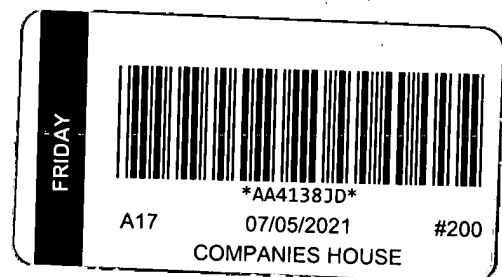


Armacell UK Limited

**Annual report and financial statements
for the year ended 31 December 2019**



Armacell UK Limited

Company information

Directors

M R Barankiewicz
C Pfeiffer
M Witt

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

	Page(s)
Strategic report	1 - 3
Directors' report	4 - 6
Independent auditor's report to the members of Armacell UK Limited	7 - 8
Profit and loss account	9
Statement of comprehensive income	10
Balance sheet	11 - 12
Statement of changes in equity	13
Notes to the financial statements	14 - 44

Armacell UK Limited

Strategic report for the year ended 31 December 2019

The directors present their strategic report and the audited financial statements of Armacell UK Limited (the "company") for the year ended 31 December 2019.

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 2019 increased by 5% to £17,567,000 from prior year's turnover of £16,745,000 with operating profit decreasing to a loss of £49,000 from prior year's operating profit of £529,000, driven by lower gross margin combined with increased administration costs and unfavourable foreign exchange developments during 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.

Two of the four key market sectors increased in turnover during 2019, with the Refrigeration sector recording double digit growth and Insulation Wholesale sector having growth of 4%. Heating and Plumbing turnover remained flat whilst Drinks Industry decreased by 4%. 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 2020 the company was impacted by the global COVID-19 pandemic which resulted in reduced activity. For the remainder of 2020 and to take forward to 2021 the company will focus on recovering from the impact of COVID-19 whilst also further evolving and developing its presence in these sectors and also focus on new sectors and product opportunities. The company has also undergone a number of cost saving measures to better cope with the current economic climate and make the company more resilient going forward.

Against a backdrop of growing uncertainty associated with Brexit and the impacts of the COVID-19 pandemic, the company has remained in a strong position.

In the course of the financial year the company adopted IFRS 16 as a new accounting standard, replacing IAS 17. This standard requires leasing contracts that have a length of more than 12 months and/or have a value of more than £3,000 to be capitalised as a right of use asset which are depreciated over the length of the lease. An equal and opposite liability is also created which is then reduced via payment of the lease contract.

Due to the adoption of this standard, the majority of the rental expenses have been removed and have been replaced with the depreciation charge of the right of use asset. As such, certain aspects of the Profit and Loss account are no longer directly comparable. The impact of this can be seen on note 27.

Armacell UK Limited

Strategic report (continued) for the year ended 31 December 2019

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:

	2019 £'000	2018 £'000	Definition, method of calculation and analysis
Turnover	17,567	16,745	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	19%	20%	This is the ratio of gross profit to turnover expressed as a percentage.
Operating (loss)/profit	(49)	529	Operating profit year on year. The loss is driven by foreign exchange prices moving against the company and organisational changes resulting in some one off costs.
Stock turnover	57 days	41 days	Ratio of year end stock to cost of sales for the year multiplied by 365 days. Stock turnover increased due to an intentional increased stock level in preparation for Brexit.
Debtor days	23 days	12 days	Ratio of year end trade debtors to turnover for the year multiplied by 365 days.
Creditor days	16 days	17 days	Ratio of year end trade creditors to cost of sales for the year multiplied by 365 days.

Debtor days have reduced for two reasons, firstly the customer bonuses have reduced from 2018 due to agreements being made to reduce the gross price in return for a reduction in percentage of sales target bonus. This has lead to a smaller offset of trade debtors in 2019, increasing the year end balance. Combined with this has been a change to the customer mix which has lead to increased sales with larger customers who in turn have had longer credit terms than the smaller customers, extending the time taken to receive payment.

