Principal Risks and Uncertainties

Risk management is the responsibility of the Board and is a key factor in delivering the Group's strategic objectives.

The Board is responsible for setting the risk appetite, establishing a culture of effective risk management and for ensuring that effective systems and controls are in place and maintained.

Senior managers take ownership of specific risks and implement policies and procedures to mitigate exposure to those risks.

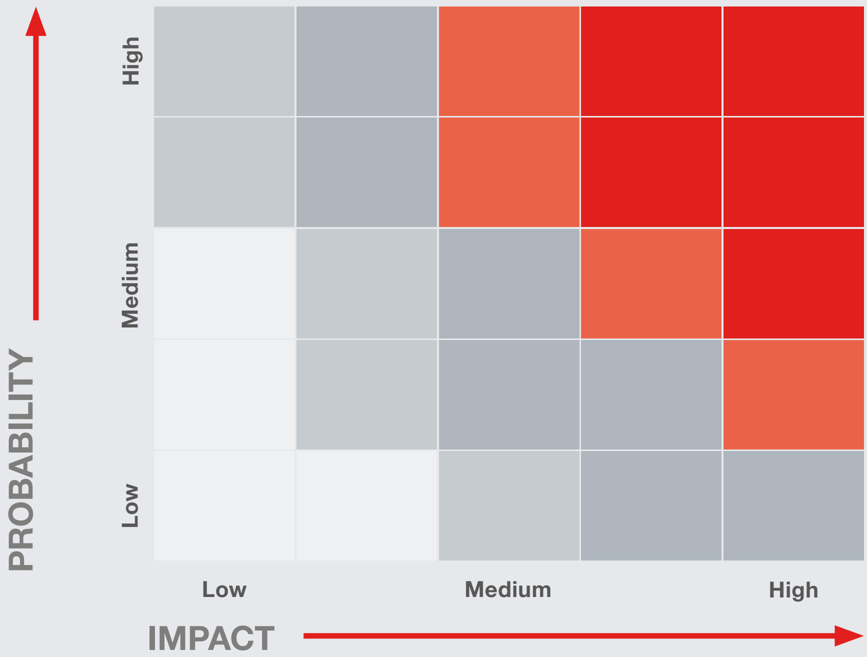
Risk Management Process

The risk management process sits alongside our strong governance culture and effective internal controls to provide assurance to the Board that risks are being appropriately identified and managed.

How we manage risk

Risk is managed across the Group in the following ways:

- The Board meets annually to review strategy and set the risk appetite.
- Risks faced by the Group are identified during the formulation of the annual business plan and budget process, which sets objectives and agrees initiatives to achieve the Group's goals, taking account of the risk appetite set by the Board.
- Senior management and risk owners consider the root cause of each risk and assess the impact and likelihood of it materialising. The analysis is documented in a risk register, which identifies the level of severity and probability, ownership and mitigation measures, as well as any proposed further actions (and timescale for completion) for each significant risk.
- At the beginning of the year the Group established an executive Risk Management Committee, chaired by the Chief Financial Officer. This Committee meets on a regular basis (generally monthly). The status of the most significant risks and mitigations are reviewed at each meeting, with other risks reviewed on a cyclical basis.
- The Executive Directors also meet with senior managers on a regular basis throughout the year. This allows the Executive Directors to ensure that they maintain visibility over the material aspects of strategic, financial and other risks.
- The Group's Executive Directors also compile their own risk assessment, ensuring that a top-down, bottom-up approach is undertaken when considering the Group-wide environment.
- The Group's Audit and Risk Committee assists the Board in assessing and monitoring risk management across the Group. The role of the Committee includes ensuring the timely identification and robust management of inherent and emerging risks, by reviewing the suitability and effectiveness of risk management processes and controls. The Committee also reviews the risk register to ensure net risk and proposed further actions are together consistent with the risk appetite set by the Board.



Internal control

The Group has a well-defined system of internal controls.

The Group has a robust process of financial planning and monitoring, which incorporates Board approval of operating and capital expenditure budgets. Performance against the budget is subsequently monitored and reported to the Board on a monthly basis. The Board also monitors overall performance against operating, safety and other targets set at the start of the year. Performance is reported formally to Shareholders through the publication of its results both annually and half-yearly. Operational management regularly reports on performance to the Executive Directors.

The Group also has processes in place for ensuring business continuity and emergency planning.

Day-to-day operations are supported by a clear schedule of authority limits that define processes and procedures for approving material decisions. This ensures that projects and transactions are approved at the appropriate level of management, with the largest and most complex projects being approved by the Board. The schedule of authority limits was updated in December 2016, to reflect the development of the business since its IPO, and approved by the Board.

In order to further enhance the internal control and risk management processes, the Group appointed KPMG as internal auditor in March 2017. KPMG work closely with the Risk Management Committee in delivering the Groups internal audit programme.

With the assistance of the Audit and Risk Committee, the Board has reviewed the effectiveness of the system of internal control. Following its review, the Board determined that it was not aware of any significant deficiency or material weakness in the system of internal control.

