Chief Executive's Review

Market Context

I am pleased to report a strong performance for the Group. The Repair, Maintenance and Improvement ('RMI') market has been subdued during 2017, particularly during the second half, reflecting low consumer confidence. We have experienced an almost perfect storm of macro factors, including increasing political and economic risk, the first interest rate rise in ten years, worsening house price data, low real wage growth and a weak pound driving material cost inflation.

Against this more challenging backdrop, we have made excellent progress with our strategic priorities, continued to invest significantly in the growth of our business and made further gains in market share.

Financial Performance

We have reported robust financial results for 2017 and delivered higher revenues and profits.

Overall, sales growth was good at 8% (excluding acquisitions). Growth was driven by our specifications teams, which have continued to be successful in generating demand for our products with architects and planning authorities in the private new build sector, and by the continued expansion of our branch network.

Profitability was solid, having been impacted by the weaker second-half markets and increasing cost inflation we have seen for resin, other raw materials and traded goods. We are implementing selling price increases to mitigate pricing pressure where possible, but the market does lag supplier price increases, so there is a delay in capturing the benefit. We continue to manage our underlying operating costs tightly, whilst progressing further our strategic priorities and investing in business expansion.

As a result, adjusted profit before tax was £24.5 million (2016: £24.3 million) and reported profit before tax was £23.7 million (2016: £23.8 million). Further information on financial performance is provided in the Divisional and Group Financial Reviews.

Operational Performance

Health and safety

The safety and well-being of our employees and contractors is our first operational priority. We continue to maintain good health and safety performance. We recorded one major injury in 2017 (cut to an employee's hand) under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 ('RIDDOR').

We noted in our 2017 Half-Year Report that the Health and Safety Executive ('HSE') intended to take action against the Company, following a minor accident to an employee in August 2016. The matter has now been concluded, resulting in a fine of £68,000 under the Health and Safety at Work Act.

Further details of our safety performance are included in Corporate and Social Responsibility.

Production

We delivered another consistent production performance in 2017. We manufactured approximately 44.4k tonnes of rigid and foam PVC profiles at our primary extrusion facilities, up from 40.9k tonnes in 2016, an increase of 9%.

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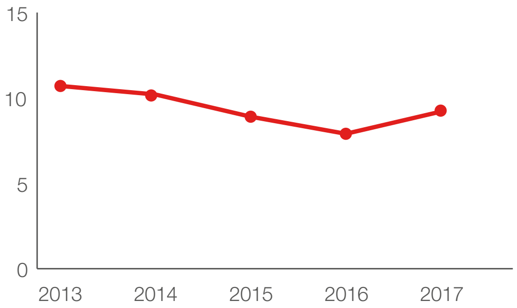
We believe that our proven strategy and capabilities will enable Eurocell to deliver value to our customers and Shareholders."

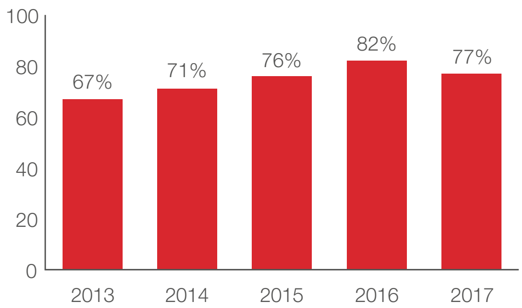
Mark Kelly
Chief Executive Officer

Scrap Levels[1]



(1) Scrap = 100% – (good product produced/consumption)

Overall Equipment Effectiveness ('OEE')[2]



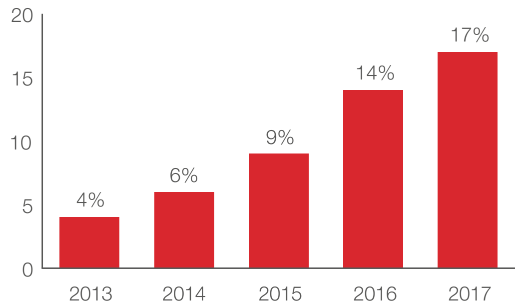
(2) OEE is a measure which takes into account machine availability, performance and yield

Planned initiatives aimed at mitigating raw material cost inflation lead to increased scrap and lower OEE levels. These include increased trials of alternative materials, including resin from potential new suppliers and other materials used in the extrusion process (e.g. compound stabilisers), as well as tests of new technologies (e.g. tooling) to support increasing the use of recycled material in the extrusion process.

