

Stelrad Radiator Group Limited

(Registered Number 09206478)

Annual Report and Consolidated Financial Statements

31 December 2018

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Stelrad Radiator Group Limited

Company Information

Directors

T T Harvey
G J Letham
E A Lazarus
R K Ellis
N D T Armstrong

Secretary

L Wilcox

Independent Auditors

PricewaterhouseCoopers LLP
Central Square South
Orchard Street
Newcastle upon Tyne
NE1 3AZ

Bankers

Natwest
16 Northumberland Street
Newcastle upon Tyne
NE1 7EL

Solicitors

Womble Bond Dickinson (UK) LLP
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE1 3DX

Registered Office

69-75 Side
Newcastle upon Tyne
NE1 3JE

Stelrad Radiator Group Limited

Strategic report

The directors present the strategic report for the year ended 31 December 2018.

Results and dividends

The Group loss for the year amounted to £191,000 (2017: loss of £1,256,000). The payment of a dividend is not recommended.

Principal activities

The Group's principal activities are the manufacture and distribution of radiators. The principal activity of the company was that of a holding company.

Review of the business

The Group's key financial and other performance indicators during the year, were as follows:

	2018	2017
Revenue		
Group revenue (£m)	205.2	205.2
Group operating profit (£m)	8.2	7.8
Group operating margin (%)	4.0	3.8
Loss for the year (£m)	(0.2)	(1.3)
Total equity (£m)	13.9	22.9
Working capital (£m)*	16.0	20.2
*Working capital includes inventories, trade and other receivables and trade and other payables		
Cash (£m)	17.7	14.9
Net cash inflow from operating activities (£m)	14.1	15.0
Average number of employees	1,232	1,312

During the year, the Group incorporated a new subsidiary in Denmark and subsequent to incorporation the new subsidiary acquired a business. Further details are included in note 29.

Group Revenue for the year was £205.2m which is in line with prior year. Revenue was stable despite selling price increases made during the year and the Danish business acquisition. Sales volumes decreased following a policy change to reduce credit terms in Turkey.

Group Operating Profit for the year at £8.2m was above prior year as selling price increases more than offset the impact of a sales volume decline and steel price rises.

Working Capital decreased by £4.2m in the year, primarily due to a reduction in the value of Turkish receivables as a result of lower sales volumes and the devaluation of Turkish Lira against GBP.

Net cash flow from operating activities for the year decreased from £15.0m to £14.1m, despite an increase in operating profit, largely due to the impact on working capital of the acquisition made in the year.

The average number of employees in the Group during the year decreased to 1,232 mainly due to reduced headcount in Turkey.

Stelrad Radiator Group Limited

Strategic report

Going concern

At 31 December 2018 the Group total equity was £13,911,000 (2017: £22,904,000). Borrowings, predominantly bank, immediate parent undertaking and ultimate shareholder loans, amounted to £71,269,000 (2017: £59,570,000). The Group meets its day-to-day working capital requirements through bank loan facilities which are in place up to June / July 2020 and December 2023. At the period end date the Group has partly drawn down on a £28m asset based revolving credit facility, though the remainder is still accessible to enable day-to-day working capital requirements to be met.

In making their going concern assessment the directors have considered the financial performance of the business during 2018, the current financial performance, their forecasts of future financial performance, the principal risks facing the business, the continuing availability of funding and the continuing availability of credit. Following this assessment, the directors have concluded that the company and the Group have adequate resources for the foreseeable future and have comfortably met all funding covenants and are expected to continue to do so for the foreseeable future. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group can be broadly categorised as – competitive and risks related to financial instruments, i.e. market, credit and liquidity risk.

Competitive

Three major customers account for a significant proportion of Group sales in the UK. Business relationships with these customers are based on performance criteria relating to demand generation, customer service and commercial terms.

Competitive pressures exist from manufacturers in low cost economies and international competitors with scale benefits.

These risks are mitigated by close monitoring of key customer relationships and constant reassessment of our commercial, operational and strategic initiatives.

Financial instruments

The Group is exposed to a number of financial instrument related risks, these are discussed in more detail in note 28.

Future developments

The company will continue to be involved in the manufacture and distribution of radiators and consolidate upon recent strategic initiatives whilst investing to grow the business.

On behalf of the Board



G J Letham
Director
15 March 2019

Stelrad Radiator Group Limited

Directors' report

The directors present their annual report together with the audited consolidated financial statements for the year ended 31 December 2018.

The directors have chosen to set out the following information in the strategic report:

- Dividends
- Principal risks and uncertainties
- Future developments

General information

Stelrad Radiator Group Limited (the Company or the parent) is a private company, limited by shares, incorporated and domiciled in the United Kingdom. The registered office is located at 69-75 Side, Newcastle upon Tyne, NE1 3JE. The registered office of the Ultimate Parent Undertaking, Noosa Holdings Jersey Limited, is located at 15 Esplanade, St Helier, Jersey, JE1 1RB.

Directors

The directors who served during the year and to the date of signing these financial statements were as follows:

T T Harvey
G J Letham
E A Lazarus
R K Ellis
N D T Armstrong

Directors' qualifying third party indemnity provisions

The Group has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Research and development

Research and development costs of £957,000 (2017: £947,000) have been incurred in the year in relation to the design and development of new products. All such costs are expensed as incurred.

Financial instruments

The Group is exposed to a number of financial instrument related risks, these are discussed in more detail in note 28.

Disabled employees

The Group gives full consideration to applications for employment from disabled persons where disabled persons can adequately fulfil the requirements of the job.

Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and provide training, career development and promotion wherever appropriate.

Employee involvement

The Group is committed to involving its employees in the decisions that affect them. Regular meetings take place between local management and employees to allow a free flow of information and ideas. In addition, where practicable, the Group seeks to keep the employees informed through regular newsletters.

Stelrad Radiator Group Limited

Directors' report

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law 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 Group and parent company and of the profit or loss of the Group and parent company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing its report, of which the auditors are unaware. Having made enquiries of fellow directors and the Group's auditors, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Independent Auditors

PricewaterhouseCoopers LLP acted as auditors during the year and a resolution to reappoint PricewaterhouseCoopers LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board



G J Letham
Director
15 March 2019

Independent auditors' report to the members of Stelrad Radiator Group Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- Stelrad Radiator Group Limited's Group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the company's affairs as at 31 December 2018 and of the Group's loss and the group's and company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Balance Sheets as at 31 December 2018; the Consolidated Income Statement and Consolidated Statement of Other Comprehensive Income, the Consolidated and Company Statements of Cash Flows, and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

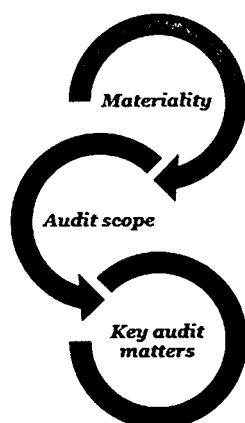
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit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

Independence

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

Our audit approach

Overview



- Overall Group materiality: £2,050,000 (2017: £2,050,000), based on 1% of total revenues.
- Overall company materiality: £551,000 (2017: £545,000), based on 5% of profit before tax.
- Significant components being UK and Turkey, with Continental also being in full scope.
- All UK entities in full scope.
- Analytical review performed over all out of scope divisions.
- Completeness and accuracy of indirect rebates (Group).

Independent auditors' report to the members of Stelrad Radiator Group Limited

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><i>Completeness and accuracy of indirect rebates</i></p> <p>The UK rebate arrangements include installer rebates in addition to merchant rebates. Installer rebates is a complex area with a high degree of estimation.</p> <p>This arises as the rebate is granted on indirect sales and so the sales information is not readily available. As such, historic rates, as well as management forecasts, are used in calculating the provision for indirect rebates. This is reasonable given the relatively stable market for radiators.</p> <p>Furthermore the claims for rebates can be made up to, and over a year from the sales date. As we sign the statutory accounts in March, the value of the rebates as at the year end can only ever be estimated and this area of accounting is inherently judgemental.</p> <p>The balance of this at year end is £10.5 million and the amount of rebates in the income statement is £26.0 million</p>	<p>This is a highly judgemental area of the audit, given the nature of the balance and the estimates that are involved in formulating the accrual balance.</p> <p>To test the indirect rebates, our approach has been to:</p> <ul style="list-style-type: none">* Perform a walkthrough of the spreadsheet to understand the process and the calculations behind the model;* Agree the completeness of the sales in the model, by reconciling the model to detailed sales listings;* Test a sample of the payments and agree the percentage rebate to contract to high assurance;* Agree the completeness of the claimed rebates in the model, by reconciling between detailed claims listings and the model;* Testing the performance and integrity of the model, focusing on the take up rates and poundage rates used throughout;* Perform a sensitivity analysis on the model and a look back test on the prior year accrual; and* Obtain confirmations on the year end merchant stock held. Two assumptions in the model that contain judgement are the take up rate and poundage. <p>No issues were noted on any of the above procedures.</p>

We determined that there were no key audit matters applicable to the group to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the company, the accounting processes and controls, and the industry in which they operate.

