Industry Forecasts (published January 2022)

WELL POSITIONED FOR 2022



Mark Kelly
Chief Executive Officer

“We delivered a strong performance in 2021 and continue to see good potential to deliver further progress and improving returns in 2022.”

Introduction

We entered 2021 well placed to take advantage of the continued recovery in our markets.

We have delivered a very good sales performance for the year, underpinned by the success of our commercial strategies and ongoing high levels of demand in the RMI market. Our products have continued to resonate well with customers seeking to improve their homes and create more usable space, both inside and outside their properties.

We also navigated successfully the challenges posed by supply chain disruption, major raw material cost inflation and tight labour markets. As a result, we have reported good financial results for the year.

Fit-out of our new warehouse was completed in 2021, along with a further step up in the expansion of our manufacturing capacity. With constraints resolved, we can now focus on delivering improved operating efficiencies from the new warehouse and production facilities.

Whilst demand has moderated from the unprecedented levels experienced in H2 2020 and H1 2021, the RMI sector remains strong and customer demand levels are good going into 2022. We also expect continued growth in new build and the return of commercial projects, which struggled to gain traction through 2021.

Financial results

For the purposes of this report, where appropriate, we have compared financial and operating performance to 2020 and 2019, with the latter a more meaningful comparator given the disruption in 2020 due to COVID-19.

Sales for the year were £343 million, or 33% above 2020 and 23% above 2019. We reported a profit before tax of £27.0 million, up 19% or £4.3 million on 2019 (£22.7 million), driven by higher sales volumes.

Adjusted profit before tax for 2020 was lower at £8.5 million, reflecting the impact of COVID-19. The reported loss before tax was £1.5 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 wellbeing of our employees and contractors is our first operational priority and we continue to maintain a good safety performance.

Our Lost Time Injury Frequency Rate ('LTIR') was 0.8 in 2021, compared to 0.7 in 2020 and 0.9 in 2019. There were no major injuries and 28 minor accidents recorded under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 ('RIDDOR') in the year (2020 and 2019: 19 and 17 minor injuries respectively). We have improved our procedures for incident reporting during the year, leading to more incidents being included in the data, which contributed to the slight deterioration in the reported figures for 2021. COVID-19 safety procedures remained a priority throughout the year, with many good practices retained, despite the relaxation in government guidance.

Production

In 2021 we manufactured 57.2k tonnes of rigid and foam PVC profiles at our primary extrusion facilities, 26% higher than 2020 and 5% higher than 2019. This reflects the sales for each year, as well as, in 2019, higher production to increase stock holding at our branches and to mitigate the risk of raw material supply interruption due to Brexit. Overall Equipment Effectiveness ('OEE', a measure which takes into account machine availability, performance and yield) was 68% in 2021 (2020 and 2019: 75% and 73% respectively), with 2021 impacted by supply chain disruption and labour availability (see below). Having resolved these issues, we expect OEE to improve, with our target for 2022 being to reach 75% for the year.

Raw material supply chain, labour and transport

Strong demand in our markets put sector supply chains under pressure, and we have experienced tighter supply and an inflationary environment, with prices of certain raw materials, particularly PVC resin, rising significantly in 2021. However, we have continued to secure the raw materials we require and we expect past constraints to ease over the coming months. We have also recovered raw material cost inflation with selling price increases and surcharges.

Our market-leading recycling plants also supported continuity of supply of resin in tight markets, whilst continuing to improve the proportion of recycled material used in our primary extrusion operations. These plants supplied 27% of our raw material consumption for the year (2020: 25%), driving significant cost and carbon savings compared to the use of virgin material (see Recycling overleaf).

Availability of the incremental operational labour we needed to service strong demand in 2021 was very tight, and we also experienced an elevated level of absence through the summer months due to employees being required to self-isolate. In addition, in the light of a well-publicised shortage of HGV drivers in the UK, our outsourced transport provider faced challenges providing the required number of vehicles to service higher than expected sales. However, the decisive action we took during the year to secure more labour and transport ensured that we have the resources necessary to operate efficiently and support our growth aspirations for revenue and margins.

Strategy

Strategic priorities

Our overall strategic objective remains to deliver sustainable growth in shareholder value, by increasing sales and profits above our market growth rates. We have seven strategic priorities to help us achieve this objective:

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

We have made good progress with our strategic priorities in 2021, with the key aspects described throughout this report.

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%. We continue to consolidate our position and believe we now have a share of around 18%. Our objective is to increase this to at least 22% over the medium term. See the Profiles Divisional Review for further information on our progress.

Expand the branch network

Our strategic objective for Building Plastics is to achieve sector-leading operations from 270-300 sites. The growth will come by taking business from independent operators, who currently have more than 60% market share. We opened 12 new branches in 2021, resulting in a total estate of 219 sites. See the Building Plastics Divisional Review for further information on our progress.

Increase the use of recycled material

In 2021 we increased our use of recycled material to 27% of materials consumed (2020: 25%). Our objective is to increase this to around 33% over the next few years. See Sustainability for further information on our progress.

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. Particularly for new build, we have been cooperating on product designs to meet technical compliance with Future Homes building regulations, which come into force in 2022, with a further upgrade in 2025.

Highlights for 2021 include:

- Development of the Aspect bi-fold door system to include flush French doors, which complement our Modus and Logik range of flush sash windows.
- Following the launch of our slate-effect Envirotile composite roof tiles in 2020, we have now extended the offering to include a solid tiled Equinox conservatory roof.
- Skypod Plus was added to the Skypod roof lantern range in 2021, with improved architectural aesthetics.
- Composite fencing products, made from sustainable materials, have been added to our decking range.
- Following the launch of the Kyube garden room in 2020, the range was expanded in 2021 to reflect continuing strong demand for affordable extra work and leisure space at home.

Outdoor living products have been one of our strongest growth categories in 2021, with sales of £8.6 million compared to £5.6 million in 2020 and £2.9 million in 2019. Conservatories, warm roofs, fencing and decking have all been particularly strong, alongside new products such as garden rooms. Building on this success, looking forward to 2022 we will be launching a new range of modern conservatories, alongside other garden products such as pergolas and awnings.

Explore potential bolt-on acquisitions

We have completed six acquisitions since our IPO in 2015. This remains an important strategic objective for the Group and we will continue to assess and consider bolt-on acquisition opportunities in the markets in which we operate as and when they arise.

Deliver sustained operational excellence

In 2021 we introduced 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%, which is well ahead of our markets. 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.

Manufacturing and warehousing constraints have now been resolved through major investments in new capacity.

Transition to the new warehouse was completed successfully in 2021, against a background of record volumes and supply chain disruption. As well as being central to increasing capacity, the facility is key to delivering further improvements in operational efficiencies as the new plant, systems and processes become embedded.

The new warehouse has also unlocked the operational footprint for the whole Group. In 2021, we converted our old warehouse to a specialist manufacturing site, relocating secondary operations, including foiling and conservatory roofs, providing a better environment to drive these businesses forward. This also freed up space to future-proof extrusion capacity for the medium-term.

We increased our extrusion capacity by more than 20% in 2018/19. With ongoing strong growth, we completed a further expansion in 2021, with the addition of five new extrusion lines, along with the associated mixing plant upgrade and tooling. With space now available, we plan to add a further five lines in 2022. Together, these investments increase extrusion capacity by more than 15% compared to the end of 2020, thereby enabling future sales and market share growth.

Our focus in 2022 will be on delivering improved operating efficiencies from the new warehouse and production facilities. Looking ahead, with constraints resolved, we expect the benefit of our strong sales growth to flow through to improved margins.

Develop a sector-leading digital proposition

Also in 2021, we introduced a new strategic priority to 'develop a sector-leading digital proposition'. Stakeholders increasingly require full end-to-end digital solutions, a trend accelerated by the COVID pandemic. 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.

During the year we selected platforms for a new website, product information management system, e-commerce solution and employee management system. Development is under way, with these systems expected to launch in 2022 and 2023.

Sustainability**Sustainability strategy and KPIs**

During 2021 we published our sustainability strategy. Our objective is to continue to improve the sustainability of the Group. We have defined a suite of environmental and social targets and KPIs against which to measure our progress.

Our KPIs recognise the breadth of the Environmental, Social and Governance ('ESG') agenda. Taking into account the specific circumstances of 2021, we made good progress against these targets in the year.

However, increasing our use of recycled PVC compound in the manufacture of co-extruded rigid profiles will always be at the heart of sustainability for Eurocell, and therefore this Chief Executive's Review is focused on our environmental targets. The full suite of KPIs and commentary on our 2021 performance is set out in the Responsible Business section on pages 32 to 55.

Recycling (circular economy)

Expanding recycling 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.

Recycling also 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. This is very important at the moment, with the price of virgin resin reaching historic high levels in 2021.

We have been investing to increase our recycling capability through the expansion of our two market-leading recycling plants 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. As well as keeping pace with increased demand, we have continued to improve the proportion of recycled material consumed in our primary extrusion operations. Usage increased from 9% of materials consumed (or 4.1k tonnes) in 2015 to 27% of consumption (or 16.8k tonnes) in 2021. In doing so, in 2021 we saved the equivalent of more than 3 million end-of-life window frames from landfill.

Overall, we estimate that our recycling operation saved more than 48k tonnes of carbon in the year compared to the use of virgin PVC (equivalent to the annual CO₂ output of over 7,000 UK homes). In terms of economic benefits, in 2021 our recycling operation drove a substantial cost saving compared to the use of virgin PVC compound, reflecting increased volumes and much higher prices for virgin compound.

In addition, substantially all scrap generated in extrusion is recycled back into our production processes, further reducing waste sent to landfill.

Emissions and energy management

Central to our environmental targets is reducing the carbon footprint of the business and our products. Our target is to deliver a 5% reduction in both the energy use intensity ratio and emissions intensity ratio by 2025, compared to the 2020 baseline.

The emissions intensity ratio was 51 tCO₂e per £m sales in 2021, resulting in a 27% reduction compared to 2020. The energy use intensity ratio was £222 MWh / £m sales in 2021, representing a 17% reduction compared to 2020.

The main drivers for these reductions in emissions and energy usage ratios are the increasing proportion of renewable electricity in the national mix, alongside the improving energy efficiency of our own plant and machinery reflecting our recent investments (new extrusion lines are significantly more efficient than our legacy fleet).

Responsible PVC sector

There are a number of major initiatives in progress across the PVC industry to address sustainability challenges, which Eurocell is proud to support. These initiatives look through the value chain at extraction and refining of raw materials, energy production and supply, and resource inputs and emissions. There is also a strong sector focus on recycling, and on seeking to differentiate between short life single-use plastics and those with longer more circular life cycles.

For example, VinylPlus 2030 is a 10-year commitment from the European PVC industry to a framework of sustainable development. The British Plastics Federation ('BPF') has established targets to increase energy efficiency and reduce CO₂ emissions, and launched Operation Clean Sweep, an initiative to reduce plastic pellet loss to the environment.

Eurocell is also aligned with the Ellen MacArthur Foundation New Plastics Vision, which seeks to: (i) eliminate the plastics we do not need, (ii) innovate to ensure the plastics we do use can be recycled and (iii) circulate the plastics we use, to keep them in the economy and out of the environment.

Inovyn is Europe's leading chlorovinyls producer and the largest supplier of PVC resin to UK window profile systems houses, including Eurocell. They are focused on sustainable development, including responsible production, carbon neutrality and circularity. Inovyn's carbon footprint for PVC is well below the industry average.

Inovyn has now launched the world's first commercially produced bio-attributed PVC (Biovyn), made using renewable feedstock derived via wood-based residue from sustainable forestry. The supply chain for Biovyn has been certified by the Roundtable on Sustainable Biomaterials to deliver a 90% greenhouse gas saving compared to conventional PVC.

Products such as Biovyn provide the potential for our longer-term transition towards carbon neutrality and net zero for PVC. We intend to begin trials using small quantities of Biovyn in our primary extrusion processes in 2022.

Looking to a sustainable future

Looking forward, there are four key themes to our work on sustainable development.

- Carbon, energy and water – defining our pathway to carbon neutrality and net zero, which will be driven primarily by reducing Scope 1 and 2 emissions in extrusion and recycling.
- Waste minimisation and circularity – further strengthening materials recovery and process optimisation.
- People and places – becoming the regional employer of choice and stepping up community engagement.
- Governance – reporting progress against published ESG targets and aligning with recognised sustainability indices.

Further information is provided in the Responsible Business section.

Summary and outlook

We entered 2021 well placed to take advantage of the continued recovery in our markets. A very good sales performance has been underpinned by the success of our commercial strategies and high levels of demand in the RMI market, and we are very pleased to report good profit growth and a return to the payment of dividends.

We expect supply chain constraints to ease over the coming months, and the actions we took last year have ensured we have the resources necessary to operate efficiently and support our growth aspirations for revenue and margins.

The RMI sector remains robust, new build continues to grow and customer demand levels are good. With operating constraints resolved, our focus for 2022 will be on delivering improved returns from our strong sales growth.

Notwithstanding the events in Ukraine and the attendant macroeconomic uncertainties, the year has started well, with sales to the end of February up 6% on 2021. We therefore continue to see good potential to outperform our markets and deliver further progress.

Mark Kelly
Chief Executive Officer

CONTINUALLY DEVELOPING

What we do

How we create value

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.

57.2k tonnes
produced in 2021

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 2021

WE RECYCLE

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

>3 million
windows recycled in 2021

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.

1 Return on sales is Operating Profit (including the impact of IFRS 16) divided by revenue.

Outputs

Sales growth

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

Sales growth (vs 2019)

23%

Solid profitability

We have a track record of solid profitability and our continued investment in expanding capacity and improving operational efficiency, coupled with strong sales growth, should drive increased returns.

Profit Before Tax

£27.0m

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.

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

£29.6m

Good return on sales

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

Return on sales¹

8.5%

Progressive returns to shareholders

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

Total dividends returned to shareholders since the IPO in 2015

£41.5m

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 and installers

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

House builders

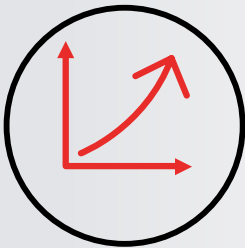
House builders appreciate the quality of our products and benefit from Eurocell coordinating our fabricators' offering to meet their requirements.

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.

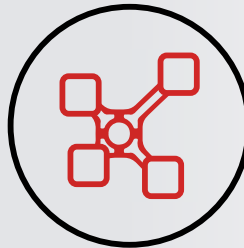
WE HAVE SEVEN KEY STRATEGIC PRIORITIES

Our overall corporate 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. We have seven strategic priorities to support the delivery of our overall objective, which are summarised below.



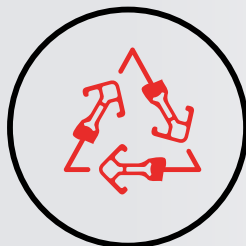
TARGET GROWTH IN MARKET SHARE

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



EXPAND OUR BRANCH NETWORK

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



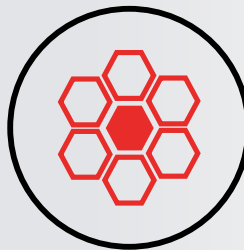
INCREASE THE USE OF RECYCLED MATERIALS

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



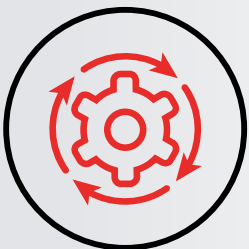
DEVELOP INNOVATIVE NEW PRODUCTS

Maintain market leadership by offering the latest in product innovation



EXPLORE POTENTIAL BOLT-ON ACQUISITIONS

Consider acquisition opportunities when they arise



DELIVER SUSTAINED OPERATIONAL EXCELLENCE

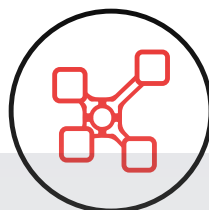
Optimise returns on recent investment in manufacturing and warehousing capacity to enhance profits and return on sales



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

STRATEGIC PROGRESS IN 2021



KEY STRATEGIC PRIORITIES

2021 PROGRESS

KPIs

2022 FOCUS

TARGET GROWTH IN MARKET SHARE

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

- Benefit of new account wins – 75 added over the last 5 years
- Strong demand from trade fabricators focused on the RMI market and excellent performance from Vista doors
- Increasing share of the new build market, driven by strong relationships with large and medium-sized housebuilders and benefit of pull-through specifications
- Increasing share in cavity closures market, where competition has reduced

See pages 28 to 29 for further details of the Profile division's performance.

Profiles sales growth:
22% (vs 2019)

Estimated market share in Profiles:

18% (2019: 15%)

New accounts
75

(following 60 in 3 years 2017–19)

- Investment in additional capacity now coming on line
- Exploit the case for trade fabricators to switch to Eurocell, through specification, service, opportunities to supply branch network and product development
- Continue to develop technical specifications with housebuilders, with a focus on sustainability
- Leverage building regulations (Future Homes Standard), beneficial to Eurocell skill set
- Target commercial sector projects, promoting energy efficiency and lower cost benefits of PVC over aluminium for sub-sectors such as purpose-built student accommodation and education

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

- Strong performance across full range of manufactured products and traded goods
- Continued growth in the outdoor living product range, including decking, fencing and garden rooms
- 12 new sites opened, including 4 larger format branches
- Introduced more large format stores, with showroom-style displays to drive big-ticket purchases
- Trials of new format for standard size stores – see below

See pages 30 to 31 for further details of the Building Plastics division's performance.

Building Plastics like-for-like sales growth:
20% (vs 2019)

Estimated market share in Building Plastics (foam PVC profiles):

25% (2019: 22%)

Total estate at 219 branches at 31 December 2021, with 78 (net) new branches opened from 2015

- Roll-out of improved format for standard and large stores, which better showcase the product range
- Continue development of market-leading product range proposition, including redesigned best-in-class conservatory offering, development of new product categories and range extensions
- Be recognised as first for service for the tradesperson via:
 - *Seamlessly connect the customer shopping journey from online through to branches*
 - *Clear data-driven customer engagement plans*
 - *Development of sector-leading digital platform*

INCREASE THE USE OF RECYCLED MATERIALS

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

- Continued investment to expand recycling capacity and improve reliability in both plants, with capex of £1.1 million (2020: c.£1.5million)
- Long-term sustainability KPIs and targets defined, including commitment to 1% year-on-year increase in use of recycled material

See pages 38 to 41 for further details of recycling operations.

Total tonnes of waste processed in the recycling plants:
48.2k (2020: 33.7k) (2019: 41.3k)

% yield of recycled material produced:
59% (2020: 63%) (2019: 60%)

Use of recycled material for primary extrusion:
16.8k tonnes

27% of consumption
(2020: 12.4k tonnes/25%)
(2019: 13.4k tonnes/23%)

- Maximise throughput and operational efficiency/reliability at both recycling sites
- Implement best-in-class processes and elimination/mitigation of single points of failure risk, through supplier partnerships and enhanced maintenance management
- Reduce the amount of waste going to landfill through yield and efficiency benefits, coupled with multiple projects to find alternative purposes for the waste produced

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.
3 Based on the 2 months to February 2022.



DEVELOP INNOVATIVE NEW PRODUCTS

Maintain market leadership by offering the latest in product innovation

- Development and introduction of products which feature better aesthetics, and a more contemporary look, along with improved environmental characteristics, including
 - *Aspect flush French doors*
 - *Improved conservatory roof range*
 - *Garden rooms*
 - *Skypod Plus roof lantern*

See pages 24 to 25 for further details of new products.

Product ranges launched in 2021:

11

- Continue to enhance/develop new products which include for 2022:
 - *Redesigned best-in-class conservatory range*
 - *Vertical cladded Coastline / garden rooms*
 - *Other outdoor living products including pergolas and gazebos*
 - *Fire-resistant cavity closers*
- Ongoing technical collaborations with larger customers to develop new product applications to meet changing building regulations requirements



EXPLORE POTENTIAL BOLT-ON ACQUISITIONS

Consider acquisition opportunities when they arise

- Several opportunities considered and investigated against strict strategic and financial criteria – none progressed in 2021
- Principal focus was completing the warehouse transition and expanding manufacturing capacity, along with opening 12 new branches

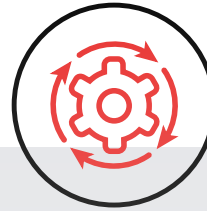
Acquisitions completed in 2021:

Nil

Acquisitions completed since IPO:

6

- Continue to assess and consider bolt-on acquisition opportunities in the markets in which we operate



DELIVER SUSTAINED OPERATIONAL EXCELLENCE

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

- New warehouse launched in January and transition completed successfully through 2021, against a background of record volumes and challenging supply chain dynamics, with raw material constraints and labour shortages
- Further progress with manufacturing capacity expansion, with 5 new extrusion lines, together with the associated mixing plant upgrade and tooling, commissioned in Q4

OEE¹:

68% (2019: 73%)
(2022 current run rate³: 71%)

OTIF²:

78% (2019: 89%)
(2022 current run rate³: 93%)

- Deliver operational efficiencies in manufacturing and warehousing, as new plant, systems and processes become embedded
- Continue manufacturing capacity expansion, with 5 further primary extrusion lines ordered for 2022, plus additional lines to support growth in cavity closure products and fencing, along with the required tooling and mixing plant improvements



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

- Product Information Management ('PIM') solution scoped and platform selected, with implementation ongoing
- Website and e-commerce platforms selected and development ongoing
- Employee management systems fully scoped and solution platform identified
- Customer Relationship Management ('CRM') / Enterprise Resource Planning ('ERP') solutions – business needs, requirements analysis and scoping ongoing

Number of digital projects in progress:

5

- Progress prioritised road map projects, including:
 - *Implement the new PIM solution and website/e-commerce platforms for operational use*
 - *Complete new website and e-commerce platform implementation*
 - *Commence the development and implementation of the employee management systems*
 - *Complete the planning and costing of the CRM and ERP solutions*

INVESTMENT IN BUSINESS EXPANSION

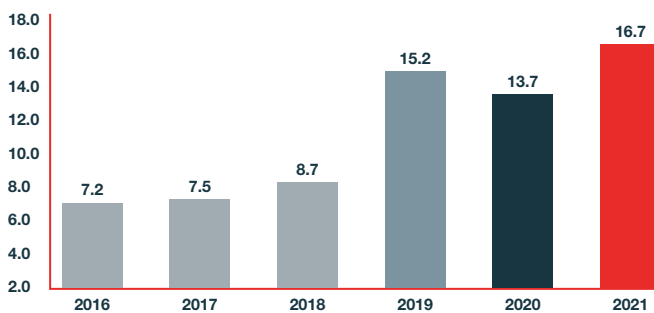
The recent success of our commercial strategies has resulted in a strong compound annual growth rate in sales since 2016 (excluding the impact of COVID-19 on 2020) of 14%.

This growth reflects significant gains in market share across both divisions, with Profiles share up from c.14% in 2017 to 18% in 2021, and Building Plastics increasing from 20% to 25% over the same period. However, profits for the early part of that period were impacted by sales running ahead of our expectations, thereby exceeding the available operating capacity and leading to inefficiencies and extra costs.

Therefore, from 2019, we stepped up investment in the business to build out the operating infrastructure required to deliver strong growth and an efficient operation. This investment has included significantly increasing our manufacturing, recycling and warehousing capacity, strengthening our teams and working with them to improve operational capability and efficiency.

This section draws these investments and initiatives together to demonstrate how the business has been developed over the period, leaving Eurocell now well placed to continue to deliver good growth with improving returns.

Capital expenditure 2016-21



Capital expenditure £m	2018	2019	2020	2021
Manufacturing capacity	3	5	–	7
Recycling capacity ¹	7	6	2	1
New warehouse	–	–	8	2
Other (inc. new branches)	4	4	4	7
Total	14	15	14	17

1 Adjusted to include acquisition consideration for Eurocell Recycle North.

Investment in manufacturing capacity

In 2018, a combination of strong sales growth and larger than expected mix changes towards co-extruded and foiled products resulted in volumes above the immediately available manufacturing capacity. This impacted negatively on the efficiency of our manufacturing operations, leading to increased costs, and on customer service, thereby delaying our ability to recover input cost inflation with selling price increases.

In response, we strengthened our operational teams and launched a substantial capex programme to bring forward planned capacity increases. This programme included the addition of seven new extrusion lines and associated tooling in 2019, which cost c.£5 million, resulting in a capacity uplift of c.13% compared to 2018.

The investment in our new warehouse, described below, has delivered a step-change in our storage capacity and the opportunity to drive further operational efficiencies. However, importantly, it has also unlocked the operational footprint for the whole Group. We have converted our previous warehouse to

a specialist manufacturing site, relocating secondary operations, including foiling and conservatory roofs. This has freed up the space to future-proof extrusion capacity.

Since returning from the first UK lockdown mid-2020, we have benefited from strong underlying markets and continued to deliver good sales growth. We therefore took the decision to further expand manufacturing capacity in 2021, with the addition of another five extrusion lines, the associated tooling and an upgrade to the PVC compound mixing plant at a cost of c.£7 million (including the previous warehouse conversion noted above). All the new lines were operational by the end of 2021.

In 2022, with ongoing good market conditions and further opportunities to take market share, we are planning to continue this expansion. We have placed orders for a further five primary extrusion lines, plus additional lines to support growth in cavity closure products and fencing, along with the required tooling and mixing plant improvements with a combined cost of c.£6 million. This investment results in an uplift in primary extrusion capacity of c.15% compared to 2020.

Looking further ahead, we have the space available in our extrusion halls to add at least another ten lines, representing a further increase in capacity of c.15%. It is also worth noting that, following technological improvements, the machinery and tooling added over the last three years is more efficient than our existing plant, which should improve capacity beyond the baseline estimates included here.

Primary extrusion lines at 31 December (number)

	2017	2018	2019	2020	2021	*2022
Co-extrusion	12	17	22	22	25	26
Rigid PVC	15	12	11	11	15	16
Foam PVC	21	23	26	26	24	27
Total lines	48	52	59	59	64	69
Production (kt)	44.4	49.8	54.6	45.5	57.2	n/a

* estimated

Investment in recycling capacity

The Responsible Business section on pages 32 to 53 describes the substantial carbon footprint reduction and other environmental benefits delivered by our two market-leading recycling plants. In this section, we focus on investment.

Between 2016 and 2021, we invested £6.3 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 recycle on key product lines. In addition, 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 £4.5 million.

As a result of these investments, we have become the leading UK-based recycler of PVC windows. Our use of recycled material in primary extrusion increased from 4.1k tonnes in 2015 (or 9% of materials consumed) to 16.8k tonnes in 2021 (or 27% of consumption). Our total output of recycled material, including



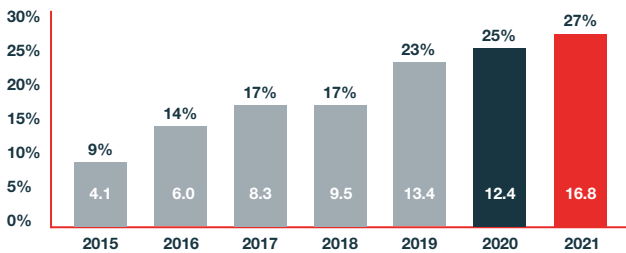
that used in products made from 100% recycled material or sold to trade extruders, increased from 11.6k tonnes in 2016 to 28.5k tonnes in 2021.

In terms of economic benefits, in 2021 our recycling operation drove a substantial cost saving compared to the use of virgin PVC compound, reflecting increased volumes and much higher prices for virgin compound, illustrating the very good returns on these investments.

As noted above, details of the environmental benefits are included in the Responsible Business section, but in summary, we estimate that our recycling operation saved approximately 48k tonnes of carbon in 2021 (2020: 36k tonnes; 2019: 42k tonnes), also compared to the use of virgin PVC, and prevented the equivalent of over 3 million window frames from landfill.

Our 2021 performance is in line with our target to increase the percentage of recycled material used in production by at least 1% per annum and to deliver year-on-year increases in carbon saved.

Use of recycled PVC in manufacturing (% of raw materials used and tonnes consumed)



Investment in warehousing capacity

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 3 miles of our primary manufacturing site, previous main warehouse and Head Office. The new site has 260,000 square feet of high bay, state-of-the-art warehouse accommodation.

We have invested c.£9 million to fit out the new warehouse, incurred mostly in 2020. This has increased capacity by more than 60%, via 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. We can now store up to 12 stillages high (our previous warehouse was restricted to 7). Mobile platforms have replaced 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.

Commercial operations began from the new site in January 2021, with a progressive ramp-up in activity through the first half of the year. We have now proved the ability pick at 3x the efficiency of our traditional methods, with significantly more output capacity.

Looking forward, our focus for 2022 is to ‘turn’ the operation fast and deliver improvements in operating efficiencies, thereby making the facility the cornerstone of our supply chain for future growth.



Improving operational capability and delivering operational excellence

Alongside these capital investments, 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 KPIs to be better aligned with our strategy and objectives and implemented a standard operating system across all operational sites. 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.