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

Armacell UK Limited

Strategic report (continued) for the year ended 31 December 2019

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 17 and 18. 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 has left the EU and the transition period is over. The company has not found any issues with imports and exports since the end of the transition period on 31 December 2020 and has been able to continue to trade as usual.

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. Please refer to the business review in the strategic report for more information regarding COVID-19.

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 Apr 30, 2021 2021.

Christian Pfeiffer

Christian Pfeiffer (Apr 30, 2021 15:44 GMT+2)

C Pfeiffer
Director

Armacell UK Limited

Directors' report for the year ended 31 December 2019

The directors present their report and the audited financial statements for the year ended 31 December 2019.

Results and dividends

The loss for the year, after taxation, amounted to £70,000 (2018: Profit of £847,000).

The directors do not recommend the payment of a dividend (2018: £nil).

Going concern

Notwithstanding a loss for the year then ended of £70,000, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

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, taking account of reasonably possible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, the company will have access to sufficient funds to meet its liabilities as they fall due for that period. In coming to this conclusion, the directors have considered the following:

- The company has received confirmation from its intermediate parent, Armacell International S.A., that it does not intend to seek repayment of the amounts due at the balance sheet date, for a period of at least 12 months;
- Based on the cash flow forecasts for the base case and the severe but plausible downside, the directors concluded that the company has sufficient funding to meet its cash flow requirements assuming no repayment of the amounts currently due to the group; and
- The COVID-19 pandemic has not had a significant impact on the operations or finances of the company (see note 28 for further details).

Those forecasts are dependent on the company's intermediate parent company, Armacell International S.A. both not seeking repayment of the amounts currently due to the wider group from the UK Armacell subsidiaries, which includes the company and a number of holding or management companies, and providing further funding if required. The net amount outstanding at 31 December 2019 from the UK Armacell subsidiaries is £35.5 million but as set out in note 18 the amount owed to group undertakings by the company at the same date is £146.8 million. 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.

Consequently, the directors 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 therefore 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:

M R Barankiewicz (appointed 12 October 2020)

G Huguen (resigned 1 April 2021)

C Pfeiffer (appointed 12 October 2020)

N R Wiley (appointed 21 June 2019, resigned 30 September 2020)

M Witt (appointed 1 April 2021)

Armacell UK Limited

Directors' report (continued) for the year ended 31 December 2019

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.

Post balance sheet events

COVID-19 Impact

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

The company had 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 2020 the company ceased production at its UK manufacturing facility and temporarily furloughed a number of its employees. As sales figures recovered the company was able to bring more employees back from furlough. The vast majority of these employees are now back at work with a small number of administrative staff working from home.

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

- Safeguard the well-being of its employees;
- Follow the guidelines set out by UK Government;
- Maintain operations and supplies; and
- Continue to serve its customers.

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 in the long term.

The directors of the company comply with the Government's most recent advice in any COVID-19 decisions and continue to monitor the ongoing situation on a daily basis.

Sale of Armacell International S.A

Until 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.

Directors' report (continued) for the year ended 31 December 2019

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

Apr 30, 2021

2021.


Christian Pfeiffer (Apr 30, 2021 15:44 GMT+2)

C Pfeiffer
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 2019 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 2019 and of its loss 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.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

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.

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

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 7, 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.

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.



Christian Bower-Sloane (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: May 4, 2021

Armacell UK Limited

Profit and loss account for the year ended 31 December 2019

	Note	2019 £000	2018 £000
Turnover	4	17,567	16,745
Cost of sales		(14,145)	(13,402)
Gross profit		3,422	3,343
Administrative expenses		(3,471)	(2,814)
Operating (loss)/profit	5	(49)	529
Interest receivable and similar income	9	6,587	10,388
Interest payable and similar charges	10	(6,522)	(9,966)
Other finance income		16	3
Profit before taxation		32	954
Tax on profit	11	(102)	(107)
(Loss)/profit for the financial year		(70)	847

The notes on pages 14 to 44 form part of these financial statements.

Armacell UK Limited

Statement of other comprehensive income for the year ended 31 December 2019

	Note	2019 £000	2018 £000
(Loss)/profit for the financial year		(70)	847
Other comprehensive income:			
Actuarial gain on pension scheme	22	98	196
Movement of deferred tax relating to pension liability	20	(22)	(29)
Other comprehensive income for the financial year		76	167
Total comprehensive income for the financial year		6	1,014

The notes on pages 14 to 44 form part of these financial statements.