The Group is based in the UK with the majority of the trading operations in the UK, Turkey and Continental (Belgium and the Netherlands). These trading entities are in scope for group reporting given the size of each operation and the trading operations in the UK and Turkey are deemed to be significant components. Furthermore all UK entities are in full scope for group reporting as well as having a statutory audit performed, including Stelrad Radiator Group Limited, the parent company. The Group engagement team communicated with the component teams throughout the audit and took part in the local clearance meetings.

Independent auditors' report to the members of Stelrad Radiator Group Limited

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	<i>Group financial statements</i>	<i>Company financial statements</i>
Overall materiality	£2,050,000 (2017: £2,050,000).	£551,000 (2017: £545,000).
How we determined it	1% of total revenues.	5% of profit before tax.
Rationale for benchmark applied	Based on the low profit margins experienced by the Group, total revenues is deemed a more appropriate measure than profit before tax, and is a generally accepted auditing benchmark.	Profit before tax is applicable given the entity has made a loss due to interest in the year

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £50,000 and £1,400,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100,000 (Group audit) (2017: £100,000) and £28,000 (Company audit) (2017: £27,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Stelrad Radiator Group Limited

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

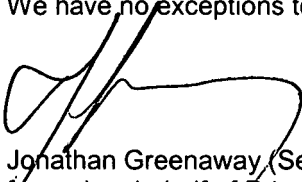
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Jonathan Greenaway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
15 March 2019

Stelrad Radiator Group Limited
Consolidated Income Statement
for the year ended 31 December 2018

		2018	2017
	Notes	£'000	£'000
Continuing operations			
Revenue	6	205,207	205,208
Cost of sales		(155,810)	(158,519)
Gross profit		<u>49,397</u>	<u>46,689</u>
Selling and distribution expenses		(28,497)	(28,622)
Administrative expenses		(10,870)	(11,558)
Other operating income	7	1,340	1,958
Other operating expenses	8	(3,133)	(628)
Operating profit	9	<u>8,237</u>	<u>7,839</u>
Finance income	12	76	103
Finance costs	13	(8,069)	(7,075)
Profit before tax from continuing operations		<u>244</u>	<u>867</u>
Income tax expense	14	(435)	(2,123)
Loss for the year attributable to owners of the parent		<u>(191)</u>	<u>(1,256)</u>

Stelrad Radiator Group Limited
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2018

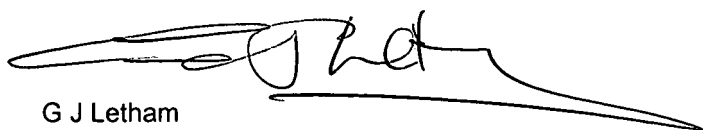
		2018	2017
	Notes	£'000	£'000
Loss for the year		(191)	(1,256)
Other comprehensive income/(expense)			
<i>Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods:</i>			
Net gain/(loss) on monetary items forming part of net investment in foreign operations and qualifying hedges of net investments in foreign operations		51	(584)
Income tax effect	14	(29)	57
Exchange differences on translation of foreign operations		<u>(8,553)</u>	<u>(4,411)</u>
Net other comprehensive expense that may be reclassified to profit or loss in subsequent periods		(8,531)	(4,938)
<i>Other comprehensive expense not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement losses on defined benefit plans	25	(348)	(174)
Income tax effect	14	<u>77</u>	<u>35</u>
Net other comprehensive expense not to be reclassified to profit or loss in subsequent periods		(271)	(139)
Other comprehensive expense for the year, net of tax		(8,802)	(5,077)
Total comprehensive expense for the year, net of tax attributable to owners of the parent		<u>(8,993)</u>	<u>(6,333)</u>

Stelrad Radiator Group Limited (Registered Number 09206478)**Consolidated Balance Sheet**

as at 31 December 2018

		2018	2017
	Notes	£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	15	51,643	48,326
Trade and other receivables	19	26	37
Deferred tax assets	14	3,421	3,557
		<u>55,090</u>	<u>51,920</u>
Current assets			
Inventories	18	34,575	33,759
Trade and other receivables	19	34,273	40,044
Income tax receivable		25	56
Cash and cash equivalents	20	17,683	14,862
		<u>86,556</u>	<u>88,721</u>
Total assets		<u>141,646</u>	<u>140,641</u>
Equity and liabilities			
Equity			
Issued capital	23	250	250
Merger reserve		940	940
Retained earnings		33,491	33,953
Foreign currency reserve		(20,770)	(12,239)
Total equity attributable to owners of the parent		<u>13,911</u>	<u>22,904</u>
Non-current liabilities			
Interest-bearing loans and borrowings	17b	67,764	56,797
Provisions	22	289	358
Net employee defined benefit liabilities	25	2,478	2,805
Deferred tax liabilities	14	289	285
		<u>70,820</u>	<u>60,245</u>
Current liabilities			
Trade and other payables	21	52,884	53,642
Interest-bearing loans and borrowings	17b	3,505	2,773
Other current financial liabilities	17a	-	10
Income tax payable		284	734
Provisions	22	242	333
		<u>56,915</u>	<u>57,492</u>
Total liabilities		<u>127,735</u>	<u>117,737</u>
Total equity and liabilities		<u>141,646</u>	<u>140,641</u>

The financial statements on pages 10 to 52 were approved by the Board of Directors on 15 March 2019 and signed on its behalf by:



G J Letham
Director

Stelrad Radiator Group Limited (Registered Number 09206478)
Company Balance Sheet
as at 31 December 2018

		2018	2017
	Notes	£'000	£'000
Assets			
Non-current assets			
Investments	16	-	-
Amounts due from subsidiary undertakings	26	13,623	17,760
Total assets		<u>13,623</u>	<u>17,760</u>
Equity and liabilities			
Equity			
Issued capital	23	250	250
Accumulated losses		<u>(37,044)</u>	<u>(26,031)</u>
Total deficit		<u>(36,794)</u>	<u>(25,781)</u>
Non-current liabilities			
Interest-bearing loans and borrowings	17b	<u>50,417</u>	<u>43,541</u>
Total deficit and liabilities		<u>13,623</u>	<u>17,760</u>

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act and not presented an income statement or a statement of comprehensive income for the Company alone. The loss for the year is £11,013,000 (2017: £10,900,000).