Summary

Through substantial investments in operating infrastructure and our teams’ capabilities, we are developing a footprint, operational controls and a continual improvement culture which will support our growth and performance for years to come.

With operating constraints now resolved, we introduced a new strategic priority in 2021 to ‘deliver sustained operational excellence’, which, looking ahead, we expect to result in the full benefit of our sales growth flowing through to improved profits and margins.

NEW PRODUCTS RESONATED WELL WITH CUSTOMERS

ASPECT FRENCH FLUSH DOORS



Following the success of the Aspect bi-fold door system, we have developed this range in 2021 to include Aspect flush French doors, which complement our Modus and Logik range of flush windows.

These flush French doors, with no bulky dummy mullion and super slim sight lines and hinges, are a premium take on this classic door style and the stylish looks have proved popular with homeowners.

SKYPOD PLUS



Skypod Plus was a new addition to the successful Skypod range in 2021, offering attractive architectural aesthetics.

The Skypod Plus system comes with a choice of four self-cleaning, temperature controlling glass options, with good environmental properties, including reducing heat loss on cold days, and protecting from strong sunshine in the summer.

GARDEN ROOMS



Following the successful launch of the Kyube garden room last year, we have developed the range in 2021, to reflect the continuing demand for affordable extra work and leisure space at home.

Garden buildings are becoming a significant product category, built using several Eurocell products including Coastline cladding and Syncro patio doors. We now offer a range of sizes and styles, with both timber and steel frame options.

CONSERVATORY ROOFS



We have continued to develop our conservatory roof proposition and, following the successful launch of our slate-effect Envirotile composite tiles in 2020, we have now extended the offering to include our solid tiled Equinox conservatory roof.

This range includes four roof tile finishes for this 'warm' Equinox roof, as well as overhanging soffit features with downlighters for a more modern look. Precision manufactured from recycled polymer, these eco-friendly tiles combine an aesthetically pleasing finish with excellent environmental credentials.

In addition, we now offer full height glazing panels for our conservatory roof systems. This new glazed version, Equinox Vega, allows for lighter, more sunlit conservatories, giving an impression of enhanced space.

OUTDOOR LIVING PRODUCTS



Outdoor living products have been our strongest growth category in 2021.

We are now one of the biggest suppliers of decking to the trade. Composite fencing products, made from sustainable materials, have proved a popular addition to the decking range. With its modern sleek look and simple tongue and groove system it is ideal for a wide range of gardens and combines colourfast appearance and low maintenance with great sustainability characteristics.

In 2021 we added artificial turf and decorative wall panelling into the outdoor living range. We also continued to expand our range of garden rooms (see adjacent column).

NEW PRODUCTS FOR 2022

In the light of the recent success of the outdoor living range, in 2022 we will be launching a new range of modern conservatories, alongside other garden products such as pergolas and awnings.

The image shows the exterior of a Eurocell store. The main sign is a large red rounded rectangle with the word "eurocell" in white lowercase letters and a registered trademark symbol. Below this, a white banner reads "BUILDING PLASTICS AND MORE". To the left, there are several smaller signs: "Security Hardware SPECIALIST DOOR & WINDOW HARDWARE", "FREE 24HR DELIVERY" with a truck icon, "CLICK & COLLECT IN-BRANCH" with a circular arrow icon, and "PVC-U RECYCLING" with a recycling symbol. A large white number "6" is visible on the left side of the storefront. The background shows a clear blue sky and the building's facade.

eurocell®

BUILDING PLASTICS AND MORE

Security Hardware
SPECIALIST DOOR &
WINDOW HARDWARE

FREE 24HR
DELIVERY

CLICK & COLLECT
IN-BRANCH

PVC-U
RECYCLING

GROWING OUR MARKET SHARE

Our strategy is to develop our position as the UK's leading manufacturer, distributor and recycler of UPVC building products.

Profiles

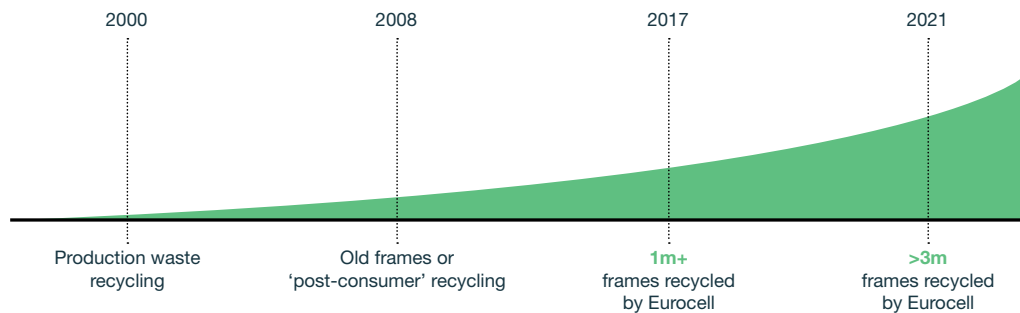
Strategic objective

To target > 20% share and consolidate position as largest supplier of rigid PVC profile to UK market



Opportunities to grow market share

- Investment in additional capacity
- Building regulations complexity plays to Eurocell technical expertise
- Continued range extension
- Consolidation of the market by large fabricators
- Branch generated demand and pull-through
- Lead supplier for cavity closures to new build
- Strong new build specifications and fabricator community



Building Plastics

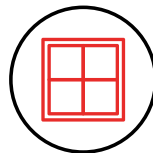
Strategic objective

To target world class operations from 270–300 sites



Market very fragmented, with >60% served by small independents

- No barriers to further consolidation



Products – create the market-leading proposition

- Including redesigned best-in-class conservatory offering
- Further development of new product categories and range extensions



Service – be recognised as first for service for the tradesperson

- Seamlessly connect customer shopping journey from online through to branches
- Clear data-driven customer engagement plans
- Development of sector-leading digital platform



Branches – winning format

- Improved format for standard branches, which better showcases our product range
- Introduce large format stores, with showroom-style displays to drive big-ticket purchases



Consumer online proposition trial



PROFILES

Profiles Highlights

c.18% (2015: c.12%)

Market share

75 (2017-19: 60)

New accounts

↑ 22%

Sales vs 2019

c.400 fabricators

Total accounts



Strategy

In 2018 we became the leading supplier of rigid PVC profile to the UK market, with a share of c.15%. We continue to consolidate our position and believe we now have a share of around 18%. Our strategic objective is to increase this to at least 22% over the medium term.

There is a compelling case for larger trade fabricators to switch to Eurocell. This includes a strong product range and continued product development e.g. better aesthetics (such as flush windows), a more contemporary look to roofing and door products and improved environmental characteristics. In addition, the benefits of pull-through profile and hardware specifications and increasing opportunities to supply our branches, all delivered via improving service, remain attractive to prospective fabricator accounts.

In the Profiles division, new build represents approximately one-third of sales. Expanding our share of the new build market has been a key driver of recent growth, driven by sales of cavity closures where we are the clear market leader, and we believe favourable market dynamics are set to continue. We have strong relationships with large and medium-sized housebuilders, maintained by our specification and technical teams. Building regulations for windows are becoming increasingly complicated and our technical teams are working with our larger customers to enable them to conform to the regulations, including development of new product applications to meet changing requirements. In addition, with a focus on sustainability, we believe our use of recycled material is becoming increasingly attractive to housebuilders.

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

Revenue

Profiles third-party revenue for the year was £140.7 million, 41% higher than 2020 and up 22% on 2019. We have seen good contributions from trade fabricators, who are substantially focused on the RMI market, and a very strong performance from Vista doors. New build has also enjoyed good sales, with increasing housing market activity supported by continued high levels of mortgage approvals and demand.

During the last five years we have added 75 new accounts, and our prospect pipeline remains good.

Operating profit

Adjusted operating profit for 2021 was £20.7 million, 162% higher than 2020 and up 16% on 2019, with the growth against both prior periods reflecting higher sales volumes.

The adjusted operating profit in 2020 is 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 overall operating loss of £1.0 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.

Profiles	2021 £m	2020 £m	Change %	2019 £m	Change %
Third-party revenue	140.7	99.7	41%	115.7	22%
Inter-segmental revenue	63.9	56.4	13%	59.5	7%
Total revenue	204.6	156.1	31%	175.2	17%
Adjusted operating profit¹	20.7	7.9	162%	17.9	16%
Operating profit/(loss)	20.7	(1.0)	n/a	17.9	16%

¹ Before non-underlying items (no non-underlying items in 2019 and 2021).

BUILDING PLASTICS

Building Plastics Highlights

c.25% (2015: c.20%) **12** (2015-21: 78 (net))
Market share New branches

↑ 20% **219 branches**
Like-for-like² sales Total estate



Strategy

Our strategic objective for Building Plastics is to achieve world class operations from 270–300 sites. The growth will come mostly from independent operators, who currently have more than 60% market share.

Our goal is to be recognised as first for service for the tradesperson, seamlessly connecting the customer shopping journey from online through to the branches, with clear data-driven customer engagement plans (including targeting lapsed customers) and through the development of a sector-leading digital platform.

In terms of products, we intend to create the market leading proposition, including a redesigned best-in-class conservatory offering, and to exploit a significant market opportunity to extend our outdoor living product range, including decking, fencing and garden rooms.

In the existing estate, we are now testing an improved format for standard size branches, which better showcases the breadth of our range. We will also continue to identify opportunities for large format stores, with an 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 also continue to test an opportunity to develop and implement a sector-leading consumer online windows and doors proposition, using the branch network to provide infrastructure where needed (e.g. delivery point for installers). We began a trial in the North West towards the end of 2020. This proposition aligns well with our commercial strategy of continuing to create pull-through demand for our products, and we will provide a progress update in due course.

Revenue

Building Plastics third-party revenue for the year was £202.4 million, 28% higher than 2020 and up 24% on 2019. This is equivalent to like-for-like² sales growth of 20% compared to 2019, representing a strong performance across our full range of own-manufactured products and traded goods.

Building Plastics	2021 £m	2020 £m	Change %	2019 £m	Change %
Third-party revenue	202.4	158.2	28%	163.4	24%
Inter-segmental revenue	0.5	1.3	(62)%	1.3	(62)%
Total revenue	202.9	159.5	27%	164.7	23%
Adjusted operating profit¹	11.9	4.0	198%	8.6	38%
Operating profit¹	11.9	3.4	250%	8.6	38%

¹ Before non-underlying items (no non-underlying items in 2019 and 2021).

² Like-for-like excludes acquisitions and new branches opened in 2019/20/21.

We opened 12 branches in total in 2021, with 8 new standard format branches, and 4 the new larger format. We are also making good progress reducing the time taken to reach break-even in new stores. At 31 December 2021, we had a total of 219 branches providing national coverage across the UK, which offers a significant competitive advantage. Branches opened in 2019/20/21 added £6.0 million to sales in 2021.

Operating profit

Adjusted operating profit for 2021 was £11.9 million, 198% higher than 2020 and up 38% on 2019, with the profit growth against both prior periods reflecting strong sales and good cost control.

The adjusted operating profit in 2020 is 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 overall operating profit in 2020 of £3.4 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.

Indicative branch economics (rounded)

Branch open	< 2 years	2–4 years	> 4 years
No. of Branches	16	15	188
Average Sales per Branch (£000)	280	680	920
Return on Sales per Branch (%) ¹	Small loss	Early teen %	>20%

¹ Operating profit 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 the long-term sustainability of the Group. This includes carbon footprint and emissions reduction, supporting our people, their wellbeing and seeking to improve the environment in which they live and work.

It also includes how we interact with other stakeholders and the communities in which we operate, as well as ensuring good governance, strong business ethics and appropriate conduct. Responsible business sub-sections are as follows:

- Sustainability strategy, including performance against our environmental and social KPIs and targets
- Task Force on Climate-related Financial Disclosures ('TCFD')
- Minimising our environmental impact, including recycling operations
- Valuing our people
- Working responsibly with our communities and other stakeholders
- Looking to a sustainable future

Throughout these sections, we provide further detail in relation to progress against our sustainability targets and objectives. The governance aspects of responsible business are covered in the Governance Report beginning on page 68.

This section of the Strategic Report also includes 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 as described in the table.

The policies noted opposite 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.



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	<ul style="list-style-type: none"> • Corporate Vision and Values • Corporate Social Responsibility Policy 	<ul style="list-style-type: none"> • Recycling operations pp.38 • Minimising our environmental impact pp.38
Employees	<ul style="list-style-type: none"> • Corporate Vision and Values • Corporate Social Responsibility Policy • Employee Handbook 	<ul style="list-style-type: none"> • Valuing our people pp.46
Respect for human rights	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Equality and diversity pp.50 • Modern slavery pp.52
Social matters and community issues	<ul style="list-style-type: none"> • Corporate Social Responsibility Policy 	<ul style="list-style-type: none"> • Customers pp.52 • Community and charity pp.51
Anti-corruption and anti-bribery	<ul style="list-style-type: none"> • Corporate Social Responsibility Policy • Anti-Bribery Policy 	<ul style="list-style-type: none"> • Whistleblowing and bribery pp.90
Description of principal risks and impact of business activity		<ul style="list-style-type: none"> • Risk management pp.58 • Principal risks and uncertainties pp.60
Description of the business model		<ul style="list-style-type: none"> • Overview pp.6 • Our business model pp.14
Non-financial key performance indicators		<ul style="list-style-type: none"> • Operational performance pp.18

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

KPIs AND TARGETS DRIVING IMPROVED SUSTAINABILITY

Our overall objective in this area is to continue to improve all material aspects of the sustainability of the Group.

We have defined a suite of environmental and social targets and KPIs against which to measure our progress, which are set out in the table, together with the outturn for 2021. The sections which follow provide further information and commentary in relation to our performance in each category.

Our KPIs recognise the breadth of the sustainability, or Environmental, Social and Governance ('ESG') agenda.

Central to our **environmental** targets, which cover both the circular economy as well as emissions and energy management, is reducing the carbon footprint of the business and our products. Our unique recycling operation, and increasing our use of recycled PVC compound in the manufacture of co-extruded rigid profiles has been, and will continue to be, at the heart of carbon reduction for Eurocell.

Our **social** objectives are broad and cover areas such as health and safety, diversity and education.

These objectives align well with several relevant United Nations Sustainable Development Goals, as well the UK's transition towards a net zero carbon economy.

We intend to report our progress against these targets on an annual basis.

In terms of **governance**, we apply the principles of the UK Corporate Governance Code, with which we continue to comply in all material respects. For further information on our governance arrangements, please see our Corporate Governance Statement on pages 72 to 82.

Key to United Nations Sustainable Goals ('UN SDGs'):

 1 NO POVERTY No poverty	 3 GOOD HEALTH AND WELL-BEING Good health and well-being	 4 QUALITY EDUCATION Quality education	 5 GENDER EQUALITY Gender equality
 7 AFFORDABLE AND CLEAN ENERGY Affordable clean energy	 8 DECENT WORK AND ECONOMIC GROWTH Decent work and economic growth	 12 RESPONSIBLE CONSUMPTION AND PRODUCTION Responsible production and consumption	 13 CLIMATE ACTION Climate action

ENVIRONMENTAL – CIRCULAR ECONOMY

Recycled material used in production

CO₂ saved by recycling operation

Waste recycled

ENVIRONMENTAL – EMISSIONS AND ENERGY MANAGEMENT

Greenhouse gas ('GHG') emissions

Energy consumption

Renewable energy

SOCIAL

Health & safety


Employee engagement and recruitment

Employee satisfaction

Diversity

Remuneration

Education

KPI	2020 Base	2021 Result	Target	Link to UN SDGs
% used	25%	27%	1% increase per year	
Tonnes saved	36kt	48kt	Year-on-year increase	
% recycled	79%	82%	Year-on-year increase	
GHG intensity ratio	70t CO ₂ / £m sales	51t CO ₂ / £m sales	5% reduction by 2025	
Energy use intensity ratio	267 MWh / £m sales	222 MWh / £m sales	5% reduction by 2025	 
Renewable energy used	19% total energy	78% total energy	50% reduction by 2025	
Lost time injury rate	0.7 per 100,000 hours	0.8 per 100,000 hours	50% reduction by 2025	
Labour turnover	21%	26%	Year-on-year reduction	   
Annual survey response rate and overall satisfaction level	n/a	60% and 68%	Year-on-year increase	
Female employees	12.8%	13.4%	Year-on-year increase	
National Living Wage ('NLW')	All employees at or above NLW	All employees at or above NLW	All employees above NLW by 2023	
Apprenticeships / Kickstarters	32	79	20% increase by 2025	

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Tackling climate change is embedded in our sustainability strategy.

We recognise the importance and value of the recommendations from the Financial Stability Task Force on Climate-related Financial Disclosures ('TCFD') and are committed to open and transparent disclosures. The information set out on this and the following page aims to provide key climate-related information and cross-references to where additional information can be found. In this context, we have considered our 'comply or explain' obligation under the UK's Financial Conduct Authority's Listing Rules, and confirm that we have made disclosures consistent with the TCFD Recommendations and Recommended Disclosures in the Annual Report save for Scope 3 emissions. We currently disclose partial Scope 3 greenhouse gas emissions, where this information is available. This is a complex and evolving area and therefore, looking forward, we will be working to further disclose these emissions, where possible.

Tackling climate change is embedded in our sustainability strategy, primarily through our objectives related to the circular economy (increasing recycling and reducing waste) and energy and emissions management (reducing emissions and increasing our use of renewable electricity). The table on page 35 references these targets and other sections of our report where you can find further information on our approach to addressing climate change through improving our sustainability.

Governance

The Board reviews principal risks, including those concerning climate change and associated regulatory responses. The Board's engagement has been important in shaping our sustainability strategy, carbon reduction plans and other environmental targets. In 2021, our Non-executive Director Sucheta Govil assumed oversight responsibility for ensuring ESG matters are considered properly by the Board, further strengthening governance in this area.

Looking forward, the Board will support management in defining our pathway to carbon neutrality and thereafter on to net zero, which we intend to develop starting in 2022.

Metrics and targets

This year we have published our environmental and social KPIs and targets for the first time. We have generally made good progress against these targets in 2021, as set out on page 35 and throughout this Responsible Business section.

In terms of climate change, the most important metrics for Eurocell are increasing our recycling operation and reducing our emissions.

Our recycling operation is described on pages 38 to 41. In 2021, we estimate that our recycling operation saved approximately 48k tonnes of carbon in 2021 compared to the use of virgin PVC.

Our emissions are also reported in the Greenhouse Gas Emissions and Energy Use section on page 43. Using a location-based methodology (which does not consider the electricity supply contracts we purchased, but instead uses a national carbon

emissions factor for electricity), total emissions decreased by 28% in 2021 compared to 2019, with the latter a more meaningful comparator given the disruption to and temporary closure of the business in 2020 due to COVID-19. It is also important to recognise that we have reduced our total emissions by 33% since 2016.

Using a market-based reporting approach, which recognises that 78% of the electricity we purchased in 2021 was renewable, our 2021 emissions are around one-third lower than those reported under the location-based methodology.

Risk management

Climate change and associated regulatory response risks are included as part of our overall risk management framework. Further information in relation to our assessment of climate-related risks and opportunities is set out below.

Transition and physical risks and opportunities

Transition risk: reputation and investor preference

If we do not deliver on our environmental targets and set out a credible pathway to carbon neutrality and net zero, then investors and lenders may show a preference to allocate capital to businesses with smaller climate impacts.

Our response

Improving sustainability, primarily through increasing recycling and reducing emissions, is at the heart of business and a clear strategic priority. We have appropriate governance and KPIs in place to ensure delivery of our objectives. We continue to engage with our investors and lenders and are confident our strategy is well understood.

Transition risk: government action

Governments may implement taxes or charges which penalise businesses that do not reduce carbon, potentially increasing the input cost of energy, freight and raw materials.

Our response

Our own commitments to carbon and emissions reduction will ensure that we are part of the solution. In addition, the PVC sector is driving a strong sustainability agenda, and we engage positively with our suppliers and industry bodies to support their carbon reduction and waste elimination initiatives. See page 45 for some examples of work in progress in the PVC sector.

Transition risk: regulatory changes

Governments may implement stricter regulation, which could render elements of our product portfolio non-compliant.

Our response

As active members of trade associations across our Group, we influence directional change in areas such as building and product regulations and improve industry guidance. We are committed to investing in innovation to support breakthroughs in sustainable

living and ensuring that emissions reduction is a core consideration in our product and solution designs.

Physical risk: disruption to our assets and operations

Changing weather patterns, linked to climate change, may directly damage our production facilities or disrupt our supply chain.

Our response

All our production facilities are UK-based and are not located in areas exposed to direct risks of extreme weather. We engage with our supply chain and maintain alternative sources and sufficient inventory to avoid the impact of short-term disruption.

Transition opportunities

We are the leading UK-based recycler of PVC windows. Our rigid profiles contain significantly higher recycled material content than any of our UK competitors. In addition, our rigid profiles are designed for enhanced thermal efficiency and deliver better U-values and low thermal conductivity relative to alternatives such as wood and aluminium. We believe building regulations, such as the Future Homes Standard, are also beneficial to our skill

set. We have an opportunity to leverage energy saving and other benefits of our products and solutions with our existing customer base, consumers and other stakeholders.

Looking further to the future, our largest PVC resin supplier has launched the world's first commercially produced bio-attributed PVC (Biovyn), which is made using renewable feedstock derived via wood-based residue from sustainable forestry. Products such as this provide the potential to support our longer-term transition to carbon neutrality and net zero. Further information is included in Responsible PVC Sector on page 45.

Scenario analysis

We have made an initial use of qualitative scenario analysis to assess our risks and opportunities and have considered a 1.5°C and 4°C scenario to provide a broad view of outcomes. Under a 1.5°C scenario, risks relate primarily to the transition to a net zero world, the regulatory response, and the changing political, consumer and investor expectations. Under a 4°C scenario, the physical impacts of a changing climate will become more apparent. We will continue to develop our scenario analysis in 2022 and beyond.

Reporting requirement	Reporting recommendation	Section and reference
Governance	<ul style="list-style-type: none"> Describe the Board's oversight of climate-related risks and opportunities Describe management's role in assessing and managing climate-related risks and opportunities 	<ul style="list-style-type: none"> Risk management and principal risks, see page 60 TCFD, see page 36
Strategy	<ul style="list-style-type: none"> Describe the climate-related risks and opportunities the organisation has identified over the short and longer term Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning Describe the resilience of the organisation, taking into consideration different future climate scenarios 	<ul style="list-style-type: none"> Minimising our environmental impact, see page 42 Looking to a sustainable future, see page 32 TCFD, see page 36
Metrics	<ul style="list-style-type: none"> Disclose the metrics used by the organisation to assess climate-related risks and opportunities Disclose Scope 1 and 2 and if appropriate Scope 3 emissions Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets 	<ul style="list-style-type: none"> Sustainability strategy, KPIs and targets, see page 34 Greenhouse gas emissions and energy use, see page 43
Risk	<ul style="list-style-type: none"> Describe the organisation's processes for identifying, assessing and managing climate-related risks Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management 	<ul style="list-style-type: none"> Risk management and principal risks, see page 60 TCFD, see page 36



MINIMISING OUR ENVIRONMENTAL IMPACT

Recycling Operations

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

Why we recycle

Our recycling operation will always be at the heart of our sustainability strategy. Expanding recycling improves product and business sustainability, with less plastic going to landfill. The principal benefits fall into three categories:

Carbon savings

An independent study by the University of Manchester 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 CO₂ emissions. This calculation compares the full life cycle carbon emissions associated with the production of virgin PVC with emissions from the window recycling process. As a result, our recycling operation saves substantial amounts of carbon compared to the use of virgin PVC.

Commercial

We can leverage the sustainability aspects of our recycling operation with our customer base, consumers and other stakeholders. 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.

Economic

Recycling also 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. This is particularly important at the moment, with the price of virgin resin reaching historic high levels in 2021.

What we do

Our recycling process essentially turns old window profiles into new window profiles. 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.

“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.”

We operate an advanced co-extrusion process, which delivers recycled material to the profile core. External surfaces are protected using virgin PVC compound, providing a high-quality, resilient finish. The recycling process actually enhances product stability and can be repeated around 10 times, giving the product an effective lifetime of approximately 100 years.

Our co-extruded profiles are designed to deliver enhanced thermal efficiency, with better U-values than wood or aluminium alternatives and low thermal conductivity.

We have two recycling plants, which are located in Ilkeston (Eurocell Recycle Midlands) and Selby (Eurocell Recycle North). Both sites operate under Integrated Pollution Prevention and Control (‘IPPC’) permit conditions and both successfully retained their permitted status. The environmental management systems and manuals forming the basis of our ISO 14001 accreditations continue to evolve, with particular progress being made at Eurocell Recycle North. All accreditations were successfully maintained in 2021.

How much we invest

The Strategy in Action section on pages 20 to 27 describes how, between 2016 and 2021, we invested c.£11 million to expand capacity at our two recycling plants to become the leading UK-based recycler of PVC windows, along with the associated economic benefits.

How much we recycle

During the year, our two sites recycled 40.5k tonnes (equivalent to more than 3 million window frames) of post-consumer waste, which would have otherwise been sent to landfill, and 7.7k tonnes of post-industrial waste. Total waste collected of 48.2k tonnes represents a significant step up on 2020 (33.7k tonnes).

Together the two sites used this waste to produce 28.5k tonnes of recycled material (2020: 21.1k tonnes). A slightly lower yield in 2021 follows the significant increase in waste collected, which resulted in some deterioration in the quality of post-consumer feedstock.



RECYCLED
48.2K
TONNES IN 2021

Of the recycled material produced, 16.8k tonnes (generated predominately from post-consumer waste) was used alongside virgin resin in the manufacture of many of our PVC rigid profiles, representing 27% of total raw material consumption, up from 25% in 2020.

The remaining 11.6k 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 estimate that, in total, our recycling operation saved approximately 48k tonnes of carbon in 2021 (2020: 36k tonnes; 2019: 42k tonnes), also compared to the use of virgin PVC, and prevented the equivalent of over 3 million window frames from landfill.

Our 2021 performance is in line with our target to increase the percentage of recycled material used in production by at least 1% per annum and to deliver year-on-year increases in carbon saved.

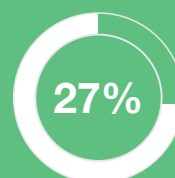
In addition, in terms of economic benefits, in 2021 our recycling operation drove a substantial cost saving compared to the use of virgin PVC compound, reflecting increased volumes and much higher prices for virgin compound.

k tonnes	2021	2020*	2019	vs 2020		vs 2019		
				Change	Change %	Change	Change %	
Inputs – waste recycled								
Post-consumer	40.5	27.0	31.4	13.5	50%	9.1	29%	
Post-industrial	7.7	6.7	9.9	1.0	15%	(2.2)	(22)%	
	48.2	33.7	41.3	14.5	43%	6.9	17%	
Output – recycled material produced								
	28.5	21.1	24.9	7.4	35%	3.6	14%	
Yield %	59%	63%	60%	(4)%		(1)%		
Usage								
Primary extrusion	16.8	12.4	13.4	4.4	35%	3.4	25%	
Products made from 100% recycled material	7.3	4.3	6.7	3.0	70%	0.6	9%	
Sales to trade extruders	4.3	3.4	5.1	0.9	26%	(0.8)	(16)%	
	28.4	20.1	25.2	8.3	41%	3.2	13%	
Primary extrusion usage as % of total consumption	27%	25%	23%	2%		4%		

* volumes affected by COVID-19 shutdowns.

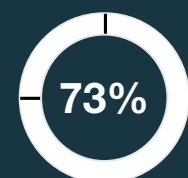
STRONG ON
SUSTAINABILITY
LESS IS MORE

We use a significant proportion of recycled plastic in our window profile and doors



RECYCLED

Proportion of recycled plastic consumption

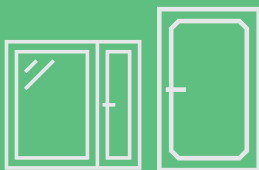


VIRGIN

Proportion of virgin compound consumption

HOW WE RECYCLE

Our 9-step process to create new feedstock from end-of-life materials



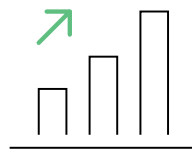
9
Manufactured product ranges from recycled PVC-U



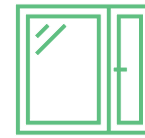
c.170
recycling jobs provided to people in the local area



>3 million
end-of-first-life frames
recycled in 2021



153%
increase in recycled
material produced
since 2016



c.70k
windows recycled
per week, on average,
during 2021

06

Washing

Using a series of water tanks, contaminants are 'floated' out, using a closed-loop water system.

08

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.

07

Pelletisation / pulverisation

The PVC-U granules are processed into finished material ready for extrusion.

09

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.

BENEFITS OF EUROCELL RECYCLING

Sustainability

The use of recycled material enhances product stability and lowers 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 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.



