In 2018 we became the largest supplier of rigid PVC profile to the UK market.

"We made good progress with our strategic priorities and continued to invest in the growth of our business."

Introduction

We made good progress with our strategic priorities in 2018, delivering further gains in market share and continued investment in the growth of our business, both organically and through acquisitions.

Strong sales growth exceeded our manufacturing capacity, both in terms of volume and mix. This challenged our production and distribution activities, impacting on manufacturing efficiency in the short-term.

We implemented mitigating actions in response to increased demand and to preserve customer service and we are pleased with the results. This included strengthening operational teams and launching a substantial capex programme to bring forward planned capacity increases.

As a result of these actions, we are now well on track to build the capacity required for future growth, much earlier than previously planned.

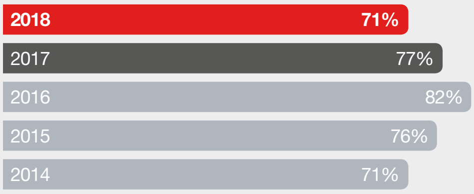
Financial Performance

The Construction Products Association Winter 2018 update (published January 2019) reported on a flat Repairs, Maintenance and Improvements ('RMI') market, with Brexit-related uncertainty intensifying. Against this backdrop, I am pleased to report that we delivered strong sales growth throughout all areas of the business, with revenue for the year up 12% (excluding acquisitions).

Growth reflects a good performance from the new build and trade frame fabricators alike, as well as the positive impact of new account wins in Profiles, and the increasing maturity of branches opened recently in Building Plastics. I should note that some of our market share gains arose through the ongoing weakness of specific competitors, and that none came through price leverage.

We have also experienced larger than expected changes in mix, particularly with sales of co-extruded and foiled products.

Overall Equipment Effectiveness ('OEE')[1]



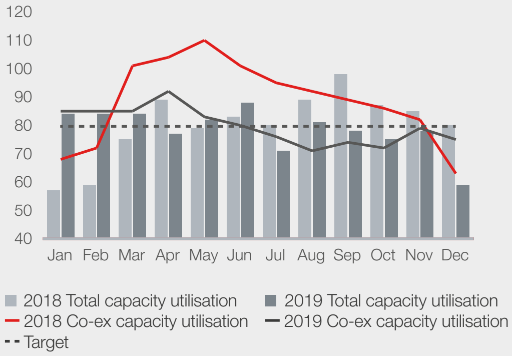
1 OEE is a measure which takes into account machine availability, performance and yield.

Manufacturing Capacity – Extrusion Machines

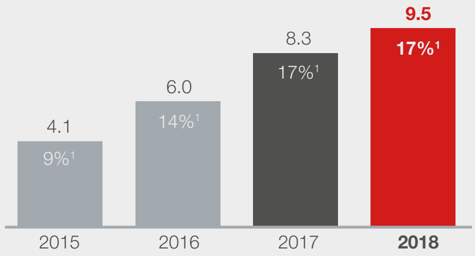
Number of lines at 31 December	2017	2018[1]	2019[2]
Co-extrusion	12	17	22
Rigid PVC	15	12	12
Foam PVC	21	23	26
Total	**48**	**52**	**60**

1 2018: 4 new co-extrusion lines, plus conversion of 3 existing rigid PVC lines (1 to co-ex, 2 to foam).
2 2019: 5 new co-extrusion lines, 3 new foam lines.

Capacity Utilisation Levels



Recycled Material Usage (k tonnes)



1 Recycled material usage as a % of raw material consumption.

However, the combination of strong growth and significant mix changes resulted in production capacity constraints. This impacted negatively on manufacturing efficiency, leading to increased production and distribution costs. Customer service was also affected, with a high backlog of unfulfilled sales orders arising during the busy Autumn period. Therefore, whilst we experienced rising input costs in some areas, including electricity, we were unable to recover all of these through selling price increases until service levels returned to normal.

As a result, despite strong sales growth, adjusted EBITDA was lower at £30.3 million (2017: £31.7 million) and reported profit before tax was £22.1 million (2017: £23.7 million).

In response to these manufacturing conditions we have already taken action to expand the capacity of our operations and improve production efficiency, with more to follow in 2019. We have also strengthened the operational teams in key areas. In addition, with customer service now back to normal levels, we are implementing selling price increases across the business in H1 2019.

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, with no major injuries and 9 minor accidents (2017: 16) recorded under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 ('RIDDOR').

Our Lost Time Injury Frequency Rate was 0.9 in 2018, compared to 1.4 in 2017.

Production

In 2018 we manufactured a record output of 49.8k tonnes of rigid and foam PVC profiles at our primary extrusion facilities, up from 44.4k tonnes in 2017, an increase of 12%.

This increase in tonnage included a sharp and sustained uplift in demand from Q2 onwards and a significant mix change towards co-extruded and foiled products. This resulted in the depletion of safety stocks and a shortage in co-extrusion production capacity, which was compounded by two co-extrusion lines being out of service for an extended period in Q2. Further, we were unable to quickly secure sufficient additional skilled labour to meet high demand in the foiling plant.