The financial statements on pages 10 to 52 were approved by the Board of Directors on 15 March 2019 and signed on its behalf by:



G J Letham
Director

Stelrad Radiator Group Limited
Consolidated Statement of Changes in Equity
for the year ended 31 December 2018

	Issued share capital £'000	Attributable to the owners of the parent Merger reserve £'000	Retained earnings £'000	Foreign currency £'000	Total £'000
As at 1 January 2018	250	940	33,953	(12,239)	22,904
Loss for the year	-	-	(191)	-	(191)
Other comprehensive expense for the year	-	-	(271)	(8,531)	(8,802)
Total comprehensive expense	-	-	(462)	(8,531)	(8,993)
As at 31 December 2018	250	940	33,491	(20,770)	13,911

	Issued share capital £'000	Attributable to the owners of the parent Merger reserve £'000	Retained earnings £'000	Foreign currency £'000	Total £'000
As at 1 January 2017	250	940	35,348	(7,301)	29,237
Loss for the year	-	-	(1,256)	-	(1,256)
Other comprehensive expense for the year	-	-	(139)	(4,938)	(5,077)
Total comprehensive expense	-	-	(1,395)	(4,938)	(6,333)
As at 31 December 2017	250	940	33,953	(12,239)	22,904

Stelrad Radiator Group Limited
Company Statement of Changes in Equity
for the year ended 31 December 2018

	Attributable to the owners of the parent		
	Issued share capital £'000	Accumulated losses £'000	Total £'000
As at 1 January 2018	250	(26,031)	(25,781)
Loss for the year	-	(11,013)	(11,013)
Total comprehensive expense	-	(11,013)	(11,013)
As at 31 December 2018	250	(37,044)	(36,794)

	Attributable to the owners of the parent		
	Issued share capital £'000	Accumulated losses £'000	Total £'000
As at 1 January 2017	250	(15,131)	(14,881)
Loss for the year	-	(10,900)	(10,900)
Total comprehensive expense	-	(10,900)	(10,900)
As at 31 December 2017	250	(26,031)	(25,781)

Stelrad Radiator Group Limited
Consolidated Statement of Cash Flows
for the year ended 31 December 2018

		2018	2017
	Notes	£'000	£'000
Operating activities:			
Profit before tax from continuing operations		244	867
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment	15	5,106	5,013
Gain on disposal of property, plant and equipment		(127)	(167)
Negative goodwill amortisation	29	(89)	-
Finance income	12	(76)	(103)
Finance costs	13	8,069	7,075
Working capital adjustments:			
Decrease/(increase) in trade and other receivables		784	(4,441)
Increase in inventories		(2,278)	(4,975)
Increase in trade and other payables		3,471	13,201
Increase in provisions		5	133
(Increase)/decrease in other financial assets and liabilities		(10)	336
Decrease in other pension provisions		(57)	(109)
Difference between pension charge and cash contributions		(224)	84
		<u>14,818</u>	<u>16,914</u>
Income tax paid		(794)	(2,016)
Interest received		76	103
Net cash flows from operating activities		<u>14,100</u>	<u>15,001</u>
Investing activities:			
Proceeds from sale of property, plant and equipment		180	233
Purchase of property, plant and equipment	15	(10,413)	(10,106)
Acquisition of subsidiary	29	(1,664)	-
Net cash flows used in investing activities		<u>(11,897)</u>	<u>(9,873)</u>
Financing activities:			
Sale fees repaid		-	8
Proceeds from external borrowings		7,729	1,549
Repayment of external borrowings		(3,206)	(2,865)
Payment of finance lease liabilities		(41)	(153)
Interest paid		(783)	(690)
Net cash flows generated from/(used in) financing activities		<u>3,699</u>	<u>(2,151)</u>
Net increase in cash and cash equivalents		5,902	2,977
Net foreign exchange difference		(3,081)	(1,637)
Cash and cash equivalents at 1 January	20	14,862	13,522
Cash and cash equivalents at 31 December	20	<u>17,683</u>	<u>14,862</u>

Stelrad Radiator Group Limited
Company Statement of Cash Flows
for the year ended 31 December 2018

	2018	2017
	£'000	£'000
Operating activities:		
Loss before tax	(11,013)	(10,900)
Adjustments to reconcile loss before tax to net cash flows:		
Finance costs	11,013	10,900
Net cash flows from operating activities	<u>-</u>	<u>-</u>
Cash and cash equivalents at 1 January	-	-
Cash and cash equivalents at 31 December	<u>-</u>	<u>-</u>

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

1 Corporate information

The consolidated financial statements of the Stelrad Radiator Group Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2018 were authorised for issue by the board of directors on 15 March 2019. Stelrad Radiator Group Limited (the Company or the parent) is a private company, limited by shares, incorporated and domiciled in England, United Kingdom. The registered office of the company is located at 69-75 Side, Newcastle upon Tyne, NE1 3JE. The registered office of the Ultimate Parent Undertaking, Noosa Holdings Jersey Limited, is located at 15 Esplanade, St Helier, Jersey, JE1 1RB.

During the year the Group was principally engaged in the manufacture and distribution of radiators.

2 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the EU and in accordance with the Companies Act 2006 as applicable to companies using IFRS.

The parent company financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS101) and in accordance with the Companies Act 2006 as applicable to companies using FRS101. The parent company has taken advantage of the following disclosure exemptions under FRS101:

- The requirements of IFRS 7 Financial Instruments: Disclosures as they are available within the consolidated financial statements of Group.
- The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement as they are available within the consolidated financial statements of the Group.

The consolidated and parent company financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value. The consolidated and parent company financial statements are presented in GB Pounds and all values are rounded to the nearest thousand (£000), except when otherwise indicated. The consolidated and parent company financial statements have been prepared on a going concern basis.

3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4 Summary of significant accounting policies

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the consideration transferred measured at acquisition date. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the fair values of net identifiable assets acquired, liabilities assumed and contingent liabilities.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

b) Current versus non-current classification

The Group presents assets and liabilities in balance sheet based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

c) Fair value measurement

The Group measures financial instruments, such as, derivatives at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 28.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

d) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'GB Pounds' (£), which is the company's functional and the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred (in the consolidated financial statements) in other comprehensive income as qualifying net investment hedges or because the monetary asset or liability forms part of the net investment in the foreign operation.

Foreign exchange gains and losses are presented in the income statement within 'other operating income' or 'other operating expenses'.

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (where a reasonable approximation to actual rates); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Interest income

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR).

Rebates

Rebates are paid to certain customers and end consumers of goods sold. Provisions for rebates to customers are based upon the terms of sales contracts and are recorded in the same period as the related sales as a deduction from revenue. The Group estimates the provision for rebates based on the terms of each agreement at the time the revenue is recognised and, for indirect rebates, on the take up rate by each customer.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

f) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax is recognised in income unless it relates to items recognised in other comprehensive income or directly in equity, in which case the current income tax is recognised in other comprehensive income or directly in equity respectively. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill (taxable temporary differences only) or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised in income unless it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is recognised in other comprehensive income or directly in equity respectively.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

g) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Freehold buildings	-	10 to 50 years
Plant and machinery	-	2 to 10 years
Fixtures and fittings	-	2 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An assets' carrying value is written down immediately to its recoverable amount if the assets' carrying amount is greater than its estimated recoverable amount.

h) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss or at amortised cost, as appropriate. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, all financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement financial assets of the Group are classified in two categories:

- Financial assets at fair value through profit or loss
- Financial assets at amortised cost (debt instruments)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. The Group has not designated any financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements

for the year ended 31 December 2018

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade receivables.

Derecognition

A financial asset is primarily derecognised (i.e. removed from the Group's consolidated balance sheet) when the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to receive cash flows from the asset.

ii) Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Trade receivables are the Group's only financial asset for which ECLs need to be calculated, for these the Group applies the simplified approach permitted under IFRS 9 for calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the income statement.

This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

i) Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as Other Comprehensive Income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the income statement.

The Group uses a loan as a hedge of its exposure to foreign currency risk.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

j) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on a first in, first out basis
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

k) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

l) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

m) Operating leases

Rentals payable under operating leases are charged on a straight line basis over the lease term.

n) Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement net of any reimbursement.

The effect of the time value of money is not material and therefore the provisions are not discounted.

o) Pensions and other post-employment benefits

The Group has an obligation to provide lump sum termination payments to certain employees in Turkey, the scheme is accounted for under IAS 19.

The cost of providing benefits under the scheme is determined using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, are recognised immediately in the balance sheet with a corresponding debit or credit to retained earnings through Other Comprehensive Income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the defined benefit liability. The Group recognises the following changes in the defined benefit obligation under 'cost of sales', 'administration expenses and 'selling and distribution expenses' in consolidated income statement (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements;

For the defined contribution schemes operated by the Group the amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in exchange for services rendered in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

p) New standards applied in the year

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group has a single revenue stream which is the sale of radiators, which represents our only contractual obligations to our customers. This revenue stream carries a single performance obligation, being the transfer of radiators to our customers to which the whole of the contracted transaction price is allocated. Due to the straightforward nature of the Group's revenue streams and performance obligations all of the revenue attributed to a contract is recognised at the point goods are transferred to our customers, which is entirely consistent with how revenue was accounted for under IAS 18 and therefore the Group presents no differences upon transition.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. The comparative information for the period beginning 1 January 2017 has not been adjusted.