**Balance sheet
as at 31 December 2019**

	Note	2019 £000	2018 £000
Fixed assets			
Intangible assets	12	31	5
Tangible assets	13	3,264	2,951
Right-of-use assets	14	679	-
Investments	15	28,255	28,255
		<u>32,229</u>	<u>31,211</u>
Current assets			
Stocks	16	2,211	1,518
Debtors: Amounts falling due after more than one year	17	144,703	141,934
Debtors: Amounts falling due within one year		7,254	4,630
Cash at bank and in hand		576	1,075
		<u>154,744</u>	<u>149,157</u>
Creditors: Amounts falling due within one year	18	(148,586)	(142,081)
Net current assets		<u>6,158</u>	<u>7,076</u>
Total assets less total liabilities		<u>38,387</u>	<u>38,287</u>
Creditors: Amounts falling due after more than one year	19	(544)	-
		<u>37,843</u>	<u>38,287</u>
Provisions			
Deferred tax	20	(6)	-
		<u>(6)</u>	<u>-</u>
Pension asset	22	854	424
Net assets		<u>38,691</u>	<u>38,711</u>
Capital and reserves			
Called up share capital	21	4,500	4,500
Capital contribution reserve		28,223	28,223
Retained earnings		5,968	5,988
Total equity		<u>38,691</u>	<u>38,711</u>

**Balance sheet (continued)
as at 31 December 2019**

The financial statements were approved and authorised for issue by the board on **Apr 30, 2021** **2021.**

Christian Pfeiffer
Christian Pfeiffer (Apr 30, 2021 15:44 GMT+2)

**C Pfeiffer
Director**

The notes on pages 14 to 44 form part of these financial statements.

Armacell UK Limited

Statement of changes in equity for the year ended 31 December 2019

	Called up share capital	Capital contribution reserve	Retained earnings	Total equity
	£000	£000	£000	£000
At 1 January 2019	4,500	28,223	5,988	38,711
Loss for the financial year	-	-	(70)	(70)
Other comprehensive income for the financial year	-	-	76	76
Effect of adoption of IFRS 16: Leases	-	-	(26)	(26)
At 31 December 2019	4,500	28,223	5,968	38,691

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

The notes on pages 14 to 44 form part of these financial statements.

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

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. 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 2019**

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation of financial statements

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has 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 26 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.

**Notes to the financial statements
for the year ended 31 December 2019**

2. Summary of significant accounting policies (continued)

2.2 New standards, amendments and IFRIC interpretations

IFRS 16 is a new accounting standard that is effective for the year ended 31 December 2019 and has had a material impact on the company's financial statements. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a material impact on the company's financial statements.

A reconciliation of the adoption of IFRS 16 is disclosed in note 27 to the financial statements.

2.3 Going concern

Notwithstanding a loss for the year then ended of £70,000, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

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, taking account of reasonably possible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, the company will have access to sufficient funds to meet its liabilities as they fall due for that period. In coming to this conclusion, the directors have considered the following:

- The company has received confirmation from its intermediate parent, Armacell International S.A., that it does not intend to seek repayment of the amounts due at the balance sheet date, for a period of at least 12 months;
- Based on the cash flow forecasts for the base case and the severe but plausible downside, the directors concluded that the company has sufficient funding to meet its cash flow requirements assuming no repayment of the amounts currently due to the group; and
- The COVID-19 pandemic has not had a significant impact on the operations or finances of the company (see note 28 for further details).

Those forecasts are dependent on the company's intermediate parent company, Armacell International S.A. both not seeking repayment of the amounts currently due to the wider group from the UK Armacell subsidiaries, which includes the company and a number of holding or management companies, and providing further funding if required. The net amount outstanding at 31 December 2019 from the UK Armacell subsidiaries is £35.5 million but as set out in note 18 the amount owed to group undertakings by the company at the same date is £146.8 million. 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.

