Registered number: 03729805

Armacell UK Limited

Annual report and financial statements for the year ended 31 December 2018

Armacell UK Limited

Company information

Directors	G Huguen N R Wiley
Registered number	03729805
Registered office	Mars Street Oldham Lancashire OL9 6LY
Auditor	KPMG LLP Chartered Accountants One St Peter's Square Manchester M2 3AE

Armacell UK Limited

Contents

Armacell UK Limited

Strategic report
for the year ended 31 December 2018

The directors present their strategic report and the audited financial statements of Armacell UK Limited (the "company") for the year ended 31 December 2018.

Principal activity

Armacell UK Limited manufactures insulation, specifically foams and rubber solutions for products for automotive, industrial and a wide range of custom applications.

Business review

The company is the UK's sole manufacturer of elastomeric insulation and engineered foam products, which it distributes from its Oldham based facilities throughout the UK, north and south of Ireland. The company serves a range of key market sectors; including Drinks Industry, Insulation Wholesale, Heating and Plumbing and Refrigeration via a number of large plc groups and smaller independent customers.

Turnover in 2018 increased by 10.1% to £16,745,000 with operating profit marginally decreasing to £529,000 from prior year's operating profit of £582,000, driven by higher gross margin offset by increased administration costs within the year. Good progress has been made with volume growth in the UK and European markets while at the same time maintaining strong prices across the company's core product range of Elastomeric foam and Polyethylene insulation.

Three of the four key market sectors increased in turnover during 2018, with the Heating and Plumbing and Insulation Wholesale segments recording double digit growth. Drinks Industry turnover remained flat whilst Refrigeration showed growth of nearly 4% despite increasing competition. A healthy construction industry and demand from projects has helped to boost sales in related products.

The deliberate positioning in the four key sectors helps spread risk and exploit opportunities. In 2019 the company will continue to evolve and develop its presence in these sectors and also focus on new sectors and product opportunities.

Against a backdrop of growing uncertainty associated with Brexit, the aforementioned was extremely positive. Adding volume and value to cover material price increases and general operating costs is increasingly important and has been managed well.

The central focus of increasing volume and margin reflected the company's core aim of adding value year-on-year which will be taken into 2019.

Strategic report (continued)
for the year ended 31 December 2018

Key performance indicators ("KPIs")

The company uses a number of key financial performance indicators in assessing the performance. The key financial performance indicators used by the company are as follows:

	2018 £'000	2017 £'000	Definition, method of calculation and analysis
Turnover	**16,745**	15,198	Turnover value year on year. The increase in turnover is driven by volume growth in both the UK and European market while maintaining strong prices.
Gross margin	**20%**	20%	This is the ratio of gross profit to turnover expressed as a percentage.
Operating profit	**529**	582	Operating profit year on year. The profit is driven by a higher gross margin offset by higher administrative costs, mainly due to negative exchange rate movements and management fees.
Stock turnover	**41 days**	41 days	Ratio of year end stock to cost of sales for the year multiplied by 365 days. Stock turnover has been maintained within the budgeted parameters.
Debtor days	**12 days**	11 days	Ratio of year end trade debtors to turnover for the year multiplied by 365 days.
Creditor days	**17 days**	19 days	Ratio of year end trade creditors to cost of sales for the year multiplied by 365.

The directors aim to improve these ratios on a continuing basis.

Principal risks and uncertainties

A significant proportion of the company's raw materials and finished products are purchased from associated companies in Europe and the U.S.A. leaving the company exposed to fluctuations in exchange rates against both the Euro and US dollar. These are monitored closely and care is taken to minimise the impact on the profit and loss account.

The company holds loans receivable from and payable to fellow group undertakings denominated in either Euros or US Dollars. The interest receivable/payable on loans are also denominated in either Euros or US Dollars and are charged at fixed rate interest rates as shown in notes 16 and 17. The company also considers the interest rate risk to be minimal due to the loans receivable and payable effectively hedging each other.

The company offers credit terms to virtually all of its customers and this carries with it an inherent risk of non payment for goods and services. There is a robust system in place for credit checking all customers prior to granting credit and for credit control once the sale has been made. In this way the company tries to reduce the risk of bad debts.

The UK left the EU on 31 January 2020 and is now in a transition period until the end of 2020 while the UK and EU negotiate additional arrangements. The directors are continuing to consider and assess the impact on the company and are awaiting further clarity regarding exit terms and the wide regulatory and legal implications.

The company have reviewed the potential impact of COVID-19 on the business and are actively working with suppliers and customers to ensure no disruption in supplies. The directors are satisfied that the steps being taken mitigates against the risk.

Strategic report (continued)
for the year ended 31 December 2018

Future developments

The company will continue to trade in its existing markets and will look for, and take advantage of, all opportunities to increase its turnover and profitability.

This report was approved by the board on 9th June 2020.

Nicholas Wiley

N R Wiley
Director

Armacell UK Limited

Directors' report
for the year ended 31 December 2018

The directors present their report and the audited financial statements for the year ended 31 December 2018.

Results and dividends

The profit for the year, after taxation, amounted to £847,000 (2017: £368,000).

The directors do not recommend the payment of a dividend (2017: £nil).

Going concern

Since January 2020 the spread of COVID-19 has been affecting the global economy. The company has seen sales start to reduce in April 2020 following the UK lock down announced by the UK Government towards the end of March 2020. In early April the company ceased production at its UK manufacturing facility and temporarily furloughed a number of its employees. The site is currently operating with skeleton staff to service the reduced demand for sales.

The company has put in place business continuity structures and measures to:

- Safeguard the well-being of its employees
- Maintain operations and supplies and
- Continue to serve its customers.

Material risks and uncertainties – trading due to COVID-19

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that the company will have sufficient funds to meet its liabilities as they fall due for that period. However, the operating environment as a result of COVID-19 creates uncertainty over the achievement of these forecasts, and when downside sensitivities are applied there is a risk that the company would require additional funding.