There has been no effect on the financial statements following the adoption of IFRS 9 with the estimated provision under the ECLs approach the equivalent to historical provisions made by the Group.

There have been a few presentational changes required by the new standard, these are outlined below:

i) Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through Other Comprehensive Income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group. The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39. The following are the changes in the classification of the Group's financial assets:

- Trade receivables previously classified as Loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as Debt instruments at amortised cost. The value of trade receivables reclassified to Debt instruments at amortised cost as at 31 December 2017 is £37,855,000, the value is unchanged due to there being no impact following the application of the ECLs model.

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

q) New standards and interpretations not applied

The International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards, interpretations and amendments with an effective date after these financial statements:

		Effective date
IFRS 16	Leases	1 January 2019

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 using the modified retrospective approach with the cumulative effect at the initial application as an adjustment to the opening balance of equity as of 1 January 2019.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., printing and photocopying machines) that are considered of low value.

During 2018, the Group has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

Impact on the balance sheet as at 31 December 2018:

	£'000
<i>Assets</i>	
Property, plant and equipment	2,362
<i>Liabilities</i>	
Lease liabilities	(2,362)
Net impact on equity	-

Whilst the 2018 income statement will not be restated from the impact of IFRS 16, we anticipate that the majority of the operating lease charges disclosed in note 9, would no longer be disclosed as operating costs but instead would be disclosed as depreciation, though the areas of the income statement that they are disclosed in would be consistent. The Group's operating profit will improve, while its interest expense will increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

5 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Deferred consideration

The agreement for the sale of the Herentals production facility signed in 2016 includes an additional contingent consideration of €1.0m that has been paid into a 3rd party Escrow account. Under the terms of the sale agreement the amount will only be paid to the Group if the overall cost of remediating contaminated land falls below levels stipulated in the contract. The environmental assessment will not be concluded until 2026 and consequentially management cannot judge with certainty what amount, if any, of the contingent consideration will flow to the Group. On the basis, that it is less than virtually certain that any proceeds will be recovered, no asset has been recognised in respect of the Escrow account balance.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Rebates

A proportion of rebates are paid to the end consumers of goods sold. Uncertainties exist over provisions made as until claims are made by end consumers the Group cannot be certain which consumers have purchased which products. Due to this uncertainty it is therefore judgemental what contractual rates, if any, will apply to goods sold.

Significant management judgement is required in order to assess the provision required at the balance sheet date. Management are able to utilise market information and historical/current data and trends in order to make an appropriate provision.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Some management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The Group has unrecognised tax losses carried forward of £26,371,000 (2017: £25,406,000) of tax losses carried forward. These losses relate to subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group. The subsidiaries neither have any taxable temporary difference nor any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. On this basis, the Group has determined that it cannot recognise deferred tax assets on the tax losses carried forward. If the Group was able to recognise all unrecognised deferred tax assets, profit and equity would have increased by £4,483,000 (2017: £4,319,000). Further details on taxes are disclosed in note 14.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

6 Segment information

For management purposes the company only has a single reportable segment which is the manufacture and distribution of radiators. Three operating segments have been aggregated in determining the single reportable segment. Aggregation into one reportable segment has occurred based on the similarity of products, long term performance margins, production processes, customers and methods of distribution in each operating segment.

Geographic information	2018 £'000	2017 £'000
Revenue from external customers		
United Kingdom	87,046	84,759
Europe	82,529	79,061
Turkey	27,622	34,564
Other	8,010	6,824
Total revenue	205,207	205,208

Non-current operating assets	2018 £'000	2017 £'000
United Kingdom	18,362	15,875
The Netherlands	17,509	16,636
Turkey	12,447	13,621
Other	3,325	2,194
Total	51,643	48,326

The revenue information above is based on the locations of the customers. All revenue arises from the sale of goods.

Two customers have revenues in excess of 10% of revenue (2017: two).

7 Other operating income

	2018 £'000	2017 £'000
Net gain on disposal of property, plant and equipment	127	167
Foreign currency gains	-	1,731
Sundry other income	168	60
Negative goodwill amortisation (note 29)	89	-
Net gains on forward derivative contracts	956	-
	1,340	1,958

8 Other operating expenses

	2018 £'000	2017 £'000
Net losses on forward derivative contracts	-	628
Foreign currency losses	3,133	-
	3,133	628

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

9 Operating profit

	2018 £'000	2017 £'000
Auditors' remuneration		
- audit of the financial statements ⁽¹⁾	26	25
- audit of subsidiaries	125	125
	<u>151</u>	<u>150</u>
- non-audit services - UK - tax compliance	18	-
- non-audit services - UK - tax advisory	4	-
	<u>22</u>	<u>-</u>
Depreciation of owned assets	5,076	4,947
Depreciation of assets held under finance leases and hire purchase contracts	30	66
Rentals (including operating leases)		
- plant and machinery	391	368
- land and buildings	1,007	913
- other	404	410
Profit on sale of property, plant & equipment	(127)	(167)
Other exchange losses/(gains)	2,177	(1,106)
Research and development costs	957	947

(1) Includes £2,000 (2017: £2,000) relating to the entity.

10 Employee benefits expense

Group	2018 £'000	2017 £'000
Wages and salaries	31,798	32,392
Social security costs	4,388	4,598
Pension costs	2,618	2,012
	<u>38,804</u>	<u>39,002</u>
The average monthly number of employees during the year was made up as follows:	2018	2017
	Number	Number
Direct	676	742
Indirect	345	370
Sales, Service and Administration	211	200
	<u>1,232</u>	<u>1,312</u>

The company does not have any employees and therefore does not have any employee benefit expenses.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

11 Directors' remuneration

	2018 £'000	2017 £'000
Aggregate remuneration	1,047	1,491
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The amounts in respect of the highest paid director are as follows:	2018 £'000	2017 £'000
Aggregate remuneration	589	859
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12 Finance income

	2018 £'000	2017 £'000
Interest on cash deposits	76	103
<hr/>		

13 Finance costs

	2018 £'000	2017 £'000
Interest on bank loans	527	450
Interest on ultimate shareholder loans	5,807	5,012
Interest on immediate parent company loans	1,069	922
Amortisation of loan issue costs	174	174
Interest expense on defined benefit liabilities	211	262
Finance charges payable under finance leases and hire purchase contracts	2	4
Other finance charges	279	251
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	8,069	7,075
<hr/>		

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

14 Income tax expense

The major components of income tax expense are as follows:

	2018 £'000	2017 £'000
Consolidated income statement		
<i>Current income tax:</i>		
Current income tax charge	798	2,485
Adjustments in respect of current income tax charge of previous year	(347)	35
<i>Deferred tax:</i>		
Relating to origination and reversal of temporary differences	(235)	(433)
Relating to change in tax rates	219	36
Income tax expense reported in the income statement	435	2,123
Consolidated statement of Other Comprehensive Income		
<i>Tax related to items recognised in Other Comprehensive Income during the year:</i>		
Deferred tax actuarial loss	(77)	(35)
Current tax on monetary items forming part of net investment and on hedges of net investment	29	(57)
Income tax credited to Other Comprehensive Income	(48)	(92)
Reconciliation of tax expense and the accounting profit at the tax rate in the United Kingdom of 19% (2017: 19.25%):		
	2018 £'000	2017 £'000
Profit before tax from continuing operations	244	867
At United Kingdom statutory income tax rate of 19% (2017: 19.25%):	46	167
Adjustments in respect of current income tax charge of previous year	(347)	35
Non-deductible expenses	1,233	1,494
Differences arising due to tax losses	(288)	311
Other timing differences	108	-
Benefit of overseas investment incentives	(631)	-
Effects of changes in overseas tax rates	263	-
Effects of different overseas tax rates	51	116
At effective tax rate reported in the income statement	435	2,123

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

Deferred tax

Deferred tax relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Capital allowances	(90)	606	(784)	(54)
Pension	490	500	43	72
Derivative forward contracts	-	-	-	65
Fixed asset fair value adjustments	(758)	(887)	134	77
Losses available for offsetting against future income	2,246	1,493	730	235
Other temporary differences	1,244	1,560	(107)	2
Deferred tax credit			16	397
Net deferred tax assets	3,132	3,272		

Reflected in the balance sheet as:

Deferred tax assets		
Continuing operations	3,421	3,557
Deferred tax liabilities		
Continuing operations	(289)	(285)
Deferred tax assets, net	3,132	3,272

Reconciliation of deferred tax assets, net

	2018 £'000	2017 £'000
Opening balance as at 1 January	3,272	2,907
Tax income recognised in Income Statement	16	397
Tax income recognised in Other Comprehensive Income	77	35
Exchange adjustment	(233)	(67)
Closing balance as at 31 December	3,132	3,272

The Group offsets tax assets and liabilities if it has a legally enforceable right to set them off and they are levied by the same tax authority. Deferred tax assets in respect of losses of £588,000 (2017: £1,324,000) have been recognised in respect of two (2017: two) loss making subsidiary companies, these are recognised on the grounds of future projected performance.