Consequently, the directors 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 therefore 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.à.r.l., a company incorporated in Luxembourg.

Notes to the financial statements for the year ended 31 December 2019

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 Leases

As explained in note 2.2 above, the company has changed its accounting policy for leases where the company is the lessee. The new policy is described in note 14 and the impact of the change in note 27.

Until 31 December 2018, leases of property, plant and equipment where the company, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the leases's inception at fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and the finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant period rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the company as lessee were classified as operating leases (note 23). Payments made under operating leases (net of any incentives received from the lessor) were charged to 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.

**Notes to the financial statements
for the year ended 31 December 2019**

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.

**Notes to the financial statements
for the year ended 31 December 2019**

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.

The amortisation expense is recognised within the profit and loss account within administrative expenses.

**Notes to the financial statements
for the year ended 31 December 2019**

2. Summary of significant accounting policies (continued)

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.

Depreciation is provided on the following basis:

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.

2.14 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.

**Notes to the financial statements
for the year ended 31 December 2019**

2. Summary of significant accounting policies (continued)

2.16 Financial instruments

(i) Financial assets

Classification

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.

**Notes to the financial statements
for the year ended 31 December 2019**

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 2019 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.

Notes to the financial statements for the year ended 31 December 2019

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 2019**

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 17 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 20 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 22 for the disclosures relating to the defined benefit pension scheme.

(v) Going concern

The directors make estimates on the companies ability to continue to meet its liabilities as they fall due for the coming 12 months. The directors have estimated the macroeconomic and microeconomic factors that will have an effect on the business. A plan is then put in place to mitigate those factors that can not be easily impacted by the company such as government policy or the current COVID-19 pandemic. There is also a risk of losing customers, management therefore analyses the market and reviews competitor movements to inform decisions such as price increases and reacting to customer demands in order to meet sales targets. Based on these sales targets, the directors manage the cost structure to support the business needs and the long term strategy of sales growth.

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

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:

	2019 £000	2018 £000
United Kingdom	14,494	13,748
Rest of Europe	3,035	2,930
Middle East and Africa	21	20
United States of America	-	47
Asia	17	-
	<u>17,567</u>	<u>16,745</u>

5. Operating (loss)/profit

The operating profit is stated after charging:

	2019 £000	2018 £000
Depreciation of tangible assets	354	323
Depreciation of right-of-use assets	183	-
Amortisation of intangible assets	4	22
Difference on foreign exchange	229	48
Operating lease rentals	-	350
	<u>-</u>	<u>350</u>

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:

	2019 £000	2018 £000
Fees for the audit of the company's financial statements	<u>26</u>	<u>26</u>

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

7. Employees

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

	2019 £000	2018 £000
Wages and salaries	4,482	4,436
Social security costs	502	506
Cost of defined benefit scheme	9	29
Other pension costs	303	316
	<u>5,296</u>	<u>5,287</u>

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

	2019 No.	2018 No.
Administration	75	59
Production	50	54
	<u>125</u>	<u>113</u>

8. Directors' remuneration

The directors' emoluments were as follows:

	2019 £000	2018 £000
Directors' emoluments	150	77
Company contributions to defined contribution pension schemes	9	14
	<u>159</u>	<u>91</u>

During the year retirement benefits were accruing to 1 director (2018: 1) in respect of defined contribution pension schemes.

9. Interest receivable and similar income

	2019 £000	2018 £000
Interest receivable on loans owed by group undertakings	6,587	10,388

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

10. Interest payable and similar charges

	2019 £000	2018 £000
Interest payable on loans due to group undertakings	6,522	9,966

11. Taxation

There is no current tax for the financial year ended 31 December 2019 or the prior financial year.