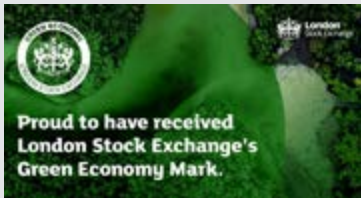
MINIMISING OUR ENVIRONMENTAL IMPACT CONTINUED



Accreditation

FTSE Green Economy Mark

During 2021, we were very pleased to receive the London Stock Exchange's Green Economy Mark, which is awarded to companies that derive more than 50% of revenues from environmental solutions, and reflects contributions to the global green economy.



The LSE recognised that our PVC profiles can be recycled up to 10 times and have a life span of around 100 years which, along with the fact that we operate recycling plants and use recycled material in our products, contributes to the transition to a sustainable, low carbon economy.



Our footprint

Since 2016, we have reduced total emissions by c.33%, along with a steady downward trend in emissions intensity, as consumption has dropped through energy efficiency programmes, whilst revenues have generally been increasing (source: Eurocell Greenhouse Gas Report, Inenco Group, February 2022).



Recognition

We have been proud winners of:

- the Future Manufacturing Awards – Sustainability 2018
- the MRW National Recycling Awards – Manufacturer of the Year 2018
- 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 2021.
- 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.

As described on pages 34 to 35, in September 2021 we published our sustainability KPIs and targets. This included our environmental targets, which cover both the circular economy as well as emissions and energy management, where the central theme is reducing the carbon footprint of the business and our products. Further details of our performance against these environmental targets is included in the following sections.

Greenhouse gas emissions and energy use

We report our greenhouse gas ('GHG') emissions and energy use as part of our Strategic Report and our reporting period is 1 October 2020 to 30 September 2021, with comparatives for the corresponding period in the previous year. Reliable reporting of GHG emissions and energy use 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. All of our emissions and energy use relate to UK operations apart from negligible amounts which relate to our two branches in the Republic of Ireland.

Our target is to deliver a 5% reduction in both the energy use intensity ratio and emissions intensity ratio by 2025, compared to the 2020 baseline.

GHG emissions for the Group for the period ending 30 September 2021 in tonnes of carbon dioxide equivalent (tCO₂e), using location-based reporting is as follows. Note that location-based reporting does not consider the electricity supply contracts we purchased, but instead uses a national carbon emissions factor for electricity (see also market-based reporting analysis within Electricity consumption below).

Source	2021	2020	2019	Change	
				vs 2020	vs 2019
Fuel combustion (stationary)	337	274	335	23%	1%
Fuel combustion (mobile)	5,051	6,325	7,910	(20)%	(36)%
Refrigerant gases	42	104	91	(60)%	(54)%
Purchased electricity	12,214	11,441	16,061	7%	(24)%
Total	17,644	18,144	24,397	(3)%	(28)%

Despite sales growth of 23%, total emissions decreased by 28% (when compared to 2019, being a more meaningful comparator given the disruption in 2020 due to COVID-19).

GHG emissions for the Group for the period ending 30 September 2021 in tonnes of carbon dioxide equivalent (tCO₂e), by scope and source, are as follows:

Source	Scope 1	Scope 2	Scope 3	Total
Fuel combustion (stationary)	337	–	–	337
Fuel combustion (mobile)	4,743	–	308	5,051
Refrigerant gases	42	–	–	42
Purchased electricity	–	11,221	993	12,214
Total	5,122	11,221	1,301	17,644

Scope 1 emissions are direct emissions from fuel combusted in our own facilities and vehicles and Scope 2 emissions are indirect emissions from the generation of electricity or heating that we purchase for use in our business. These emissions have been reliably measured and independently verified.

Scope 3 emissions are usually defined as emissions from all other activities in the supply chain as well as the positive impact of using our products. The Scope 3 emissions included in the table above include only those associated with electricity distribution and transmission losses, along with business travel in private vehicles. In 2022, we will determine the extent to which we are able to report all of our Scope 3 emissions in the future.

The emissions intensity ratio was as follows:

tCO ₂ e	2021	2020	2019	Change	
				vs 2020	vs 2019
Total emissions	17,644	18,144	24,397	(3)%	(28)%
Emissions intensity ¹	51	70	87	(27)%	(41)%

¹ Expressed in tCO₂e per £m revenue.

The emissions intensity ratio was 51 tCO₂e per £m revenue in 2021, resulting in a 27% year-on-year reduction when compared to 2020.

Energy use for the Group for the period ending 30 September 2021 in MWh is as follows:

Source	2021	2020	2019	Change	
				vs 2020	vs 2019
Natural gas	1,839	1,489	1,611	24%	14%
Electricity	52,846	45,187	50,830	17%	4%
Diesel	14,715	16,348	22,470	(10)%	(35)%
Petrol	436	n/a	n/a	n/a	n/a
LPG	4,631	4,472	4,616	4%	0%
Gas oil	1,839	1,345	n/a	37%	n/a
Total	76,306	68,841	79,527	11%	(4)%

The 2021 energy use intensity ratio was £222 MWh / £m sales (2020: £267 MWh / £m sales) representing a 17% year-on-year reduction.

The main driver for the reduction in energy and emissions intensity ratios was the increasing proportion of renewable electricity in the national mix, alongside the improving energy efficiency of our own plant and machinery (new extrusion lines are significantly more efficient than our legacy fleet). The electricity purchased included investment in a zero-carbon electricity tariff at our Eurocell Profiles sites from January 2021 and at our Eurocell Building Plastics sites from April 2021 onwards.

The above 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 2021 conversion factors provided by the Department for Business, Energy & Industrial Strategy.

Electricity consumption (69% of 2021 energy use)

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. In addition, during the year, we have also reviewed machine start-ups, standby and shut-down processes, the usage of compressed air and the Company's lighting policy, all of which have had a positive impact on our electricity usage.



MINIMISING OUR ENVIRONMENTAL IMPACT CONTINUED

In addition, our previously published target is to increase the use of renewable energy by 50% by 2025, compared to the 2020 baseline. However, following a decision taken to significantly increase renewable energy purchases in 2021, renewable energy use increased to 78%, compared to 19% in 2020. We therefore intend to revise our long-term target accordingly.

Note that following a market-based methodology, our emissions from electricity in 2021 were 5,592 tCO₂e (compared to 12,214 tCO₂e reported for the same period under the location-based approach in the table above).

Waste management

During 2021, we continued our work towards a 'zero to landfill' aspiration. Our current target is to deliver year-on-year increases in the level of our waste which is recycled. In 2021, 82% of our waste was recycled, compared to 79% in 2020.

We are developing our production material flows, particularly through the recycling operation, to close resource loops, improve in-house waste recovery and reduce material sent to landfill i.e. essentially engineering in recycling and designing out waste. The chart illustrates that substantially all scrap material generated in

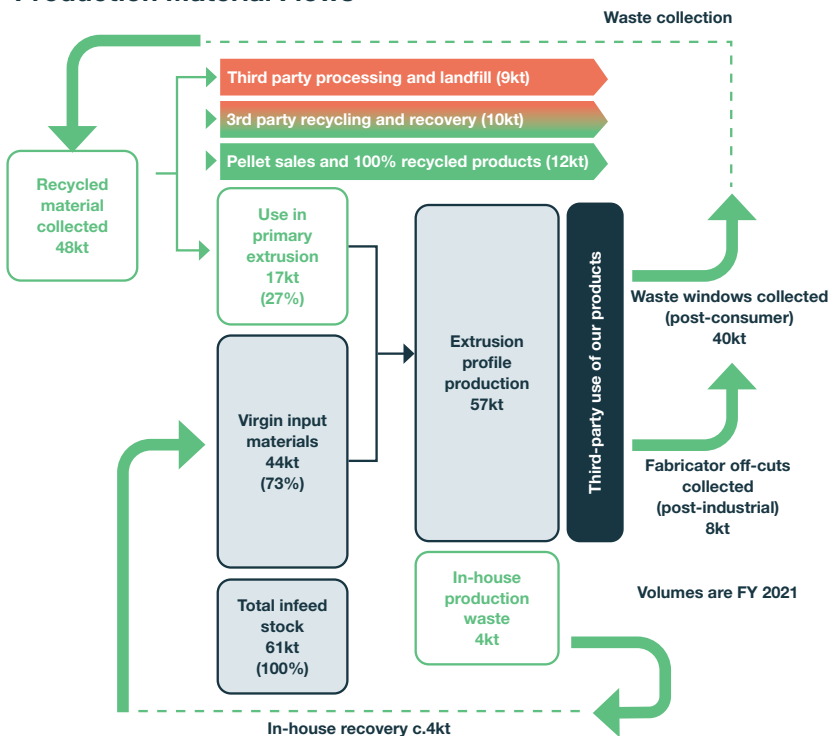
our extrusion process is recycled. Finding new applications for waste products from the recycling operation which were previously landfilled is also a priority.

We have strategies in place to increase the amount of post-consumer and post-industrial waste we collect. For example, at our recycling sites, a number of equipment trials and plant modifications are being conducted, with the aim of improving operational efficiency and product yield. We are increasingly using quality management approaches to develop more effective process control, allowing greater focus on critical process points whereby quality and yield can be maximised. This leads to cleaner waste streams, with greater potential for sale and/or reuse.

In addition, trials have commenced at third-party sites which act as a collection/delivery hub for old windows which have been replaced (post-consumer waste). At these hubs, the post-consumer waste is separated and collected for our recycling operations which:

- provides our customers with a simple, easily-accessible and cheaper disposal route for post-consumer waste, thus increasing recycling volumes; and
- increases our recycling yields, due to less unwanted material, thus contributing to our target of 'zero to landfill'.

Production Material Flows



- ➔ Green arrow – closed-loop recycling
- ▭ Grey to black bars – material use, reflecting reducing level
- ➔ Amber arrows – material losses to landfill or third-party



Plastic packaging

Our procurement team has been working with packaging suppliers to identify, trial and introduce new types of plastic packaging. The aim is to reduce overall plastic content, while increasing the proportion of recycled plastic within the packaging. This will yield both environmental benefits and minimise the impacts of the new plastic packaging tax, which comes into effect from April 2022.

Pollution prevention

We have continued to make our vehicle fleet more environmentally friendly, as the choice of full electric and hybrid electric options continues to grow.

Lower benefit in kind values, free-to-use charging points at our main sites, and support with installation of home charging points, all provide natural incentives for company drivers to take up these options.

Furthermore, investigations continue into non-diesel options for our light commercial fleet, and discussions have commenced with our third-party logistics provider to examine ways in which we can work together to reduce the environmental impact of the logistics and distribution operation.



Responsible PVC sector

There are a number of major initiatives in progress across the PVC industry to address sustainability challenges, right through the value chain.

Supply chain – Inovyn

Inovyn is Europe's leading chlorovinyls producer and the largest supplier of PVC resin to UK window profile system houses, including Eurocell.

Inovyn is an industry leader on sustainability, focused on development in four areas: responsible production, carbon neutrality, circularity and value to society.

In following this path, Inovyn was the first European chemical company to launch Environmental Product Declarations ('EPDs') covering a PVC product range. In this respect, their products are assessed against parameters such as: extraction and refining of raw materials, energy production and supply, and resource inputs and emissions. In doing this work, Inovyn has demonstrated that its carbon footprint for PVC is lower than the industry average.

Looking further to the future, Inovyn has launched the world's first commercially produced bio-attributed PVC (Biovyn). This product is made using renewable feedstock derived via wood-based residue from sustainable forestry, which importantly does not compete with the food chain. Biovyn's supply chain has been independently certified by the Roundtable on Sustainable Biomaterials to deliver a 90% greenhouse gas saving compared to conventional PVC. Further, Inovyn believe that products made using Biovyn can be recycled in the same way as traditional PVC profiles.

Products such as this provide the potential to support Eurocell's longer-term transition to carbon neutrality and net zero. We intend to begin trials using small quantities of Biovyn in our primary extrusion processes in 2022.

Supply chain – industry initiatives

We are also proud to support a number of other initiatives in the PVC industry.

VinylPlus 2030 is a 10-year commitment from the European PVC industry to sustainable development, using a long-term framework to drive the transition to circularity, advance the PVC value chain towards carbon neutrality and minimise the environmental footprint of PVC production.

Recovynyl is a series of initiatives to encourage and develop PVC recycling in Europe.

The British Plastics Federation ('BPF') promotes the versatility and sustainability benefits of plastics, with programmes that seek to differentiate between short-life, single-use plastics, and those with more circular life cycles. The BPF leads a range of initiatives to reduce energy, increase recycling and prevent litter.

For example, BPF energy is a voluntary agreement setting out targets to increase energy efficiency and reduce CO₂ emissions. Operation Clean Sweep is an initiative to reduce plastic pellet loss to the environment, 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.

Eurocell is also aligned with the Ellen MacArthur Foundation New Plastics Vision, which focuses on three concepts:

- **Eliminate** – the plastics we don't need
- **Innovate** – to ensure that the plastics we do need are reusable, recyclable or compostable
- **Circulate** – all the plastic items we use to keep them in the economy and out of the environment





VALUING OUR PEOPLE

ONE TEAM: EXECUTE, CUSTOMER FIRST, INCLUSIVE, INTEGRITY

Our people remain at the heart of our success. We strongly believe that engaging all employees and galvanising their efforts in line with the Company’s Vision and Values will keep us on a successful path towards achieving our business objectives.



Health and safety

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

Our health and safety performance continues to benchmark well with industry standards. The 2021 reported statistics showed a slight deterioration on 2020, but generally compare well to 2019. There was some adverse impact, particularly for RIDDOR-reportable injuries, from improved reporting mechanisms which were implemented during the year, leading to more incidents being included in the data. All of the RIDDOR-reportable injuries were classed as minor.

	2021	2020	2019
Injury frequency rate ¹	3.7	3.6	4.8
Lost time injury frequency rate ²	0.8	0.7	0.9
RIDDOR-reportable injuries	28	19	17

1 Injuries per 100,000 hours worked.

2 Lost time accidents per 100,000 hours worked.

The new incident investigation and management process, which was introduced across the business in 2021, included further training and guidance for operational management teams which should yield future benefits in terms of more thorough investigation, the identification of more effective countermeasures, and improved absence management.

COVID-19 safety procedures remained a significant priority throughout the year, with many good practices retained despite the relaxation in government guidance. Our incidences of positive cases and isolations remained below national average rates for most of the year.

Reassuringly, all 21 contacts with health and safety enforcement authorities during the year resulted in a clean bill of health, with no requirement for any improvement action. In addition, the ISO 45001 accreditation was maintained across the Profiles division.

During 2021, good progress has been made on a number of health and safety initiatives including:

- A new Health and Safety Policy, clarifying responsibilities and accountabilities for employees at all levels, was launched with a single, simple objective: to send everyone safely home every day, with three simple watchwords: awareness; action; and accountability.
- A new incident investigation process was introduced across the business, with training and guidance provided to operational management teams, which should yield benefits in terms of more thorough investigation and the identification of more effective countermeasures.
- A formal Group health and safety improvement plan was cascaded to all business units, with site-specific improvement plans dovetailing into the Group plan.
- An employee health and safety survey was conducted in December to obtain opinions and feedback on current performance, direction and commitment. Survey results will be analysed and used to inform future work programmes.
- Resources have been increased through the recruitment of an additional health and safety manager and a second advisor, with specific responsibility for our national branch network.
- Extensive training programmes have been delivered, including licence to trade, driver and vehicle safety, and incident investigation modules, all of which have raised awareness, commitment and capability.
- Continued colleague engagement on health and safety issues resulted in various improvements, including:
 - safe methods of loading and unloading designed for our full range of branch products from delivery vehicles;
 - modifications made to the extrusion lines to allow an operator's free hand to be kept well away from the staple gun;
 - improvements to ventilation, air movement, and rest break regimes at our recycling sites, including each operator being provided with a water bottle to encourage them to remain hygienically hydrated; and
 - upgrades to the dust extraction system at Vista Panels, with the installation of a new venting system, which also offers substantial environmental benefits with lower energy consumption and reduced frequency for waste collection.





VALUING OUR PEOPLE CONTINUED

Resourcing and recruitment

Our resourcing function has continued to attract and place a high number of employees across all business areas throughout 2021, despite the significant and well-documented national candidate shortages affecting many sectors of the economy. In particular, in response to significant shortfall in operational labour through the summer months, we successfully recruited over 100 new colleagues in order to service higher than expected sales volumes, reduce our dependency on agency labour and facilitate our ongoing growth ambitions.

We achieved this by developing our resourcing systems and methods to ensure that we are best placed to attract candidates, maximising all available opportunities to select and engage the best available talent for our business, as well as implementing forward-thinking technologies such as digital hiring events, video screening and interviewing, electronic contracts of employment and digital onboarding. We have succeeded in engaging and securing potential employees quicker than in the past, expediting the recruitment process, and positively impacting the candidate journey at every opportunity.

We have evolved our resourcing function and applied a scalable resourcing model, which is heavily focused on proactively attracting talent and promoting Eurocell's appeal to prospective colleagues. We continue driving down reliance on temporary labour in favour of permanent or fixed term contract engagements, providing a competitive edge to our employer proposition. We remain focused on attracting, retaining and upskilling talent to secure our future.

Eurocell is an equal opportunity employer and is fully committed to treating our employees and job applicants equally without bias and discrimination. Eurocell's recruitment policy ensures that irrespective of any disability, full and fair consideration is given to all applicants based purely on their aptitude. We recognise that our people are our greatest asset, irrespective of disability and we continue to promote flexible solutions tailored to and supportive of individual needs. Our internal processes support all employees who may require help and support through our Occupational Health provision, enabling them to fulfil their day-to-day work activities. 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 inclusivity.

Talent pipelines through the Apprenticeship and Kickstart schemes

We continue to support the creation of new apprenticeships and support existing employees to upskill through appropriate apprenticeship programmes. Our apprenticeships covered a range of key skills required in the business, including trade supplier, finance, manufacturing and engineering and business administration.

In 2021 we had 49 live apprenticeships registered, although a number did withdraw from their programmes due to the disruption caused by the pandemic, particularly within the branch network. However, we had five Trade Counter Assistant/Drivers ('TCAD') achieve a Trade Supplier Level 2 Distinction and a further TCAD received a merit award. Furthermore, one of our Procurement apprentices was nominated for an award within the fenestration industry.

We anticipate an upward growth in the availability of apprenticeships in 2022, to further support our focus on talent development and internal growth.

Eurocell was also pleased to be part of the Government's Kickstart scheme. Along with other employers, we experienced some of the well-publicised national difficulties in filling Kickstart jobs, particularly in the Derbyshire area. Despite this, we were pleased to recruit 30 young people into Kickstart roles, and we will continue to recruit for as long as the scheme allows.

Our retention has been excellent, with 87% of our Kickstarts still in their six-month placement positions with us. So far, two of our early appointed Kickstarts have gone on to be registered for full-time apprenticeships in our manufacturing function. In the branch network, where there is an appropriate vacancy, we are taking our Kickstarts into permanent full-time Trade Counter Assistant roles. Owen Lilley, Eurocell's first Kickstart employee, progressed to become a Trade Counter Assistant at our Barnstaple branch. Of those who left, most went on to full-time work in other companies.

We see these programmes as a great success in helping young people into work and we're proud of our association with the Kickstart scheme. Overall, our target is to deliver a 20% increase in apprenticeships and Kickstarters by 2025, against the 2020 baseline of 32 positions, and we believe our plans put us on track to deliver that. Although a total of 79 apprenticeships and Kickstarters were registered in 2021, this number will fall in 2022, as the Government has now closed the Kickstart scheme.



People Toolkit

A major initiative, the People Toolkit, was launched in November 2021 to help our managers complete everyday people management activities with more consistency and fairness.

Available to managers across the whole business, the Toolkit consists of 'How To' guides in ten key management topics, which contain over 50 checklists, flowcharts, forms, step-by-step guides and guiding principles. The topics covered range from recruitment through to managing performance.

Each resource has been carefully created to ensure legal compliance and guidance in line with the Company's own policies and procedures. The Toolkit aims to build confidence in a 'One Team' approach to people management and saves time by eliminating the need for local management teams to create their own resources.

We will continue to build the Toolkit with additional topics and resources throughout 2022. Feedback indicates that the Toolkit is welcomed as a valuable one-stop-shop for our managers.



Incentives and rewards

We want to ensure that we attract the best people, either internally through our talent pipeline or from outside the business, who provide the right skills and knowledge to 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, in addition to providing a range of savings and special offers.

Also, during the year, another tranche of employee share options reached their maturity under the Group's Save As You Earn ('SAYE') scheme, resulting in gains available to all participants at the time of maturity and further increases in employee share-ownership for our colleagues who chose to retain their shares. We intend to continue to launch SAYE schemes on an annual basis.

In order to support our recruitment and retention efforts across the business, during the year we began a major project to review the level of pay and reward for our branch and operational teams. This project will complete in 2022, but has already resulted in a significant mid-year pay uplift in 2021 for several large employee groups in order to maintain competitiveness, improve staff welfare and support our objective to become an employer of choice.

At the end of 2021, 98% of our employees were paid above the National Living Wage. Our target is to increase this to all employees by 2023.

Colleague wellbeing

Over the last 12 months, where appropriate, we have continued to adopt the hybrid working principles introduced during the first UK COVID-19 lockdown in 2020. Our colleagues across the business continue to value the flexibility of working this way.

2021 saw the launch of our 'Pulse Survey', the primary purpose of which was to reach out to all of our employees and better understand their views and opinions, including those where face-to-face contact has been lower than normal due to COVID-19.

Employees responded positively to the survey, with an overall completion rate of 60%, and an overall satisfaction level of 68%. We will run the survey annually, and our target is to deliver year-on-year improvements in both measures. The 2021 results have subsequently been used to create action and improvement plans. The results of the survey have also been used to signpost our strategy on developing our employee wellbeing initiatives.

With regard to wellbeing, in recognition of the pressures our employees experienced during the pandemic, we ran a flyer campaign in January 2021 full of tips for staying resilient and healthy. This included information about getting professional advice through the Employee Assistance Programme ('EAP'), the Samaritans, Shout and Mind UK.

To further support our employees' wellbeing, we ran a daily campaign during the UK's 2021 Mental Health Awareness Week in May. Each day offered every employee a simple click to a short 60-second video on topics such as reducing money worries, health and fitness, coping with anxiety and stress, and links to useful sources of help. We plan to build on this work in 2022.

Talent Development Review ('TDR') and Leadership Development ('LD')

For the first time at Eurocell, we designed and launched a pilot TDR process in 2021 to support our commitment to develop our people and to ensure that the business has the right people with the right skills for the future. The TDR pilot was deployed successfully in the Building Plastics division. The outputs were used to help create an LD programme. We now have nine colleagues taking part in the scheme, which consists of a series of modules covering topics such as finance, sales and project management. The programme also includes one-to-one coaching for participants.

It is anticipated that the TDR and LD programmes will be rolled out into other areas of the business beginning in 2022.

New policies and procedures

As described above, the health and wellbeing of our colleagues is of the utmost 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 2021 we have continued to update a range of policies that align to the Eurocell values and drive a culture of fairness, equality and transparency.

Labour turnover

Our objective is that the initiatives and actions described in this section combine to drive improved employee wellbeing, better pay and reward, successful recruitment and retention, and exciting development opportunities for our teams. Over time, we expect this strategy to drive year-on-year reductions in labour turnover.

However, as described above, we were impacted by the well-publicised national labour shortages affecting many sectors of the economy in 2021. In response to a significant shortfall in operational labour through the summer months, we successfully recruited over 100 new colleagues in order to service higher than expected sales volumes, reduce our dependency on agency labour and facilitate our ongoing growth ambitions. Our labour turnover calculation includes the impact of all starters and leavers, including this programme. As a result, in 2021, labour turnover for the Group increased to 26%, compared to 21% in 2020.

However, we remain confident that our initiatives will drive future reductions in labour turnover.

Learning and development ('L&D')

In the Building Plastics division, the L&D team have made improvements to the employee induction and product training programmes for branch colleagues and have worked to ensure active participation through a blend of eLearning (delivered through our Learning Management System), and face-to-face training delivered online through Teams.

Elsewhere in the business, we have seen an increase in mechanical handling equipment training within our manufacturing and warehouse teams, with the sophisticated equipment used in the new warehouse demanding a greater blend of skills and licences for our employees.

In terms of compliance training, in 2021, we introduced a new supplier for First Aid training, which has improved the efficiency, effectiveness and lowered the cost of training. We have also moved much of our Standard Operating Procedures ('SOPs') training resources online, to make the deployment and tracking of completion more effective.

Diverse and inclusive culture

In line with our 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 continue to 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 ways this year, to enable our people to access what they need in order to feel supported and included, whatever their background or needs.

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. Our target is to deliver year-on-year increases in the proportion of female employees in the Group. This was achieved in 2021, with female employees increasing to 13.4% (2020: 12.8%).

Gender analysis	Male no.	%	Female no.	%	Total average no.
Directors	5	83%	1	17%	6
Executive Committee	6	86%	1	14%	7
Other senior management	26	70%	11	30%	37
Senior management	37	74%	13	26%	50
Other employees	1,816	87%	277	13%	2,093
Total	1,853	86%	290	14%	2,143



WORKING RESPONSIBLY WITH COMMUNITIES AND OTHER STAKEHOLDERS

Community and charity

Our manufacturing and recycling centres, warehouses and branches can have a significant impact on, and benefit from, the communities in which we operate. We believe it is important to support the communities local to our sites.

LOCAL HOSPITALS

The staff at our Alfreton Head Office, manufacturing and warehousing facilities donated Christmas presents to children spending the festive period in local Derbyshire hospitals. The Eurocell team also provided a Christmas hamper for the Royal Derby Hospital Chemotherapy ward, and sponsored a 5k Santa Run, which raised funds for local hospital charities.



CARE HOME RESIDENTS

Our team at Eurocell Recycle North donated more than 50 Easter Eggs to the residents of a local care home, many of whom had not been able to see their friends or family in over a year due to the COVID restrictions.

PARKINSON'S UK

Two of our senior managers in the Building Plastics division completed a 140-mile coast-to-coast cycle ride, taking in Eurocell branches at Workington, Penrith and finishing up in Newcastle, which raised over £5,000 for research into helping find a cure for Parkinson's disease.



CHILDREN'S SPORT

We sponsored the junior section of a local Derbyshire football club, Holme Rovers FC, which runs 10 junior football teams for c.180 children from under 6s up to under 16s, including the provision of smart rain jackets.



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 with constant review and improvement of processes. 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 suppliers' 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.

To support all of the above initiatives, we recruited a Head of Procurement during the year to manage supplier relationships and provide a consistent strategy and sustainable approach to purchasing.

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



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 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.



LOOKING TO A SUSTAINABLE FUTURE

Throughout this Responsible Business section we have described the work currently in progress to achieve our objective of continually improving all aspects of the sustainability of the Group.

Carbon, energy and water efficiency

Building on the strong platform we already have, a key next step for the business is to define our pathway to carbon neutrality and net zero. This will likely include:

- Continuing to reduce Scope 1 and 2 emissions, particularly in PVC extrusion and recycling
- Further work to reduce transport and mobile plant emissions
- Working with suppliers and sector partners to better understand and improve Scope 3 emissions
- Further developing our closed-loop water cooling

Waste minimisation and circularity

Here we will focus on further strengthening our materials recovery and process optimisation, driving leaner and more sustainable resource use over time. We also intend to create Environmental Product Declarations ('EPDs') to differentiate our key products from competitors on sustainability grounds.

People and places

The events of the last two years, dominated by the COVID-19 pandemic, have served to increase our focus on employee wellbeing, including mental health, remote working, diversity and fair wages. Our aim remains to become the regional employer of choice in the communities in which we operate.

We will also continue to develop and refurbish our facilities for our people and step up our community engagement.

Governance

As described above, we will report our progress against the published ESG targets and KPIs on an annual basis. We also intend to enhance our non-financial disclosures, improve sustainability scores against recognised indices (e.g. MCSI, Sustainalytics) and align as closely as practical with reporting bodies such as the Sustainability Accounting Standards Board ('SASB') and FTSE4Good.

Leading UN Sustainable Development Goals for Eurocell



STRONG FINANCIAL RESULTS FOR 2021



Michael Scott
Chief Financial Officer

“Our effective response to the challenges of 2021 has allowed the business to capitalise on the continued strength in the RMI market and report good financial results for the year.”

Group	2021 £m	2020 £m	2019 £m
Revenue	343.1	257.9	279.1
Gross profit	173.4	127.4	142.9
Gross margin %	50.5%	49.4%	51.2%
Overheads	(122.4)	(93.9)	(99.0)
IFRS 9 impairments	0.7	(3.7)	(1.5)
Adjusted¹ EBITDA	51.7	29.8	42.4
Depreciation and amortisation	(22.7)	(19.5)	(17.8)
Adjusted¹ operating profit	29.0	10.3	24.6
Finance costs	(2.0)	(1.8)	(1.9)
Adjusted¹ profit before tax	27.0	8.5	22.7
Taxation	(5.9)	(1.5)	(3.4)
Adjusted¹ profit after tax	21.1	7.0	19.3
Adjusted¹ basic EPS (pence per share)	18.9	6.5	19.3
Non-underlying items	—	(10.0)	—
Tax on non-underlying items	—	0.8	—
Reported operating profit	29.0	0.7	24.6
Reported profit/(loss) before tax	27.0	(1.5)	22.7
Reported profit/(loss) after tax	21.1	(2.2)	19.3
Reported basic earnings/(losses) per share (pence)	18.9	(2.0)	19.3

¹ See alternative performance measures.