Principal Risks and Uncertainties continued

Risk profile

The principal risks monitored by the Board are as follows:

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
MACRO-ECONOMIC CONDITIONS The Group's products are used in the residential and commercial building and construction markets, both within the RMI sector, for new residential housing developments and for new construction projects. The Group's private RMI business is strongly correlated to the level of household disposable incomes. The Group's new build business is particularly influenced by the level of activity in the house building industry. As such, the Group's business and ability to fund ongoing operations is dependent on the level of activity and market demand in these sectors, itself often a function of general economic conditions (including interest rates and inflation) in the UK.		• Notwithstanding macro conditions, we expect our strategic priorities and self-help initiatives to support sales and market share growth. • Initiatives include: growing market share to exploit spare manufacturing capacity, investment in our specifications team (targeting new build, commercial and public sector work) and expanding the branch network. • We currently operate comfortably within the terms of our existing bank facility and related financial covenants.	• Perception of increased political and economic uncertainty following UK 2017 General Election. • The general RMI market is currently subdued. • Specific markets for our products are broadly flat at present. • The UK base rate was increased in November 2017, the first increase in ten years, partly as a result of increasing inflationary pressures. • Reducing the pace of branch network expansion can improve short-term profit and cash flows.	▲
EU REFERENDUM There remains significant uncertainty over how the economic landscape will be affected by the Referendum result. This in turn could impact on our ability to grow the business (e.g. due to economic uncertainty) and/or the cost of our raw materials (see Raw Material Prices).		• Strategic priorities and self-help initiatives noted above. • Flexible plans with the ability to adapt if circumstances change (e.g. curtail investment in the short term to protect the business).	• Brexit negotiations on-going, but perception of increasing uncertainty as to the terms under which the UK will leave the EU.	▲
RAW MATERIAL PRICES The Group's manufacturing operations depend on the supply of PVC resin, a material derivative of ethylene which in turn is a derivative of crude oil. The price of PVC resin can therefore be subject to fluctuations based on the markets for crude oil and ethylene, as well as the market for resin itself. In addition, although we pay for resin in sterling, crude oil and ethylene are priced in US Dollars and Euros respectively. As such, the price of resin in sterling is also impacted by international currency markets. Our ability to pass on resin and other raw material or traded goods price increases to our customers will depend on market conditions at the time.		• Where possible we pass through resin price increases to our customers. • Increased use of recycled material in our manufacturing. • Use of more than one supplier to provide competitive pricing. • Resin supply contracts contain mechanisms to help mitigate some variations in price.	• Resin and other raw material prices increased significantly in 2017, primarily due to the weakness in Sterling. • Partially mitigated with selling price uplifts, increased use of recycled material and manufacturing efficiencies. • There may be further raw material pricing pressure in 2018.	▲
RAW MATERIAL SUPPLY There are only a limited number of PVC resin and certain other raw material suppliers and we operate with limited material storage capacity. Failure to receive raw materials on a timely basis could impact on our ability to manufacture products and meet customer demand.		• Raw material tests to identify potential alternative suppliers are on-going. • Spot market for resin available to access. • Contractual arrangements for certain key suppliers include liquidated damages for failure to supply. • Regular reviews to test financial stability of key suppliers.	• Lower global production and supply into Europe of PVC resin contributed to increasing prices in 2017. • New US capacity expected to come on line in 2018 and beyond, potentially increasing supplies into Europe. • Competitive resin sourcing introduced for 2017.	◄►
UNPLANNED PLANT DOWNTIME The business is dependent on the continued and uninterrupted performance of its production facilities. Each of the facilities is subject to operating risks, such as industrial accidents (including fire); extended power outages; withdrawal of permits and licences (particularly in the context of the regulated operation of the recycling facility); breakdowns in machinery; equipment or information systems; prolonged maintenance activity; strikes; natural disasters and other unforeseen events.		• We have meaningful spare manufacturing capacity. • Regular planned maintenance to reduce the risk of plant failure. • Maintenance capital investment of approximately £5 million per annum across the Group. • Extrusion facilities spread over 3 manufacturing sites.	• Group-wide disaster recovery plans reviewed and updated in 2017. • Capital investment in the recycling plant of £1.8 million in 2016/17 to increase capacity and eliminate bottlenecks. • Successful project in 2017 to increase raw material feedstock for the recycling plant.	◄►

Movement key:

▲ Increase ◀▶ No change ▼ Decrease

Strategic Priorities key:

- Target growth in market share
- Develop innovative new products
- Explore potential bolt-on acquisition opportunities
- Expand our branch network
- Increase the use of recycled materials