	2019 £000	2018 £000
Deferred tax		
Origination and reversal of timing differences	23	120
Changes to tax rates	(3)	(13)
Adjustments in respect of prior periods	82	-
Total deferred tax	102	107
Tax on profit	102	107
Factors affecting tax charge for the year		

The tax assessed for the year is higher (2018: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £000	2018 £000
Profit before taxation	32	954
Profit multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	6	181
Effects of:		
Expenses not deductible for tax purposes	-	11
Impact of changes in tax rates	(3)	(13)
Exempt amounts	17	(22)
Effects of group relief/other reliefs	-	(50)
Adjustments in respect of prior periods	82	-
Total tax charge for the year	102	107

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

11. Taxation (continued)

Factors that may affect future tax charges

A change to the UK corporation tax rule was announced in the Chancellor's Budget on 3 March 2021. It was announced the corporation tax rate will increase to 25% by April 2023.

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 balances have been calculated at 19% at the balance sheet date.

12. Intangible assets

	Computer software £000	Licences £000	Total £000
Cost			
At 1 January 2019	81	49	130
Additions	14	16	30
At 31 December 2019	95	65	160
Amortisation			
At 1 January 2019	76	49	125
Charge for the year	3	1	4
At 31 December 2019	79	50	129
Net book value			
At 31 December 2019	16	15	31
At 31 December 2018	5	-	5

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

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

13. Tangible assets

	Freehold land £000	Leasehold improvements £000	Plant and equipment £000	Assets in the course of construction £000	Total £000
Cost					
At 1 January 2019	54	1,872	6,610	1,056	9,592
Additions	-	-	-	686	686
Disposals	-	-	-	(19)	(19)
Transfers between classes	-	508	790	(1,298)	-
At 31 December 2019	54	2,380	7,400	425	10,259
Depreciation					
At 1 January 2019	-	1,310	5,331	-	6,641
Charge for the year	-	65	289	-	354
At 31 December 2019	-	1,375	5,620	-	6,995
Net book value					
At 31 December 2019	54	1,005	1,780	425	3,264
At 31 December 2018	54	562	1,279	1,056	2,951

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

14. Leases

From 2019, leased assets are presented as a separate line item in the balance sheet. Refer to note 27 for details about the changes in accounting policy.

The balance sheet shows the following amounts relating to leases:

(i) Amounts recognised in the balance sheet

	31 December 2019 £000	1 January 2019 £000
Right-of-use assets		
Land	38	-
Buildings	456	340
Other	185	165
	<u>679</u>	<u>505</u>
Lease liabilities		
Current	165	125
Non-current	544	411
	<u>709</u>	<u>536</u>

Additions to the right-of-use assets during the 2019 financial year were £357,000.

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2019 £000	2018 £000
Depreciation charge of right-of-use assets		
Land	1	-
Buildings	105	-
Other	77	-
	<u>183</u>	<u>-</u>
Interest expense	19	-
Expense relating to short-term leases (including administrative expenses)	64	-
	<u>83</u>	<u>-</u>

**Notes to the financial statements
for the year ended 31 December 2019**

14. Leases (continued)

(iii) Future minimum finance lease payments are as follows:

	2019 £000	2018 £000
Not later than 1 year	182	-
Later than 1 year and not later than 5 years	512	-
Later than 5 years	91	-
	<hr/> 785	<hr/> -
Impact of finance expense	(76)	-
Carrying amount of liability	<hr/> 709 <hr/>	<hr/> - <hr/>

Total cash outflow for leases in 2019 was £201,000.

(iv) The company's leasing activities and how these are accounted for:

The company leases land, building and other equipment. Rental contracts are typically made for fixed periods of 3 - 99 years but may have extension options.

Contracts may contain both lease and non-lease components. The company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of leasehold property were classified as either finance leases or operating leases, see note 23 for details. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs and restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

15. Investments

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2019	28,255
At 31 December 2019	28,255
Net book value	
At 31 December 2019	28,255
At 31 December 2018	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 the ordinary share capital of Armacell Thailand Limited, a company registered in Thailand.

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

16. Stocks

	2019 £000	2018 £000
Raw materials	164	176
Work in progress	761	349
Finished goods and goods for resale	1,286	993
	2,211	1,518

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

Stocks are stated after provisions for impairment of £57,000 (2018: £104,000).