Introduction

Our effective response to the challenges of supply chain disruption, major raw material cost inflation and tight labour markets has allowed the business to capitalise on the continued strength in the RMI market and report good financial results for 2021.

Revenue

Revenue for 2021 was £343.1 million, 33% higher than 2020 (£257.9 million) and up 23% on 2019 (£279.1 million). Growth compared to 2019 is comprised of 15% from volume and 8% from selling price increases / surcharges.

We experienced an inflationary environment in 2021, with prices for certain raw materials, particularly PVC resin increasing significantly. We recovered these higher costs through our market-leading recycling plants, as well as through selling price increases and a surcharge adjusted monthly in response to cost changes, with selling price inflation becoming a larger component of sales growth as the year progressed.

Growth compared to 2019 is also equivalent to a like-for-like increase of 21%, representing a strong performance across the business. Like-for-like excludes new branches opened in 2019/20/21.

Gross margin

Gross margin for the year was 50.5%, up from 49.4% in 2020 but down 70 basis points compared to 2019. As described above, the surcharge successfully recovered the higher material costs in 2021, and is therefore broadly neutral to profit, but it is dilutive to the margin percentage.

Distribution costs and administrative expenses (overheads) and IFRS 9 impairments

Overheads and IFRS 9 impairments were together £121.7 million, up 25% on underlying costs in 2020 (£97.6 million) and 21% higher than 2019 (£100.5 million), reflecting higher production and sales volumes.

Underlying overheads in 2020 included COVID-related UK Government support of £8.3 million, comprising receipts under the Job Retention Scheme of £6.5 million, retail grants of £0.7 million and retail rates relief of £1.1 million. Overheads in 2021 include retail rates relief of £1.0 million.

Following the first COVID-19 lockdown, we assessed the level of customer credit risk to have increased materially. As a result, IFRS 9 impairment charges of £3.7 million were reflected in the underlying income statement 2020. Subsequently, cash receipts have been good and the ageing profile in our ledgers has improved, and consequently an IFRS 9 credit of £0.7 million has been recorded in 2021.

Depreciation and amortisation

Depreciation and amortisation was £22.7 million compared to an underlying charge of £19.5 million in 2020 (reported: £20.8 million) and £17.8 million in 2019.

Alternative 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.

Alternative performance measures (continued)

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

No non-underlying items were recognised in 2021 and 2019.

Non-underlying items for 2020 of £10.0 million included 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.

Finance costs and taxation

Finance costs for 2021 were £2.0 million, compared to £1.8 million in 2020 on an underlying basis and £2.2 million in total, with £0.4 million of IFRS 16 lease interest classified as non-underlying in 2020, as it related to warehouse dual-running costs (see Non-underlying items).

The tax charge for 2021 was £5.9 million (2020: £1.5 million on an underlying basis, and £0.7 million in total). The effective tax rate on underlying profit before tax for 2021 of 22.0% is higher than the standard rate of corporation tax of 19% due to the impact of the change in the standard rate that will take effect in 2023 on the measurement of deferred taxes.

The effective underlying tax rate in 2020 of 17.6% was lower than the standard rate of 19%, due to the benefit of Patent Box relief. The effective tax rate on non-underlying items was 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 2021, reflecting our commitment to paying the right amount of tax at the right time.

Profit/(loss) before tax and earnings/(losses) per share

The profit before tax for the year was £27.0 million compared to an adjusted profit before tax of £8.5 million in 2020 and a profit before tax of £22.7 million in 2019. Improved profits compared to 2020 and 2019 reflect higher sales volumes.

The reported loss before tax in 2020 was £1.5 million.

Basic earnings per share for the year were 18.9 pence (2020: adjusted basic earnings per share of 6.5 pence; 2019: 19.3 pence), reflecting the increase in the weighted average number of shares issued (2021: 111.7 million shares; 2020: 108.2 million shares; 2019: 100.3 million shares). Reported basic losses per share for 2020 were 2.0 pence.

Diluted earnings per share for the year were 18.8 pence (2019: 19.2 pence). As a loss was recorded in 2020, share options were not considered to have a dilutive effect.

Dividends

We paid an interim dividend 3.2 pence per share in October 2021 (£3.6 million). The Board proposes a final dividend of 6.4 pence per share, taking total dividends for the year to 9.6 pence, or £10.8 million (2019: 3.2 pence or £3.2 million). The dividend will be paid on 18 May 2022 to Shareholders registered at the close of business on 22 April 2022. The ex-dividend date will be 21 April 2022.

Retained earnings as at 31 December 2021 were £83.1 million (2020: £65.5 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 2021 was £16.7 million (2020: £13.7 million). 2021 includes c.£7 million to expand manufacturing capacity across a number of key product lines, c.£2 million to increase logistics capability and c.£2 million for new branches. Other capital expenditure in the period of c.£6 million includes recycling, branch refurbishments, IT and maintenance capex.

Cash flow

Net cash generated from operating activities was £29.6 million (2020: £32.9 million).

A net outflow from working capital for 2021 of £19.4 million includes the substantial impact of inflation (c.£8 million net across all working capital components). The outflow is comprised of an increase in stocks of £17.8 million, an increase in trade and other receivables of £6.0 million and an increase in trade and other payables of £4.4 million. For stocks, the inflation impact alone is c.£7 million, with the year-on-year increase also including a build in Q4, when PVC resin was readily available, providing an opportunity to protect against any adverse impact from COVID-19 isolations in Q1 2022. This compares to a net inflow from working capital of £4.7 million in 2020.

Other items include payments for capital investments of £15.5 million (2020: £14.0 million) and financing costs paid of £0.6 million (2020: £0.7 million). Tax paid in the year was £3.5 million (2020: £1.0 million). Dividends of £3.6 million were paid in the year (none paid in 2020).

The principal elements of lease payments of £10.1 million (2020: £10.7 million) are presented within cash flows arising from financing activities. The finance elements of lease payments were £1.2 million (2020: £1.3 million).

Net debt

Net debt on a pre-IFRS 16 basis at 31 December 2021 was £11.0 million (31 December 2020: £9.9 million).

Lease liabilities increased by £10.3 million. Reported net debt at 31 December 2021 was £69.7 million (31 December 2020: £58.3 million).

Group	2021 £m	2020 £m	Change £m
Cash	6.6	7.1	(0.5)
Bank overdrafts	(5.9)	(4.5)	(1.4)
Borrowings	(11.7)	(12.5)	0.8
Net debt (pre-IFRS 16)	(11.0)	(9.9)	(1.1)
Lease liabilities	(58.7)	(48.4)	(10.3)
Net debt (reported)	(69.7)	(58.3)	(11.4)

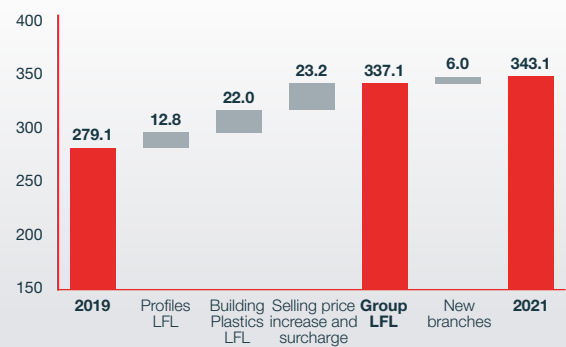
Bank facility

We have an unsecured Revolving Credit Facility ('RCF') of £75 million which matures at the end of 2023. In 2020 we converted the facility into a Sustainable RCF, where modest adjustments to the margin are applied based on our achievement against annual recycling targets. We were pleased to meet our target for 2021, and plan to invest the interest saved in sustainability-related initiatives.

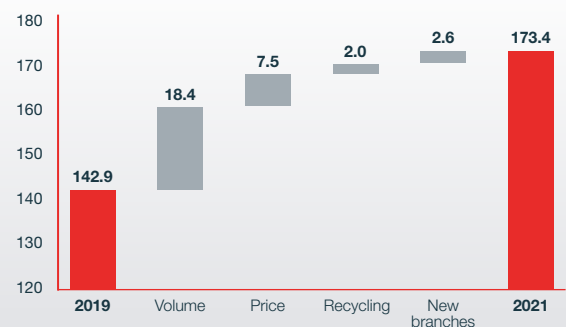
We operate comfortably within the terms of the facility and in compliance with our financial covenants, which are measured on a pre-IFRS 16 basis.

Michael Scott
Chief Financial Officer

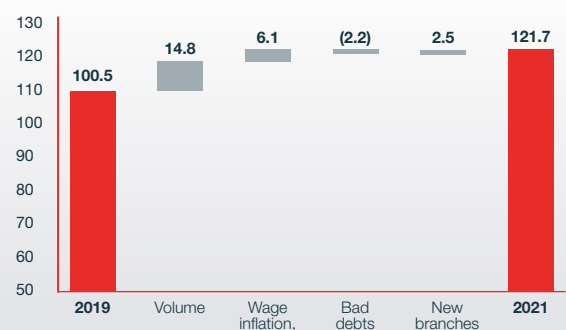
Revenue¹ (£m)



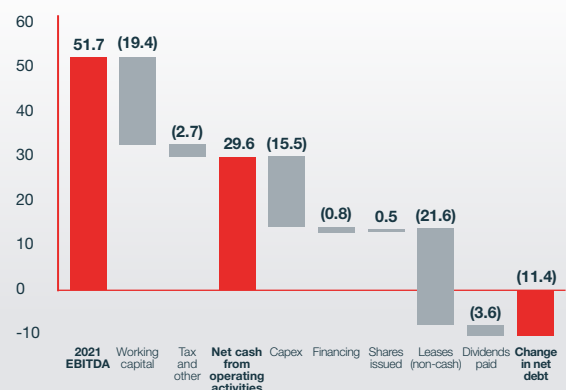
Gross profit (£m)



Overheads² (£m)



Cashflow (£m)



¹ Like-for-like sales up 21%.

² Distribution costs and administrative expenses

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.

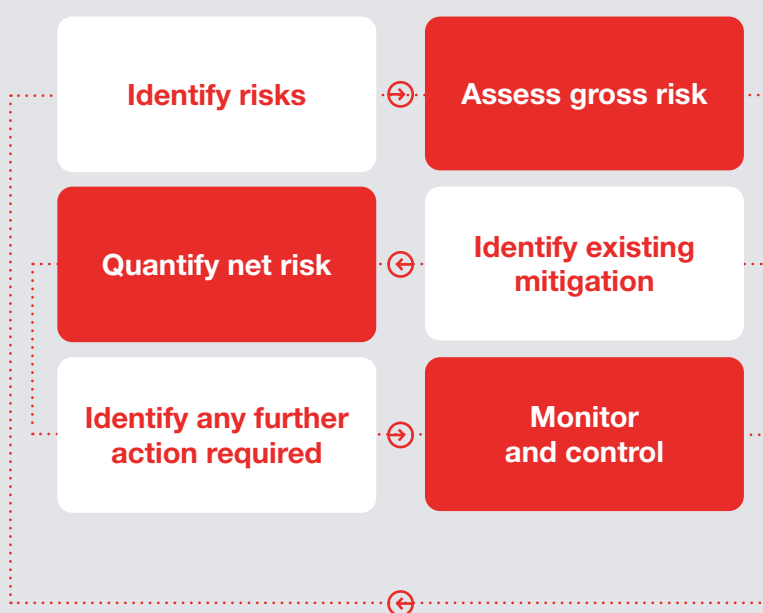
Risk Management Process

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.



Internal control

The Group has well-defined systems of internal control.

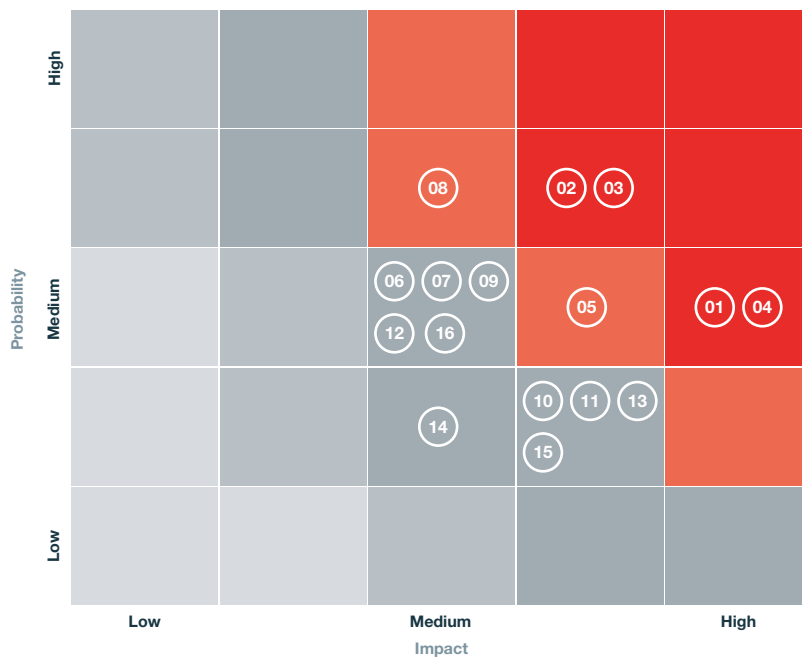
The Group has a robust process of financial planning and monitoring, which incorporates Board approval of operating and capital expenditure budgets. Performance against the budget is subsequently monitored and reported to the Board on a monthly basis. The Board also monitors overall performance against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










Principal risks

- 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

RISK MANAGEMENT








The principal risks monitored by the Board are as follows:




Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
<p>MACROECONOMIC CONDITIONS</p> <p>Our products are used in the residential and commercial building and construction markets, both within the RMI sector, for new residential housing developments and for new construction projects.</p> <p>Our private RMI business is strongly correlated to the level of household disposable incomes. Our new build business is particularly influenced by the level of activity in the house building industry.</p> <p>As such, our business and ability to fund ongoing operations is dependent on the level of activity and market demand in these sectors, itself often a function of general economic conditions (including interest rates and inflation) in the UK.</p> <p>Government economic and social policy can also have a significant impact on our business.</p>	 	<ul style="list-style-type: none"> 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. We operate comfortably within the terms of our bank facility and related financial covenants. 	<ul style="list-style-type: none"> The UK economy is close to full employment, but with growth currently limited by supply chain shortages and the rising cost of living. CPA now forecasts the private housing RMI market to be flat in 2022 (after growth of 17% in 2021). We may now be in a RMI super-cycle, driven by historical under-investment in the UK housing stock and the shift to permanent hybrid working. The UK is also experiencing high levels of mortgage approvals, with 1 in 16 homes changing hands in 2021. The UK base rate increased twice in consecutive months in early 2022 in response to rising inflation. 	
<p>CYBER SECURITY</p> <p>A breach of IT security (externally or internally) could result in an inability to operate systems effectively (e.g. viruses) or the release of inappropriate information (e.g. hackers).</p>	  	<ul style="list-style-type: none"> 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. Financial crime protection and cyber liability insurance in place. 	<ul style="list-style-type: none"> Potential for increased cyber activity due to current tensions between Russia and the UK and its allies. Recent cyber attacks on companies within our sector have caused considerable disruption to IT systems. This remains a high-profile area and continues to receive considerable management attention. 	

Movement key:

▲ Increase ▶ No change ▼ Decrease













Strategic Priorities key:

-  Increase the use of recycled materials
-  Develop innovative new products
-  Deliver sustained operational excellence
-  Target growth in market share in Profiles
-  Explore potential bolt-on acquisitions
-  Develop a sector-leading digital platform
-  Expand the branch network

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
<p>REGULATORY RISKS, INCLUDING HEALTH & SAFETY</p> <p>We may be adversely affected by the crystallisation of unexpected corporate or regulatory risks.</p> <p>These include health & safety, data, reputational and environmental risks (including regulations related to our recycling operations), or other legal, taxation and compliance matters.</p>		<ul style="list-style-type: none"> • 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. • Internal and third-party site audits to test compliance with our policies. 	<ul style="list-style-type: none"> • COVID-19 has 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 and General Data Protection Regulations ('GDPR'). 	▶
<p>RAW MATERIAL SUPPLY</p> <p>There are only a limited number of PVC resin and certain other raw material suppliers and we operate with limited raw material storage capacity.</p> <p>The recycling feedstock supply market is fragmented and can be unpredictable.</p> <p>Failure to receive raw materials on a timely basis could impact on our ability to manufacture products and meet customer demand.</p>	 	<ul style="list-style-type: none"> • We generally operate with at least two suppliers for all critical raw materials, including PVC resin, to support security of supply. • Ongoing 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. 	<ul style="list-style-type: none"> • Brexit-related supply chain issues were exacerbated by strong demand and a lack of sea freight container capacity, leading to increased freight prices and sector-specific material shortages. • High demand for PVC put sector supply chains under pressure, which also significantly impacted pricing (see overleaf). • Our market-leading recycling plants supported continuity of supply of resin in tight markets. • Due to strong relationships with our suppliers, most of the raw materials and traded goods we require were secured throughout 2021, although sometimes subject to delays. • Supply chains in early 2022 remain tight, although we do expect this to ease in the coming months. 	▲












PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
<p>RAW MATERIAL AND TRADED GOODS PRICES</p> <p>Our manufacturing operations depend on the supply of PVC resin, a material derivative of ethylene which in turn is a derivative of crude oil.</p> <p>The price of PVC resin can therefore be subject to fluctuations based on the markets for crude oil and ethylene, as well as the market for resin itself.</p> <p>In addition, although we pay for resin in Sterling, crude oil and ethylene are priced in US dollars and euros respectively. As such, the price of resin in Sterling is also impacted by international currency markets.</p> <p>Our ability to pass on resin and other raw material or traded goods price increases to our customers will depend on market conditions at the time.</p>		<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Resin and other raw material prices increased sharply in 2021, due to a combination of high demand and supply shortages. We have mitigated raw material cost inflation to date with selling price increases and surcharges. It is difficult to predict what will happen to raw material prices in 2022. We have elected not to enter into a fixed price contract for PVC resin so far in 2022, as the premium currently required by suppliers is prohibitive. 	
<p>CUSTOMER CREDIT RISK</p> <p>Default by a large customer or multiple smaller customers could result in a material bad debt(s).</p> <p>The loss of a major customer(s) could limit our ability to continue to grow the business.</p>	 	<ul style="list-style-type: none"> 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. Credit insurance in place to the extent available for selected large accounts. 	<ul style="list-style-type: none"> Significantly increased bad debt provisions recorded in 2020 in response to impact of COVID-19. Subsequent cash receipts in 2021 were good and ageing profile of receivables much improved. 	
<p>SUSTAINABILITY</p> <p>Demonstrating improving business sustainability is becoming increasingly important to all stakeholders.</p> <p>We published a Group-wide sustainability strategy in 2021, including KPIs and targets linked to relevant UN Sustainable Development Goals and the UK Government's transition towards a net zero carbon economy.</p> <p>Failure to improve in all material aspects of ESG (environmental, social, governance) could lead to regulatory and other challenges (e.g. employee recruitment and retention).</p> <p>If we do not deliver on our environmental targets and set out a credible pathway to carbon neutrality and net zero, then investors and lenders may show a preference to allocate capital to businesses with smaller climate impacts.</p>	 	<ul style="list-style-type: none"> Strong underlying position on sustainability underpinned by window recycling operation, which drives significant carbon savings compared to the use of virgin PVC resin. Publication of verified carbon savings data for the first time in the 2020 Annual Report. Investor and other stakeholder feedback indicates published ESG targets and KPIs have been well received and understood. Task Force on Climate-related Financial Disclosures ('TCFD') introduced for the first time in the 2021 Annual Report, including consideration of climate-related risks. 	<ul style="list-style-type: none"> Launch of 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. Defined a suite of environmental and social targets and KPIs against which to measure our progress. Appointment of a new Environmental Sustainability Manager. Awarded the FTSE Green Economy Mark certification. 	

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
<p>MANUFACTURING CAPACITY CONSTRAINTS</p> <p>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.</p> <p>A shortage of capacity may also prevent the acquisition of new customers, thereby limiting our ability to continue to grow the business.</p>	 	<ul style="list-style-type: none"> Investment in 2018/19 increased manufacturing capacity by more than 20% and removed historic constraints. A further five new extrusion lines were commissioned in 2021. Operations management team now providing the strong leadership required to install additional capacity and address operational challenges as the business grows. New warehouse facility (see below) frees up space in the existing footprint to future-proof extrusion capacity. 	<ul style="list-style-type: none"> Customer demand for our manufactured products in 2021 was very strong, and the business has significant opportunities to continue strong growth and deliver further market share gains. A further five extrusion lines will be added in H2 2022. Together with the 2021 expansion, this increases capacity by a further 15% relative to the end of 2020. Space is available in the current footprint for a further increase beyond that of around 15%. 	
<p>WAREHOUSING AND DISTRIBUTION CAPACITY CONSTRAINTS</p> <p>We exceeded the capacity of our existing warehouse in 2018/19, resulting in inefficiencies and additional labour and distribution costs.</p> <p>As a result the business invested in a new warehouse, commissioned in 2021, which significantly increases our warehousing capacity and is key to delivering further improvements in operational efficiencies as the new plant, systems and processes become embedded.</p> <p>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.</p>	    	<ul style="list-style-type: none"> Fit-out of the new warehouse and transition completed in 2021. 	<ul style="list-style-type: none"> The focus for 2022 will be to deliver the anticipated operational efficiencies and we are optimistic that performance will exceed our original expectations. 	
<p>UNPLANNED PLANT DOWNTIME</p> <p>The business is dependent on the continued and uninterrupted performance of our production facilities.</p> <p>Each of the facilities is subject to operating risks, such as: industrial accidents (including fire); extended power outages; withdrawal of permits and licences (e.g. the regulated operation of the recycling facility); breakdowns in machinery; equipment or information systems; prolonged maintenance activity; strikes or other extended workforce absences; natural disasters; and other unforeseen events.</p>	 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Continued maintenance capital investment in the extrusion facility, and in the recycling plants. Financial impact of recycling plant downtime increasing due to elevated cost of virgin resin. Initiatives to progress in 2022 to eliminate bottlenecks and single points of failure in recycling processes. 	

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
<p>ABILITY TO ATTRACT AND RETAIN KEY PERSONNEL AND HIGHLY SKILLED INDIVIDUALS</p> <p>Our success depends, inter alia, on the efforts and abilities of certain key personnel and our ability to attract and retain such people, with the appropriate skills and experience.</p>	 	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Progressive implementation of people plan. • Strengthened Operational management in Manufacturing, Recycling and Supply Chain. 	
<p>SHORTAGES OR INCREASED COSTS OF APPROPRIATELY SKILLED LABOUR</p> <p>We are subject to supply risks related to the availability and cost of labour, both in our manufacturing operations and in our branch business. Our headquarters and several manufacturing and operational sites are located in areas of generally full employment.</p> <p>We may also experience labour cost increases (including those related to the National Living Wage) or disruptions in circumstances where we have to compete for employees with the necessary skills and experience in tight labour markets.</p>	 	<ul style="list-style-type: none"> • Resourcing, recruitment and on-boarding procedures enhanced in 2021 along with improvements to training programmes. • Pay and benefits benchmarking and review conducted in 2021 to ensure we offer market level or better salaries and good benefits package. • Annual SAYE share-save scheme available to all personnel. • People plan includes focus on improving employee engagement and communication. 	<ul style="list-style-type: none"> • Risk increased initially mid-2021 due to very tight labour supply, particularly for agency workers. • Further adverse impact mid-2021 when absence rates were high due to COVID-19 related isolations. • Risk subsequently reduced by successful H2 recruitment programme, replacing agency staff with permanent employees. Programme underpinned by results of pay and benefits review and improvements to recruitment and on-boarding procedures. • We now have the resources in place to operate efficiently and achieve our growth ambitions. • Sixth SAYE scheme planned for 2022. • Progressive implementation of people plan. 	
<p>FAILURE TO DEVELOP NEW PRODUCTS</p> <p>Failure to innovate could reduce our growth potential or render existing products obsolete.</p> <p>The launch of new products and new variants of existing products is an inherently uncertain process. We cannot guarantee that we will continuously develop successful new products or new variants of existing products.</p> <p>Nor can we predict how customers and end-users will react to new products or how successful our competitors will be in developing products which are more attractive than ours.</p>	 	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Recent successes include: flush sash French doors, improved conservatory roof and roof lantern ranges and a further extension to the outdoor living product categories. 	

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
<p>COMPETITOR ACTIVITY</p> <p>We have a number of existing competitors that compete on range, price, quality and service. Increased competition could reduce volumes and margins on manufactured and traded products.</p>	 	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • The more uncertain market environment may have weakened some of our competitors. • We believe we continued to take market share in 2021. 	
<p>FAILURE TO IDENTIFY, COMPLETE AND INTEGRATE ACQUISITIONS</p> <p>We may not be able to identify and complete appropriate bolt-on acquisitions (one of our strategic priorities).</p> <p>Any future acquisition we do make poses integration risks which may affect our results or operations.</p> <p>The acquisition and integration of companies is a complex, costly and time-consuming process involving a number of possible risks. These include diversion of management attention, failure to retain personnel, failure to maintain customer service levels, disruption to relationships with various third parties, system risks and unanticipated liabilities.</p>	 	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Whilst we continue to assess and consider acquisition opportunities, our focus for 2022 will be on delivering operational efficiencies from recent investments in manufacturing and warehousing capacity. 	
<p>DIGITAL AND IT SYSTEMS DEVELOPMENT</p> <p>We have introduced a new strategic priority to develop a sector-leading digital proposition.</p> <p>Stakeholders in most organisations increasingly require full end-to-end digital solutions, a trend exacerbated by the COVID-19 pandemic.</p> <p>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.</p>	   	<ul style="list-style-type: none"> • In 2021, we introduced a new strategic priority to 'develop a sector-leading digital proposition'. • Three-year IT road map launched in 2020, including significant investment in additional resources and application landscape to support development of business efficiency and digital proposition. 	<ul style="list-style-type: none"> • During the year we selected platforms for a new website, product information management system, e-commerce solution and employee management system. • Development is under way, with these systems expected to launch in 2022 and 2023. 	

As required by section 4 of the UK Corporate Governance 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 time frame 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 long-term future prospects, our strategy, management of risk, and also the Board's assessment of the outlook in the marketplace, all of which are covered in detail within the Strategic Report.

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 2024. 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 2024.

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 17 March 2022 and signed on its behalf by:

Mark Kelly
Chief Executive Officer

Michael Scott
Chief Financial Officer



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 Merchenting 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

Committee key:

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



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)

Committee membership:

LETTER FROM THE CHAIR



Bob Lawson
Chair

“I am pleased to introduce Eurocell plc’s Corporate Governance Report for the year, on behalf of the Board.”

Dear Shareholder,

This report sets out the Group’s corporate governance framework and explains how it underpins and supports the Executive Committee and senior management in delivering the Group’s strategy.

The Board recognises that the effectiveness of our governance relies on a culture of open communication, mutual trust and honest assessment of our strengths and areas for development, and I am pleased to report that these principles continue to underpin the basis of our Board discussions. The Board also recognises that good governance is essential to support resilience and drive innovation in our business activities.

The Board has continued to support the Executive Committee in progressing the Group’s strategic priorities, and has worked well with the senior management team to help address new challenges arising in 2021, including the launch of our new state-of-the-art warehouse facility at a time of unprecedented levels of customer demand, as well as the impact of significant cost inflation and labour and raw material supply constraints.

Environmental, social and governance (‘ESG’) considerations are an increasing area of focus for our stakeholders and I am pleased with the progress made during the year, particularly in relation to sustainability matters (see our sustainability KPIs on pages 34 to 35) and colleague engagement (see pages 46 to 51).

As always, I am very grateful for the continued strong shareholder support that we receive, which has allowed us to continue to invest in expanding our operating capacity and build a platform for long-term sustainable growth. I hope to see this support continue into 2022.

Succession planning is an essential aspect of good governance. As described in the Nomination Committee Report (see pages 83 to 85), I have notified the Board of my intention to step down and a process to recruit my successor has begun, led by Frank Nelson, the Senior Independent Director.

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.

Bob Lawson
Chair

17 March 2022

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 68 and 69.

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

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

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

Subject to those matters reserved for its decision, the Board has delegated to its Audit and Risk, Nomination and Remuneration Committees certain authorities. There are written terms of reference for each of these Committees which are available on the Group's corporate website, www.investors.eurocell.co.uk. Separate reports for each Committee are included in this Annual Report from pages 83 to 108.