These risks and uncertainties include, but are not limited to the following:

Sales – there is a risk that the company does not achieve the level of sales assumed in its forecasts as a result of, for example, reduced demand from customers as uncertainty over the length of the UK lock down continues and/or downstream projects are put on hold. As a reasonably plausible downside scenario, the directors have modelled the impact of no sales being made for the next six months, which indicates that, based on current cash levels, the company would require additional funding in August 2020.

Raw material supplies – there is a risk that a key supplier could go into administration due to COVID-19. Armacell manages its supply chain to ensure that any risks due to supplier shortage or interruption will not affect the continuation of the business. For the UK, raw materials which accounts for c80% of sales, are sourced as semi-complete Master Batch products from the Armacell Group's manufacturing plant in Muenster, Germany. Raw materials in Muenster are at least dual sourced and are kept at levels that would prevent any issues from short-term interruptions and at the start of March, Master Batch stock levels were increased in Muenster. In addition to this, at any one time, at least six weeks' worth of raw materials are on route to the Muenster plant.

For UK sourced materials, the company ensures continuity of raw material supply by at least dual sourcing all raw materials, and packaging and also benefits from other entities within the Armacell Group also using and maintaining stocks of interchangeable raw materials and packaging.

Directors' report (continued)
for the year ended 31 December 2018

Going concern (continued)

Material risks and uncertainties – group support due to COVID-19

The forecasts referred to above are dependent on the company's intermediate parent company, Armacell International S.A., not seeking repayment of the amounts currently due to it, which at 31 December 2018 amounted to £135,164,000. Armacell International S.A. has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The assurances received by the company over this continuing financial support are dependent on the financial viability of the wider Armacell Group headed by Armacell Holdco Luxembourg S.a.r.l. The UK manufacturing plant is currently shut and the Group's plants in Begur (Spain), Turin (Italy) and Pune (India) are also temporarily closed following measures imposed by local Government / Local Authorities for health and safety reasons. The Group's remaining 20 plants globally are currently up and running. This includes three plants in China. The Chinese plants have been fully operational again since 10 February 2020 following the prolongation of the Chinese Lunar New Year by a couple of days.

Business in China is transitioning back to normal for the majority of the business and government projects are being restarted albeit at a slower pace. Armacell Group provided part of the equipment insulation material to the new hospitals in Wuhan during the heat of the crisis in China.

The Group's directors have noted that order entry so far exhibits good development and performance is much in line with expectations and the prior year. The Group's decentralised production footprint and double sourcing strategy provide some resilience against potential further lock downs across the globe whilst the business model provides flexibility to take out cost out if required and to mitigate the risk of lower demand. The Group's financing facilities are expected to provide sufficient headroom going forward.

However, notwithstanding the mitigating factors noted above, the COVID-19 pandemic results in wider macro-economic uncertainty due to changing government policy across the globe and the potential for certain suppliers and customers to experience financial difficulty.

Conclusion

Consequently, the directors conclude that whilst the impact of COVID-19 on the company's trading forecasts and the impact of COVID-19 on the Group's ability to continue to support the company give rise to a material uncertainty which may cast doubt on the company's ability to continue as a going concern, they are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and consequently have prepared the financial statements on a going concern basis.

Future developments

An indication of the likely future developments in the business have been included in the strategic report on page 3.

Directors

The directors who served during the year and up to the date of signing the financial statements, unless otherwise indicated, are given below:

G Huguen
S C Sturch (resigned 28 September 2018)
N R Wiley (appointed 21 June 2019)

Directors' report (continued)
for the year ended 31 December 2018

Qualifying third party indemnity provisions

A qualifying third party indemnity provision as defined by Section 232(2) of the Companies Act 2006 is in force for the benefit of the directors in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which directors may not be indemnified, a directors' and officers' liability insurance policy was maintained by Armacell International Holding GmbH, a fellow group undertaking, throughout the financial year.

Directors' report (continued)
for the year ended 31 December 2018

Post balance sheet events

After the balance sheet date of 31 December 2018 and at the current date of signing, two significant events have occurred:

- The sale of the ultimate parent, Armacell International S.A dated 28 February 2020
- The global pandemic caused by the COVID-19 virus

Sale of Armacell International S.A.

From 29 February 2016 to 27 February 2020, the majority shareholder of Armacell International S.A. was the private equity house Blackstone with the remaining shares held by the holding and investment company Kirkbi and Armacell's senior management team.

On 4 December 2019 the shareholders of the intermediary parent company, Armacell Holdco Luxembourg S.à r.l. agreed to the sale of the company to PAI Partner S.à r.l. On the 28 February 2020, equity funds managed by PAI Partners have been Armacell's majority shareholder. The remaining shares held by the holding and investment company Kirkbi Invest A/S and Armacell's senior management team through the chain of the acquisition company Neptune MidCo S.à r.l., registered in Luxembourg, its subsidiary Neptune Holdco S.à r.l., registered in Luxembourg and its subsidiary Neptune BidCo S.à r.l., registered in Luxembourg.

COVID-19 Impact

From the end of January 2020, the global pandemic caused by the COVID-19 virus reached the UK.

Following advice issued by the UK Government, Armacell's UK manufacturing plant reduced operations beginning 9 April 2020 with only a skeleton workforce to support continued distribution activities to our customers who remained open for business.

The UK manufacturing plant is currently using the opportunity presented to bring forward planned maintenance activities from the scheduled summer shut-down.

Production recommenced week beginning 11 May 2020 to rebuild inventory to ensure continued supply to our customers.

From the start of April 2020, sales were approximately 20% of budget and this level has continued up to the present day.

Armacell has continued to pay its suppliers fully and has seen very little reduction in remittance from customer, although the reduction in sales will lead to reduced debtor balances in the short term. Armacell does not see any material impact to receivables, but will be prudent in monitoring cash received and providing for any diminution of receivables.