17. Debtors

	2019 £000	2018 £000
Due after more than one year		
Loans owed by group undertaking	144,703	141,934
	2019 £000	2018 £000
Due within one year		
Trade debtors	1,117	540
Amounts owed by group undertaking	5,955	3,795
Other debtors	55	49
Prepayments and accrued income	127	133
Deferred tax asset (note 20)	-	113
	7,254	4,630

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

17. 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 2019, the balance of the loan notes was €4,437,000 (£3,902,000) (2018: €4,186,000 (£3,762,000)) (principal €2,800,000 (£2,382,000), accrued interest €1,637,000 (£1,520,000)) (2018: principal €2,800,000 (£2,517,000), accrued interest €1,386,000 (£1,245,000)).

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 2019, the balance of the loan was US\$188,866,000 (£142,321,000) (2018: US\$178,146,000 (£139,417,000)) (principal US\$119,112,000 (£89,757,000), accrued interest US\$69,754,000 (£52,564,000)) (2018: principal US\$119,112,000 (£93,217,000), accrued interest US\$59,034,000 (£46,200,000)).

Debtors due within one year

Trade debtors are stated after provisions for impairment of £26,000 (2018: £26,000).

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

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

18. Creditors: Amounts falling due within one year

	2019 £000	2018 £000
Loan due to group undertaking	138,227	135,164
Trade creditors	633	637
Amounts due to group undertakings	8,532	5,183
Taxation and social security	313	319
Lease liabilities (see note 14)	165	-
Other creditors	11	33
Accruals and deferred income	705	745
	148,586	142,081

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 2019, the balance of the loan was US\$183,433,000 (£138,227,000) (2018: US\$172,713,000 (£135,164,000)) (principal US\$119,112,000 (£89,757,000), accrued interest US\$64,321,000 (£48,470,000)) (2018: principal US\$119,112,000 (£93,217,000), accrued interest US\$53,601,000 (£41,947,000)).

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.

19. Creditors: Amounts falling due after more than one year

	2019 £000	2018 £000
Lease liabilities (see note 14)	544	-

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

20. Deferred taxation

	2019 £000	2018 £000
At beginning of year	113	249
Charged to the profit or loss account	(102)	(107)
Charged to other comprehensive income	(22)	(29)
Change in accounting policy (note 27)	5	-
At end of year	(6)	113

The deferred taxation balance is made up as follows:

	2019 £000	2018 £000
Accelerated capital allowances	(121)	(18)
Short term timing differences	83	6
Tax losses carried forward	172	158
Pension scheme	(145)	(33)
IFRS 16	5	-
	(6)	113

21. Called up share capital

	2019 £000	2018 £000
Allotted and fully paid		
4,500,002 ordinary shares of £1 each	4,500	4,500

**Notes to the financial statements
for the year ended 31 December 2019**

22. 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 £312,000 (2018: £316,000). There were no outstanding or prepaid contributions at 31 December 2019 (2018: £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 Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

22. Pension commitments (continued)

	2019 £000	2018 £000
Reconciliation of scheme assets and liabilities		
At the beginning of the year	424	(10)
Past service cost*	-	(29)
Interest income	16	3
Actuarial gains	98	196
Contributions by employer	316	264
At the end of the year	854	424
Net defined benefit	854	424

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

	2019 £000	2018 £000
Interest income	16	3
Past service cost*	-	(29)
	16	(26)

Reconciliation of scheme liabilities:

	2019 £000	2018 £000
At the beginning of the year	9,883	12,016
Interest expense	282	277
Actuarial losses/(gains)	596	(603)
Past service costs*	-	29
Benefits paid	(353)	(1,836)
At the end of the year	10,408	9,883

*The past service costs is the GMP equalisation amount.

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

22. Pension commitments (continued)

Reconciliation of scheme assets:

	2019 £000	2018 £000
At the beginning of the year	10,307	12,006
Interest income	298	280
Contributions by employer	316	264
Actuarial gains/(losses)	694	(407)
Benefits paid	(353)	(1,836)
At the end of the year	11,262	10,307

The company expects to contribute £240,000 to its defined benefit pension scheme in 2020.