CORPORATE GOVERNANCE STATEMENT

Governance Framework

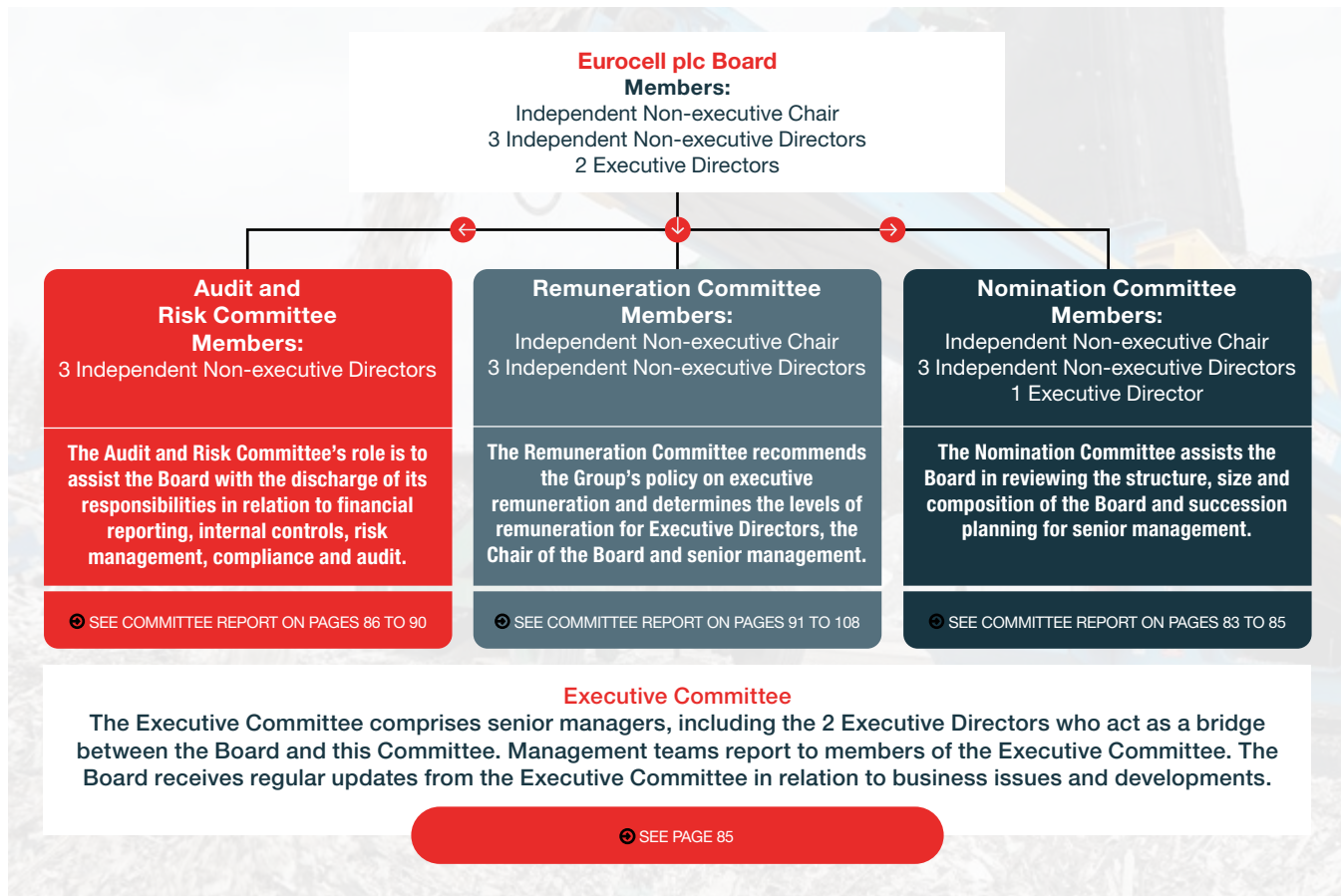
The Board meets regularly to discuss key business issues and prescribe actions as appropriate. The Group's reporting structure below Board level is designed so that all decisions are made by those most qualified to do so in a timely manner. Day-to-day management and the implementation of strategies agreed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

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.

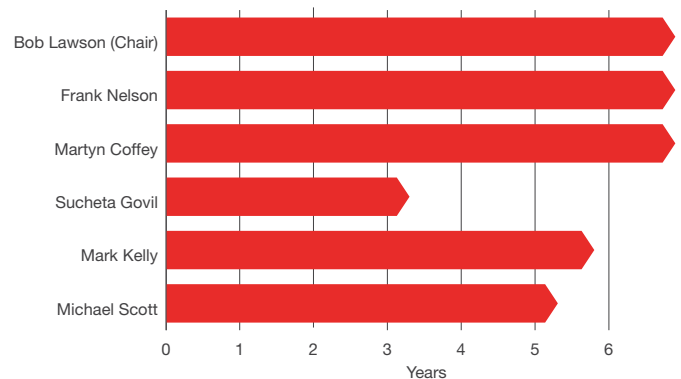
Prior to appointment, Board members, in particular the Chair and the Non-executive Directors, disclose their other commitments and agree to allocate sufficient time to the Company to discharge their duties effectively and ensure that these other commitments do not affect their contribution.

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 68 and 69. Their terms of appointment are reported on page 99 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	Governance & regulatory	Marketing
Bob Lawson (Chair)	✓	✓	✓			✓	✓
Frank Nelson (Senior Independent Non-executive Director)	✓		✓		✓	✓	
Martyn Coffey (Independent Non-executive Director)	✓	✓	✓				✓
Sucheta Govil (Independent Non-executive Director)		✓		✓			✓
Mark Kelly (Chief Executive Officer)	✓	✓	✓	✓			✓
Michael Scott (Chief Financial Officer)	✓	✓	✓		✓	✓	

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 2022 Board meeting.

This year, this evaluation was performed internally using a framework based on three of the Board's key priorities, being:

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

A survey covering each area in the framework was completed by Board members and the Group Company Secretary, all of whom fully engaged with the process resulting in a 100% response rate. The survey included quantitative responses and valuable qualitative comments. The anonymity of respondents was ensured 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. Governance structure – good blend of Board/Committee experience/skills and effective performance of duties
2. Leadership/dynamics of the Board/Committees – strong leadership complemented by an ethos of openness and trust
3. Clarity of priorities and expectations – clear vision and values within a culture of performance improvement and innovation
4. Board information – accurate and timely information provided to facilitate considered decision making

Area	Detail	Proposed actions
Board engagement	Due to COVID-19, Board interaction with the business, and subsidiaries, has been limited in the last couple of years	Face-to-face meetings and site visits to be reinstated wherever safe and appropriate to do so
Board composition	Board diversity and tenure-range are limited by coinciding IPO appointments made in 2015	Succession planning for Non-executive Directors, led by the Nomination Committee, to continue
Professional development	Potential to provide more formal opportunities for Board members to undertake regular professional development	Attendance of external professional advisers at Board meetings to continue 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 2021, three 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 were held virtually and therefore planned site visits by Non-executive Directors were postponed accordingly.

In addition, following the introduction of regular virtual Board update meetings in 2020, in order to maintain the highest possible standards of governance and to keep the Board fully updated on all financial and operational matters, five such update meetings were held during 2021. Attendance at these additional meetings was c.90%, with any non-attendance due to unavoidable clashes with existing commitments.

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	Committees			
	Board	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Bob Lawson	6/6	–	3/3	2/2
Frank Nelson	6/6	3/3	3/3	2/2
Martyn Coffey	* 5/6	* 2/3	3/3	2/2
Mark Kelly	6/6	–	–	2/2
Michael Scott	6/6	–	–	–
Sucheta Govil	6/6	3/3	3/3	2/2

* Absence due to a clash with pre-existing engagement, following an unavoidable rearrangement of meeting dates.

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 60 to 65) 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 86 to 90 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 and Section 172 statement

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 table overleaf sets out the Board's approach to stakeholder engagement, why stakeholders matter and some key decisions made during 2021. 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.

To give greater understanding to this, we have provided clear cross-referencing to where more detailed information can be found in this Annual Report and Financial Statements.



	Shareholders	Employees	Customers	Suppliers	Communities and environment	Government and regulatory/ industry bodies
Why they matter	The Board recognises the importance of engaging with all shareholders and prioritises effective dialogue to ensure that we capture and embrace feedback relating to areas of interest and of concern, and to ensure that our obligations are met.	The Board understands that our colleagues underpin the performance and success of our business and, therefore, the importance of providing a safe working environment that promotes inclusion and diversity, as well as ensuring they have the opportunity to realise their potential and progress in their careers.	The Board recognises the dependence of our growth plans on building strong and lasting relationships with our customers. Inter alia, this requires that we continuously improve product ranges, quality, availability and service to become the supplier of choice in our sector.	The Board appreciates that to operate effectively we must ensure secure supplies of good quality sustainable materials at a fair price from suppliers with high ethical standards, and monitor supplier performance against appropriate metrics.	The Board understands the role all organisations have to play in protecting the environment and in mitigating the impact of climate change. The Board also recognises the need to support the local communities in which our larger facilities are located.	The Board recognises the critical importance of ensuring the highest standards of corporate governance, including compliance with the rules for listed companies and other relevant regulations (e.g. health & safety, taxation), which together give us our licence to operate.
How we engage	<p>The Group runs a comprehensive investor relations programme that results in regular dialogue with the investment community.</p> <p>This includes formal presentations made to institutional shareholders and analysts, following the announcement of the Group's half-year and full-year results, covering a range of key topics affecting the Group's strategy, financial and operating performance. Ad hoc meetings are also held following trading updates and otherwise throughout the year.</p> <p>The Chair, the Senior Independent Director and the other Directors are available to engage in dialogue with major shareholders as appropriate.</p> <p>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.</p>	<p>The Group conducts periodic staff surveys. In 2021 this included a 'Pulse' survey and a 'Safety, Health, Environment and Quality' survey, to source the views of colleagues on several important topics. Results are analysed, shared with colleagues and used to drive appropriate change and improvement.</p> <p>Management regularly 'walk the floor' to understand first-hand the experiences of our shopfloor colleagues and also undertake visits to operating sites and branches to ensure all parts of the Group are understood and taken into account in formulating action plans.</p> <p>Regular team-briefings on operational and financial performance, coupled with the publishing of internal bulletins ('In the Know') and newsletters ('Eurocelebrate'), help to keep our colleagues well informed.</p> <p>All whistleblowing reports and grievances are investigated and appropriate changes implemented to help prevent reoccurrence.</p>	<p>Regular contact takes place between senior management and key customers, with our sales teams ensuring we engage properly across the full range of customers. Customer reviews discuss our operational performance, including service levels and other relevant matters.</p> <p>We perform customer insight surveys on a regular basis to assess satisfaction and 'Net Promoter Scores'.</p> <p>In addition, quarterly forums are held with customer groups to discuss product design and innovation.</p> <p>Regular monitoring of social media platforms for relevant comments/issues, coupled with Trustpilot customer reviews/ ratings and direct comments received from customers visiting our branches, provide valuable customer insight.</p>	<p>Our objective is to build and maintain strong and lasting working relationships with our supplier base.</p> <p>Regular review meetings are held between senior management and key suppliers to discuss relevant topics, such as pricing, supply continuity and service levels.</p> <p>Formal tender processes are undertaken for large and / or high value supplies, which helps develop relationships and creates a better understanding for all parties of the key issues involved.</p>	<p>We believe sustainability sits right at the heart of our business.</p> <p>We are the leading UK-based recycler of PVC windows, through our two recycling sites in Selby and Ilkeston, which drive a very large carbon saving compared to the use of virgin materials.</p> <p>Our major sites engage with and support their local communities on an ongoing basis. We seek to recruit locally, retain a skilled local workforce, build relationships with local community organisations and support charitable initiatives where we can.</p>	<p>The Company applies the principles and provisions of the UK Corporate Governance Code and operates structures and policies to ensure ongoing compliance.</p> <p>We also operate clear and effective policies to help prevent wrongdoing, including whistleblowing, bribery and corruption, fraud, financial crime and modern slavery, with training provided where appropriate.</p> <p>Regular meetings are held with tax advisers to discuss tax compliance, HMRC correspondence and other relevant issues pertinent to the Group's finances and tax position.</p> <p>The Company is a member of both the Windows and Recycling groups of the British Plastics Federation and the British Fenestration Rating Council, which provide a forum to understand changes in relevant legislation and building standards.</p>

	Shareholders	Employees	Customers	Suppliers	Communities and environment	Government and regulatory/ industry bodies
How the Board complements engagement efforts	<p>During 2021, the Chair attended a number of investor meetings with the Executive Directors and also met with some of our largest shareholders without the Executive Directors being present.</p> <p>The Board also received regular updates on shareholder engagement and investor feedback, analyst reports and share price developments from the Chief Financial Officer.</p>	<p>During 2021, the Board received updates on the progress of our colleague engagement initiatives and, in particular, considered the results of the staff surveys and the proposed action plan to address matters arising.</p> <p>This included the Board being instrumental in supporting proposed improvements to pay and reward for several large employee groups (see below).</p> <p>Board members were also able to share their own experiences and ideas to address the retention and recruitment challenges that arose mid-2021.</p> <p>The Chief Executive Officer provided regular updates to the Board on health and safety matters, including issues in relation to the ongoing impact of COVID-19 on our colleagues and the steps taken to ensure appropriate safety, wellbeing and flexible working arrangements were in place.</p>	<p>Throughout 2021, the Board received regular updates on our performance against customer service-related KPIs, compared to historical and industry / sector benchmarks.</p>	<p>The Board has significant experience in supply chain management.</p> <p>During 2021, raw material availability and pricing have been regularly discussed at all Board meetings and updates. Board members have shared their ideas and experiences on supplier relationships and engagement, in the light of current supply chain risks and challenges.</p>	<p>The Board is actively engaged with the development and implementation of the Group's ESG strategy.</p> <p>The Board receives regular updates on sustainability issues, including the operating and financial performance of the two recycling sites.</p>	<p>The Audit and Risk Committee receives regular reports on governance, regulatory and compliance matters from management and from external and internal auditors. The internal audit programme is designed to provide assurance in this area.</p> <p>In addition, the Board receives updates on matters such as developments in building regulations and our associated new product development initiatives.</p>
How their interests were considered	<p>Investor relations is covered at all Board meetings and updates.</p> <p>During the year, the Board approved the reinstatement of dividend payments, following a temporary suspension in 2020 as a result of the COVID-19 pandemic.</p>	<p>During the year, the Board approved management's proposals to implement significant mid-year salary uplifts for certain large employee groups, to maintain competitiveness, improve staff welfare and support our objective to become an employer of choice.</p>	<p>During the year, the Board approved the increase in, and acceleration of, capital expenditure to expand our operating capacity in order to meet increased customer demand and improve customer service levels.</p>	<p>During the year, the Board approved management's plans to accept supplier cost increases where appropriate and to secure supply, and to pass a fair proportion of such increases on to our own customers through selling price increases and potentially reversible surcharges.</p>	<p>During the year, the Board approved management's proposed suite of sustainability KPIs, and targets which were published in the Group's Half-Year Report. The KPIs cover circular economy (including recycling), emissions and energy management and social targets.</p>	<p>During the year, the Board supported management's initiative to introduce / improve / relaunch several compliance-related policies, including Financial Crime, Gifts and Hospitality, Whistleblowing, Anti-bribery and Conflicts of Interests.</p> <p>We also worked with the Financial Conduct Authority in connection with an approval to offer consumer finance with our Eurocell Home initiative.</p>
Further details	See Chief Financial Officer's Report on page 54	See Valuing Our People on page 46	See Chief Executive Officer's Report on page 10	See Working Responsibly on page 52	See Investing In Recycling on page 21	See Valuing Our People on page 46

ONE TEAM ALL TOGETHER BETTER

Our Culture

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

Our Vision:

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

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

The Board assesses and monitors culture through:

- reviews of staff survey results and response rates;
- 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 our Vision and Values described above and no corrective action is currently required. Nevertheless, this will be reviewed on an ongoing basis to ensure a positive culture endures.

Engagement with the workforce

As described in Stakeholder engagement on pages 76 to 79, we recognise that our colleagues underpin the performance and success of our business and active engagement has never been more important than in recent times as we have adapted to new ways of working.

During 2021, the Group implemented a number of colleague engagement initiatives to complement the existing team briefings, continuous improvement workshops, newsletters and health and safety forums currently in place, including:

- group-wide 'Pulse' and 'Safety, Health, Environment and Quality' surveys, with encouraging response rates;
- review of retention and recruitment challenges, resulting in mid-year salary reviews for certain large employee groups;
- enhancement of the induction process for new colleagues, leading to reduced short-term staff turnover;
- introduction of more flexible approaches to work, including home/hybrid working where possible with appropriate IT resources;
- enhancement of colleague facilities and rest-room arrangements, including refurbishment of the Clover Nook building;
- continued focus on strong COVID-19 safety measures, which go beyond government guidance, to reduce the infection risk and associated absenteeism;
- continued opportunity for all colleagues to become shareholders via the Save As You Earn scheme; and
- update and relaunch of the Whistleblowing Policy, and the associated reporting mechanisms, to increase colleague awareness and assurance.

Due to the ongoing effects and restrictions in relation to COVID-19, it has not been possible for Sucheta Govil, the designated Non-executive Director, to attend colleague focus groups during 2021 as originally intended. Nevertheless, regular contact with management has been maintained throughout the year, in order to monitor activities and ensure the good progress made to date is continued.

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 2021.

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 except for Provision 38.

Provision 38 provides that Executive Director pension contribution rates (or payments in lieu) should be in line with those available to the workforce. Our incumbent Executive Directors' pension contribution rates, while in line with the policy for existing Executive Directors, do not yet match the wider workforce. Changes proposed in the Directors' Remuneration Policy, will see the pension contributions for the incumbent Executive Directors being reduced to 10% of salary, to be aligned with those with the highest rate below the Board level, and then further reduced to be aligned with the workforce rate from 1 January 2023, in line with the Investment Association's guidance. Further details regarding the Executive Directors' pension contributions are set out on page 92 of the Directors' Remuneration Report.

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 109 to 111.

Annual General Meeting

Our AGM will be held at our Head Office (see Company Information on page 164 for details) on 12 May 2022. However, in line with the last two years, shareholder attendance in-person may be restricted in accordance with COVID-19 guidance.

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.

Bob Lawson Chair

17 March 2022

NOMINATION COMMITTEE REPORT

Chair

Members



Bob Lawson



Frank Nelson



Martyn Coffey



Sucheta Govil



Mark Kelly

Dear Shareholder,

I am pleased to report to you on the main activities of the Committee and how it has performed its duties during 2021.

This year, the Committee's main focus has been on overseeing the continued development of the Executive Committee, which included the recruitment for a new position of Marketing Director and the addition to the Executive Committee of the IT Director, both of which strengthen the senior management team and support progression of our strategic priorities.

I am pleased to have attracted such high-calibre individuals, and these appointments, along with further development of commercial and operational responsibilities, result in an Executive Committee very well equipped to take the business forward (see page 85 for further details of the current members).

In addition, following on from last year's activities, the Committee has continued to consider succession planning for the Board, given the length and concurrency of service of the Chair and the majority of the Non-executive Directors. In particular, a detailed review of the Board's skills and experience has been undertaken during the year to develop desired role profiles and identify the attributes to be sought in future appointments.

After 7 enjoyable years as Chair of Eurocell, I have notified the Board of my intention to step down and a process to recruit my successor has begun, led by Frank Nelson, the Senior Independent Director.

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

Bob Lawson

Chair of the Nomination Committee

17 March 2022

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 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 considering the challenges and opportunities facing the Company, along with the skills and expertise needed in the future, while promoting diversity of ethnicity, 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 75.

The main activities of the Committee included:

- overseeing the development of the Executive Committee to support the strategy and governance of the wider Group;
- succession planning for the Board, given the length and concurrency of service of the Chair and the majority of the Non-executive Directors;
- 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 internal review of the Committee's effectiveness (see page 74 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 reappointment 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 policy 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 46) 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 50.

Succession planning

In 2021, the Committee continued its work on succession planning for the Board, given the length and concurrency of service of the Chair (approximately 7 years) and the Non-executive Directors (approximately 7 years for two Non-executive Directors).

As part of this process, a detailed review of the Board's current skills and experience was undertaken during the year to develop desired role profiles and identify the preferred attributes to be sought in future appointments. The results of this review were integrated into the current search for the new Chair of the Board, which should result in an appointment which complements the existing Board and provides a new perspective on the business and strategic matters.

As part of the development of the Executive Committee, the Nomination Committee has also considered succession planning for senior management, in order to maintain an appropriate balance of skills, experience and diversity within the Company in line with our strategic priorities. This ongoing 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 or other senior managers.

The benefits of this proactive approach are illustrated by the smooth evolution of the Executive Committee over the last 18 months, ensuring the Company is well placed, with the best people and the right balance of skills to secure future success. In particular, the successful recruitment of a Marketing Director will now support development of the Eurocell brand, alongside our growth objectives and opportunities to progress our digital and e-commerce offering. The inclusion of our IT Director onto the Executive Committee reflects the strategic priority to develop a sector-leading digital proposition and recognises that effective IT systems will be at the heart of everything we do.

In summary, we are confident that 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.

Bob Lawson Chair of the Nomination Committee

17 March 2022

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.



Andy McDonnell

Commercial Managing Director

Andy joined Eurocell in May 2018, initially as Managing Director for the Building Plastics division, and more recently has stepped up to the role of Commercial Managing Director, with responsibility for the majority of commercial activities in both divisions. He previously held senior leadership positions in retail and trade at B&Q, TradePoint and Oak Furniture Land.



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).



Mike McKay

Group IT Director

Mike joined Eurocell in March 2020. He previously worked for Polypipe Group (now Genuit Group) where he was Group Information Services Director for 15 years. Immediately prior to this, Mike was Head of Information Services for William Grant & Sons and he has also held positions with Ascent Technology and APV Baker.



Beth Boulton

Marketing Director

Beth joined Eurocell in November 2021. She previously worked for Magnet kitchens where she was Head of Marketing and Digital. Prior to that role, Beth was Marketing Director at Utopia Bathrooms and has also held positions at Topps Tiles and Jewson.

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 2021.

This report, which is part of the Directors' Report, explains how the Audit and Risk Committee has discharged its responsibilities during 2021.

During the year, the Committee has continued to consider the ongoing impact, both direct and indirect, of COVID-19 on the Company's financial position, reporting and risk management.

In addition, the business faced new challenges during 2021, including the impact of Brexit and strong demand on our raw material supply chain, as well as the effect of labour shortages and significant cost inflation.

These factors have demanded an agile approach to risk management and I am pleased to report that our teams have responded well. In addition, in response to an increasingly demanding environment, the Group has added senior resources to the areas of financial reporting, risk management and internal controls.

I am also satisfied with the progress made by the Internal Audit programme during the year, which included a review of our business continuity planning and crisis management arrangements, which have been relied upon heavily during the COVID period.

Collectively, this work has provided the necessary assurance to the Committee that internal controls and governance are both adequate and working effectively. A summary of our activities, including the key accounting estimates and judgements made, is set out in this report.

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 another challenging year.

Frank Nelson

Chair of the Audit and Risk Committee

17 March 2022

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 three times during the year and attendance at the meetings is shown on page 75.

The areas of particular focus for the Committee in 2021, and up to the date of this Annual Report, were as follows:

- Reviewed the 2020 and 2021 Annual Reports, as well as the 2021 Half-Year Report, including preliminary announcements;
- Considered information presented by management on significant accounting estimates and judgements adopted in respect of the Group's 2020 and 2021 Financial Statements and the 2021 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 66;
- Reviewed the external auditors' plan for their audit for the year ended 31 December 2021;
- Reviewed reports from the external auditor setting out their findings as a result of their audits for the years ended 31 December 2020 and 2021, as well as their review of the 2021 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 internal assessment of the Committee's effectiveness;
- Approved updates to the Committee's terms of reference; and
- 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 2020 year end, at the March 2021 meeting, the Committee reviewed and recommended for approval by the Board, the financial results for the year ended 31 December 2020, 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 69, 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 2021 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	Impact of raw material price inflation on stock valuation	Review of raw material price variances (vs historic standard cost) included in stock valuation	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
	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	
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 other material factors affecting recoverability, including credit insurance	Critically evaluated the methodology with respect to setting provisions for potential bad and doubtful debts, including management's assessment of macro uncertainty, as well as the absolute level of provisions held ¹

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 60 to 61.

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 function 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 to the impact of the COVID-19 pandemic, with the changes now embedded in the business. For example, as described in last year's report, the Board increased the regularity and frequency of its business review meetings, which proved to be a significant benefit to the business. As a result, the Board meeting calendar was amended to incorporate these additional review meetings as a matter of course for 2021 and beyond.

In addition, with the Group's finance and administrative teams continuing to work substantially from home during the year, the enhanced controls which were introduced relating to the processing of cash payments and receipts (e.g. higher levels of approval required for transactions over certain limits), have also been retained. Furthermore, the Group's IT team have remained particularly vigilant and alive to cyber risks during this year and we continue to invest in our cyber security.

Finally, in response to an increasingly complex and demanding environment, in 2021 we have strengthened our financial reporting, risk management and internal control activities, with the recruitment of a Group Controls Manager and new senior resource added into the Group Finance team.

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.

As part of its horizon scanning, the Committee is considering the potential impact of the recently published BEIS White Paper with regards to a new internal control regime 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 60 to 65.

Internal audit

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

The Committee, working in conjunction with KPMG LLP, approved a full programme for 2021 which was compiled based on the following specific categories:

- Risk: internal audit reviews specifically linked to Eurocell's key financial and operational risks;

- Routine: internal audit reviews covering financial, regulatory, compliance and IT operations which require cyclical assurance coverage; and
- Request: internal audit reviews that have been specifically included at the request of either management or the Audit Committee.

A summary of the 2021 programme is as follows:

Internal audit programme	Summary of findings
Business continuity planning and COVID-19 lessons learned	<ul style="list-style-type: none"> • Crisis management governance structure worked well and swift and decisive actions were taken as the COVID-19 crisis escalated. • Other notable strengths include: <ul style="list-style-type: none"> – Successful adoption of remote working by employees – Clear decision making in relation to, and management of, furloughed staff – Efficient and effective closure and reopening of operations – Staff wellbeing considerations enhanced
IT General Controls	<ul style="list-style-type: none"> • Areas of good practice include: <ul style="list-style-type: none"> – Board-approved IT/Digital Strategy in place – Document storage and access controlled by secure links – Annual review of IT assets undertaken to determine replacement requirements – Regular review of proposed system changes undertaken prior to live release • Recommendations made to formalise/document certain policies and procedures
Treasury and Cash Flow	<ul style="list-style-type: none"> • Areas of good practice include: <ul style="list-style-type: none"> – Good awareness of Group Treasury team of control strengths and weaknesses – Treasury-specific risks included within the Group Risk Register – Strong trend analysis performed to understand and predict future cash flows – Strong governance structure, with the activities of the Group Treasury Committee underpinned by a comprehensive Treasury Policy • Recommendations included the formalisation of cash management procedures and improvements to the forecasting of foreign exchange requirements

AUDIT AND RISK COMMITTEE REPORT CONTINUED

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. Whilst inevitably COVID-19 caused some delays to implementation, overall progress remains satisfactory.

Whistleblowing, bribery and business ethics

The Group is committed to the highest standards of openness, honesty, integrity and accountability.

The Group has a Whistleblowing Policy, which was updated, and following approval by the Committee, relaunched during the year, with a focus on improving awareness and understanding.

This policy makes employees and third parties aware that they should report any serious concerns or suspicions about any wrongdoing or malpractice on the part of any employee of the Group, without fear of criticism, discrimination or reprisal, as well as the procedure for raising such concerns. Examples include fraud, breakdown in internal controls, misleading customers, bribery, modern slavery, dishonesty, corruption and breaches of data protection or health and safety.

During the year, there were 5 (2020: nil) reports received through the whistleblowing process, all of which were fully investigated and addressed in accordance with the policy, and no significant trends were identified.

The 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.

The Group also maintains a suite of other policies which support our commitment to strong business ethics and for which we take a strict approach to non-compliance. This includes policies related to:

- Financial crime
- Conflicts of interest
- Gifts and hospitality
- Share dealing

In accordance with the obligations under the Reporting on Payment Practices and Performance Regulations 2017, the Company has submitted its bi-annual reports in line with the legislation during the year.

The Group's Modern Slavery Statement, which sets out details of the policies in relation to slavery and human trafficking, as well as its due diligence processes with its partners, has been published on the Group's website (www.eurocell.co.uk).

The Group has also updated its Tax Strategy Statement, again published on our website, in compliance with the Finance Act 2016, which sets out details of the Group's attitude to tax planning and tax risk.

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 current audit engagement partner assumed full responsibility at the conclusion of the 2019 audit.

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 2021 are set out on page 137. 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 (£16,000).

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, including the increased use of technology, 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, scepticism and their ability to challenge.

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 reappointment of PricewaterhouseCoopers LLP as auditor until the AGM in 2023.

Frank Nelson
Chair of the Audit and Risk Committee
17 March 2022

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 2021.