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
CORPORATE AND REGULATORY RISKS We may be adversely affected by unexpected corporate or regulatory risks. This could include health and safety, reputational and environmental events, or other legal and compliance matters. Enacted or soon to be enacted increases in the penalty regime have increased the potential financial impact of breaches or incidents in many cases. These areas are receiving additional management focus, but the impact of the underlying risk has been increasing of late.		• We have procedures and policies in place to support compliance with regulations. • Regular communication and training on policy compliance. • Monitoring procedures in place, including near miss and potential hazard reporting for health and safety matters. • Internal and third-party site audits to test compliance with our policies.	• Health and safety continues to be high-profile risk area. • New position of Group Quality Manager in post mid-2017, with specific focus on driving improvements in health and safety behaviours. • General Data Protection Regulations ('GDPR') come into force in May 2018, with increased compliance requirements and higher penalties for breaches.	▲
UNSUCCESSFUL BRANCH OPENINGS The Group has invested in expanding the branch network over the last two years. Good new sites may become more difficult to find. New branches may fail to reach the required scale and therefore deliver the required sales and profitability within an acceptable timeframe.		• Large portfolio of potential new sites, prioritised based on detailed research into areas most likely to be successful. • Trials of reduced start-up costs in new branches in progress.	• Significant acceleration of the network expansion, with 18 new sites in 2016 and 31 opened in 2017. • More to do on consolidating the existing estate, completing the work to reduce break-even times and maximise sales of high-value products.	▲
CUSTOMER CREDIT RISK We do not insure our receivables, so there is an inherent risk that default by a large customer could result in a material bad debt.		• In-depth credit review for new and ongoing customer accounts. • Experienced Credit Manager (over 15 years with the Group) and strong credit control team.	• Increased economic uncertainty and falling consumer confidence may lead to more business failures. • No material bad debts in 2017, but inherent risk remains.	◀▶
COMPETITOR ACTIVITY The Group has a number of existing competitors who compete on range, price, quality and service. Increased competition could reduce volumes and margins on manufactured and traded products.		• Strong market and customer awareness, with good intelligence around competitor activity. • Focus on customer proposition and points of differentiation in product and service offering.	• The Group has continued to gain market share in both divisions. • The more uncertain market environment has potentially weakened some of our key competitors.	◀▶
FAILURE TO DEVELOP NEW PRODUCTS Failure to innovate could reduce our growth potential, render existing products obsolete and cause a reduction in market share. The launch of new products and new variants of existing products is an inherently uncertain process. We cannot guarantee that we will continuously develop successful new products or new variants of existing products. Nor can we predict how customers and end-users will react to such new products or how successful our competitors will be in developing products which are more attractive than ours.		• We invest continuously in research and development through our in-house team. • The team is highly focused on new ways to develop existing products and to be innovative with new ones.	• Recent successes include new products to support off-site home construction, an improved PVC bi-fold door alongside the introduction of an aluminum bi-fold door offering, a new sheet-tile roof system and improvements to the Modus and Skypod ranges. • We also have a strong product pipeline with more than 25 projects in development.	◀▶
ABILITY TO ATTRACT AND RETAIN KEY PERSONNEL AND HIGHLY SKILLED INDIVIDUALS The Group's success depends inter alia, on the efforts and abilities of certain key personnel and its ability to attract and retain such personnel. The Executive Directors and senior managers have significant experience in the relevant sectors and capital markets and are expected to make an important contribution to the Group's growth and success.		• Market rate compensation for all personnel, including leadership team. • Clear strategic direction provides attractive backdrop to working at Eurocell.	• Recent introduction for senior team of long-term incentive plans and adjustments to fixed/variable compensation to support high retention rate.	◀▶

Principal Risks and Uncertainties continued

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
SHORTAGES OR INCREASED COSTS OF APPROPRIATELY SKILLED LABOUR The Group is subject to supply risks related to the availability and cost of labour, particularly in our branch business. We may also experience labour cost increases (including those related to the Minimum Wage) or disruptions in circumstances where we have to compete for employees with the necessary skills and experience in tight labour markets.		• Market level or better salaries and good benefits package. • Induction and training programme.	• New Group HR Director (appointed in 2017) designing strategy to improve retention and recruitment, leadership and development, employee engagement and communication. • Reducing churn rate in our branch business is a primary objective of the new strategy. • SAYE scheme launched for all personnel in 2017.	◀▶
CYBER SECURITY A breach of IT security (externally or internally) could result in an inability to operate systems effectively (e.g. viruses) or the release of inappropriate information (e.g. hackers). This remains a high profile area and is receiving considerable management focus.		• Physical security of servers at third-party off-site data centre with full disaster recovery capability. • Password and safe use policies in place. • Internet usage monitored. • Anti-malware regularly used.	• Network defences enhanced and Wi-Fi access controls improved in 2017. • Cyber awareness campaign and promotion of IT security policies introduced for all employees early in 2018.	▲
FAILURE TO IDENTIFY, COMPLETE AND INTEGRATE BOLT-ON ACQUISITIONS Exploring potential bolt-on acquisitions is one of our strategic priorities. We may not be able to identify appropriate bolt-on acquisitions. Any future acquisition we do make poses integration and other risks which may significantly affect our results or operations. The acquisition and integration of companies is a complex, costly and time-consuming process involving a number of possible risks. These include diversion of management attention, failure to retain personnel, failure to maintain customer service levels, disruption to relationships with various third parties and unanticipated liabilities.		• Public communication of bolt-on acquisitions being a strategic priority. • Good knowledge of companies operating in our sector and related sectors. • We have a tried and tested procedure for the integration of new acquisitions and a good track record of recent success.	• Acquisition and integration of Security Hardware now substantially complete.	◀▶