Armacell has a defined benefit pension scheme and as with any investment assets held, there will always be market volatility impacting the value of the underlying asset. COVID-19 has led to increased market volatility in the short term, although this volatility has reduced as at the date of signing the 2018 statements.

As per the going concern wording, Armacell UK Limited relies on the continued support of Armacell International S.A. in not seeking repayment of amounts currently due to it, and at the balance sheet date has confirmation that repayment will not be required for at least twelve months.

The directors of the company comply with the Government's most recent advice in any decisions and continue to monitor the on-going situation on a daily basis.

Armacell UK Limited

Directors' report (continued)
for the year ended 31 December 2018

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework.*

Under company law the 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 company and of the profit or loss the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as he determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Disclosure of information to auditor

The directors who held office at the date of approval of the directors' report confirms that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and the directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Independent auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report was approved by the board on 9th June 2020.

Nicholas Wiley

N R Wiley
Director

Independent auditor's report to the members of Armacell UK Limited

Opinion

We have audited the financial statements of Armacell UK Limited ("the company") for the year ended 31 December 2018 which comprise the Profit and loss account, Statement of other comprehensive income, Balance sheet and Statement of changes in equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty relating to going concern

We draw attention to note 2.3 to the financial statements which indicate that there is uncertainty over the receipt of financial support from Armacell International S.A due to COVID-19. These events and conditions, along with the other matters explained in note 2.3, constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in this respect.

Independent auditor's report to the members of Armacell UK Limited (continued)

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing 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 they either intend to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor's report to the members of Armacell UK Limited (continued)

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Roger Nixon

Roger Nixon (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One St Peter's Square
Manchester
M2 3AE
United Kingdom

Date: 12 June 2020

Armacell UK Limited

Profit and loss account
for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Turnover	4	16,745	15,198
Cost of sales		(13,402)	(12,139)
Gross profit		3,343	3,059
Administrative expenses		(2,814)	(2,477)
Operating profit	5	529	582
Interest receivable and similar income	9	10,388	5,784
Interest payable and similar charges	10	(9,966)	(5,915)
Other finance income/(expense)		3	(7)
Profit before taxation		954	444
Tax on profit	11	(107)	(76)
Profit for the financial year		847	368

The notes on pages 16 to 43 form part of these financial statements.

Statement of other comprehensive income for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Profit for the financial year		**847**	368
Other comprehensive income:			
Actuarial gain on pension scheme	20	**196**	96
Movement of deferred tax relating to pension liability	18	**(29)**	(16)
Other comprehensive income for the financial year		**167**	80
Total comprehensive income for the financial year		**1,014**	448

The notes on pages 16 to 43 form part of these financial statements.

Armacell UK Limited

Registered number: 03729805

Balance sheet
as at 31 December 2018

	Note		2018 £000		2017 £000
Fixed assets					
Intangible assets	12		5		24
Tangible assets	13		2,951		2,660
Investments	14		28,255		28,255
			31,211		30,939
Current assets					
Stocks	15	1,518		1,356	
Debtors: Amounts falling due after more than one year	16	141,934		127,358	
Debtors: Amounts falling due within one year	16	4,630		2,929	
Cash at bank and in hand		1,075		920	
		149,157		132,563	
Creditors: Amounts falling due within one year	17	(142,081)		(125,795)	
Net current assets			7,076		6,768
Total assets less current liabilities			38,287		37,707
Pension asset/(liability)	20		424		(10)
Net assets			38,711		37,697
Capital and reserves					
Called up share capital	19		4,500		4,500
Capital contribution reserve			28,223		28,223
Retained earnings			5,988		4,974
Total equity			38,711		37,697

The financial statements were approved and authorised for issue by the board on 9th June 2020.

Nicholas Wiley

N R Wiley
Director

The notes on pages 16 to 43 form part of these financial statements.

Armacell UK Limited

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital	Capital contribution reserve	Retained earnings	Total equity
	£000	£000	£000	£000
At 1 January 2018	4,500	28,223	4,974	37,697
Profit for the financial year	-	-	847	847
Other comprehensive income for the financial year	-	-	167	167
At 31 December 2018	4,500	28,223	5,988	38,711

Statement of changes in equity for the year ended 31 December 2017

	Called up share capital	Capital contribution reserve	Retained earnings	Total equity
	£000	£000	£000	£000
At 1 January 2017	4,500	28,223	4,526	37,249
Profit for the financial year	-	-	368	368
Other comprehensive income for the financial year	-	-	80	80
At 31 December 2017	4,500	28,223	4,974	37,697

The notes on pages 16 to 43 form part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2018

1. General information

Armacell UK Limited ("the company") manufactures insulation, specifically foams and rubber solutions for products for automotive, industrial and a wide range of custom applications. The company is a private company limited by shares and is incorporated and domiciled in England and Wales. The address of the registered office is Mars Street, Oldham, Lancashire, OL9 6LY, United Kingdom.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted Financial Reporting Standard 101, the Reduced Disclosure Framework ("FRS 101") in these financial statements.

Notes to the financial statements for the year ended 31 December 2018

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation of financial statements

The individual financial statements of Armacell UK Limited have been prepared in accordance with FRS 101 and the Companies Act 2006.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions have been taken.

The financial statements have been prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company'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 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial Instruments: Disclosures';
- 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' (reconciliation's 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);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for including a cash flow statement);
  - 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).
- IAS 7, 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 of IAS 24, Related party disclosures (key management compensation);
- The requirements in IAS 24, 'Related party disclosures' to related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Note 24 gives details of the company's parent which includes the company in its consolidated financial statements, and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policy and disclosures

(i) New and amended standards adopted by the company

The adoption of the new accounting standard for financial instruments, IFRS 9

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) superseded IAS 39 Financial Instruments: Recognition and Measurement from 1 January 2018.