As described elsewhere in this Annual Report, the business has made a strong recovery from the COVID-19 pandemic. Performance in 2021 has benefited from the continued successful deployment of the Group's strategy and the decisive actions taken in response to new challenges arising during the year, including supply chain disruption, major cost inflation and tight labour markets.

This has resulted in a strong financial performance for 2021, with sales, profit before tax and cash generated from operations all well ahead of pre-pandemic levels. It is in this context that the Committee has assessed 2021 bonus outcomes, and approved new basic salary levels, awards and targets.

During the year, the Committee reviewed the Directors' Remuneration Policy, given that we have reached the end of its 3-year shareholder approved policy period. The proposed new policy, details of which are included later in this report, will be subject to shareholder vote at the 2022 AGM, in addition to the advisory shareholder vote on the Annual Report on Remuneration, and I look forward to a continued strong level of shareholder support in this regard.

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

Martyn Coffey

Chair of the Remuneration Committee

17 March 2022

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 2021. 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 2020 annual bonus awards;
- agreeing Executive Director and senior management base salaries from 1 April 2021;
- setting the performance targets for the 2021 annual bonus;
- agreeing the award levels and appropriate targets for the 2021 Performance Share Plan ('PSP') awards;
- overseeing the operation of the Group's Save as You Earn scheme;
- reviewing the Committee terms of reference; and
- undertaking a review of the Directors' Remuneration Policy.

Outcome for 2021

Reflecting the strong financial performance described above, sales for the year of £343.1 million were 33% up on 2020 and 23% above 2019, with adjusted profit before tax of £27.0 million, compared to £8.5 million in 2020 and £22.7 million in 2019.

Cash generated from operations for the year was £33.1 million, which included the significant adverse impact of major cost inflation on working capital of approximately £8 million. Cash generated from operations was £33.9 million in 2020 and £29.0 million in 2019.

As a result of this strong performance, the outturn for the Annual Bonus Plan results in a maximum achievement of 100% of salary for the profit before tax element, and an achievement of 100% for the cash flow element. After the appropriate weightings are applied, this provides an overall pay-out of 100% of salary being awarded to the Executive Directors in respect of 2021, further details of which can be found on page 103 of this report.

As in previous years, annual PSP awards were made during the year, with targets based on earnings per share and return on capital employed, and further details can be found on page 104.

The PSP awards originally granted in 2019 are expected to lapse in 2022 as a result of earnings per share and cash flow performance in the three years to 31 December 2021 being below the required vesting threshold.

Proposed changes to the Remuneration Policy

In conjunction with our external remuneration consultants, a detailed review of the Remuneration Policy was performed by the Committee during the year. This process involved reviewing the current policy against the business strategy, pay and conditions in the wider Group and market practices. In addition, potential conflicts of interest were considered in line with the requirements of the Companies Act 2006.

The Committee's conclusions were that the main features of the current policy, originally set and approved by shareholders at the 2019 AGM, continue to remain appropriate for Eurocell. As such, the Committee is only proposing minor updates in respect of recent developments in governance and to ensure the policy is not out of line with that of similarly sized FTSE SmallCap companies. No increases to variable pay levels are proposed.

The proposed changes to Eurocell's Remuneration Policy are as follows:

- Pension contributions for the incumbent Executive Directors are being reduced to 10% of salary to be aligned with those with the highest rate below the Board level, and then further reduced to be aligned with the workforce rate from 1 January 2023, in line with the Investment Association's guidance.
- Remuneration Committee ability to adjust the formulaic PSP outturn has been incorporated (this ability was already in place for the annual bonus);
- A post-cessation share ownership guideline is being introduced.

Implementation of the Remuneration Policy for 2022

The Remuneration Committee intends to operate the Remuneration Policy for 2022 as follows:

Base salaries

Salary levels are positioned to reflect performance, experience and responsibility. Mark Kelly's and Michael Scott's current base salaries are £403,103 and £257,538 respectively.

The Committees believe that, in order to better reflect experience and responsibility, it is appropriate to increase the base salaries of the Executive Directors at a rate above the rate of increase for the wider workforce. In doing so, the Committee notes that the resulting base salaries still remain below the median level seen in similar sized FTSE SmallCap companies.

With effect from 1 April 2022, the salaries will therefore be increased by 7.5% to £433,336 and £276,853 respectively.

Pensions/benefits

A defined contribution/salary supplement of 10% of salary will be offered to the current Executive Directors, together with a standard suite of other benefits. The pension level will be aligned to the wider workforce from 1 January 2023.

Annual bonus

The maximum annual bonus remains at 100% of salary. For 2022, 70% of the bonus will be based on adjusted profit before tax and 30% will be based on adjusted 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 2022. 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.

Remuneration Policy links to strategy

The Group's strategy has seven key priorities, as set out on pages 16 and 17, established to deliver sustainable growth in shareholder value by increasing sales and profits at above market level growth rates through leadership in products, operations, sales, marketing and distribution.

Reflecting the strategic emphasis on profitability, short-term performance is incentivised with an annual bonus scheme which is based on the key Company financial objectives of profit before tax and operating cash flow. Together, these performance conditions ensure that the Executive Directors are focused on driving increased profitable growth but not at the expense of its quality and sustainability.

The importance of health and safety in operations is also reflected by the associated underpin that can reduce the bonus pay-out, demonstrating the Group's commitment to employee wellbeing and the need to ensure that growth and profitability are not achieved in a way that is detrimental to the employees nor in a way that promotes short-term, high-risk behaviour.

Long-term performance is incentivised with a performance share plan ('PSP'), which is based on the achievement of demanding earnings per share and return on capital employed targets. These performance conditions ensure that the Executive Directors are focused on driving increased profitable growth, as noted above, as well as ensuring that capital is appropriately invested to provide sustainable returns to shareholders over the longer-term.

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 the Remuneration Policy for which shareholder approval will be sought at the 2022 AGM, given that Eurocell has reached the end of its 3-year shareholder approved policy period.
- 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 2021 and how the policy will be operated for 2022.

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

Policy scope

The Policy applies to the Chairman, Executive Directors and Non-executive Directors.

Policy duration

The new Directors' Remuneration Policy will be put to a binding shareholder vote at the 2022 AGM and, subject to receiving majority shareholder support, the policy will apply from the date of approval for a maximum of 3 years.

Changes from the 2019 Remuneration Policy

In devising the new Directors' Remuneration Policy, the Committee undertook a review of the existing policy and determined that it, as approved by 99.4% of shareholders at the 2019 AGM, remains aligned with the Group's remuneration principles.

The minor amendments to the policy are primarily driven by emerging requirements under the Code and regulatory remuneration reporting, which the Committee continues to monitor.

The main changes from the 2019 Remuneration Policy are summarised below:

- Incumbent Executive Directors will receive a pension contribution of 10% of salary through to the end of 2022 in line with those with the highest available rate below the Board level, and then will be aligned to the rate available to the wider workforce, which is currently 5% of salary. Future Executive Director appointments will also be offered a pension in line with this wider workforce rate.
- Clarified the ability of the Committee to adjust the PSP formulaic outcomes from performance conditions where appropriate.
- Application of a share ownership guideline for a 1-year period post termination of employment.

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

Executive Directors

Element and purpose	Policy and operation	Maximum	Performance measures
<p>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.</p>	<p>Base salaries will be reviewed each year by the Committee.</p> <p>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.</p> <p>Base salary is normally paid monthly in cash.</p>	<p>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.</p>	n/a
<p>Benefits To provide benefits valued by recipients.</p>	<p>The Executive Directors can receive a car allowance or Company car (and fuel), private family medical cover, permanent health insurance and life assurance.</p> <p>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.</p> <p>Where appropriate, the Company will meet certain costs relating to Executive Director relocations.</p>	<p>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).</p> <p>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.</p>	n/a
<p>Pension To provide retirement benefits.</p>	<p>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.</p>	<p>The maximum employer's contribution (or cash supplement) is 10% of base salary.</p> <p>Pension contributions for new Executive Director appointments will be aligned with the pension benefits available to the wider workforce, currently 5% of salary.</p> <p>From the introduction of the new policy, contributions are 10% of salary for the Chief Executive Officer and 10% of salary for the Chief Financial Officer. These levels will be aligned to the wider workforce from 1 January 2023.</p>	n/a

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

DIRECTORS' REMUNERATION REPORT CONTINUED

Element and purpose	Policy and operation	Maximum	Performance measures
<p>Share ownership guidelines To further align the interests of Executive Directors with those of shareholders.</p>	<p>Executive Directors are required to retain at least 50% of the net of tax shares which vest under the PSP and DSP awards until the guideline is met. Any PSP performance vested shares subject to a holding period and any shares awarded in connection with annual bonus deferral will be credited for the purpose of the guidelines (discounted for anticipated tax liabilities).</p> <p>From the 2022 AGM, Executive Directors will be required to maintain a shareholding in the Company for a one-year period after stepping down from that position, being 100% of salary or the Executive Directors' actual relevant shareholding at leaving this position, if lower.</p> <p>The Executive Directors' actual relevant shareholding will include shares vesting under any of the Company's discretionary share incentive arrangements (including any deferred bonus shares) from awards granted after the date the Policy was adopted but excludes shares acquired through purchase and the release of shares under share incentive plans where the grant occurred prior to the adoption of the Policy.</p>	<p>200% of base salary for all Executive Directors.</p>	<p>n/a</p>
<p>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.</p>	<p>These are all-employee share plans established under HMRC tax-advantaged regimes and follow the usual form for such plans.</p> <p>Executive Directors will be able to participate in all-employee share plans on the same terms as other Group employees.</p>	<p>The maximum participation levels for all-employee share plans will be the limits for such plans set by HMRC from time to time.</p>	<p>Consistent with normal practice, such awards will not be subject to performance conditions.</p>

Chair and Non-executive Directors

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

Notes to the policy table

Performance targets

Details of the performance targets applying to annual bonus awards and PSP grants, which are set to reflect the Company's strategic goals and to align with shareholder's interests, can be found in the relevant sections of the Annual Report on Remuneration.

Malus and clawback

Malus (being the forfeiture of unpaid or unvested awards) and clawback (being the ability of the Company to claim repayment of paid amounts) provisions apply to the Annual Bonus Plan, DSP and PSP in certain circumstances (e.g. material misstatement of accounts, miscalculation of vesting/pay-outs and conduct that would or could justify summary dismissal). Normally, clawback can operate for up to three years following the vesting of an award.

Stating maximum amounts for the Remuneration Policy

The DRR regulations and related investor guidance encourages companies to disclose a cap within which each element of the Directors' Remuneration Policy will operate. Where maximum amounts for elements of remuneration have been set within the Directors' Remuneration Policy, these will operate simply as caps and are not indicative of any aspiration.

Travel and hospitality

While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by the Company or another) and business travel for Directors (and exceptionally their families) may technically come within the applicable rules and so the Committee expressly reserves the right for the Committee to authorise such activities within its agreed policies.

Differences between the policy on remuneration for Directors and remuneration of other employees

While the appropriate benchmarks vary by role, the Company seeks to apply the philosophy behind this policy across the Company as a whole. Where Eurocell's pay policy for Directors differs from its pay policies for groups of employees, this reflects the appropriate market rate position and/or typical practice for the relevant roles. The Company takes into account pay levels, bonus opportunity and share awards applied across the Group as a whole when setting the Executive Directors' Remuneration Policy.

Committee discretions

The Committee will operate the Annual Bonus Plan, DSP and PSP according to their respective rules and the above policy table.

The Committee retains discretion, consistent with market practice, in a number of respects, in relation to the operation and administration of these plans. These discretions include, but are not limited to, the following:

- the selection of participants;
- the timing of grant of an award/bonus opportunity;
- the timing of vesting an award/bonus opportunity;
- the size of an award/bonus opportunity subject to the maximum limits set out in the policy table;
- the determination of the extent to which performance targets are satisfied and the resultant vesting/bonus pay-outs;
- discretion required when dealing with a change of control or restructuring of the Group;
- determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends);
- the annual review of performance measures, weightings and targets from year-to-year; and
- application of malus and/or clawback provisions.

In addition, while performance measures and targets used in the Annual Bonus Plan and PSP will generally remain unaltered, if events occur which, in the Committee's opinion, would make a different or amended target a fairer measure of performance, such amended or different target can be set, provided it is not materially more or less difficult to satisfy (having regard to the event in question).

Any use of these discretions would, where relevant, be explained in the Directors' Remuneration Report and may, where appropriate and practicable, be the subject of consultation with the Company's major Shareholders. In addition, for the avoidance of doubt, in approving this policy report, authority is given to the Company to honour any commitments entered into with current or former Directors under previous policies.

The Committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

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 including, if appropriate, 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 2021	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 not 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.

External appointments

The Company's policy is to permit an Executive Director to serve as a non-executive director elsewhere when this does not conflict with the individual's duties to the Company, and where an Executive Director takes such a role they will be entitled to retain any fees which they earn from that appointment (unless the Committee determines otherwise).

Statement of consideration of employment conditions elsewhere in the Group

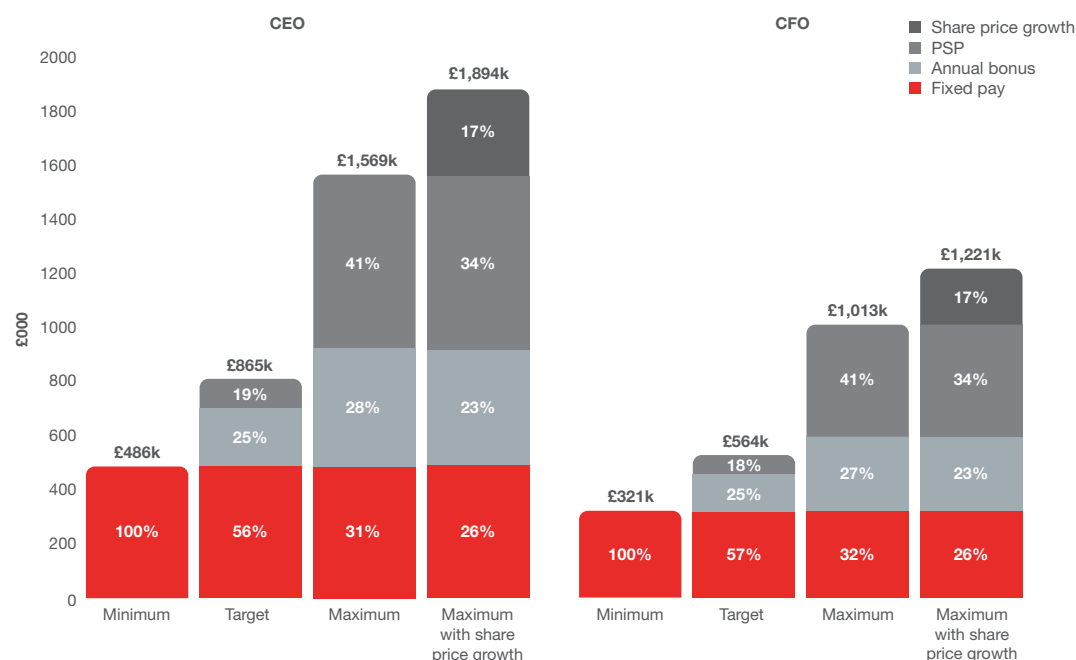
Pay and employment conditions generally in the Group are taken into account when setting Executive Directors' remuneration. The Committee receives regular updates on overall pay and conditions in the Group, including (but not limited to) changes in base pay and any staff bonus pools in operation, and uses this information to ensure consistency and fairness of approach throughout the Group. As a result, the Committee did not consider it necessary to formally consult with employees in drawing up this policy or the Remuneration Report although it is intended to develop future annual staff engagement surveys to potentially include discussion on parts of the Group's remuneration approach.

Statement of consideration of shareholder views

When determining executives' remuneration, the Committee takes into account views of shareholders and best practice guidelines issued by institutional shareholder bodies. The Committee is always open to feedback from shareholders on Remuneration Policy and arrangements, and commits to undergoing shareholder consultation in advance of any significant changes to Remuneration Policy. The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure that the structure of the executive remuneration remains appropriate.

Illustrations of application of Remuneration Policy

The charts above aim to show how the Remuneration Policy for Executive Directors will be applied in 2022 using the assumptions in the table below.



The charts above aim to show how the Remuneration Policy for Executive Directors will be applied in 2022 using the assumptions in the table below.

Minimum	<ul style="list-style-type: none"> Consists of base salary, benefits and pension. Base salary is the salary to be paid with effect from 1 April 2022. 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 10% of salary. 															
	<table border="1"> <thead> <tr> <th></th> <th>Base salary</th> <th>Benefits</th> <th>Pension</th> <th>Total fixed</th> </tr> </thead> <tbody> <tr> <td>Mark Kelly</td> <td>£433,336</td> <td>£8,903</td> <td>£43,334</td> <td>£485,573</td> </tr> <tr> <td>Michael Scott</td> <td>£276,853</td> <td>£16,766</td> <td>£27,685</td> <td>£321,304</td> </tr> </tbody> </table>		Base salary	Benefits	Pension	Total fixed	Mark Kelly	£433,336	£8,903	£43,334	£485,573	Michael Scott	£276,853	£16,766	£27,685	£321,304
	Base salary	Benefits	Pension	Total fixed												
Mark Kelly	£433,336	£8,903	£43,334	£485,573												
Michael Scott	£276,853	£16,766	£27,685	£321,304												
Target	<ul style="list-style-type: none"> 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	<p>Based on the maximum remuneration receivable (excluding share price appreciation and dividends):</p> <ul style="list-style-type: none"> 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)

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 the 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 2021 were £16,326 (excluding VAT). FIT's fees were charged on the basis of the firm's standard terms of business for advice provided.

Audited information**Single total figure table (audited)**

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

For the year ended 31 December 2021:

Name	Salary/fees £000	Taxable benefits ¹ £000	Pension £000	Other ² £000	Total fixed remuneration £000	Bonus ³ £000	Long-term incentives £000	Total variable remuneration £000	Total remuneration £000
Mark Kelly	401	8	60	7	476	403	–	403	879
Michael Scott	256	17	38	5	316	258	–	258	574
Robert Lawson	120	–	–	–	120	–	–	–	120
Frank Nelson	48	–	–	–	48	–	–	–	48
Martyn Coffey	45	–	–	–	45	–	–	–	45
Sucheta Govil	40	–	–	–	40	–	–	–	40

For the year ended 31 December 2020:

Name	Salary/fees ⁴ £000	Taxable benefits ¹ £000	Pension £000	Other ² £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

Notes:

- 1 Taxable benefits comprise Company car (and fuel) or car allowance, private family medical cover, permanent health insurance and travel insurance.
- 2 Other comprises the buy-out of unused holiday entitlement.
- 3 Bonuses are calculated on the salary in operation at the end of the financial year.
- 4 The Directors took a 20% reduction in salary/fees, for 2 months, during the first lockdown period in 2020.

The aggregate emoluments (being salary/fees, bonuses, benefits and pension allowances) of all Directors for 2021 was £1,706,000 (2020: £1,006,000).

Further information on the 2021 annual bonus (audited)

In 2021, the annual bonus metrics were a blend of targets relating to 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 profit before tax and cash flow bonus targets were as follows:

£m	Threshold	Target	Maximum	Actual	Achievement (% of max)
Profit before tax	17.5	18.4	19.8	27.0	100%
Cash generated from operations	29.1	30.6	32.9	33.1	100%

In order to reflect the level of stretch within the targets, the Committee determined that a pay-out of 75% of base salary would be appropriate for an on-target performance for 2021. Performance against the profit before tax element of the bonus resulted in an achievement of 100% of that element (70% of salary). Performance against the cash flow element of the bonus resulted in an achievement of 100% of that element (30% of salary). The health and safety underpin was also considered satisfied and no discretion has been applied to the formulaic outcome by the Committee.

In total, this results in a total bonus pay-out of 100% of salary. Under our Directors' Remuneration Policy, 25% of the annual bonus paid to Mark Kelly and Michael Scott will be deferred into shares for three years from the date of grant under the DSP.

PSP awards vesting in respect of 2021 (audited)

The PSP values included under long-term incentives in the single figure table above (£nil) relate to awards granted in 2019 which vest in 2022, dependent on EPS and cash flow performance measured over the 3-year period ended 31 December 2021. 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 2021	Average annual EPS growth	Threshold 4% p.a.	Maximum 10% p.a.	Vesting %
Adjusted basic EPS (pre IFRS 16)	19.1p	18.8p	(0.5)%	21.4p	24.8p	0%

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

Performance target	Threshold	Maximum	Actual	Vesting %
Cash flow	£79.4m	£97.0m	£59.3m	0%

As a result of EPS and cash flow performance, no PSP share awards are expected to vest in 2022. No discretion to the formulaic outcome has been applied by the Committee.

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 2021:

Director	Beneficially owned 31 December 2020 ¹	Beneficially owned 31 December 2021 ¹	Vested but unexercised awards	Unvested DSP	Unvested PSP ²	Unvested SAYE	Shareholding guideline (% of salary) ³	Shareholding guideline met? ³
Mark Kelly	161,717	195,346	–	–	713,191	10,465	200	No
Michael Scott	38,488	59,971	–	–	455,648	10,465	200	No
Robert Lawson	101,311	101,311	–	–	–	–	–	n/a
Frank Nelson	49,090	49,090	–	–	–	–	–	n/a
Martyn Coffey	16,428	16,428	–	–	–	–	–	n/a
Sucheta Govil	5,714	5,714	–	–	–	–	–	n/a

Notes:

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

PSP awards granted in 2021 (audited)

The following awards were made under the PSP in 2021:

Performance target	Date of grant	Basis of award (% salary)	Share price ¹	Number of shares	Face value of award	Vesting %
Mark Kelly	22 April 2021	150%	258p	234,362	£604,654	April 2024 to April 2025
Michael Scott	22 April 2021	150%	258p	149,731	£386,306	April 2024 to April 2025

Notes:

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

The performance conditions applying to the awards made in April 2021 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 basic EPS ¹ for the year ended 31 December 2023	Portion of award vesting
Above 20.2p	100%
Between 18.6p and 20.2p	Pro rata on straight-line between 25% and 100%
18.6p	25%
Below 18.6p	0%

Group ROCE ² for the year ended 31 December 2023	Portion of award vesting
Above 25.5%	100%
Between 20.4% and 25.5%	Pro rata on straight-line between 25% and 100%
20.4%	25%
Below 20.4%	0%

- 1 Defined as adjusted basic 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 (all on a pre-IFRS 16 basis), for the third financial year of the performance period.

DSP awards granted in 2021 (audited)

No DSP awards were granted during the year.

Outstanding share plan awards (audited)

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 2021	Awards granted in the year	Awards lapsed in the year	Awards exercised in the year	Interest at 31 December 2021	Exercise period	Notes
Mark Kelly	PSP	0	18/04/18	173,549	–	(173,549)	–	–	Apr 21 – Apr 22	1
	PSP	0	24/04/19	170,247	–	–	–	170,247	Apr 22 – Apr 23	2
	PSP	0	17/11/20	308,582	–	–	–	308,582	Nov 23 – Nov 24	3
	PSP	0	22/04/21	–	234,362	–	–	234,362	Apr 24 – Apr 25	4
	DSP	0	18/04/18	33,708	–	–	(33,708)	–	Apr 21 – Apr 22	5
	DSP	0	09/09/20	26,863	–	–	(26,863)	–	Apr 21 – Apr 22	6
	SAYE	172.0	09/04/20	10,465	–	–	–	10,465	Jun 23 – Nov 23	9
Michael Scott	PSP	0	18/04/18	110,879	–	(110,879)	–	–	Apr 21 – Apr 22	1
	PSP	0	24/04/19	108,768	–	–	–	108,768	Apr 22 – Apr 23	2
	PSP	0	17/11/20	197,149	–	–	–	197,149	Nov 23 – Nov 24	3
	PSP	0	22/04/21	–	149,731	–	–	149,731	Apr 24 – Apr 25	4
	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	172.0	09/04/20	10,465	–	–	–	10,465	Jun 23 – Nov 23	9

All figures above exclude dividend equivalent shares, where applicable.

Notes:

- 1 See 'PSP Awards Vesting in Respect of 2020' section in the 2020 Directors' Remuneration Report.
- 2 See 'PSP Awards Vesting in Respect of 2021' section above.
- 3 As disclosed in the 2020 Directors' Remuneration Report.
- 4 See 'PSP Awards Granted in 2021' section above.
- 5 DSP awards in respect of the deferred element of the 2017 annual bonus award. On 22 April 2021, an option was exercised by Mark Kelly when the share price was 258.0p. In accordance with the rules of the DSP, 2,880 dividend-equivalent shares were added to the original share award and therefore 36,588 shares were due to be acquired under the option. The Company exercised its right to satisfy a proportion of the above options in cash, to cover the associated tax and national insurance liabilities. The gain made by Mark Kelly was £94,397.
- 6 DSP awards in respect of the deferred element of the 2019 annual bonus award. On 22 April 2021, an option was exercised by Mark Kelly when the share price was 258.0p. In accordance with the rules of the DSP, no dividend-equivalent shares were added to the original share award and therefore 26,863 shares were due to be acquired under the option. The Company exercised its right to satisfy a proportion of the above options in cash, to cover the associated tax and national insurance liabilities. The gain made by Mark Kelly was £69,307.
- 7 DSP awards in respect of the deferred element of the 2017 annual bonus award. On 22 April 2021, an option was exercised by Michael Scott when the share price was 258.0p. In accordance with the rules of the DSP, 1,837 dividend-equivalent shares were added to the original share award and therefore 23,372 shares were due to be acquired under the option. The Company exercised its right to satisfy a proportion of the above options in cash, to cover the associated tax and national insurance liabilities. The gain made by Michael Scott was £60,300.
- 8 DSP awards in respect of the deferred element of the 2019 annual bonus award. On 22 April 2021, an option was exercised by Michael Scott when the share price was 258.0p. In accordance with the rules of the DSP, no dividend-equivalent shares were added to the original share award and therefore 17,162 shares were due to be acquired under the option. The Company exercised its right to satisfy a proportion of the above options in cash, to cover the associated tax and national insurance liabilities. The gain made by Michael Scott was £44,278.
- 9 Awards granted under the Eurocell plc Save As You Earn Scheme in 2020. Awards are based on a 3-year savings contract with an exercise price of 172.0p.

During the year ended 31 December 2021, the highest mid-market price of the Company's shares was 288.0p and the lowest mid-market price was 208.0p. At 31 December 2021 the share price was 241.0p.

The aggregate gains by all Directors during 2021 was £268,282 (2020: £142,791).

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 2021, 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 (unaudited)



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 % ¹
2021	Mark Kelly	£879,271	100%	0%	89%	10%
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	£560,558	80%	n/a	33%	2%
	Patrick Bateman	£284,457	33%	n/a		
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.

Notes:

¹ Based on all Group employees in order to provide a more meaningful comparison (Eurocell plc employees comprise the Executive and Non-Executive directors only).

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	5%	n/a ²	(73)%
Michael Scott	5%	n/a ²	2%
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	6%	232%	0%

Notes:

- All the Directors took a 20% reduction in salary/fees, for 2 months, during the first lockdown period in 2020.
- Percentage increase is not available due to 2020 bonuses being £nil.

CEO to employee pay ratio (unaudited)

The table below shows the CEO to employee pay ratio.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	Option B	42 : 1	33 : 1	27 : 1
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:

- Option B (based on the gender pay gap reporting disclosures) was preferred as this data was already prepared on a Group basis.
- In line with the gender pay gap reporting regulations, pay for the 25th percentile, median and 75th percentile employees was calculated with reference to 5 April for each financial year.
- The ratios shown are representative of the FTE 25th percentile, median and 75th percentile pay for employees within the Group at the gender pay gap reference date of 5 April 2021.
- FTE equivalent pay has been calculated using the gender pay gap reporting methodology.
- The Chief Executive Officer's salary, benefits, pension, bonus and long-term incentives from the single total figure have been used.

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

Year	Salary £000			Total pay and benefits £000		
	25th percentile	Median	75th percentile	25th percentile	Median	75th percentile
2021	21	25	32	21	27	32

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 2020 and 2021 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	2021 £m	2020 £m
Total gross employee pay	35%	81.9	60.7
Dividends/share buybacks	n/a	3.6	nil

Staff costs in 2020 are stated net of Coronavirus Job Retention Scheme income amounting to £6.5 million.

The average number of employees during the year was 2,143 (2020: 1,945).

Statement of voting at the Annual General Meeting (unaudited)

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 13 May 2021 AGM.

	(Binding Vote – 10 May 2019) Approval of the Directors' Remuneration Policy		(Advisory Vote – 13 May 2021) 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%	95,287,108	100%
Against	518,633	0.59%	226	0%
Votes withheld	1,737,500	–	–	–

Implementation of policy for 2022 (unaudited)

Base salary

- Base salaries from 1 April 2021 were as follows: £403,103 for Mark Kelly, and £257,538 for Michael Scott. With effect from 1 April 2022, these salaries will be increased by 7.5% to £433,336 and £276,853 respectively. The salary increase reflects the individuals' performance in their respective roles and the resulting salaries remain below the median for similar sized companies.