The associated increase in manufacturing costs was a significant driver of a reduction in our gross margin in 2018. This includes the impact of running the plant at very high levels of utilisation (thereby foregoing routine maintenance and driving down Overall Equipment Effectiveness ('OEE')), making products with 100% virgin resin that would ordinarily include recycled material and increased levels of scrap.

Overheads were also impacted, primarily by costs incurred to clear the sales order backlog. This included overtime and weekend working, particularly in foiling, and higher warehouse and distribution costs incurred to fulfil large quantities of low value overdue deliveries, as we worked to minimise disruption to our customers by increasing the frequency of deliveries.

We have already taken action to expand the capacity of our extrusion and recycling plants and to improve manufacturing efficiency.

In H2 2018 we increased co-extrusion capacity by c.25%, including capital investment in 4 new lines, which all entered service in the second half. We also secured further recycled material for use in the co-extrusion process through the acquisition of Ecoplas in August (see below) and recruited additional trained labour resource for our foiling plant.

In the light of on-going strong demand for co-extruded products, our plans for 2019 include investment in a further 30% capacity (another 5 lines). We also intend to increase foam capacity by c.15% (3 new lines). Finally, we are investing in new co-extrusion and other tooling, to support the increased capacity on key products.

Together these 2019 investments are expected to cost in the region of £5 million. We believe they will secure production of planned 2019/20 volumes at improved levels of plant utilisation and much better factory efficiency. This will also enable increased preventative maintenance on plant and tooling, and thereby help to optimise OEE and scrap levels.

Recycling

I am pleased to report that in 2018 we used 9.5k tonnes of recycled PVC compound alongside virgin resin in the manufacture of co-extruded rigid profiles, up from 8.3k tonnes in 2017. This increase in usage has been delivered through the expansion of our recycling facility in Ilkeston.

Significant raw material cost inflation has resulted in a widening gap between the cost of virgin PVC compound and our recycled compound, making the case for further investment more compelling.

Therefore, the project to increase capacity at the Ilkeston site continues. Between 2016 and 2018 we invested approximately £3 million to more than double usage in primary extrusion from 4.1k tonnes of material consumption in 2015 to 9.5k tonnes in 2018, driving a substantial saving compared to the cost of using virgin material.

With the further investment to expand capacity at the site of approximately £1 million planned for 2019, we expect usage to increase by another 1k tonnes.

Acquisition of Ecoplas

We identified early in 2018 that the combination of planned growth in our business and developments in extrusion tooling could result in our demand for recycled material being greater than our in-house production capability within two years. We have also been keen to develop a larger presence in the recycling market in the face of increasing competition for waste material.

We were therefore very pleased to complete the acquisition of Ecoplas in August. Ecoplas is a recycler of PVC windows, operating from a single site near Selby, North Yorkshire. The operation is similar to our Ilkeston site. Output at the time of acquisition was approximately 7k tonnes of recycled compound per annum, sold into a broad mix of trade extruders. The initial net consideration was £5.0 million. Further details on the financial aspects of the transaction are included in the Group Financial Review.

As expected, capital investment is required to improve the operating environment and reliability of the Ecoplas plant, to eliminate bottlenecks from production processes and to expand capacity. We invested approximately £0.3 million in H2 2018, with a further c.£2 million to follow in 2019. We have also accelerated investment in co-extrusion tooling for our primary manufacturing facility.

In terms of material usage, following these investments, with increased capacity we should consume approximately 2k tonnes of recycled compound from Ecoplas in our primary extrusion processes in 2019. Combined with an additional 1k tonnes from Ilkeston in 2019, we expect total usage to increase to approximately 12.5k tonnes in 2019, representing more than 20% of material consumption.

The acquisition of Ecoplas represents a significant step change in our recycling capability and also reduces our dependence on the Ilkeston plant. Recycling now sits at the heart of our business and I am delighted to welcome the Ecoplas team to the Group.

Strategic Priorities

Our overall strategic 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 and we are making good progress with all of them. The key aspects are detailed below.

Increase the use of recycled materials

Our objective is for recycling to be at the heart of our operation. The work to increase the use of recycled materials in our primary extrusion manufacturing processes is becoming even more important. We realise cost savings from using recycled material instead of virgin compound, support the changing mix towards demand for co-extruded products and, importantly, improve the sustainability of our business. I was therefore delighted to see that in 2018, we recycled more than 1.5 million window frames.

For 2019, our immediate priorities are the projects to expand the capacity and improve the reliability at our two recycling plants. Beyond that, we will continue to evaluate opportunities to increase further our recycling capacity in the years ahead.

Target growth in market share

Our aim is to increase our share of the PVC profiles market.

In order to deliver 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.