Unrecognised deferred tax balances

	2018 £'000	2017 £'000
Capital allowances	28	35
Losses available for offsetting against future income	4,483	4,319
	4,511	4,354

The Group has tax losses which arose in the United Kingdom of £26,371,000 (2017: £25,406,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that are not profit making and there are no other tax planning opportunities or other evidence of recoverability in the near future.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

Change in the Corporate Income tax rate

The UK government has announced its intention to reduce the UK corporation tax rate to 17% by 1 April 2020. This rate change has now been substantively enacted.

15 Property, plant and equipment

Group	Freehold land and buildings £'000	Assets under construction £'000	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 1 January 2017	25,756	5,198	33,281	5,054	69,289
Additions	611	7,735	1,744	94	10,184
Transfers	334	(4,901)	3,899	668	-
Disposals	-	-	(54)	(489)	(543)
Exchange adjustment	(613)	(420)	(1,670)	(140)	(2,843)
At 31 December 2017	<u>26,088</u>	<u>7,612</u>	<u>37,200</u>	<u>5,187</u>	<u>76,087</u>
Additions	181	7,258	2,751	347	10,537
Transfers	819	(9,068)	6,675	1,574	-
Disposals	-	-	(2,922)	(352)	(3,274)
Acquisition (note 29)	-	-	1,129	-	1,129
Exchange adjustment	(1,326)	(699)	(3,587)	(242)	(5,854)
At 31 December 2018	<u>25,762</u>	<u>5,103</u>	<u>41,246</u>	<u>6,514</u>	<u>78,625</u>
Accumulated depreciation and impairment					
At 1 January 2017	6,463	-	14,735	3,387	24,585
Depreciation charge	1,005	-	3,320	688	5,013
Disposals	-	-	(54)	(423)	(477)
Exchange adjustment	(57)	-	(1,215)	(88)	(1,360)
At 31 December 2017	<u>7,411</u>	<u>-</u>	<u>16,786</u>	<u>3,564</u>	<u>27,761</u>
Depreciation charge	961	-	3,435	710	5,106
Disposals	-	-	(2,920)	(301)	(3,221)
Exchange adjustment	(208)	-	(2,310)	(146)	(2,664)
At 31 December 2018	<u>8,164</u>	<u>-</u>	<u>14,991</u>	<u>3,827</u>	<u>26,982</u>
Net book value					
At 31 December 2018	<u>17,598</u>	<u>5,103</u>	<u>26,255</u>	<u>2,687</u>	<u>51,643</u>
At 31 December 2017	<u>18,677</u>	<u>7,612</u>	<u>20,414</u>	<u>1,623</u>	<u>48,326</u>
At 31 December 2016	<u>19,293</u>	<u>5,198</u>	<u>18,546</u>	<u>1,667</u>	<u>44,704</u>

The carrying value of property, plant and equipment held under finance leases and hire purchase contracts at 31 December 2018 was £194,000 (2017: £251,000). Additions during the year include £124,000 (2017: £78,000) of property, plant and equipment under finance leases and hire purchase contracts. Leased assets and assets under hire purchase contracts are pledged as security for the related liabilities.

Land and buildings with a carrying amount of £4,759,000 (2017: £5,203,000) are subject to a first charge to secure the Group's bank loan.

No borrowing costs have been capitalised since the assets have not met the criteria for qualifying assets.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

16 Investments

Information about subsidiaries

The consolidated financial statements of the Group include:

Name of company	Country of incorporation	Holding	Voting rights held (%)	Nature of business
Stelrad Radiator Holdings Limited ⁽¹⁾	United Kingdom	Ordinary	100	Holding company
*Stelrad Management Limited ⁽¹⁾	United Kingdom	Ordinary	100	Management services
*Stelrad Limited ⁽¹⁾	United Kingdom	Ordinary	100	Radiator manufacturer
*Caradon Polska sp zoo ⁽²⁾	Poland	Ordinary	100	Radiator distributor
*Caradon Stelrad B.V. ⁽³⁾	The Netherlands	Ordinary	100	Radiator manufacturer
*Henrad NV ⁽⁴⁾	Belgium	Ordinary	100	Radiator manufacturer
*Termo Teknik Holdings Limited ⁽¹⁾	United Kingdom	Ordinary	100	Holding company
*Termo Teknik Ticaret ve Sanayi A.S. ⁽⁵⁾	Turkey	Ordinary	100	Radiator manufacturer
*ISG Heating Equipment (Shanghai) Co, Ltd ⁽⁶⁾	China	Ordinary	100	Radiator distributor
*Caradon Heating CZ sro ⁽⁷⁾	Czech Republic	Ordinary	100	Radiator distributor
*Caradon Heating LLC ⁽⁸⁾	Russia	Ordinary	100	Radiator distributor
*Ideal Heating Systems SRL ⁽⁹⁾	Romania	Ordinary	100	Dormant
*Hudevad Radiator Design A/S ⁽¹⁰⁾	Denmark	Ordinary	100	Radiator manufacturer

* held by subsidiary companies

(1) Registered office is 69-75 Side, Newcastle upon Tyne, NE1 3JE, United Kingdom

(2) Registered office is Zakliki Z Mydlnik Street, no. 16, 30-198 Krakow, Poland

(3) Registered office is Kathagen 30, 6361 HG, Nuth, The Netherlands

(4) Registered office is Welvaartstraat (HRT) 14 Map box 6, 2200 Herentals, Belgium

(5) Registered office is Enco Plaza, Cemal Ulusoy Caddesi, NO:57, Yenibosna, Istanbul, Turkey

(6) Registered office is Room 809, No.8 Dongan Rd, Xuhui District, Shanghai, P.R. China 200032

(7) Registered office is Ostrava - Slezská Ostrava, Hradní 27/37, PSČ 710 00, Czech Republic

(8) Registered office is 125424, Moscow, Volokolamskoe shosse, d.73, of. 86, Russia

(9) Registered office is Central Business Park, Calea Șerban Vodă nr. 133, Corp B, etaj 1, Sector 4, București, Romania

(10) Registered office is Saltgade 11, 6760 Ribe, Denmark

The dormant subsidiaries in the Group comprise: Woolamai Group UK Limited, Henrad UK Limited. Both are incorporated in the UK ⁽¹⁾ and 100% of the ordinary shares are owned.

Company

£

Cost and net book value

At 1 January 2017, 31 December 2017 and 31 December 2018

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During the year, the Group incorporated a new subsidiary in Denmark, Hudevad Radiator Design A/S, which acquired a business after incorporation. Further details are included in note 29.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

17 Financial liabilities

a) Financial liabilities – other – not interest bearing

	2018 £'000	2017 £'000
Liabilities		
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedges – forex forward contracts	-	10
Total instruments at fair value through profit or loss	-	10
Current	-	10
Non-Current	-	-

Financial instruments through profit or loss reflect the positive change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

b) Financial liabilities – interest bearing loans and borrowings

Group	Effective interest rate %	Maturity	2018 £'000	2017 £'000
Current interest bearing loans and borrowings				
Obligations under finance leases			159	67
€10m Turkish Loan Facility	Euribor + 3.20%	9 June 2020	1,995	1,973
ABL Term Loan Facility	Libor / Euribor + 2.25%	10 July 2020	625	907
Lombard Facility	Libor + 2.50%	7 Dec 2023	900	-
Unamortised loan costs			(174)	(174)
			<u>3,505</u>	<u>2,773</u>
Non-current interest bearing loans and borrowings				
Obligations under finance leases			12	21
Ultimate shareholder loans	15%	25 Sept 2033	42,409	36,602
Immediate parent company loan	15%	25 Sept 2033	7,806	6,737
Deferred consideration – shares			202	202
€10m Turkish Loan Facility	Euribor + 3.20%	9 June 2020	997	2,958
ABL Term Loan Facility	Libor / Euribor + 2.25%	10 July 2020	3,187	3,685
ABL Revolving Credit Facility	Libor / Euribor + 1.50%	10 July 2020	9,720	6,859
Lombard Facility	Libor + 2.50%	7 Dec 2023	3,525	-
Unamortised loan costs			(94)	(267)
			<u>67,764</u>	<u>56,797</u>
Total interest bearing loans and borrowings			<u>71,269</u>	<u>59,570</u>