Recycling

In 2017 we used 8.3k tonnes of recycled compound alongside virgin resin in the manufacture of many of our rigid PVC products in our primary extrusion processes. This represents 17% of material consumption, up from 14% in 2016, an increase of approximately 2k tonnes.

Recycled Material Usage as a % of Consumption



Our efforts to secure increased supplies of in-feed stock for the recycling plant are proving successful, with collections up 15% in 2017. Initiatives include back-hauling material from our fabricator, installer and branch networks.

Information on our recent investments in recycling and objective to increase further the use of recycled materials is described in Strategic Priorities below.

Warehouse logistics

We reported last year that, following a period of outsourcing, the operation of our main warehouse facility was brought back in-house with effect from February 2017.

We have worked to understand how the arrangements could be better structured to deliver a more efficient operation and improved customer service levels. We have made good progress, with on-time in-full deliveries increasing to 96%, compared to 91% in 2016. Initiatives include shorter production run times and revised warehouse shift patterns, with picking and relationship teams assigned to specific key accounts.

Whilst we have incurred some incremental cost as a result of these changes, we believe that the primary benefit of improved customer service has been a critical factor in maintaining the loyalty of our existing customer base and in supporting the winning of new accounts.

Chief Executive's Review continued

Strategic Priorities

As described in Our Strategy on page 20, our overall objective is to deliver sustainable growth in Shareholder value by increasing sales and profits at above our market level growth rates.

We have five clear strategic priorities to help us achieve our overall objective. We are making good progress with all of our strategic priorities, with the key aspects detailed below.

Target growth in market share

Our aim is to increase our share of the PVC profiles market to utilise the spare manufacturing capacity in our extrusion facilities. The effect of this is such that, whilst new volume could be dilutive to gross margin in the short term, the net margin on these sales should be attractive.

In order to deliver the incremental volume, we have been targeting the new build, commercial and public sectors, as well as a number of larger trade fabricators. In doing so, we emphasise why Eurocell is different: we have a strong single brand, good customer service and a leading recycling capability, all of which are attractive to customers. In addition, expanding the branch network pulls through demand for our manufactured products, thereby exploiting the spare capacity.

After a slow start in the first half of 2017, we have made good progress winning accounts since the summer. Sales have started to come through from customers who have recently moved onto our product systems, with more new accounts contracted for 2018.

Expand our branch network

Expanding the branch network secures sales growth and delivers good returns in the medium term, as new branches begin to mature. It also provides an increasing opportunity for sales of windows and other high-value products through the branch network, and (as noted above) pulls through demand for our manufactured products.

I am very pleased to report that we opened 31 branches in 2017, which is a record number of new sites introduced by Eurocell in a 12-month period (2016: 18 new branches). This represents a significant investment in the expansion of our business, taking the total estate to 190 branches at the year end. We also launched a new and improved branch format with more products on display, and added new product lines to the range, to help meet our objective of becoming a one-stop shop for customers.

The cost of investing in new branches does create downward pressure on profitability in the near term as the new sites work towards a break-even position. Historically it has taken more than two years for a new branch to reach a break-even run-rate. We have been running trials to reduce start-up costs and shorten the time to break-even for the branches opened in 2017, with initiatives based on more focused direct marketing campaigns and sharing resources with established sites in the same region. The trials have gone well and there have been some key learnings. There is more work to do in this area, particularly with respect to the branches opened in 2016, but we are confident that, in future, new branches should reach a break-even run-rate before their two-year anniversary.