The major categories of scheme assets were as follows:

	2019 £000	2018 £000
Gifts and bonds (including LDIs)	3,672	3,789
Diversified growth funds	5,341	4,604
Hedge funds	2,203	1,884
Others	46	30
	11,262	10,307

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

	2019 %	2018 %
Discount rate	2.00	2.90
Rate of inflation	2.00	2.20
Future pension increases	2.86	3.20
The mortality assumptions used were as follows (years):		
- for a male aged 60 currently	25.8	26.6
- for a female aged 60 currently	27.9	28.6
- for a male aged 60 who is currently aged 40	27.7	28.5
- for a female aged 60 who is currently aged 40	29.8	30.5

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

22. Pension commitments (continued)

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

	2019	2018
	(0.7)	(0.7)
Discount rate - increased by 0.5%	0.8	0.8
Discount rate - decreased by 0.5%	0.3	0.3
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		
	2019	2018
	£000	£000
Defined benefit obligation	(10,408)	(9,883)
Scheme assets	11,262	10,307
	854	424
Experience adjustments on scheme liabilities	(596)	603
Experience adjustments on scheme assets	694	(407)
	98	196

The weighted average duration of the defined benefit obligation at the end of the reporting period is 15 years (2018: 15 years).

23. Commitments under operating leases

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

	2019	2018
	£000	£000
Land and buildings		
Not later than 1 year	-	98
Later than 1 year and not later than 5 years	-	253
Later than 5 years	-	124
Total	-	475

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

23. Commitments under operating leases (continued)

	2019 £000	2018 £000
Other operating leases		
Not later than 1 year	-	69
Later than 1 year and not later than 5 years	-	105
Total	-	174

By applying IFRS 16 the remaining lease commitments have been capitalised and are depreciated over the remaining length of the leasing contract. Please refer to note 27 for more detail.

24. 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 Armacell Bidco Luxembourg S.à.r.l. 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.

25. Related party transactions

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

26. Parent undertakings and controlling party

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

On 28 February 2020, Armacell International S.A., an intermediary parent undertaking, was sold to PAI Partner S.à.r.l. 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, 8176931. The largest group in which the results of the company are consolidated is that headed by Armacell Holdco Luxembourg, S.à.r.l., 2-4, Rue Eugene Ruppert, L-2453, Luxembourg, R.C.S. Luxembourg, 8201575. 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, 8176931.

**Notes to the financial statements
for the year ended 31 December 2019**

27. Change in accounting policy

This note explains the impact of the adoption of the IFRS 16 Leases on the company's financial statements. As indicated in note 14 above, the company has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 14(iv).

On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.7%.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made applying IAS 17 and IFRS 4 Determining whether an Arrangement Contains a Lease.

(ii) Measurements of lease liabilities:

	2019 £000
Operating lease commitments disclosed as at 31 December 2018	649
(Less): short term leases not recognised as a liability	(64)
Discounted using the lessee's incremental borrowing rate of 2.7% at the date of initial application	(49)
Lease liability recognised as at 1 January 2019	536

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

27. Change in accounting policy (continued)

(ii) Measurement of lease liabilities (continued)

Of which are:

Current lease liabilities	125
Non-current lease liabilities	411
	<hr/>
	536
	<hr/>

(iii) The change in accounting policy affected the following items in the statements of financial position on 1 January 2019:

- Right-of-use assets - increase by £505,000
- Deferred tax assets - increase by £5,000
- Lease liabilities - increase by £536,000

The net impact on retained earnings on 1 January 2019 was a decrease of £26,000.

Armacell UK Limited

Notes to the financial statements for the year ended 31 December 2019

28. Post balance sheet events

COVID-19 impact

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

The company had 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 2020 the company ceased production at its UK manufacturing facility and temporarily furloughed a number of its employees. As sales figures recovered the company was able to bring more employees back from furlough. The vast majority of these employees are now back at work with a small number of administrative staff working from home.

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

- Safeguard the well-being of its employees;
- Follow the guidelines set out by UK Government;
- Maintain operations and supplies; and
- Continue to serve its customers.

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 in the long term.

The directors of the company comply with the Government's most recent advice in any COVID-19 decisions and continue to monitor the ongoing situation on a daily basis.

Sale of Armacell International S.A

Until 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 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.