Pension

- Contribution rates for Executive Directors will be initially 15% of salary in 2022 and then reducing to 10% following the adoption of the new policy. These rates will be aligned with the general workforce rate from 1 January 2023.

Benefits

- Details of the benefits received by Executive Directors are set out in Note 1 to the Single Total Figure Table on page 103. There is no intention to introduce additional benefits in 2022.

Annual bonus

- The annual bonus opportunity for 2022 will be structured in a similar manner to 2021. 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 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 2022 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 2022 bonus outturn.

Long-term incentives

- Awards will be made under the PSP in 2022 to the Executive Directors structured in a similar manner to the awards made in 2021, 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 2021 PSP awards.

Chair and Non-executive Directors' fees

- The fees for the Chair and Non-executive Directors have not changed since the IPO in 2015 and, following a benchmarking exercise, are to be increased from 1 April 2022 in order to align with similar sized listed companies.
- The fees for the Chair will increase to £141,000 p.a. and the base fees for Non-executive Directors will increase to £48,000 p.a.
- Additional fees for the Chair of the Audit Committee and Chair of the Remuneration Committee will increase to £8,000 p.a. and the additional fee for the Senior Independent Director will increase to £8,000 p.a.

By Order of the Board

Martyn Coffey

Chair of the Remuneration Committee

17 March 2022

DIRECTORS' REPORT

The Directors present their audited consolidated financial statements for the year ended 31 December 2021. 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 2021.

The Directors' Report includes the Corporate Governance Statement set out on pages 72 to 82.

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 68 and 69 and were in place on the date this Directors' Report was approved, all of whom served throughout the year and up to the date of signing the Financial Statements, 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 69. 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 72 to 82, which is incorporated herein by reference.

Results

Our Financial Statements for the year ended 31 December 2021 are set out on pages 122 to 163. 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

The Board is recommending a final dividend of 6.4 pence (2020: nil pence) per share for 2021 which, together with the interim dividend of 3.2 pence (2020: nil pence) per share, makes a combined dividend of 9.6 pence (2020: nil pence) per share.

Payment of the final dividend, if approved at the Annual General Meeting ('AGM'), will be made on 18 May 2022 to Shareholders registered at the close of business on 22 April 2022. The ex-dividend date will be 21 April 2022.

Dividends paid in the year to 31 December 2021 and disclosed in the Consolidated Cash Flow Statement of £3.6 million (2020: £nil), is comprised exclusively of the 2021 interim dividend of 3.2 pence per share which was paid in October 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 2021, we had 111,972,477 (2020: 111,486,709) 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 91 to 108, 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 2021, the Company's major shareholders were as follows:

Shareholder	No. of Shares	% of voting rights
Soros Fund Management	18,337,234	16.4
Alantra Asset Management	15,188,715	13.6
Aberforth Partners	14,977,666	13.4
JO Hambro Capital Management	9,683,055	8.7
AXA Framlington Investment Managers	7,480,435	6.7
Schroder Investment Management	6,546,157	5.9
Chelverton Asset Management	5,137,685	4.6
Columbia Threadneedle Investments	5,020,929	4.5
Premier Miton Investors	3,633,000	3.2
Janus Henderson Investors	3,375,404	3.0
Royal London Asset Management	3,365,000	3.0

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 2022 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.

There are no specific company rules in relation to the appointment/replacement of Directors and all such matters are managed by the Board in accordance with the Articles of Association, the Companies Act 2006 and any directions given by special resolution.

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 91 to 108. No change in the interests of the Directors has been notified between 31 December 2021 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 2021 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 is 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.

Events after the balance sheet date

The Directors are not aware of any material events that have occurred after 31 December 2021 which would require disclosure.

Other matters

Employee disclosure (including equality, diversity and disabled employees)

See Responsible Business section on pages 32 to 53.

Employee engagement statement

See Corporate Governance Statement on pages 72 to 82.

Statement on engagement with suppliers, customers and others in a business relationship with the Company

See Corporate Governance Statement on pages 72 to 82.

Financial risk management

See Note 3 of the Financial Statements.

Research and development

The Group undertakes research and development work in support of its objectives. Further details of our research and development activities can be found in the Strategic Report on pages 1 to 67.

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.

Political donations

In accordance with the Group's policy, no political donations were made and no political expenditure was incurred during 2021 (2020: £nil).

Greenhouse gas emissions and energy use

See Responsible Business section on page 43.

Disclosure of information to auditors

See the Directors' confirmations on page 112.

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

17 March 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and Accounts 2021 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 UK-adopted international accounting standards and the 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 UK-adopted international accounting standards 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 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 also 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 2021 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 Report confirm that, to the best of their knowledge:

- the Group Financial Statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit 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 and financial position of the Company; and
- the Strategic 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 17 March 2022.

Mark Kelly
Chief Executive Officer

Michael Scott
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EUROCELL PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion:

- Eurocell plc's Group Financial Statements and Company Financial Statements (the 'Financial Statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2021 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with UK-adopted international accounting standards;
- 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 2021 (the 'Annual Report'), which comprise: the Consolidated Statement of Financial Position and the Company Statement of Financial Position as at 31 December 2021; the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity for the year then ended; and the notes to the Financial Statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 5, we have provided no non-audit services to the Company or its controlled undertakings 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.
- As disclosed within the TCFD disclosures on page 36 to 45, management have considered the impact of climate change. Given the headroom noted on the impairment assessments as disclosed in Note 17 we have considered this assessment and our wider risk assessment and concluded that there were no other material impacts on the audit.

Key audit matters

- Trade receivables provisions (Group).
- Assessment of the valuation of inventory (Group).
- Impairment to intercompany investments and intercompany receivables (Parent).

Materiality

- Overall Group materiality: £1,350,000 (2020: £891,000) based on 5% of underlying profit before taxation (2020: 5% of the average underlying profit before taxation for the past three years).
- Overall Company materiality: £602,000 (2020: £647,000) based on 1% of total assets.
- Performance materiality: £1,000,000 (2020: £668,000) (Group) and £451,000 (2020: £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.

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.

Impairment of assets at a Cash Generating Unit ('CGU') level (Group) and COVID-19 (Group and Parent), which were key audit matters last year, are no longer included because of the level of headroom available in the goodwill impairment assessment and the absence of other specific impairment triggers for the impairment of assets at a CGU level. The COVID-19 key audit matter has been removed as the impact of COVID-19 has been considered as part of our normal risk assessment and no heightened areas of risk were identified in the current year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter

How our audit addressed the key audit matter

Trade receivables provisions (Group)

Refer to pages 58 to 65 (Risk management and Principal risks and uncertainties), pages 86 to 90 (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 £41.3 million at 31 December 2021 (2020: £38.6 million) against which provisions of £2.6 million (2020: £4.4 million) were held in accordance with IFRS 9. We focused on this area, and specifically the valuation assertion, because the Directors' assessment of the provisions required in respect of trade receivables included complex and subjective judgements. These increased in complexity in the prior year due to the uncertain economic environment, which has continued into 2021.

We understood the Directors' methodology for calculating trade receivables provisions across the Group and considered if these complied with IFRS 9. Audit procedures performed included:

- We confirmed that the amounts included in the IFRS 9 model agreed back to the underlying ledgers as at 31 December 2021;
- We tested the ageing of amounts due at the balance sheet date to verify the data had been analysed 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 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 that appropriate disclosures have been made.

Assessment of the valuation of inventory (Group)

Refer to pages 58 to 65 (Risk management and Principal risks and uncertainties), pages 86 to 90 (Audit and Risk Committee Report), Note 1 (Accounting Policies), Note 2 (Critical Accounting Estimates and Judgements) and Note 18 (Inventories). Inventory totalled £55.9 million as at 31 December 2021 (2020: £38.1 million) after provisions of £4.9 million (2020: £4.2 million). We focused on this area because the Directors' assessment of the absorption of labour and overhead costs into inventory and the assessment of the recoverability of inventory involved subjective judgements. Specifically, the determination of inventory provisions for slow moving, obsolete and discontinued line items, reflecting the level of inventory held across the branch network and manufactured goods at the year end, requires the exercise of judgement. In addition, during the year there has been significant raw materials cost price inflation leading to a risk that inventory may not be held at the lower of cost and net realisable value.

Our audit procedures over the 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 a sample of inventory held as at 31 December 2021 and verified that sales recorded in 2022 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 value and was consistent with the requirements of IAS 2. Appropriate disclosures regarding the above have also been made.

Impairment to intercompany investments and intercompany receivables (Parent)

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 £17.8 million (2020: £17.8 million) and intercompany receivables of £41.6 million (2020: £46.2 million). Material impairment to these could result in implications for future dividends.

We obtained management's impairment assessment regarding the investment's carrying value and management's IFRS 9 expected credit loss model in respect of the intercompany receivables. The recoverability of the investment's carrying value was based upon the same underlying data noted in other Group calculations such as the going concern assessment and goodwill impairment model. We also noted that the market capitalisation of the Group was c.£269 million as at 31 December 2021 which is significantly in excess of the Parent Company's total assets. We considered the IFRS 9 model and noted that a significant change in the key assumption (being the expected loss rate 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 sufficient net assets. 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 over 200 branches within the UK and 2 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 the statutory entity, being seen as two components (as S&S Plastics is now a division within Eurocell Profiles Limited but this component is out of scope).

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). There were three financially significant components (Eurocell Profiles Limited, excluding the S&S plastics division, Eurocell Building Plastics Limited and Vista Panels Limited). Vista Panels Limited met the criteria to be classified as a financially significant component for the first time this year end. These components represented 96% of the reported consolidated revenues and 84% 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 FSLIs were included as a result of the above assessment. 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) the debt held by the Company and the related operating expenses and tax charges, and the share-based payment charge. These were all included in the scope of our audit and tested using the Company materiality by the Group audit team.

As disclosed within the Task Force on Climate-related Financial Disclosures ('TCFD') on page 36 to 45, management have considered the impact of climate change. Given the headroom noted on the impairment assessments as disclosed in Note 17 we have considered this assessment and our wider risk assessment and concluded that there were no other material impacts on the audit.

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 FSLs 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	£1,350,000 (2020: £891,000).	£602,000 (2020: £647,000).
How we determined it	5% of underlying profit before taxation (2020: 5% of the average underlying profit before taxation for the past three years)	1% of total assets (2020: 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, and is a generally accepted auditing benchmark. In 2021 underlying profit before tax is the same as reported profit before tax.	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 £124,000 and £1,282,500. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

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% (2020: 75%) of overall materiality, amounting to £1,000,000 (2020: £668,000) for the Group Financial Statements and £451,000 (2020: £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 £67,000 (group audit) (2020: £44,500) and £30,000 (company audit) (2020: £30,000) 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 management's 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 management's forecasting in prior years by comparing actual to forecast cash flows in the past four 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 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, and expected to be met during the assessment period (i.e. until 31 December 2023);
- We audited management's compliance with the covenants during 2021;
- 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; and
- For the Eurocell plc Company going concern assessment we have reviewed management's analysis of the Company cash flows, checked for consistency with the consolidated model (including the mathematical accuracy of the model), reviewed the committed cash outflows compared to the available funds (being cash reserves and forecast dividend receipts from subsidiaries), considered the sufficiency of management's assessment of headroom and critically assessed the disclosures in Note 34. No issues were noted arising from these procedures.

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 Directors' 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, which includes reporting based on the Task Force on Climate-related Disclosures ('TCFD') recommendations. 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 2021 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 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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, 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 UK tax legislation and UK employment laws and regulations, both indirectly and could have a direct impact, 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 Financial Statement such as the Companies Act 2006 and the listing rules. We evaluated management's incentives and opportunities for fraudulent manipulation of the Financial Statement (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to revenue, expenses or cash and management bias in accounting estimates and judgemental areas of the Financial Statement. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Enquiry of management and those charged with governance around actual and potential frauds, litigations or claims against or by the 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 any significant or unusual transactions outside the normal course of business;
- Auditing the risk of fraud in revenue recognition by using our data analysis tools to identify unusual credits to revenue for further investigation;
- Performing unpredictable audit procedures, which are changed year-on-year;
- Understanding of management's internal controls designed to prevent and detect irregularities; and
- Reviewing minutes of meetings of the Board of Directors.

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.

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 7 years, covering the years ended 31 December 2015 to 31 December 2021.

OTHER MATTER

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Christopher Hibbs (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

17 March 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	Year ended 31 December 2021 Underlying £m	Year ended 31 December 2021 Non-underlying ¹ £m	Year ended 31 December 2021 Total £m	Year ended 31 December 2020 Underlying £m	Year ended 31 December 2020 Non-underlying ¹ £m	Year ended 31 December 2020 Total £m
Revenue	4,9	343.1	—	343.1	257.9	—	257.9
Cost of sales		(169.7)	—	(169.7)	(130.5)	—	(130.5)
Gross profit		173.4	—	173.4	127.4	—	127.4
Distribution costs		(24.5)	—	(24.5)	(15.8)	—	(15.8)
Administrative expenses		(120.6)	—	(120.6)	(97.6)	(3.8)	(101.4)
Impairment of goodwill ²		—	—	—	—	(5.8)	(5.8)
IFRS 9 impairments ²	19	0.7	—	0.7	(3.7)	—	(3.7)
Operating profit	9	29.0	—	29.0	10.3	(9.6)	0.7
Finance expense	10	(2.0)	—	(2.0)	(1.8)	(0.4)	(2.2)
Profit/(loss) before tax	9	27.0	—	27.0	8.5	(10.0)	(1.5)
Taxation	11	(5.9)	—	(5.9)	(1.5)	0.8	(0.7)
Profit/(loss) for the year and total comprehensive income/ (expense)		21.1	—	21.1	7.0	(9.2)	(2.2)
Basic earnings/(losses) per share	12	18.9p		18.9p	6.5p		(2.0)p
Diluted earnings/(losses) per share	12	18.8p		18.8p	6.5p		(2.0)p

1 Non-underlying items in 2020 are detailed in Note 7. The Group's policy regarding the recognition of non-underlying items is outlined on page 127.

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 credits/(charges).

The Notes on pages 126 to 154 are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 £m	2020 £m
Assets			
Non-current assets			
Property, plant and equipment	14	59.2	50.8
Right-of-use assets	15	54.8	47.0
Intangible assets	16	18.6	19.9
Total non-current assets		132.6	117.7
Current assets			
Inventories	18	55.9	38.1
Trade and other receivables	19	44.5	38.5
Cash and cash equivalents		6.6	7.1
Total current assets		107.0	83.7
Total assets		239.6	201.4
Liabilities			
Current liabilities			
Trade and other payables	21	(48.7)	(42.8)
Lease liabilities	22	(11.9)	(8.9)
Bank overdrafts		(5.9)	(4.5)
Provisions	23	(0.7)	(0.8)
Corporation tax		—	(0.7)
Total current liabilities		(67.2)	(57.7)
Non-current liabilities			
Borrowings	20	(11.7)	(12.5)
Trade and other payables	21	(0.3)	(0.3)
Lease liabilities	22	(46.8)	(39.5)
Provisions	23	(0.8)	(0.7)
Deferred tax	24	(6.6)	(3.5)
Total non-current liabilities		(66.2)	(56.5)
Total liabilities		(133.4)	(114.2)
Net assets		106.2	87.2
Equity attributable to equity holders of the parent			
Share capital	25	0.1	0.1
Share premium account	25	21.9	21.1
Share-based payment reserve	26	1.1	0.5
Retained earnings		83.1	65.5
Total equity		106.2	87.2

The Financial Statements on pages 122 to 154 were approved and authorised for issue by the Board of Directors on 17 March 2022 and were signed on its behalf by:

Mark Kelly
Director

Michael Scott
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2021

	Note	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Cash generated from operations	31	33.1	33.9
Income taxes paid		(3.5)	(1.0)
Net cash generated from operating activities		29.6	32.9
Investing activities			
Purchase of property, plant and equipment		(15.1)	(13.8)
Purchase of intangible assets		(0.4)	(0.2)
Net cash used in investing activities		(15.5)	(14.0)
Financing activities			
Proceeds from new share capital issued	25	0.5	19.2
Costs relating to issuance of new share capital		—	(0.5)
Repayment of bank and other borrowings		(1.0)	(27.2)
Principal elements of lease payments		(10.1)	(10.7)
Finance elements of lease payments		(1.2)	(1.3)
Finance expense paid		(0.6)	(0.7)
Dividends paid to equity Shareholders	13	(3.6)	—
Net cash used in financing activities		(16.0)	(21.2)
Net decrease in cash and cash equivalents		(1.9)	(2.3)
Cash and cash equivalents at beginning of year	32	2.6	4.9
Cash and cash equivalents at end of year	32	0.7	2.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Note	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2021		0.1	21.1	0.5	65.5	87.2
Comprehensive income for the year						
Profit for the year		—	—	—	21.1	21.1
Total comprehensive income for the year		—	—	—	21.1	21.1
Contributions by and distributions to owners						
Exercise of share options	26	—	0.8	(0.6)	0.1	0.3
Share-based payments	26	—	—	1.2	—	1.2
Dividends paid	13	—	—	—	(3.6)	(3.6)
Total transactions with owners recognised directly in equity		—	0.8	0.6	(3.5)	(2.1)
Balance at 31 December 2021		0.1	21.9	1.1	83.1	106.2

	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		—	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 located in England at the following address: Eurocell Head Office and Distribution Centre, High View Road, South Normanton, Alfreton, Derbyshire, DE55 2DT.

The Group is principally engaged in the extrusion and supply 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 UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK adopted international accounting standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted international accounting standards in its Consolidated Financial Statements on 1 January 2021. There were no changes in accounting policies arising from the transition, and therefore no impact on recognition, measurement or disclosure in the periods reported.

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 2021 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 Sterling, 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 on page 132.

For the next measurement period, being 31 December 2021, and going forward, the Group expects to comply with its covenants.

In assessing going concern, the Directors have considered financial projections for the period to December 2024, 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.

In all scenarios tested, including sensitivities reducing sales forecasts to 10% below management's estimates for the period 2022–24, 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.

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

The Group has applied the following amendments for the first time for the financial reporting period commencing 1 January 2021, with no material impact:

- Interest Rate Benchmark Reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16; and
- Covid-19-Related Rent Concessions – amendments to IFRS 16.

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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 (subject to a de-minimis limit) are recognised as customer contract assets (within trade and other receivables) in the Consolidated Statement of Financial Position. The balance is amortised over the period in which revenue pertaining to those costs is recognised, which in the vast majority of cases is three years. Reviews are performed to assess expected credit losses and adjust if necessary.

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 are provided in Note 7.

There are no non-underlying items in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

For the year ended 31 December 2021

1 ACCOUNTING POLICIES (GROUP) CONTINUED

Government grants

In 2020, the Group took advantage of government support made available to businesses to help mitigate the impact of COVID-19, these include cash contributions of £6.5 million under the Coronavirus Job Retention Scheme. In recognising this support in the Financial Statements, the Group 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, with staff costs presented net of grant income. To the extent that there are ongoing eligibility or performance criteria, grant income is spread over the relevant period of measurement.

In addition to the Job Retention Scheme, the business claimed and received grants under the Retail, Hospitality and Leisure Grant fund of £0.7 million in 2020. These were shown as a reduction in administrative expenses within the year. No further claims were made in 2021.

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. 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. Discount rates are based on our external financing rates and then a lease specific adjustment is applied.

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. Leases are assessed for indicators for impairment based on value in use and impaired where this is below book value. Reversals of impairments can occur where assets are subsequently found to have further value in use.

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. Customer rebates are offset against receivable amounts in line with the terms of the customer agreements.

The Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables.

Expected loss rates are derived based upon the payment profile of sales over the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

For the year ended 31 December 2021

1 ACCOUNTING POLICIES (GROUP) CONTINUED

Financial assets continued

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 and contract assets 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 profit/(loss) 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. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

For the year ended 31 December 2021

1 ACCOUNTING POLICIES (GROUP) CONTINUED

Foreign currency

The Group's Financial Statements are presented in 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.

	2021 £m	2020 £m
Operating profit	29.0	0.7
Depreciation and amortisation	22.7	20.8
EBITDA	51.7	21.5
Non-underlying items	—	8.3
Adjusted EBITDA	51.7	29.8
Operating lease rentals under IAS 17	(13.9)	(11.8)
Other lease (credits)/charges	(0.5)	—
Pre-IFRS 16 adjusted EBITDA	37.3	18.0

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.

	2021 £m	2020 £m
Total net debt	69.7	58.3
Lease liabilities	(58.7)	(48.4)
Pre-IFRS 16 net debt	11.0	9.9

Covenants are assessed on an adjusted EBITDA basis. Adjusted EBITDA, profits and earnings per share in the prior year exclude non-underlying items. There are no non-underlying items in the current year.

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.

If the realised selling prices of the stock lines captured by the Slow and Obsolete stock provision were, on average, 500 basis points lower than current estimates, the provision would increase by approximately £1,000,000. Further disclosures relating to inventories are provided in Note 18.

b) Recoverability of trade receivables

The Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables. Expected loss rates are derived based upon the payment profile of sales over 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.

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

During the prior year there was 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 2020. 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. In the current year a credit of £0.7 million has been recognised in the Consolidated Income Statement, reflecting an improvement in the ageing of balances and a return to normal payment patterns for the vast majority of the Group's customers.

If future realised loss rates for current receivables were, on average, 500 basis points higher than current estimates, the provision for impairment would increase approximately £900,000. Further disclosures relating to trade receivables are provided in Note 19.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

For the year ended 31 December 2021

3 FINANCIAL INSTRUMENTS – RISK MANAGEMENT CONTINUED

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. The fair value for cash and cash equivalents is approximate to its book value.

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

Financial assets	2021 £m	2020 £m
Cash and cash equivalents	6.6	7.1
Trade and other receivables	37.3	33.4
Total financial assets	43.9	40.5

Financial liabilities	2021 £m	2020 £m
Trade and other payables	48.7	42.8
Lease liabilities	58.7	48.4
Bank overdrafts	5.9	4.5
Borrowings	12.0	13.0
Total financial liabilities	125.3	108.7

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 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 £100,000.

During 2021 and 2020 the Group's borrowings at variable rate were denominated in Sterling. Further disclosures relating to bank borrowings are provided in Note 20.

Foreign exchange risk

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

Liquidity risk

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

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

At the end of the financial year, the most recent cash flow projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably foreseeable circumstances. The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	Total £m	Up to 3 months £m	Between 3 and 12 months £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
At 31 December 2021						
Trade and other payables	(48.7)	(48.4)	—	—	(0.3)	—
Lease liabilities	(64.1)	(3.2)	(9.9)	(12.8)	(19.1)	(19.1)
Bank overdrafts	(5.9)	(5.9)	—	—	—	—
Borrowings	(12.0)	—	—	(12.0)	—	—
Total	(130.7)	(57.5)	(9.9)	(24.8)	(19.4)	(19.1)
At 31 December 2020						
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)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

For the year ended 31 December 2021

3 FINANCIAL INSTRUMENTS – RISK MANAGEMENT CONTINUED

Capital management

The Group's objective when managing capital, which is deemed to be total equity plus total debt and which totalled £176.6 million (2020: £148.1 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.

Covenants are measured at half year and year end on a rolling 12-month basis. As at 31 December 2021 Leverage and Interest Cover were 0.3:1 and 47:1 respectively (2020: 0.6:1 and 20:1). 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 2021			
	GBP £m	EUR £m	USD £m	Total £m
Trade and other receivables	36.6	0.5	0.2	37.3
Cash and cash equivalents	5.2	1.4	—	6.6
Bank overdrafts	(5.9)	—	—	(5.9)
Lease liabilities	(58.7)	—	—	(58.7)
Other interest-bearing borrowings	(12.0)	—	—	(12.0)
Trade and other payables	(46.8)	(0.3)	—	(47.1)
	(81.6)	1.6	0.2	(79.8)

	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)

4 REVENUE

Revenue arises from:

	2021 £m	2020 £m
Sale of goods	343.1	257.9

External revenue by destination:

	2021 £m	2020 £m
United Kingdom	340.1	255.5
European Union	2.3	1.9
Rest of World	0.7	0.5
	343.1	257.9

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

Revenue is disclosed net of contract asset amortisation and related expenses in the year of £1.8 million (2020: £2.6 million). Further details are provided in Note 19.

5 AUDITORS' REMUNERATION

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

	2021 £000	2020 £000
Audit of these Financial Statements	85	60
Amounts receivable by auditors and their associates in respect of:		
Audit of Financial Statements of subsidiaries pursuant to legislation	169	151
Audit-related assurance services	51	60
	305	271

6 EXPENSES BY NATURE

	2021 £m	2020 £m
Depreciation of property, plant and equipment (Note 14)	7.7	6.8
Depreciation of right-of-use assets (Note 15)	13.1	12.4
Amortisation of intangible assets (Note 16)	1.9	1.6
Impairment of goodwill	—	5.8
Impairment of right-of-use assets (Note 15)	(0.4)	0.9
Other non-underlying operating expenses	—	2.9
Cost of inventories	156.0	120.0
Other variable costs	13.8	10.5
Employee benefits expense (Note 8)	81.9	60.7
Other expenses	40.1	35.6
Total cost of sales, distribution costs and administration expenses	314.1	257.2

7 NON-UNDERLYING ITEMS

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

	2021 £m	2020 £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 current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7 NON-UNDERLYING ITEMS CONTINUED

Goodwill impairment charge

The goodwill in respect of Eurocell Recycle North ('ERN', formerly Ecoplas) was impaired in full in 2020, leading to a non-underlying charge of £5.8m. This charge arose 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 Cash Generating Unit.

Right-of-use assets impairment charge

Right-of-use assets impairment charges were made in respect of a small number of loss-making branches and a number of leased assets no longer required following transition to the new warehouse. In total, right-of-use asset impairment charges amounted to £0.9 million in 2020. The majority of the lease contracts in relation to these assets have subsequently been terminated.

Warehouse dual-running costs

In January 2020 the Group entered into a lease arrangement for a new warehouse and Head Office facility close to its primary manufacturing operations. The warehouse was fitted-out during the year and was brought into active service in early 2021. Certain costs incurred during the fit-out process in 2020, such as IFRS 16 lease charges (including the related IFRS 16 finance expense), rates and other property-related costs were classified as non-underlying, as the warehouse was not operational in 2020, and therefore not contributing to the underlying performance of the business in that period.

Restructuring costs

Restructuring costs in 2020 relate to redundancies, with 35 roles impacted at a one-off cost of £0.6 million in the second half of 2020. These costs were classified as non-underlying as they related to roles that no longer exist within the organisation and therefore would not reoccur in future reporting periods.

8 EMPLOYEE BENEFITS EXPENSE

	2021 £m	2020 £m
Staff costs (including Directors) comprise:		
Wages and salaries	70.8	53.2
Share-based payments	1.2	0.3
Social security costs	7.6	5.3
Other pension costs	2.3	1.9
	81.9	60.7

Staff costs in 2020 are stated net of Coronavirus Job Retention Scheme income amounting to £6.5 million.

	2021 No.	2020 No.
The average monthly number of employees, including Directors, during the year was as follows:		
Production	750	669
Office and administration	453	405
Distribution	940	871
	2,143	1,945

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.

	2021 £m	2020 £m
Emoluments	1.7	1.1
Share-based payments	0.5	0.1
Pension and other post-employment benefit costs	0.1	0.1
	2.3	1.3

Directors' remuneration is set out in the Remuneration Report on pages 91 to 108. The highest paid Director received remuneration of £879,000 (2020: £466,000).

During the year, retirement benefits were accruing to two Directors in respect of defined contribution pension schemes (2020: two). The value of contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £60,000 (2020: £57,000).

99,268 share options were exercised by Directors of the Group during the current year (2020: 63,322), of which 60,571 were exercised by the highest paid Director (2020: 51,049).

The Group's policy for consulting with, sharing information with, and encouraging the involvement of employees is discussed on pages 72 to 82.

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 2021 £m	Building Plastics 2021 £m	Corporate 2021 £m	Total 2021 £m
Revenue				
Total revenue	204.6	202.9	—	407.5
Inter-segmental revenue	(63.9)	(0.5)	—	(64.4)
Total revenue from external customers	140.7	202.4	—	343.1
EBITDA¹	31.8	20.8	(0.9)	51.7
Amortisation of intangible assets	—	—	(1.9)	(1.9)
Depreciation of property, plant and equipment	(6.0)	(1.0)	(0.7)	(7.7)
Depreciation of right-of-use assets	(5.1)	(7.9)	(0.1)	(13.1)
Operating profit/(loss)	20.7	11.9	(3.6)	29.0
Finance expense				(2.0)
Profit before tax				27.0

¹ Included within EBITDA are IFRS 9 impairment credits of £1.0 million (Profiles) and charges of £0.3 million (Building Plastics).

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For the year ended 31 December 2021

9 SEGMENTAL INFORMATION CONTINUED

	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 EBITDA²	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)

2 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).