Company	Effective interest rate %	Maturity	2018 £'000	2017 £'000
Non-current interest bearing loans and borrowings				
Ultimate shareholder loan	15%	25 Sept 2033	42,409	36,602
Immediate parent company loan	15%	25 Sept 2033	7,806	6,737
Deferred consideration – shares			202	202
			<u>50,417</u>	<u>43,541</u>

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Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

The shareholder loans consist of two amounts: i) an amount funded by the ultimate controlling party of the Group, The Bregal Fund III LP; and ii) an amount funded by the immediate parent company. The loan notes issued by The Bregal Fund III LP are listed on the Channel Islands Securities Exchange.

The Group has three separate external debt facilities:

- i) A €10m unsecured term loan facility drawn by Termo Teknik Ticaret ve Sanayi A.S.
- ii) A £28m Asset Based Lending ("ABL") facility with the Royal Bank of Scotland Invoice Finance.
- iii) A term loan facility with Lombard North Central PLC ("Lombard").

The ABL facility is a cross collateral agreement secured on specific assets of certain Group companies. Certain companies that are party to the agreement are able to draw borrowings that are secured on assets elsewhere in the Group. As part of the facility the Group has drawn down the following borrowings in the year:

- A term loan secured on the land and buildings and plant and machinery of certain Group companies.
- A revolving credit facility secured on the inventory and receivables of certain Group companies.

The Lombard facility is secured on the plant and machinery of certain Group companies.

After accrued interest the ultimate shareholder loan balance at the 31 December 2018 was £42,409,000 (2017: £36,602,000) and the immediate parent company loan balance was £7,806,000 (2017: £6,737,000). During 2018 further interest of £5,807,000 (2017: £5,012,000) was accrued on the ultimate shareholder loan and further interest of £1,069,000 (2017: £922,000) was accrued on the immediate parent company loan.

The £202,000 (2017: £202,000) deferred consideration, which arose in 2015 following the sale of a business, is still outstanding.

18 Inventories

Group	2018 £'000	2017 £'000
Raw materials – cost	9,722	9,339
Work in progress – cost	1,416	1,004
Finished goods – lower of cost and net realisable value	20,911	20,728
Other consumables	2,526	2,688
	<u>34,575</u>	<u>33,759</u>

Cost of sales is deemed to reflect the cost of inventories recognised as an expense in the period. The provision for the impairment of stocks was reduced in the period giving rise to a credit of £114,000 (2017: charge of £140,000).

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

19 Trade and other receivables

Group	2018 £'000	2017 £'000
Current		
Trade receivables	31,109	37,818
Other receivables	2,416	1,687
Prepayments	748	539
	<u>34,273</u>	<u>40,044</u>
Non-Current		
Trade receivables	<u>26</u>	<u>37</u>

The table below sets out the movements in the allowance for expected credit losses of trade receivables:

	2018 £'000	2017 £'000
At 1 January	122	1,396
Charge for the year	-	38
Utilised	-	(1,314)
Unused amounts reversed	(6)	(29)
Exchange adjustment	(9)	31
At 31 December	<u>107</u>	<u>122</u>

As at 31 December, the details of the provision matrix used to calculate provisions for trade receivables (with the ageing, gross of impairment) are as follows:

	Total £'000	Current £'000	< 30 days £'000	30 – 90 days £'000	> 90 days £'000
2018					
Gross carrying amount	31,242	26,712	3,665	833	32
Expected credit loss rate (%)		0	1	7	38
Expected credit loss	107	-	37	58	12
2017					
Gross carrying amount	37,977	35,844	1,291	746	96
Expected credit loss rate (%)		0	2	10	22
Expected credit loss	122	-	26	75	21

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

20 Cash and cash equivalents

Group	2018 £'000	2017 £'000
Cash at bank and on hand	17,683	14,862

21 Trade and other payables

Group	2018 £'000	2017 £'000
Current		
Trade payables	36,867	37,867
Other payables and accruals	13,033	13,277
Other taxes and social security	2,967	2,474
Interest payable	17	24
	52,884	53,642

22 Provisions

Group	Warranty £'000	Legal £'000	Unused vacation £'000	Total £'000
At 1 January 2017	101	47	516	664
Arising during the year	60	-	531	591
Utilised	(28)	(48)	(374)	(450)
Unused amounts reversed	-	-	(8)	(8)
Exchange adjustment	(16)	1	(91)	(106)
At 31 December 2017	117	-	574	691
Arising during the year	37	-	407	444
Utilised	(29)	-	(362)	(391)
Unused amounts reversed	-	-	(48)	(48)
Exchange adjustment	(26)	-	(139)	(165)
At 31 December 2018	99	-	432	531
Current	36	-	206	242
Non-current	63	-	226	289

Unused vacation

A provision is recognised in respect of an unused vacation pay liability due to certain employees in Turkey. The timing of the provision is dependent on the rate at which employees take additional vacation.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

23 Issued capital and reserves

Group and company	2018 Number	2018 £	2017 Number	2017 £
Authorised				
Ordinary shares of £1 each	249,876	<u>249,876</u>	249,876	<u>249,876</u>
Allotted, issued and fully paid:				
Ordinary shares of £1 each	249,876	<u>249,876</u>	249,876	<u>249,876</u>

The shares of the company were issued on the 1 December 2014. The merger reserve arose due to continuation accounting being applied when the company was incorporated.

The full movements in reserves are shown as part of the statement of changes in equity.

24 Commitments and contingencies

Operating lease commitments – Group as lessee

The Group is a lessee of land and buildings, vehicles and items of plant. The leases have an average life of between three and ten years. The leases have no renewal options. Under the terms of the land and buildings leases the premises must be restored to their original state.

The future minimum rentals payable under non-cancellable operating leases are as follows:

Group	2018 £'000	2017 £'000
Within one year	1,230	1,414
After one year but not more than five years	5,591	1,556
More than five years	5,826	270
	<u>12,647</u>	<u>3,240</u>

Commitments

Amounts contracted for but not provided in the financial statements amounted to £809,000 (2017: £307,000) for the Group and £nil for the company (2017: £nil). All amounts relate to property, plant and equipment.

Contingent liabilities

Termo Teknik has issued letters of guarantee and letters of credit to its steel suppliers amounting to \$16,547,000 (2017: \$13,700,000) and \$12,026,000 (2017: \$31,432,000) respectively. Termo Teknik has also issued letters of guarantee denominated in Turkish Lira totalling TL5,574,000 (2017: TL4,895,000).

The Group enters into various forward currency contracts to manage the risk of foreign currency exposures on certain purchases and sales. The total amount of unsettled forward contracts as at 31 December 2018 is £nil (2017: £252,000).

The Fair Value of the unsettled forward contracts held at the Balance Sheet date, determined by reference to their market values is a liability of £nil (2017: liability of £10,000).

As part of the ABL facility the Group is party to a cross collateral agreement secured on specific assets of certain Group companies. No liability is expected to arise from this arrangement.

Under an unlimited multilateral guarantee, the company in common with certain fellow subsidiary undertakings in the UK has jointly and severally guaranteed the obligations falling due under the company's net overdraft facilities. No liability is expected to arise from this arrangement.

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

25 Pensions and other post-employment plans

Group	2018 £'000	2017 £'000
Net employee defined benefit liability		
Turkish scheme	2,229	2,501
Other retirement obligations – non IAS 19	249	304
	<u>2,478</u>	<u>2,805</u>

Turkish scheme

In Turkey there is an obligation to provide lump sum termination payments to certain employees, this represents 30 days' pay (subject to a cap imposed by the Turkish Government) for each year of service. The IAS 19 valuation gives a liability of £2,229,000 (2017: £2,501,000). There are no assets held in this plan. The expected contributions to the plan for the next reporting period to cover benefits paid are £106,000. The service cost in the period was £220,000 (2017: £245,000).