In accordance with the transitional provisions in IFRS 9, the company has applied the modified retrospective transition method and has not restated prior year comparative figures. Results for the year ended 31 December 2018 are presented under IFRS 9, whilst results for the year ended 31 December 2017 are reported in accordance with IAS 39. Under the modified retrospective transition method, any cumulative adjustment from the adoption of IFRS 9 is recognised in opening retained earnings as at 1 January 2018. Additionally, the company adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that have applied to disclosures relating to prior period but have not been included in the comparative information. However, following the adoption of IFRS 9, there has been no adjustment made to retained earnings.

The company does not apply hedge accounting, therefore no further disclosures have been provided.

The adoption of the new accounting standard for revenue from contracts with customers, IFRS 15

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 supersedes the revenue recognition requirements of IAS 18, Revenue and IAS 11, Construction Contracts and requires entities to recognise revenue when control of the promised goods or services are transferred to customers, at an amount that reflects the consideration to which the entity expects to be entitled to, in exchange for those goods or services. IFRS 15 has an effective date of 1 January 2018. The company has adopted IFRS 15 on 1 January 2018 using the modified method applied to contracts not completed as of this date as such there is no adjustment to opening reserves or restatement of comparative figures to account for the new standard.

2. **Summary of significant accounting policies (continued)**

2.3 *Going concern*

Since January 2020 the spread of COVID-19 has been affecting the global economy. The company has seen sales start to reduce in April 2020 following the UK lock down announced by the UK Government towards the end of March 2020. In early April the company ceased production at its UK manufacturing facility and temporarily furloughed a number of its employees. The site is currently operating with skeleton staff to service the reduced demand for sales.

The company has put in place business continuity structures and measures to:

- Safeguard the well-being of its employees
- Maintain operations and supplies and
- Continue to serve its customers.

Material risks and uncertainties – trading due to COVID-19

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that the company will have sufficient funds to meet its liabilities as they fall due for that period. However, the operating environment as a result of COVID-19 creates uncertainty over the achievement of these forecasts, and when downside sensitivities are applied there is a risk that the company would require additional funding.

These risks and uncertainties include, but are not limited to the following:

- Sales – there is a risk that the company does not achieve the level of sales assumed in its forecasts as a result of, for example, reduced demand from customers as uncertainty over the length of the UK lock down continues and/or downstream projects are put on hold. As a reasonably plausible downside scenario, the directors have modelled the impact of no sales being made for the next six months, which indicates that, based on current cash levels, the company would require additional funding in August 2020.

- Raw material supplies – there is a risk that a key supplier could go into administration due to COVID-19. Armacell manages its supply chain to ensure that any risks due to supplier shortage or interruption will not affect the continuation of the business. For the UK, raw materials which accounts for c80% of sales, are sourced as semi-complete Master Batch products from the Armacell Group's manufacturing plant in Muenster, Germany. Raw materials in Muenster are at least dual sourced and are kept at levels that would prevent any issues from short-term interruptions and at the start of March, Master Batch stock levels were increased in Muenster. In addition to this, at any one time, at least six weeks' worth of raw materials are on route to the Muenster plant.

For UK sourced materials, the company ensures continuity of raw material supply by at least dual sourcing all raw materials, and packaging and also benefits from other entities within the Armacell Group also using and maintaining stocks of interchangeable raw materials and packaging.

2. Summary of significant accounting policies (continued)

2.3 Going concern (continued)

Material risks and uncertainties – group support due to COVID-19

The forecasts referred to above are dependent on the company's intermediate parent company, Armacell International S.A., not seeking repayment of the amounts currently due to it, which at 31 December 2018 amounted to £135,164,000. Armacell International S.A. has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The assurances received by the company over this continuing financial support are dependent on the financial viability of the wider Armacell Group headed by Armacell Holdco Luxembourg S.a.r.l. The UK manufacturing plant is currently shut and the Group's plants in Begur (Spain), Turin (Italy) and Pune (India) are also temporarily closed following measures imposed by local Government / Local Authorities for health and safety reasons. The Group's remaining 20 plants globally are currently up and running. This includes three plants in China. The Chinese plants have been fully operational again since 10 February 2020 following the prolongation of the Chinese Lunar New Year by a couple of days.

Business in China is transitioning back to normal for the majority of the business and government projects are being restarted albeit at a slower pace. Armacell Group provided part of the equipment insulation material to the new hospitals in Wuhan during the heat of the crisis in China.

The Group's directors have noted that order entry so far exhibits good development and performance is much in line with expectations and the prior year. The Group's decentralised production footprint and double sourcing strategy provide some resilience against potential further lock downs across the globe whilst the business model provides flexibility to take out cost out if required and to mitigate the risk of lower demand. The Group's financing facilities are expected to provide sufficient headroom going forward.

However, notwithstanding the mitigating factors noted above, the COVID-19 pandemic results in wider macro-economic uncertainty due to changing government policy across the globe and the potential for certain suppliers and customers to experience financial difficulty.

Conclusion

Consequently, the directors conclude that whilst the impact of COVID-19 on the company's trading forecasts and the impact of COVID-19 on the Group's ability to continue to support the company give rise to a material uncertainty which may cast doubt on the company's ability to continue as a going concern, they are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and consequently have prepared the financial statements on a going concern basis.

2.4 Consolidation

The financial statements contain information about Armacell UK Limited as an individual company. The company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the financial statements of an intermediate parent undertaking, Armacell Holdco Luxembourg, S.a.r.l., a company incorporated in Luxembourg.

2. Summary of significant accounting policies (continued)

2.5 Functional and presentational currency

The company's functional and presentational currency is UK Pound Sterling. All financial information presented in UK Pound Sterling has been rounded to the nearest thousand.

2.6 Turnover

Turnover comprises revenue recognised by the company in respect of goods supplied during the year, exclusive of Value Added Tax and trade discounts.

Revenue is recognised per IFRS 15 when the company has satisfied its performance obligation which occurs at a point in time when the customer has control of the goods.