	Profiles 2021 £m	Building Plastics 2021 £m	Corporate 2021 £m	Total 2021 £m
Additions to plant, property, equipment and intangible assets	13.2	2.5	1.0	16.7
Segment assets	132.6	87.9	19.1	239.6
Segment liabilities	(61.2)	(45.0)	(8.9)	(115.1)
Borrowings				(11.7)
Deferred tax liability				(6.6)
Total liabilities				(133.4)
Total net assets				106.2

	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 ¹	116.6	64.9	19.9	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

3 Adjusted to reflect a more consistent classification between the segments.

Geographical information

	Revenue 2021 £m	Non-current assets 2021 £m	Revenue 2020 £m	Non-current assets 2020 £m
United Kingdom	341.6	132.6	256.3	117.7
Republic of Ireland ⁴	1.5	—	1.6	—
Total	343.1	132.6	257.9	117.7

4 Non-current assets in the Republic of Ireland are less than £50,000.

10 FINANCE EXPENSE

	2021 £m	2020 £m
Finance expense		
Bank borrowings	0.8	0.9
Interest on lease liabilities	1.2	0.9
Underlying finance expense	2.0	1.8
Non-underlying finance expense (Note 7)	—	0.4
Total finance expense	2.0	2.2

11 TAXATION

	2021 £m	2020 £m
Current tax expense/(credit)		
Current tax on profits/(losses) for the year	2.7	(0.1)
Adjustment in respect of prior years	0.1	—
Total current tax	2.8	(0.1)
Deferred tax expense		
Origination and reversal of temporary differences	2.2	0.5
Adjustment in respect of change in rates	0.9	0.1
Adjustment in respect of prior years	—	0.2
Total deferred tax	3.1	0.8
Total tax expense	5.9	0.7

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

	2021 £m	2020 £m
Profit/(loss) before tax	27.0	(1.5)
Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 19.0% (2020: 19.0%)	5.1	(0.3)
Taxation effect of:		
Expenses not deductible for tax purposes	0.5	0.4
Capital allowance super-deduction utilised	(0.7)	—
Impairment of goodwill not deductible for tax purposes	—	1.1
Patent Box claims	—	(0.7)
Deferred tax impact of share-based payments	0.2	—
Tax impact on share-based payments recognised in equity	—	(0.1)
Adjustment in respect of prior years	0.1	—
Tax effect of accelerated capital allowances	(2.4)	(0.5)
Total tax expense/(credit)	2.8	(0.1)

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11 TAXATION CONTINUED

The reasons for the difference between the total 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:

	2021 £m	2020 £m
Profit/(loss) before tax	27.0	(1.5)
Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 19.0% (2020: 19.0%)	5.1	(0.3)
Taxation effect of:		
Expenses not deductible for tax purposes	0.5	0.4
Capital allowance super-deduction utilised	(0.7)	—
Impairment of goodwill not deductible for tax purposes	—	1.1
Patent Box claims	—	(0.7)
Adjustments in respect of prior years	0.1	0.2
Tax impact on share-based payments recognised in equity	—	(0.1)
Adjustment in respect of change in rates	0.9	0.1
Total tax expense	5.9	0.7

Changes in tax rates and factors affecting the future tax charge

An increase in the mainstream rate of UK corporation tax from 19% to 25% from April 2023 was enacted during 2021. Consequently, deferred taxes have been remeasured using a higher rate based on expected reversal dates and reflected in the Financial Statements.

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 £nil (2020: £110,000).

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.

Tax residency

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

The Group has two branches in the Republic of Ireland, with combined annual revenues of £1.5 million (2020: £1.6 million), total assets of less than £50,000 (2020: below £50,000) and 8 full-time employees (2020: 8 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 2021 is €nil (2020: €1,000) and no tax payments were made during the year (2020: €1,000). This is due to utilisation of losses brought forward. No deferred tax assets are recognised on unutilised losses due to the uncertainty of future profits.

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.

	2021 £m	2020 £m
Profit/(loss) attributable to ordinary Shareholders	21.1	(2.2)
Profit attributable to ordinary Shareholders excluding non-underlying items	21.1	7.0

	Number	Number
Weighted average number of shares – basic	111,709,049	108,218,827
Weighted average number of shares – diluted	112,219,319	108,218,827

	2021 Pence	2020 Pence
Basic earnings/(losses) per share	18.9	(2.0)
Adjusted basic earnings per share	18.9	6.5
Diluted earnings/(losses) per share	18.8	(2.0)
Adjusted diluted earnings per share	18.8	6.5

13 DIVIDENDS

	2021 £m	2020 £m
Dividends paid during the year		
Interim dividend for 2021 of 3.2p per share	3.6	—
Dividends proposed		
Final dividend for 2021 of 6.4p per share	7.2	—

Due to the impact of COVID-19, no dividends were paid in 2020.

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 2020	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
Additions	—	—	3.5	—	—	12.8	16.3
Disposals	—	(0.1)	(24.1)	(0.1)	(0.1)	—	(24.4)
Transfers	—	—	9.8	0.2	—	(10.2)	(0.2)
Balance at 31 December 2021	9.0	0.1	54.8	0.4	—	12.2	76.5
Accumulated depreciation							
Balance at 1 January 2020	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
Charge for the year	0.2	—	7.4	0.1	—	—	7.7
Disposals	—	(0.1)	(24.1)	(0.1)	(0.1)	—	(24.4)
Balance at 31 December 2021	1.7	—	15.5	0.1	—	—	17.3
Net book value At 31 December 2021	7.3	0.1	39.3	0.3	—	12.2	59.2
At 31 December 2020	7.5	0.1	33.4	0.2	—	9.6	50.8

Included within freehold property is non-depreciable land of £2.3 million (31 December 2020: £2.3 million).

An exercise was undertaken during the year to dispose of fully written down assets no longer in use. As a result, plant and machinery with a net book value of £nil, and a gross cost and accumulated depreciation of £24.4 million, were removed from the Group balance sheet.

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For the year ended 31 December 2021

15 RIGHT-OF-USE ASSETS

	Leasehold improvements £m	Motor vehicles £m	Office equipment and fixtures £m	Total £m
Cost				
Balance at 1 January 2020	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
Additions	13.1	7.5	—	20.6
Disposals	(2.3)	(1.9)	—	(4.2)
Balance at 31 December 2021	62.6	22.0	0.1	84.7
Accumulated amortisation				
Balance at 1 January 2020	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
Charge for the year	8.3	4.8	—	13.1
Impairment charges	—	(0.4)	—	(0.4)
Disposals	(2.3)	(1.8)	—	(4.1)
Balance at 31 December 2021	19.6	10.3	—	29.9
Net book value				
At 31 December 2021	43.0	11.7	0.1	54.8
At 31 December 2020	38.2	8.7	0.1	47.0

16 INTANGIBLE ASSETS

	Software £m	Technology -based £m	Customer -related £m	Marketing -related £m	Goodwill £m	Total £m
Cost						
Balance at 1 January 2020	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
Additions	0.4	—	—	—	—	0.4
Transfers	0.2	—	—	—	—	0.2
Balance at 31 December 2021	3.5	1.6	7.5	6.3	16.8	35.7
Accumulated amortisation						
Balance at 1 January 2020	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
Charge for the year	0.4	0.1	0.9	0.5	—	1.9
Balance at 31 December 2021	1.7	0.8	5.8	3.0	5.8	17.1
Net book value						
At 31 December 2021	1.8	0.8	1.7	3.3	11.0	18.6
At 31 December 2020	1.6	0.9	2.6	3.8	11.0	19.9

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 £1.2 million (2020: £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:

	2021 £m	2020 £m
Eurocell Building Plastics	5.1	5.1
Eurocell Profiles	3.3	3.3
Ecoplas	—	—
Vista Panels	2.2	2.2
S&S Plastics	0.2	0.2
Security Hardware	0.2	0.2
	11.0	11.0

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 and CGUs are smaller than the disclosed segments.

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. The cash flow forecasts take into consideration climate change as discussed in the Responsible Business section of the Strategic Report on pages 32 to 53.

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 time frame is also consistent across all CGUs. Consequently, the key assumptions detailed below are applied consistently across each CGU:

	2021	2020
Period on which management-approved forecasts are based (years)	3	3
Discount rate (pre-tax)	12%	11%
Profit growth rate in perpetuity	2%	2%

The period on which management-approved forecasts are based is consistent with the Board's strategic planning time frame.

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. Goodwill is considered to have an indefinite useful life. 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, prior to the application of further sensitivities (see below).

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. No reasonably possible change in assumptions would result in an impairment for these CGUs.

Sensitivities

The following sales reduction or discount rate increase sensitivities would reduce headroom on each CGU to nil:

	2021 Sales	2021 Discount rate	2020 Sales	2020 Discount rate
Eurocell Building Plastics	62%	40%	76%	48%
Eurocell Profiles	86%	73%	70%	52%
Vista Panels	90%	93%	72%	41%
S&S Plastics	68%	35%	74%	45%
Security Hardware	50%	13%	38%	18%

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18 INVENTORIES

	2021 £m	2020 £m
Raw materials	7.6	3.9
Work in progress	3.0	2.6
Finished goods and goods for resale	45.3	31.6
	55.9	38.1

All inventories are carried at cost less a provision to take account of slow-moving and obsolete items. At 31 December 2021 the inventory provision amounted to £4.9 million (2020: £4.2 million).

19 TRADE AND OTHER RECEIVABLES

	2021 £m	2020 £m
Trade receivables	41.3	38.6
Less: provision for impairment of trade receivables	(2.6)	(4.4)
Less: provision for rebates payable	(1.4)	(0.8)
Net trade receivables	37.3	33.4
Contract assets	0.4	1.4
Total financial assets other than cash and cash equivalents classified as financial assets	37.7	34.8
Prepayments	6.7	3.7
Other receivables	0.1	—
Total trade and other receivables	44.5	38.5

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 £nil (2020: £0.1 million). Additions of £0.3 million were recognised during the year (2020: £0.7 million), and amounts amortised against revenue were £1.3 million (2020: £1.8 million). Impairment charges of £nil were recorded in the year (2020: £0.6 million).

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 2021, 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.

The closing loss allowances for trade receivables and contract assets as at 31 December 2021 reconcile to the opening loss allowances as follows:

	Trade receivables		Contract assets	
	2021 £m	2020 £m	2021 £m	2020 £m
At 1 January	4.4	1.6	0.1	—
(Credited)/charged during the year	(0.7)	3.7	—	0.6
Released or utilised during the year	(0.1)	(0.3)	(0.1)	(0.1)
Receivables written off during the year as uncollectible	(1.0)	(0.6)	—	(0.4)
At 31 December	2.6	4.4	—	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 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 decreased in 2021 as the macroeconomic outlook for the UK improved in 2021.

At 31 December 2021	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	2%	7%	29%	69%	69%	6%
Gross carrying amount – trade receivables	34.0	4.5	0.9	0.3	1.6	41.3
Gross carrying amount – contract assets	0.4	—	—	—	—	0.4
Loss allowance	0.8	0.3	0.2	0.2	1.1	2.6

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

20 BORROWINGS

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

Non-current

	Book value 2021 £m	Fair value 2021 £m	Book value 2020 £m	Fair value 2020 £m
Non-current				
Bank borrowings unsecured	11.7	11.7	12.5	12.5
Total borrowings	11.7	11.7	12.5	12.5

The bank borrowings outstanding at 31 December 2021 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.

Borrowings of £12.0 million were drawn down at 31 December 2021 (2020: £13.0 million). Total unamortised costs, which are presented as a deduction to borrowings, were £0.3 million as at 31 December 2021 (2020: £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 SONIA rate (which replaced LIBOR in 2021) will remain relatively stable during the next year, and any changes, when applied to the Group's current bank borrowings of £12.0 million would not lead to a significant change in finance expense.

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

Details of the Company's banking covenants are given in Note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

For the year ended 31 December 2021

20 BORROWINGS CONTINUED

Borrowings continued

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

	2021 £m	2020 £m
Within 1 year or repayable on demand	—	—
Between 1 and 2 years	12.0	—
Between 2 and 5 years	—	13.0
	12.0	13.0

21 TRADE AND OTHER PAYABLES

	2021 £m	2020 £m
Current liabilities		
Trade payables	37.4	28.5
Other tax and social security	3.7	4.8
Other payables	0.9	0.7
Accruals	6.7	8.8
Total current trade and other payables	48.7	42.8
Non-current liabilities		
Other payables	0.3	0.3

Book values approximate to fair value at 31 December 2021 and 2020.

22 LEASE LIABILITIES

	2021 £m	2020 £m
Lease liabilities		
Current	11.9	8.9
Non-current	46.8	39.5
Total discounted lease liabilities at 31 December	58.7	48.4

	2021 £m	2020 £m
Maturity analysis		
– Less than one year	13.1	10.0
– One to five years	31.9	26.7
– More than five years	19.1	16.7
Total undiscounted lease liabilities at 31 December	64.1	53.4

	2021 £m	2020 £m
Finance expense		
Interest on lease liabilities	1.2	0.9

23 PROVISIONS

	Dilapidations and environmental provisions £m	Warranty provisions £m	Total £m
At 1 January 2020	0.8	—	0.8
Charged to Statement of Comprehensive Income	0.1	0.8	0.9
Utilised	—	(0.2)	(0.2)
At 31 December 2020	0.9	0.6	1.5
Charged to Statement of Comprehensive Income	0.3	0.1	0.4
Utilised	—	(0.4)	(0.4)
At 31 December 2021	1.2	0.3	1.5
Current	0.4	0.3	0.7
Non-current	0.8	—	0.8
At 31 December 2021	1.2	0.3	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:

	2021 £m	2020 £m
At 1 January	(3.5)	(2.6)
Charged to Statement of Comprehensive Income	(3.1)	(0.8)
Charged to equity	—	(0.1)
At 31 December	(6.6)	(3.5)

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. There are no unrecognised deferred tax assets. The vast majority of the deferred tax liability is expected to unwind over a period greater than one year.

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 2021 £m	Liability 2021 £m	Net 2021 £m	Statement of Comprehensive Income 2021 £m	Equity 2021 £m
Accelerated capital allowances/intangible fixed assets	—	(7.2)	(7.2)	(3.4)	—
Other temporary differences	0.6	—	0.6	0.3	—
Net tax assets/(liabilities)	0.6	(7.2)	(6.6)	(3.1)	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

For the year ended 31 December 2021

24 DEFERRED TAX CONTINUED

	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)

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. Other temporary differences relate to the tax impact of share-based payment transactions and tax losses deemed to be recoverable in future periods.

25 SHARE CAPITAL

	Allotted, called up and fully paid	
	2021 Number	2020 Number
Ordinary shares of £0.001 each	111,972,477	111,486,709
	2021 £m	2020 £m
Ordinary shares of £0.001 each	0.1	0.1
Share premium account	21.9	21.1

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.

The Group issued 298,061 (2020: 1,030,189) new shares in respect of its Save As You Earn sharesave scheme, in the process receiving consideration from employees of £0.5 million (2020: £1.6 million). The consideration received above the nominal value of the shares issued has been recorded as share premium.

During the year no (2020: none) shares were issued in respect of share-based payment transactions for Directors and 187,707 (2020: 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 2021, the share-based payment charge was £1.2 million (2020: £0.3 million). A corresponding credit to equity is recognised in the share-based payment reserve.

On exercise of options, balances are removed from the share-based payment reserve with corresponding entries made to share premium, retained earnings and cash. The balance on the share-based payment reserve at 31 December 2021 was £1.1 million (2020: £0.5 million).

a) Employee Save As You Earn scheme

Each year all employees have the right to participate in a Save As You Earn ('SAYE') scheme. Employees may make monthly contributions of up to £500, the proceeds being aggregated and then used to purchase ordinary shares at the end of the three-year vesting period. The cost to the participants is set at the inception of the scheme, with the balance being funded by the Company. Typically, participants are offered a discount on the share price at the date of issuance.

Set out below are summaries of options granted under the plan:

	2021		2020	
	Average exercise price per share option £	Number of options	Average exercise price per share option £	Number of options
As at 1 January	1.773	1,561,217	1.692	2,757,495
Granted during the year	1.832	925,755	1.720	627,823
Exercised during the year	1.704	(298,061)	1.632	(1,030,189)
Forfeited during the year	1.704	(183,408)	1.632	(793,912)
As at 31 December	1.817	2,005,503	1.773	1,561,217
Vested and exercisable at 31 December		—		—

The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2021 was £2.70.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price £	31 December 2021 Number	31 December 2020 Number
1 June 2017	1 June 2020	1.632	—	—
1 June 2018	1 June 2021	1.704	—	481,469
1 June 2019	1 June 2022	1.920	451,925	451,925
1 June 2020	1 June 2023	1.720	627,823	627,823
1 June 2021	1 June 2024	1.832	925,755	—
			2,005,503	1,561,217
Weighted average remaining contractual life of options outstanding at end of period.			1.65 years	1.51 years

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 31 December 2021 was £0.28 per option. The fair value at the grant date is determined using a form of the Black-Scholes model.

Options are granted for the consideration set at the inception of the scheme. The model inputs for options granted during the year ended 31 December 2021 included:

	2021
Grant date	1 June 2021
Expiry date	1 June 2024
Exercise price	£1.832
Share price at grant date	£2.080
Expected price volatility of the Company's shares	20%
Expected dividend yield	4%
Risk-free interest rate	1%

The expected price volatility is based on the historical volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

For the year ended 31 December 2021

26 SHARE-BASED PAYMENTS CONTINUED

b) Deferred Share Plan

Annual Bonus Plan outcomes can be paid in a mix of cash and deferred shares granted under the Company's Deferred Share Plan ('DSP'), following the determination of achievement against performance measures and targets. Performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Remuneration Committee considers appropriate. The maximum level of Annual Bonus Plan outcomes is 100% of base salary per annum for the duration of this policy. Awards under the DSP are deferred for such a period as the Remuneration Committee considers to be appropriate which will normally be less than (but may be longer than) three years, and are subject to continued employment.

The following table shows the deferred shares granted and outstanding at the beginning and end of the reporting period:

	2021 Number of options	2020 Number of options
As at 1 January	575,498	169,685
Granted during the year	—	488,391
Exercised during the year	(187,707)	(82,578)
Forfeited during the year	(62,509)	—
As at 31 December	325,282	575,498
Vested and exercisable at 31 December	—	—
Weighted average remaining contractual life of options outstanding at end of period	1.45 years	1.55 years

Fair value of options granted

The fair value at the grant date is determined using a form of the Black-Scholes model. No DSP options were granted in 2021. The assessed fair value at grant date of the rights granted during the year ended 31 December 2020 was between £1.46 and £1.92 per option, a weighted average of £1.58 per option.

c) Long-term incentive plan ('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 three years. The share award is based on a percentage of salary, a proportion of the maximum will vest based on performance targets of which earnings per share equates to two-thirds of the award and cash flow one-third of the award. Vested awards may also be settled in cash and the PSP allows for awards over shares with a maximum value of 150% of base salary per financial year.

The following table shows the deferred shares granted and outstanding at the beginning and end of the reporting period:

	2021 Number of options	2020 Number of options
As at 1 January	1,749,941	1,309,316
Granted during the year	884,402	505,731
Exercised during the year	—	—
Forfeited during the year	(561,283)	(65,106)
As at 31 December	2,073,060	1,749,941
Vested and exercisable at 31 December	—	—
Weighted average remaining contractual life of options outstanding at end of period.	1.59 years	1.48 years

Fair value of options granted

The fair value at the grant date is determined using a form of the Black-Scholes model. The assessed fair value at grant date of the rights granted during the year ended 31 December 2021 was between £2.29 and £2.44 per option, the weighted average price was £2.30 (2020: £1.69), and the share price at 31 December 2021 was £2.41.

d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2021 £m	2020 £m
Options issued under SAYE scheme	0.1	0.1
Deferred shares issued under the DSP scheme	0.4	0.2
Shares issued under the PSP scheme	0.7	—
	1.2	0.3

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 2021 the bank borrowings were £12.0 million (2020: £13.0 million).

The Group had no other material contingent assets or liabilities (31 December 2020: £nil).

28 CAPITAL COMMITMENTS

The Group had capital commitments of £8.1 million at the balance sheet date (2020: £1.0 million).

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 £2.3 million (2020: £1.9 million).

30 RELATED PARTY TRANSACTIONS

The Group's subsidiary undertakings are detailed in Note 37. The Group has taken advantage of the exemption from disclosing transactions with wholly owned subsidiaries.

Transactions with key management personnel

The remuneration of Executive and Non-executive Directors is disclosed on pages 91 to 108.

Other related party transactions

Kellmann Recruitment Limited is controlled by T Kelly, a close family member of M Kelly, who is a Director of Eurocell plc.

	2021 £000	2020 £000
Kellmann Recruitment Limited – recruitment services	147	48

Amounts outstanding at the period end were £nil (31 December 2020: £3,000).

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

	2021 £m	2020 £m
Profit/(loss) after tax	21.1	(2.2)
Taxation	5.9	0.7
Finance expense	2.0	2.2
Operating profit	29.0	0.7
Adjustments for:		
Depreciation of property, plant and equipment	7.7	6.8
Depreciation of right-of-use assets	13.1	12.4
Amortisation of intangible assets	1.9	1.6
Impairment of goodwill	—	5.8
Impairment of right-of-use assets	(0.4)	0.9
Share-based payments	1.2	0.3
Increase in inventories	(17.8)	(0.8)
(Increase)/decrease in trade and other receivables	(6.0)	2.4
Increase in trade and other payables	4.4	3.1
Increase in provisions	—	0.7
Cash generated from operations	33.1	33.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

For the year ended 31 December 2021

32 RECONCILIATION OF NET DEBT

	1 January 2021 £m	Cash flows £m	New leases £m	Non-cash movements* £m	31 December 2021 £m
Cash and cash equivalents	7.1	(0.5)	—	—	6.6
Bank overdrafts	(4.5)	(1.4)	—	—	(5.9)
Lease liabilities	(48.4)	11.3	(20.6)	(1.0)	(58.7)
Borrowings	(12.5)	1.0	—	(0.2)	(11.7)
Total	(58.3)	10.4	(20.6)	(1.2)	(69.7)

	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)

* Non-cash movements relate to the amortisation of arrangement fees in respect of the Group's borrowings and finance charges accrued on leases.

31 December 2021	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash and cash equivalents	6.6	—	—	6.6
Bank overdrafts	—	(5.9)	—	(5.9)
Lease liabilities	—	(11.9)	(46.8)	(58.7)
Borrowings	—	—	(11.7)	(11.7)
Total	6.6	(17.8)	(58.5)	(69.7)

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)

33 EVENTS AFTER THE BALANCE SHEET DATE

The Directors are not aware of any material events that have occurred after 31 December 2021 which would require disclosure under IAS 10.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 £m	2020 £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	42.1	46.7
Deferred tax	39	0.3	0.1
Cash and cash equivalents		—	0.1
Total current assets		42.4	46.9
Total assets		60.2	64.7
Liabilities			
Current liabilities			
Trade and other payables	40	(0.2)	—
Total current liabilities		(0.2)	—
Non-current liabilities			
Borrowings	41	(11.7)	(12.5)
Total non-current liabilities		(11.7)	(12.5)
Total liabilities		(11.9)	(12.5)
Net assets		48.3	52.2
Issued capital and reserves attributable to owners of the Company			
Share capital	25	0.1	0.1
Share premium account		21.9	21.1
Share-based payment reserve		1.1	0.5
Retained earnings		25.2	30.5
Total equity		48.3	52.2

A separate Statement of Comprehensive Income for the Company is not presented, in accordance with section 408 of the Companies Act 2006. The Company recognised a loss of £1.8 million in the year (2020: loss of £0.8 million).

The Financial Statements on pages 155 to 163 were approved and authorised for issue by the Board of Directors on 17 March 2022 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 2021

	Share capital £m	Share premium account £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2021	0.1	21.1	0.5	30.5	52.2
Comprehensive expense for the year					
Loss for the year	—	—	—	(1.8)	(1.8)
Total comprehensive expense for the year	—	—	—	(1.8)	(1.8)
Contributions by and distributions to owners					
Share capital issued	—	—	—	—	—
Exercise of share options	—	0.8	(0.6)	0.1	0.3
Share-based payments	—	—	1.2	—	1.2
Dividends paid	—	—	—	(3.6)	(3.6)
Total transactions with owners recognised directly in equity	—	0.8	0.6	(3.5)	(2.1)
Balance at 31 December 2021	0.1	21.9	1.1	25.2	48.3

	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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 and supply 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 FRS 101 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). Adjusted EBITDA is defined as operating profit before depreciation, amortisation and non-underlying items. See alternative performance measures on page 132.

For the next measurement period, being 31 December 2021, and going forward, the Group expects to comply with its covenants.

In assessing going concern, the Directors have considered financial projections for the period to December 2024, 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.

In all scenarios tested, including sensitivities reducing sales forecasts to 10% below management's estimates for the period 2022–24, 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.

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.

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

CONTINUED

For the year ended 31 December 2021

34 ACCOUNTING POLICIES (COMPANY) CONTINUED

Financial assets *continued*

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).

Paragraphs 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).

Paragraphs 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) 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.

36 EMPLOYEE BENEFITS EXPENSE

	2021 £m	2020 £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 four (2020: four), all of whom are Directors of the Company.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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For the year ended 31 December 2021

36 EMPLOYEE BENEFITS EXPENSE CONTINUED

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.

	2021 £m	2020 £m
Emoluments	1.6	0.9
Share-based payments	0.5	0.1
Pension and other post-employment benefit costs	0.1	0.1
	2.2	1.1

The emoluments are paid by Eurocell Group Limited. Directors' remuneration is set out in the Remuneration Report on pages 91 to 108.

During the year, retirement benefits were accruing to two Directors in respect of defined contribution pension schemes (2020: two).

The highest paid Director received remuneration of £879,000 (2020: £466,000).

99,267 share options were exercised by Directors of the Company during the current year (2020: 63,322), of which 60,571 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 £60,000 (2020: £57,000).

37 INVESTMENTS

Cost	Investments in subsidiary undertakings £m
At 31 December 2020 and at 31 December 2021	17.8

The subsidiaries of Eurocell plc, all of which have been incorporated in the United Kingdom, are included in these Consolidated Financial Statements. as follows:

Name	Principal activity	Holding	
		2021	2020
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 which expires in 2024.

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.

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 time frame is also consistent across all CGUs. Consequently, the key assumptions detailed below are applied consistently across the Group's entities:

	2021	2020
Period on which management-approved forecasts are based (years)	3	3
Discount rate (pre-tax)	12%	11%
Profit growth rate in perpetuity	2%	2%

38 TRADE AND OTHER RECEIVABLES

	2021 £m	2020 £m
Prepayments and other debtors	0.5	0.5
Amounts owed by Group undertakings	41.6	46.2
Total trade and other receivables	42.1	46.7

Amounts owed by Group undertakings attract interest of 1% 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 2021. After considering the projected future cash flows expected to arise in its subsidiary entities, the Directors believe that any provision over the amounts owed by Group undertakings are trivial.

39 DEFERRED TAX

	2021 £m	2020 £m
At 1 January	0.1	0.3
Charged to equity	—	(0.1)
Credited/(charged) to the Statement of Comprehensive Income	0.2	(0.1)
At 31 December	0.3	0.1

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

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

	Asset 2021 £m	Liability 2021 £m	Net 2021 £m	Statement of Comprehensive Income 2021 £m	Equity 2021 £m
Other temporary differences	0.3	—	0.3	0.2	—
Net tax assets	0.3	—	0.3	0.2	—

NOTES TO THE COMPANY FINANCIAL STATEMENTS

CONTINUED

For the year ended 31 December 2021

39 DEFERRED TAX CONTINUED

	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)

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

	2021 £m	2020 £m
Trade and other payables	0.2	—
Total current liabilities	0.2	—

Book values approximate to fair value at 31 December 2021 and 2020.

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 2021 £m	Fair value 2021 £m	Book value 2020 £m	Fair value 2020 £m
Non-current				
Bank borrowings unsecured	11.7	11.7	12.5	12.5
Total borrowings	11.7	11.7	12.5	12.5

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 £12.0 million were drawn down at 31 December 2021 (2020: £13.0 million). Total unamortised costs, which are presented as a deduction to borrowings, were £0.3 million as at 31 December 2021 (2020: £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). Details of the Company's banking covenants are given in Note 3.

Based upon current economic and market trends, management considers that the Sterling SONIA rate (which replaced LIBOR in 2021) will remain relatively stable during the next year, and any changes, when applied to the current bank borrowings of £12.0 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 91 to 108. The Group has taken advantage of the exemption from disclosing transactions with wholly owned subsidiaries.

Other related party transactions

Kellmann Recruitment Limited is controlled by T Kelly, a close family member of M Kelly, who is a Director of Eurocell plc.

	2021 £000	2020 £000
Kellmann Recruitment Limited – recruitment services	147	48

Amounts outstanding at the year end were £nil (31 December 2020: £3,000).

COMPANY INFORMATION

For the year ended 31 December 2021

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

For more investor information,
visit www.eurocell.co.uk/investors

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