We have made increasingly good progress with this objective over the last three years, recording organic sales growth in the Profiles division of 4%, 6% and 12% for 2016, 2017 and 2018 respectively. New account wins have been key to this growth, and we were delighted to see D&G Consulting's latest study (published December 2018) identifying Eurocell as the largest supplier of rigid PVC profile to the UK market.

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 pulls through demand for our manufactured products.

We have made good progress here too, with organic sales growth in the Building Plastics division of 15%, 9% and 11% for 2016, 2017 and 2018 respectively. This growth has been underpinned by new branches, with a total of 57 (excluding acquisitions) opened over the last three years and a total estate now in excess of 200 sites.

Tony Smith, who led the Building Plastics division for over 25 years, retired from the business last year. Tony made a huge contribution to the Group, having overseen a period of tremendous growth, and he leaves with our very best wishes.

Andy McDonnell took over from Tony in September. Andy joined from Oak Furniture Land and, prior to that, B&Q where he was instrumental in the successful development of the TradePoint proposition and operating division.

Andy has brought a strong senior team with him. Following an initial review, the team has now reaffirmed that our overall strategic objective for Building Plastics remains to deliver world-class operations from up to 350 sites. Two key pillars of this strategy are to improve existing branch profitability and to grow market share profitably.

To improve existing profitability, we will introduce a more rigid pricing architecture, revised field sales and account management structures, better stock availability and trials of new front-of-house and product displays. We will continue the drive towards a more consistent offering across the stores, with enhanced training to ensure all staff have the ability to sell our full range of products. We are also implementing a profit improvement plan template for the lowest performing branches.

We expect to grow market share profitably through a combination of organic branch openings and acquisitions, underpinned by data-driven decision-making. For example, sites for new branches will be selected using location analysis tools and potential branch acquisitions identified by the opportunity to deliver superior financial returns compared to the organic alternative in specific regions.

In 2019 our principal focus in Building Plastics will be to improve the profitability of the division to support delivery of the near-term profit targets for the Group. Therefore, this year we expect the number of organic openings to be low.

In summary, the new team has made an excellent start, and I am confident that we have the right leadership to take Building Plastics through the next stage of its development.

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. We work closely with our customers on development and to help maintain our product pipeline.

Highlights include:

- **Coastline**
  A weatherproof, lightweight, composite cladding material for use primarily on coastal properties. Coastline is made from a unique new composite material, which undergoes minimal contraction/expansion in different weather conditions. It is very resilient, but still easy for fitters to work with.
- **Skypod**
  Following the success of Skypod, we launched a number of improvements to the range in 2018. The improved product allows for easier assembly and fitting, and offers a wider choice of configurations.
- **Eurologik flush sash**
  Development of a flush sash profile for our popular Eurologik window system, ready for launch early in 2019.

Explore potential bolt-on acquisitions
We completed two acquisitions in 2018 for total initial consideration of approximately £8 million. Ecoplas is described above. We also acquired Kent Building Plastics in December. Kent Building Plastics is a building plastics distributor with 4 branches in the important south-west region. The integration of both businesses is progressing to plan.

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

Brexit
There is significant uncertainty over the impact of Brexit, be it related to general macroeconomic factors or specific company risks. At Eurocell we have taken a number of steps to protect the business from potential negative effects. In this context, it is worth noting that almost all of our sales are to UK-based customers and that we expect the vast majority of our workforce will have the right to remain and work in the UK post Brexit.

However, some of our key raw materials do originate from Europe, so any disruption in supplies could impact our manufacturing operations. With that in mind, we have now concluded a 6-month PVC resin supply agreement for the period to 31 July 2019, to support continuity of supply for our most critical raw material. In addition, whilst we have only limited capacity to hold excess raw material stocks at our own sites, some of our suppliers have agreed to hold additional inventory on our behalf. We also began a finished stock build towards the end of last year, and have locked in electricity prices for the next 12 months at current market rates. More generally, we refinanced our bank facilities in December, securing additional funding at competitive rates, and have taken out selective credit insurance for large customer accounts.

Therefore, whilst we are not able to predict the impact of Brexit on our business, we have taken sensible steps to help mitigate known risks.

Outlook
We made good progress with our strategic priorities in 2018, delivering further gains in market share and continued investment in the growth of our business. In particular, the acquisition of Ecoplas will allow us to increase significantly our recycling capability and consolidate our position as the leading recycler of PVC windows in the UK.

However, the impact of growth and mix changes on manufacturing efficiency and customer service led to increased costs and lower profits in 2018. We have already taken action, with investments in progress to expand production capacity and improve manufacturing efficiency. We have also strengthened our operational teams in key areas.

Looking ahead, our focus for 2019 will be on completing these investments and on implementing selling price increases. We have made a good start, with sales and margins for the first two months in line with expectations, and notwithstanding macroeconomic and political uncertainty, remain confident about the outlook for the year.

Mark Kelly
Chief Executive Officer
14 March 2019