2.7 Operating leases

Operating lease rentals are charged to the profit or loss on a straight line basis over the period of the lease.

2.8 Foreign currency translation

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

2.9 Interest receivable

Interest receivable is recognised in the profit and loss account using the effective interest method.

2.10 Interest payable and similar charges

Interest payable is charged to the profit and loss account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated instrument.

2. **Summary of significant accounting policies (continued)**

2.11 Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- The initial recognition of goodwill;
- The initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and
- Differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2. **Summary of significant accounting policies (continued)**

2.12 Intangible assets

(i) Licences

Separately acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives of 3 years.

(ii) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed 3 years.

2.13 Tangible assets

Tangible fixed assets are recognised at cost and subsequently stated at cost less accumulated depreciation.

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Leasehold improvements	- 2.5% or over the period of the lease (whichever is higher)
Plant, equipment and software licences	- 5-10%

The carrying value of fixtures, fittings and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable as well as at the end of each reporting period. Any impairment in the value of assets below depreciated cost is charged to the profit and loss account.

2. Summary of significant accounting policies (continued)

2.14 Investments

Investments in subsidiary undertakings are recognised and carried at cost less amounts written off.

The company reviews its investments for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be supported by their underlying assets. Any impairment in value is charged through the profit and loss account.

2.15 Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale the FIFO basis is used. For goods manufactured by the company, cost is taken as production cost, which includes an appropriate proportion of attributable overheads. Net realisable value represents the estimated amount at which stock could be realised after allowing for costs of completion and realisation.

2.16 Financial Instruments

(i) Financial assets

Classification

From 1 January 2018, the company classifies its financial instruments in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial instrument and the contractual terms of the cash flows.

In order for a financial asset to be classified and measured at amortised cost its contractual cash flows should be 'solely payments of principal and interest (SPPI)' on the principal amount outstanding and the financial assets should be held under a business model where cash flows result from collecting contractual cash flows. Financial assets which are debt instruments are measured at fair value through other comprehensive income where the contractual cash flows are SPPI and the assets are managed under a business model where cash flows result from both collecting contractual cash flows and selling the financial assets.

For instruments measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

The company reclassifies debt instruments when and only when its business model for managing those assets changes.

Recognition, measurement and derecognition

Financial assets are recognised on the statement of financial position when, and only when, the company becomes a party to the contractual provisions of the financial instrument.

2. Summary of significant accounting policies (continued)

2.16 Financial instruments (continued)

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit and loss ('FVTPL'), directly attributable transaction costs. A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. On derecognition of a financial asset in its entirety, except for those subsequently measured at fair value through other comprehensive income ('FVTOCI'), the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in equity is recognised in profit or loss.

For derecognition of financial assets measured at FVTOCI, any cumulative gain or loss is recognised in other comprehensive income. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e. the date that the company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

Debt instruments

Subsequent measurement of debt instruments depends on the entity's business model for managing the asset and the cash flow characteristics of the asset. All the company's debt instruments are measured at amortised cost as the assets are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest.

The company's debt instruments consist of the following:

- Amounts owed by parent and fellow subsidiary undertakings
- Trade debtors and other debtors

Impairment

For trade debtors, including intercompany trade debtors, the entity applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The company uses judgement in making assumptions around the risk of default and expected loss rates, based on the company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. The expected loss rates are based on the payment profiles of sales over a period of 24 month before 31 December 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on factors affecting the ability of the customers to settle the receivables.

For amounts owed by parent and fellow subsidiary undertakings, the company applies the general approach to providing for expected credit losses, as prescribed by IFRS 9. The general expected credit loss model under IFRS 9 requires the calculation of '12 month expected credit losses' (losses based on defaults which are possible within 12 months of the reporting date) for financial assets, unless the asset at the reporting date is not considered to be 'low credit risk' and is deemed to have had a 'significant increase in credit risk' since the initial recognition, in which case lifetime expected credit losses should be recorded.

2. **Summary of significant accounting policies (continued)**

2.16 Financial instruments (continued)

Management consider amounts owed by parent and fellow subsidiary undertakings to have 'low credit risk' when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the short term.

(ii) Financial liabilities

Financial liabilities at amortised cost include borrowings and trade and other creditors. These financial instruments are initially measured at fair value, net of any transaction costs in the case of borrowings, and subsequently measured at amortised cost using the effective interest rate. Borrowings are classified as current liabilities (creditors due within one year), unless the company has an unconditional right to defer settlement of the liability for at least one year after the statement of financial position date.

Financial liabilities are derecognised when the group's obligations specified in the contract expire, are discharged or cancelled. Interest expense is recognised using the effective interest rate method

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.17 Employee benefit

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The company also operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability or deficit. The pension scheme surplus (to the extent that is recoverable) or deficit is recognised in full. The movement in the pension scheme surplus/deficit is split between operating charges. Finance items and, in the statement of other comprehensive income, actuarial gains and losses.

Notes to the financial statements for the year ended 31 December 2018

2. Summary of significant accounting policies (continued)

2.18 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment of financial assets.

Impairment testing is an area involving management judgements, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters.

(ii) Impairment of trade debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the aging profile of debtors and historical experience. See note 16 for the net carrying amount of the debtors and associated impairment provision.

(iii) Taxes

Determining income tax provisions involves judgements on the tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used on temporary differences where it is probable that there will be taxable income against which these can be offset. See note 18 for details of deferred tax recognised.

(iv) Defined benefit scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate of corporate bonds. Management estimates these factors in determining the net pension asset/liability in the balance sheet. The assumptions reflect historical experience and current trends. See note 20 for the disclosures relating to the defined benefit pension scheme.

Notes to the financial statements for the year ended 31 December 2018

4. Turnover

Turnover is derived from the sale of goods as part of the company's principal activity.