UK schemes

The UK has two pension schemes:

- The Stelrad Group Pension Plan (SGPP) - a defined contribution only scheme; and
- The Stelrad Group Flexible Retirement Plan (SGFRP) - a defined contribution only scheme.

The total employer contributions made in the year were £1,115,000 (2017: £1,002,000) to the money purchase contributions sections of both schemes. There were outstanding contributions totalling £95,000 (2017: £85,000) due to the schemes at the balance sheet date.

Other overseas retirement obligations

The Group operates a number of defined contribution pension schemes in its overseas entities and also has certain other retirement obligations. This liability at the year-end mainly relates to pre-pension payments that are due to Belgian employees who have retired early £187,000 (2017: £241,000). The contributions to overseas pension schemes in the period and any movements in the provision for other retirement obligations are reported as part of the employee benefits note and total £982,000 (2017: £765,000).

IAS 19 Accounting – Turkish scheme only

Amounts recognised in the balance sheet:

	2018 £'000	2017 £'000
Defined benefit obligation	2,229	2,501
Net pension liability	<u>2,229</u>	<u>2,501</u>

Movement in defined benefit obligation:

	2018 £'000	2017 £'000
At 1 January	2,501	2,371
Current service cost	220	227
Past service cost	-	18
Interest cost	211	262
Actuarial losses	348	174
Plan curtailments	301	-
Benefits paid	(745)	(161)
Exchange differences	(607)	(390)
At 31 December	<u>2,229</u>	<u>2,501</u>

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Amounts recognised in the income statement:

	2018 £'000	2017 £'000
Current service cost	220	227
Past service cost	-	18
Plan curtailments	301	-
Interest cost	211	262
At 31 December	732	507

Amounts recognised in other comprehensive income:

	2018 £'000	2017 £'000
Changes in financial assumptions – obligation	-	(69)
Experience adjustments – obligation	(348)	(105)
At 31 December	(348)	(174)

Principal actuarial assumptions:

	2018	2017
Discount rate (per annum)	13.50%	11.40%
Future salary increases (per annum)	8.00%	6.00%

Quantitative sensitivity analysis:

	Discount rate (per annum)		Future salary increases (per annum)	
	+ 1 % £'000	- 1 % £'000	+ 1 % £'000	- 1 % £'000
(Decrease)/increase in defined benefit obligation – Turkish scheme	(139)	157	164	(147)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the net defined benefit obligation as a result of reasonable changes in key assumptions at the end of the reporting period.

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Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

26 Related party disclosures

The immediate and ultimate parent undertaking is Noosa Holdings Jersey Limited, a company registered in Jersey. The ultimate controlling party is The Bregal Fund III LP. The parent company and its subsidiaries are not included in any other publically available consolidated financial statements.

The ultimate shareholder loan and immediate parent company loans bear interest at 15% and consists of two amounts: i) an amount funded by the ultimate controlling party of the Group, The Bregal Fund III LP; and ii) an amount funded by the immediate parent company.

The value of the loans at the 31 December 2017 was £43,339,000, including accrued interest of £15,000 (The Bregal Fund III LP: £36,602,000; immediate parent company: £6,737,000).

During 2018 interest was accrued totalling £6,876,000 (2017: £5,934,000) (The Bregal Fund III LP: £5,807,000 (2017: £5,012,000); immediate parent company: £1,069,000 (2017: £922,000)).

The value of the loans at the 31 December 2018 was £50,215,000, including accrued interest of £21,000 (The Bregal Fund III LP: £42,409,000; immediate parent company: £7,806,000).

The Group owed deferred consideration to shareholders related to the sale of a business of £202,000 (The Bregal Fund III LP: £171,000; Managers: £31,000).

Under the ownership agreement the Group is charged a monitoring fee of £200,000 per annum by Bregal Capital LLP, who are the management company of the ultimate controlling party of the Group, The Bregal Fund III LP. An amount of £50,000 (2017: £50,000) was accrued for this at the year end.

During the year the Group spent £577,000 (2017: £nil) on purchases from Polypal Netherlands BV (whose ultimate controlling party is also The Bregal Fund III LP), the balance outstanding at the year-end was £319,000.

The key management personnel are considered to be the directors of the Group. The following table highlights the remuneration that is recorded in the income statement in respect of these personnel, including company social security costs:

	2018 £'000	2017 £'000
Short term employment benefits	1,192	1,697

Company related party transactions

At the year end the company is owed £13,623,000 (2017: £17,760,000) from Stelrad Radiator Holdings Limited, a subsidiary of the company (this is a net balance with an asset of £43,832,000 (2017: £43,832,000) and a liability of £30,209,000 (2017: £26,072,000) with only the liability accruing interest at 15%). No loan repayments have been received during the year. During the year the loan notes have accrued interest owing to Stelrad Radiator Holdings Limited of £4,137,000 (2017: £3,569,000).

At the year end the company owes The Bregal Fund III LP £42,409,000 (2017: £36,602,000). None of the liability has been repaid during the year (2017: £nil). Interest of £5,807,000 (2017: £5,012,000) was accrued during the year.

At the year end the company owes the immediate parent company £7,806,000 (2017: £6,737,000). None of the liability has been repaid during the year (2017: £nil). Interest of £1,069,000 (2017: £922,000) was accrued during the year.

The company owed deferred consideration to shareholders related to the sale of a business of £202,000 (The Bregal Fund III LP: £171,000; Managers: £31,000).

Stelrad Radiator Group Limited

Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

27 Capital management

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value. In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowing in the current period. The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants.

28 Financial instrument disclosures

a) Fair value measurement hierarchy

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Year ended 31 December 2018	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Liabilities measured at fair value				
<i>Derivative financial liabilities</i>	-	-	-	-
Foreign exchange forward contracts – USD/GBP				
Year ended 31 December 2017	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Liabilities measured at fair value				
<i>Derivative financial liabilities</i>	10	-	10	-
Foreign exchange forward contracts – USD/GBP				

Level 1: Quoted prices in active markets

Level 2: Significant observable inputs

Level 3: Significant unobservable inputs

b) Hedging activity and derivatives

Derivatives not designated as hedging instruments

The Group uses foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 12 months.

Hedge of net investments in foreign operations

Included in loans at 31 December 2018 were EURO denominated borrowings which have been designated as a hedge of the net investments in its overseas subsidiaries. This borrowing is being used to hedge the Group's exposure to the EURO foreign exchange risk on these investments.

Gains or losses on the retranslation of this borrowing are transferred to Other Comprehensive Income to offset any gains or losses on translation of the net investments in the subsidiaries. There is no ineffectiveness in the years ended 31 December 2018 and 2017.

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Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

c) Fair value of financial instruments at amortised cost

Group	Carrying amount		Fair value	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Financial liabilities				
Ultimate shareholder loans	42,409	36,602	42,409	36,602
Immediate parent company loan	7,806	6,737	7,806	6,737
Deferred consideration – shares	202	202	202	202
€10m Turkish Loan Facility	2,992	4,931	2,992	4,931
ABL Term Loan Facility	3,812	4,592	3,812	4,592
ABL Revolving Credit Facility	9,720	6,859	9,720	6,859
Lombard Facility	4,425	-	4,425	-
	<u>71,366</u>	<u>59,923</u>	<u>71,366</u>	<u>59,923</u>

The external loan balances are stated gross of any issue costs.

The directors consider that the carrying amount of the shareholder loans and deferred consideration is equal to their fair value as this is the amount at which the borrowings could be settled by the Group.

The financial assets and liabilities of the company are intercompany and shareholder loans, the carrying value of which is deemed to be equal to the fair value as this is the amount at which the loans could be settled for.

The management assessed that the fair values of cash and cash equivalents, Obligations under finance leases and hire purchase contracts, trade and other receivables, trade and other payables and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties.