Our intention remains to develop an estate of approximately 250 branches in the medium term. Subject to the success of the current programme, consideration of the sites available, potential branch maturity and sales saturation rates, we continue to believe that an estate of around 350 sites is a realistic long-term aspiration for Eurocell.

However, in order to allow the team to consolidate the existing estate, complete the work on reducing break-even times and maximise the sales of high value items through the whole branch network, we have revised down our short term target for new sites and plan to open up to 15 branches in 2018.

Increase the use of recycled materials

The work to increase the use of recycled materials in our primary extrusion manufacturing processes is becoming even more important in the face of continued raw material cost inflation, particularly for PVC resin.

Average resin prices increased by 13% in 2017 and by approximately £150 per tonne over the last two years, driven by a combination of currency movements (largely weak Sterling) and underlying commodity price changes (rising oil and ethylene). This has resulted in a widening gap between the cost of virgin PVC compound and our recycled compound, making the case for further investment in recycling more compelling.

During the course of 2016 and 2017 we invested approximately £1.8 million in a project to increase our recycling capacity, which has boosted usage in primary extrusion from 9% (4.1k tonnes) of material consumption in 2015 to 17% (8.3k tonnes) in 2017.

Looking forward, we intend to invest to expand again our recycling capacity. As a result, we expect usage in primary extrusion to increase to around 20% in 2018 (approximately 10k tonnes), driving a substantial saving compared to the cost of using virgin material.

Beyond that we will continue to evaluate opportunities to increase further our recycling capacity in the years ahead.

Develop innovative new products
We are committed to maintaining market leadership by offering the very latest in product improvement, both through development of existing products and the introduction of new ones. Some of the products launched during 2017 include:

- *InSite window solution*
  A window solution which includes a special hinge for off-site construction applications, which allows timber frame and modular home manufacturers to install fully glazed windows into wall panels in the factory production process.

- *StudioGlide bi-fold door*
  A new alluminium bi-fold door with improved opening and closing mechanism which complements our existing product designs and is now in production with several of our trade frame fabricators.

- *SlateSkin*
  A new sheet tile roof system designed to save installation time when fitted in conjunction with our Equinox products.

- *Modus and Skypod continued improvement*
  Range extension for these excellent products.

Explore potential bolt-on acquisitions
In February 2017, we completed the acquisition of Security Hardware, a supplier of locks and hardware primarily to the RMI market. Annual sales at acquisition were approximately £3 million.

The integration of Security Hardware is now substantially complete. The extensive product range (over 3,000 stock keeping units ('SKUs'), covering the major hardware brands and an own label offering, Schlosser Technik) is now available through our branch network, supporting our objective to be a one-stop shop for anything window related for our customers. This also allows us to better engage with facilities management companies and other large maintenance contractors.

We are developing a range of hardware to complement our window profile. This will enable our fabricator customers to offer a fully certified common specification of window (including hardware), giving Eurocell the opportunity to target a greater share of the new build market and grow sales of windows through branches. We expect the hardware range to be available later in 2018.

We will continue to assess and consider bolt-on acquisition opportunities in the markets in which we operate. Our focus is principally on businesses that add value through range extension, operational efficiencies or added value products, or to satisfy a make-or-buy decision.

Outlook

We have made excellent progress with our strategic priorities in 2017, continued to invest significantly in the growth of our business and made further gains in market share.

Profit was impacted by raw material cost inflation and a subdued RMI market, especially in the second half. However, the benefits of our differentiated business model are becoming increasingly evident. I expect the significant investments we are making in the Group to deliver further gains in market share and allow Eurocell to take more control of material costs in the future.

Looking ahead, our focus for 2018 will be on optimising our existing branch network and expanding further our recycling capability. Whilst our markets remain challenging and raw material price inflation continues, we are in a strong financial position and sales in the first two months are in line with our expectations.

In summary, we believe that our proven strategy and capabilities will enable Eurocell to deliver value to our customers and Shareholders throughout 2018 and beyond.

Mark Kelly
Chief Executive Officer
8 March 2018