An analysis of turnover by geographical market is set out below:

	2018 £000	2017 £000
United Kingdom	13,748	12,727
Rest of Europe	2,930	2,444
Middle East and Africa	20	8
United States of America	47	19
	16,745	15,198

5. Operating profit

The operating profit is stated after charging/(crediting):

	2018 £000	2017 £000
Depreciation of tangible assets	323	322
Amortisation of intangible assets	22	25
Difference on foreign exchange	48	(163)
Operating lease rentals	350	224

6. Auditor's remuneration

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the company:

	2018 £000	2017 £000
Fees for the audit of the company's financial statements	26	25

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2018 £000	2017 £000
Wages and salaries	4,436	4,158
Social security costs	506	414
Cost of defined benefit scheme	29	-
Other pension costs	316	278
	5,287	4,850

The average monthly number of employees, including the directors, during the year was as follows:

	2018 No.	2017 No.
Administration	59	57
Production	54	56
	113	113

8. Directors' remuneration

The directors' emoluments were as follows:

	2018 £000	2017 £000
Directors' emoluments	77	98
Company contributions to defined contribution pension schemes	14	6
	91	104

During the year retirement benefits were accruing to 1 director (2017: 1) in respect of defined contribution pension schemes.

9. Interest receivable and similar income

	2018 £000	2017 £000
Interest receivable on loans owed by group undertakings	10,388	5,784

10. Interest payable and similar charges

	2018 £000	2017 £000
Interest payable on loans due to group undertakings	9,966	5,915

11. Taxation

There is no current tax for the financial year ended 31 December 2018 or the prior financial year.

	2018 £000	2017 £000
Deferred tax		
Origination and reversal of timing differences	120	87
Changes to tax rates	(13)	(10)
Adjustments in respect of prior periods	-	(1)
Total deferred tax	107	76
Tax on profit	107	76

Factors affecting tax charge for the year

The tax assessed for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £000	2017 £000
Profit before taxation	954	444
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	181	85
Effects of:		
Expenses not deductible for tax purposes	11	2
Adjustments to tax charge in respect of prior periods	-	(1)
Impact of changes in tax rates	(13)	(10)
Exempt amounts	(22)	-
Effects of group relief/other reliefs	(50)	-
Total tax charge for the year	107	76

Factors that may affect future tax charges

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 17 March 2020. It was announced that the previously enacted decrease in the corporation tax rate from 19% to 17% from 1 April 2020 will not happen and the corporation tax rate will remain at 19% for the foreseeable future.

As this change in UK corporation tax rate had not been substantively enacted at the balance sheet date its effects are not included in these financial statements.

Deferred tax balance have been calculated at 17% as the balance sheet date.

12. **Intangible assets**

	Computer software £000	Licences £000	Total £000
Cost			
At 1 January 2018	78	49	127
Additions	3	-	3
At 31 December 2018	81	49	130
Amortisation			
At 1 January 2018	54	49	103
Charge for the year	22	-	22
At 31 December 2018	76	49	125
Net book value			
At 31 December 2018	5	-	5
At 31 December 2017	24	-	24

Capitalised licences relate to the cost of gaining a CE marking certification for manufactured products which are sold within the EEA.

13. Tangible assets

	Freehold land	Leasehold Improvements	Plant and equipment	Assets in the course of construction	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2018	54	1,852	6,469	603	8,978
Additions	-	-	-	614	614
Transfers between classes	-	20	141	(161)	-
At 31 December 2018	54	1,872	6,610	1,056	9,592
Depreciation					
At 1 January 2018	-	1,250	5,068	-	6,318
Charge for the year	-	60	263	-	323
At 31 December 2018	-	1,310	5,331	-	6,641
Net book value					
At 31 December 2018	54	562	1,279	1,056	2,951
At 31 December 2017	54	602	1,401	603	2,660

14. Investments

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2018	28,255
At 31 December 2018	28,255
Net book value	
At 31 December 2018	28,255
At 31 December 2017	28,255

In the opinion of the directors the fair value of the above investments are equivalent to or higher than the carrying amounts.

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Registered office	Principal activity	Class of shares	Holding
Armacell Insulation United States Holding Inc	55 Vilcom Center Dr #200, Chapel Hill, NC 27514, USA	Holding company	Ordinary	100%
Insulation United States Holdings LLC*	55 Vilcom Center Dr #200, Chapel Hill, NC 27514, USA	Holding company	Ordinary	100%
Armacell United States Holdings LLC*	55 Vilcom Center Dr #200, Chapel Hill, NC 27514, USA	Holding company	Ordinary	100%
Armacell LLC*	55 Vilcom Center Dr #200, Chapel Hill, NC 27514, USA	Manufactures, markets and distributes elastomeric and polyethylene insulation and engineered foams	Ordinary	100%
Armacell Australia Pty Ltd*	45, Bazalgette Crescent, Dandenong Soth, VIC 3175, Australia	Manufactures, markets and distributes elastomeric and polyethylene insulation and engineered foams	Ordinary	100%

*Undertakings are 100% held by subsidiary undertakings, rather than directly held by the company.

The company indirectly owned 49% of Armacell Thailand Limited, a company registered in Thailand.

Notes to the financial statements for the year ended 31 December 2018

15. Stocks

	2018 £000	2017 £000
Raw materials	176	322
Work in progress	349	349
Finished goods and goods for resale	993	685
	1,518	1,356

There is no significant difference between the replacement cost of the stocks and their carrying amounts.

Stocks are stated after provisions for impairment of £104,000 (2017: £83,000).

16. Debtors

	2018 £000	2017 £000
Due after more than one year		
Loans owed by group undertaking	141,934	127,358

	2018 £000	2017 £000
Due within one year		
Trade debtors	540	476
Amounts owed by group undertaking	3,795	2,008
Other debtors	49	55
Prepayments and accrued income	133	141
Deferred tax asset (note 18)	113	249
	4,630	2,929

16. Debtors (continued)

Debtors due after more than one year

On 2 July 2013, the company provided unsecured loan notes to Ultima Acquisition GB Limited, an intermediate parent undertaking, of €2,800,000. The loan notes have a maturity date of July 2023. The accrued interest is included within debtors falling due within one year. The interest rate is fixed at 9% per annum.