The following methods and assumptions were used to estimate the fair values:

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps and foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity.
- Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. As the external debt is all at variable rate the fair values are deemed to be identical to the carrying values. The rate at which interest is paid on the shareholder debt is deemed to be representative of that that would have been assigned if the debt was issued as at the end of the reporting period.
- The financial liabilities which are not recognised at fair value but for which fair value is disclosed are deemed to be level 2 hierarchy measurements, with the exception of shareholder debt which is deemed to be a level 3 valuation.
- There are not deemed to be any significant unobservable inputs to valuation.

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Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

d) Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise of interest bearing borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations.

The Group's principal financial assets include trade and other receivables, and cash and cash equivalents that derive directly from its operations. The Group also enters into derivative transactions. Due to timing there are no unsettled derivative contracts as at the end of the reporting period.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. All derivative activities for risk management purposes are carried out by individuals that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken.

The Group has established a risk and financial management framework, the primary objectives of which are to protect the Group from events that may hinder the achievement of financial performance objectives. These are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and commodity price risk. Financial instruments affected by market risk include interest bearing borrowings and derivative financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily due to long term interest bearing borrowings.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate borrowings. To manage this, where deemed appropriate, the Group enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

At 31 December 2017 and 2018, due to a proportionally low level of variable rate debt, no interest rate swaps are in place. Approximately 70% (2017: 72%) of the Group's borrowings are at a fixed rate of interest.

Interest rate risk – sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. The analysis does not include cash balances. With all other variables held constant the Group's profit before tax would be impacted as follows:

Year ended 31 December 2018	Increase / decrease	Effect on profit before tax £'000
Libor / Euribor	+0.5%	(76)
Libor / Euribor	-0.5%	69
Year ended 31 December 2017	Increase / decrease	Effect on profit before tax £'000
Libor / Euribor	+0.5%	(86)
Libor / Euribor	-0.5%	35

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Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue and expenses are denominated in different currencies) and the Group's net investments in foreign subsidiaries.

The Group manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 12-month period.

The Group hedges its exposure to fluctuations on the translation into GBP of its foreign operations by holding net borrowings in foreign currencies.

Foreign currency risk – sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in Euros and USD exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives. The impact on the Group's equity is due to the monetary items that form part of the net investment in foreign operations. The Group's exposure to foreign currency changes for all other currencies is not material.

The movement in equity arises from changes in Euro denominated borrowings in the hedge of net investments European operations. These movements will offset the translation of the European operations' net assets into sterling – this movement is not shown.

	Change in Euro rate (1)	Effect on profit before tax £'000	Effect on equity £'000
2018	+10%	(9)	273
	-10%	11	(333)
2017	+10%	(309)	449
	-10%	378	(549)

	Change in USD rate (1)	Effect on profit before tax £'000
2018	+10%	481
	-10%	(588)
2017	+10%	1,028
	-10%	(1,253)

(1) A + movement indicatives GBP strengthening relative to the other currency

Commodity price risk

The Group is affected by the price volatility of certain commodities. Its operating activities require a continuous supply of steel which poses a risk due to the volatility of the price of the steel. The Group seeks to manage its exposure to commodity price risk by holding enough stock to negate short term price fluctuations and if necessary allow sufficient time to pass price changes through to customers.

Demand risk

The market for the Group's goods is subject to movements in demand as the demand for new housing or upgrades to existing housing stock varies. The Group manages these variations through careful forecasting and flexing of production volumes. Financing arrangements anticipate demand changes and associated working capital movements.

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Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and other financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit. Overseas subsidiaries have credit insurance policies in place to minimise the risk of trade debts going bad without recompense. UK subsidiaries have no credit insurance policy in place due to the cost of insurance not being justified by the low risk of non-recoverability with a large proportion of receivables being due from the three major customers with strong credit ratings.

Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

Outstanding customer receivables are regularly monitored.

An impairment analysis is performed at each reporting date on an individual basis for major clients. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as medium, as it has several large customers in linked markets.

Note 19 discloses information about the credit risk exposure on the Group's trade receivables using a provision matrix.

Deposits with banks and other financial institutions

Credit risk from balances with banks and other financial institutions is managed by the Group's treasury team in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties. The Group's maximum exposure to credit risk is the cash and cash equivalents balance outlined in the balance sheet at 31 December 2018.

Liquidity risk

The Group monitors its risk to a shortage of funds using monitoring requirements on a daily basis looking out over various time periods. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, bank revolver and finance leases. The Group's policy is that not more than 10% of borrowings should mature in the next 12-month period.

Approximately 4.9% of the Group's debt will mature in less than one year at 31 December 2018 (2017: 4.7%) based on the carrying value of borrowings reflected in the financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available.

The availability under revolving credit facility is linked to the level of receivables and inventories held by the business. At the 31 December 2018, the Group had available £18,280,000 (2017: £18,141,000) of undrawn committed borrowing facilities. The Group has to carefully monitor expected receivable and inventory balances to understand what the availability will be.

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The table summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. Interest bearing loans comprise interest and principal, with interest determined based on rates prevailing at the balance sheet date. The foreign exchange forward contracts are subject to both a cash outflow and also a cash inflow, the cash inflows are not reported in the analysis below, if they were the cash outflow would be substantially lower or indeed even a net inflow.

Group

Year ended 31 December 2018	< 1 year	1 to 5 years	> 5 years	Total
	£'000	£'000	£'000	£'000
Obligations under finance leases	159	12	-	171
Ultimate shareholder loans	-	-	42,409	42,409
Immediate parent company loan	-	-	7,806	7,806
Deferred consideration	-	-	202	202
Interest bearing loans	3,775	17,782	-	21,557
Trade and other payables	49,917	-	-	49,917
	<u>53,851</u>	<u>17,794</u>	<u>50,417</u>	<u>122,062</u>

Group

Year ended 31 December 2017	< 1 year	1 to 5 years	> 5 years	Total
	£'000	£'000	£'000	£'000
Obligations under finance leases	67	21	-	88
Ultimate shareholder loans	-	-	36,602	36,602
Immediate parent company loan	-	-	6,737	6,737
Deferred consideration	-	-	202	202
Interest bearing loans	3,133	13,717	-	16,850
Trade and other payables	51,168	-	-	51,168
Foreign exchange forwards – inflows	(242)	-	-	(242)
Foreign exchange forwards – outflows	252	-	-	252
	<u>54,378</u>	<u>13,738</u>	<u>43,541</u>	<u>111,657</u>

The financial liabilities of the company are part of the ultimate shareholder loans with the same terms and conditions and maturity is as outlined above. The above tables do not include the interest cash flows for the ultimate shareholder loan notes. The amount shown in the tables include the principal amount plus accrued interest up to the balance sheet date. The expected timing of repayment of the loans and associated interest is unknown, and may occur before the maturity date. The timing of repayment will affect the ultimate amount of loan and interest repayments to be paid to the lenders.

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Notes to the consolidated and parent company financial statements for the year ended 31 December 2018

29 Business combinations

Acquisition of Hudevad Radiator Design A/S

On 11 October 2018, the Group incorporated Hudevad Radiator Design A/S an unlisted company based in Denmark. On 12 October 2018, Hudevad Radiator Design A/S purchased the plant & machinery, inventories, brands and intellectual property related to "Hudevad" designer radiator business from the liquidator appointed to oversee the administration of Ribe Jernindustri A/S. The Group undertook to employ the individuals associated with the Hudevad business but undertook no liabilities.

Because of the continuation of processes, inputs and outputs, this has been accounted for as an acquisition of a business under IFRS 3. The new business extends the Group's presence in the manufacture and distribution of radiators.

Assets acquired

The fair value of the identifiable assets at the date of acquisition were:

	Fair value £'000
Property, plant and equipment	1,129
Inventories	624
Total identifiable assets at fair value	1,753
Negative goodwill arising on acquisition	(89)
Purchase consideration transferred	1,664

From the date of acquisition, the business contributed £811,000 of revenue and £428,000 of loss before tax from the continuing operations of the Group. Because the business purchased was part of a larger entity, we are unable to determine the revenue and profit before tax impact that would have existed if the acquisition had taken place at the beginning of the year.

The purchase consideration comprised entirely of cash transferred, no cash was acquired and hence the cash outflow to the Group was £1,664,000. There is no contingent consideration.

Transaction costs of £95,000 were expensed and are included as administration costs.

The negative goodwill was written back on acquisition and is disclosed as part of other operating income within the income statement.