At 31 December 2018, the balance of the loan notes was €4,186,000 (£3,762,000) (2017: €3,933,000 (£3,492,000)) (principal €2,800,000 (£2,517,000)), accrued interest €1,386,000 (£1,245,000)) (2017: principal €2,800,000 (£2,486,000), accrued interest €1,133,000 (£1,006,000)).

During July 2013 the company provided a loan to Ultima Acquisition GB Limited of US$119,112,000. The loan is secured, has a fixed date of repayment and a fixed interest rate of 9% per annum.

At 31 December 2018, the balance of the loan was US$178,146,000 (£139,417,000) (2017: US$167,426,000) (£124,872,000)) (principal US$119,112,000 (£93,217,000), accrued interest US$59,034,000 (£46,200,000) (2017: principal US$119,112,000) (£88,838,000), accrued interest US$48,314,000 (£36,034,000)).

Debtors due within one year

Trade debtors are stated after provisions for impairment of £26,000 (2017: £6,000).

Amounts owed by group undertakings due within one year are unsecured, interest free, have no fixed date of repayment and are repayable upon demand.

17. Creditors: Amounts falling due within one year

	2018 £000	2017 £000
Loan due to group undertaking	**135,164**	120,820
Trade creditors	**637**	636
Amounts due to group undertakings	**5,183**	3,261
Taxation and social security	**319**	318
Other creditors	**33**	85
Accruals and deferred income	**745**	675
	142,081	125,795

On 1 January 2014, the company declared a dividend of US$119,112,000 (£72,097,000) to Armacell Insulation UK Holding Limited, the immediate parent undertaking. This was not settled in cash, with the amount being treated as a short term loan. The loan is unsecured, has no fixed date of repayment and a fixed interest rate of 9% per annum.

At 31 December 2018, the balance of the loan was US$172,713,000 (£135,164,000) (2017: US$161,993,000 (£120,820,000)) (principal US$119,112,000 (£93,217,000), accrued interest US$53,601,000 (£41,947,000) (2017: principal US$119,112,000 (£88,838,000), accrued interest US$42,881,000 (£31,982,000)).

All other amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment.

Amounts and loans due to group undertakings, trade creditors, other taxation and social security, other creditors and accruals are financial liabilities measured at amortised cost.

18. Deferred taxation

	2018 £000	2017 £000
At beginning of year	**249**	341
Charged to the profit and loss account	**(107)**	(76)
Charged to other comprehensive income	**(29)**	(16)
At end of year	113	249

The deferred tax asset is made up as follows:

	2018 £000	2017 £000
Accelerated capital allowances	**(18)**	(41)
Short term timing differences	**6**	63
Tax losses carried forward	**158**	225
Pension scheme	**(33)**	2
	113	249

19. Called up share capital

	2018 £000	2017 £000
Allotted and fully paid		
4,500,002 ordinary shares of £1 each	**4,500**	4,500

20. Pension commitments

Defined contribution scheme

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge for the year represents contributions payable by the company to the scheme and amounted to £316,000 (2017: £278,000). There were no outstanding or prepaid contributions at 31 December 2018 (2017: £nil).

Defined benefit scheme

The company operates a defined benefit pension scheme, the Armacell UK Pension Scheme ("Scheme"), which provides benefits based on final pensionable pay. With effect from 31 January 2008, the trustees took the decision to cease future benefit accrual under the scheme and it will run on a closed basis.

The latest full actuarial valuation was carried out on 31 December 2016 by a qualified independent actuary.

The overall expected return on assets is calculated as the weighted average of the expected returns on each individual asset class. The expected return on equities is set taking into account expectations of future inflation, the current dividend yield and the yield on government bonds. The return on bonds is the current market yield on long term bonds. The expected return on other assets is the current interest rate set by the Bank of England.

Through its defined benefit pension plan, the company is exposed to a number of risks, the most significant of which are detailed below:

(i) Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Scheme holds a significant proportion of growth assets (diversified growth fund) which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short term. The allocation to growth assets is monitored such that it is suitable for the Scheme's long term objectives.

(ii) Changes in bond yields

A decrease in corporate bond yields will increase the Scheme's liabilities, although this will be partially offset by an increase in the value of the Scheme's bond holdings. As noted above, the Scheme's investment in liability driven investments ("LDI") partially mitigates this risk.

(iii) Inflation risk

The majority of the Scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increase are in place to protect against extreme inflation). As noted above, the Scheme's investment in LDI partially mitigates this risk.

(iv) Life expectancy

The majority of the schemes obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

20. Pension commitments (continued)

	2018 £000	2017 £000
Reconciliation of scheme assets and liabilities		
At the beginning of the year	(10)	(349)
Past service cost*	(29)	-
Interest income/(expense)	3	(7)
Actuarial gains	196	96
Contributions by employer	264	264
Administration costs	-	(14)
At the end of the year	424	(10)

Net defined benefit/(obligation)	424	(10)

The amounts recognised in the profit and loss account are as follows:

	2018 £000	2017 £000
Interest income/(expense)	3	(7)
Past service cost*	(29)	-
	(26)	(7)

Reconciliation of scheme liabilities:

	2018 £000	2017 £000
At the beginning of the year	12,016	13,418
Interest expense	277	327
Actuarial (gains)/losses	(603)	446
Past service cost*	29	-
Benefits paid	(1,836)	(2,175)
At the end of the year	9,883	12,016

20. Pension commitments (continued)

Reconciliation of scheme assets:

	2018 £000	2017 £000
At the beginning of the year	12,006	13,069
Interest income	280	320
Contributions by employer	264	264
Actuarial (losses)/gains	(407)	542
Benefits paid	(1,836)	(2,175)
Administration costs	-	(14)
At the end of the year	10,307	12,006

The company has contributed £240,000 to its defined benefit pension scheme in 2019.

The major categories of scheme assets were as follows:

* The past service costs is the GMP equalisation amount.

	2018 £000	2017 £000
Gilts and bonds (including LDIs)	3,789	7,062
Diversified growth funds	4,604	4,868
Hedge funds	1,884	-
Other	30	76
	10,307	12,006

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:

	2018 %	2017 %
Discount rate	2.90	2.50
Rate of inflation	2.2	2.15
Future pension increases	3.20	3.15
The mortality assumptions used were as follows (years):		
- for a male aged 60 currently	26.6	26.5
- for a female aged 60 currently	28.6	28.5
- for a male aged 60 who is currently aged 40	28.5	28.4
- for a female aged 60 who is currently aged 40	30.5	30.4

20. Pension commitments (continued)

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

	2018	2017
Discount rate - increased by 0.5%	(0.7)	(1.0)
Discount rate - decreased by 0.5%	0.8	1.1
Post retirement pension increase - increased by 0.25%	0.3	0.3
Post retirement pension increase - decreased by 0.25%	(0.3)	(0.3)
Demographic change - Life expectancy increased by 1 year	0.3	0.4

	2018 £000	2017 £000
Defined benefit obligation	(9,883)	(12,016)
Scheme assets	10,307	12,006
	424	(10)
Experience adjustments on scheme liabilities	603	(446)
Experience adjustments on scheme assets	(407)	542
	196	96

21. Commitments under operating leases

At 31 December the company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £000	2017 £000
Land and buildings		
Not later than 1 year	98	116
Later than 1 year and not later than 5 years	253	262
Later than 5 years	124	187
Total	475	565

	2018 £000	2017 £000
Other operating leases		
Not later than 1 year	69	97
Later than 1 year and not later than 5 years	105	163
Later than 5 years	-	6
Total	174	266

22. Contingent liabilities

During May 2016, the company became party to two debenture agreements.

The first debenture is in respect of a security agreement entered into by Avocado Holdco Luxembourg Sarl and other group members, secured by way of a fixed charge over the right, title and interest in all equity interests and intercompany debts.

The second debenture is in respect of a security agreement entered into by Ultima Holding Limited, a fellow group member, secured by way of a fixed charge over the rights, title, interest and benefits of the company.

23. Related party transactions

The company is exempt from disclosing related party transactions with companies that are wholly owned within the Avocado TopCo Limited group.

24. Parent undertakings and controlling party

The company's immediate parent undertaking is Armacell Insulation UK Holding Limited, a company incorporated in the the United Kingdom.

At the year end the company's ultimate parent undertaking and controlling party was Avocado TopCo Limited, a company incorporated in the Cayman Islands.

The smallest group in which the result of the company are consolidated is that headed by Armacell International S.A., 8 Rue Notre Dame, 2240 Luxembourg, R.C.S. Luxembourg, B176931. The largest group in which the results of the company are consolidated is that headed by Armacell Holdco Luxembourg, S.a.r.l., 2-4, Rue Eugène Ruppert, L-2453, Luxembourg, R.C.S. Luxembourg, B201575. The consolidated financial statements of these groups are available to the public and may be obtained from Armacell International S.A., 8 Rue Notre Dame, 2240 Luxembourg, R.C.S. Luxembourg, B176931.

Notes to the financial statements for the year ended 31 December 2018

25. Post balance sheet events

After the balance sheet date of 31 December 2018 and at the current date of signing, two significant events have occurred:

- The sale of the ultimate parent, Armacell International S.A dated 28 February 2020
- The global pandemic caused by the COVID-19 virus

Sale of Armacell International S.A.

From 29 February 2016 to 27 February 2020, the majority shareholder of Armacell International S.A. was the private equity house Blackstone with the remaining shares held by the holding and investment company Kirkbi and Armacell's senior management team.

On 4 December 2019 the shareholders of the intermediary parent company, Armacell Holdco Luxembourg S.à r.l. agreed to the sale of the company to PAI Partner S.à r.l. On the 28 February 2020, equity funds managed by PAI Partners have been Armacell's majority shareholder. The remaining shares held by the holding and investment company Kirkbi Invest A/S and Armacell's senior management team through the chain of the acquisition company Neptune MidCo S.à r.l., registered in Luxembourg, its subsidiary Neptune Holdco S.à r.l., registered in Luxembourg and its subsidiary Neptune BidCo S.à r.l., registered in Luxembourg.

COVID-19 Impact

From the end of January 2020, the global pandemic caused by the COVID-19 virus reached the UK.

Following advice issued by the UK Government, Armacell's UK manufacturing plant reduced operations beginning 9 April 2020 with only a skeleton workforce to support continued distribution activities to our customers who remained open for business.

The UK manufacturing plant is currently using the opportunity presented to bring forward planned maintenance activities from the scheduled summer shut-down.

Production recommenced week beginning 11 May 2020 to rebuild inventory to ensure continued supply to our customers.

From the start of April 2020, sales were approximately 20% of budget and this level has continued up to the present day.

Armacell has continued to pay its suppliers fully and has seen very little reduction in remittance from customer, although the reduction in sales will lead to reduced debtor balances in the short term. Armacell does not see any material impact to receivables, but will be prudent in monitoring cash received and providing for any diminution of receivables.

Armacell has a defined benefit pension scheme and as with any investment assets held, there will always be market volatility impacting the value of the underlying asset. COVID-19 has led to increased market volatility in the short term, although this volatility has reduced as at the date of signing the 2018 statements.

As per the going concern wording, Armacell UK Limited relies on the continued support of Armacell International S.A. in not seeking repayment of amounts currently due to it, and at the balance sheet date has confirmation that repayment will not be required for at least twelve months.

The directors of the company comply with the Government's most recent advice in any decisions and continue to monitor the on-going situation on a daily basis.