Report on the audit of the financial statements

Opinion

In our opinion:

- Eurocell plc'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 profit and 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 December 2018; the Consolidated statement of comprehensive income, the consolidated cash flow statement, 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.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

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

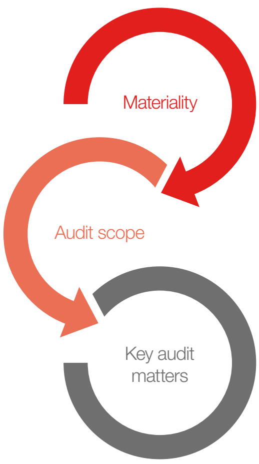
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 5 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



- Overall Group materiality: £1.1m (2017: £1.3m), based on 5% of underlying profit before tax.
- Overall Company materiality: £0.6m (2017: £0.7m), based on 1% of total assets.

- Financially significant components were determined to be those which represented 15% or more of the consolidated underlying profits before tax. The financial information of Eurocell Building Plastics and Eurocell Profiles was therefore subject to a full scope audit.
- Together these represent 88% of consolidated revenues, 89% of consolidated gross profit and 78% of consolidated net assets.
- For the remaining entities we also scoped in any individual balances which were above £1.1m and represented 15% or more of the consolidated balance. This resulted in Property, Plant and Equipment for Eurocell Group Limited and Cash for Vista Panels Limited and S&S Plastics Limited being included in our audit scope.
- Analytical review procedures were performed over all other remaining balances within the out-of-scope subsidiary companies.

- Assessment of the valuation of inventory.
- Provisions against trade receivables.
- Acquisition accounting.

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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules, UK tax legislation and employment law, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to either inappropriate journal entries, manipulation of significant estimates or misreporting of significant and/or unusual transactions. Audit procedures performed by the Group engagement team included:

- Review of correspondence with the regulators and review of correspondence with legal advisors;
- Enquiries of management;
- Review of internal audit reports in so far as they related to the financial statements;
- Review of significant and/or unusual transactions during the year;
- Identifying and testing journal entries with unusual account combinations which result in an impact to revenue or reported profits; and
- Assessing key judgements made by management for evidence of inappropriate bias. Key judgements include the valuation of trade receivables and inventory, impairment assessments and the use of alternative profit measures.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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
Assessment of the valuation of inventory	
Refer to pages 34 to 39 (Risk management and Principal risks and uncertainties), pages 49 to 51 (Audit and Risk Committee), Note 1 (Accounting Policies), Note 2 (Critical Accounting Estimates and Judgements) and Note 17 (Inventories). Inventory totalled £28.3m as at 31 December 2018 (2017: £21.1m) after provisions of £1.8m (2017: £1.8m). We focused on this area because the Directors' assessment of the absorption of labour and overhead costs into inventory and the assessment of the recoverability of inventory involved complex and subjective judgements. Specifically the determination of inventory provisions for slow moving, obsolete and discontinued line items, reflecting the level of inventory held across the branch network and manufactured goods at the year end, requires the exercise of judgement. In addition, we also focused on this area because the incentive schemes of the Directors and senior management are based upon financial measures, including profit, which we concluded gave a greater risk of manipulation of judgements, including inventory costing and provisioning, to ensure that bonus targets are achieved.	We understood the nature of the costs that the Directors absorbed into inventory and determined their appropriateness in line with IAS 2 'Inventories' ("IAS 2"). We tested, on a sample basis, the valuation and calculation of costs absorbed into inventory. We also assessed the reasonableness of the Directors' estimates in this area for bias. Our attendance at the physical inventory counts, conducted by management, highlighted no increased areas of concern, regarding excess / unused stock held at either the branches we visited or the manufacturing sites. We found no material exceptions from the procedures noted above. We understood the Directors' methodology for calculating inventory provisions and evaluated the Directors' assumptions over future forecast usage and validated historic usage to underlying revenue recorded. We found no material exceptions from these procedures. We selected an audit sample of inventory held as at 31 December 2018 and verified that sales recorded in 2019 were made above cost. Based on the results of our audit work, we found that the inventory recognised by the Directors was at an appropriate value and was consistent with the requirements of IAS 2.
Provisions against trade receivables	
Refer to pages 34 to 39 (Risk management and Principal risks and uncertainties), pages 49 to 51 (Audit and Risk Committee), Note 1 (Accounting Policies), Note 2 (Critical Accounting Estimates and Judgements) and Note 18 (Trade and other receivables). The Group had gross trade receivables of £34.8m at 31 December 2018 (2017:£28.8m) against which provisions of £0.7m (2017: £0.9m) were held. We focused on these areas because the Directors' assessment of the provisions required in respect of trade receivables involved subjective judgements. In addition, we also focused on these areas because there is a risk that debtors are not recoverable due to the current economic climate, and the incentive schemes of the Directors and senior management are based upon financial measures including profit, which we concluded gave a greater risk of manipulation of judgements, including those around trade receivables provisions, to ensure that bonus targets are achieved.	We understood the Directors' methodology for calculating trade receivables provisions across the Group and consider that these comply with IFRS 9. We tested the ageing of amounts due at the balance sheet date to understand and quantify the potential risk in overdue balances. We then challenged management in respect of those customers with whom amounts were past due but not impaired to assess for bias. We also tested, on a sample basis, cash received from customers following the year-end to validate the appropriateness of the Directors' estimates. We tested the methodology and calculations of the provisions in line with the new requirements arising from this being the first period in which the Group has adopted IFRS 9. We found no material exceptions from the procedures noted above. Based on the results of our audit work, we found that the provisions recorded by the Directors were materially accurate and were consistent with the requirements of IFRS 9.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Acquisition accounting	
Refer to pages 34 to 39 (Risk management and Principal risks and uncertainties), pages 49 to 51 (Audit and Risk Committee), Note 1 (Accounting Policies), Note 2 (Critical Accounting Estimates and Judgements) and Note 29 (Acquisition of Subsidiaries). The Group acquired Ecoplas Limited and Kent Building Plastics Limited during the year for a combined consideration of £9.1m. The net assets acquired totalled £1.1m, after fair value adjustments being made in respect of acquired intangible assets (£1.4m), increases to dilapidation and environmental provisions (£0.8m) and increase to deferred tax liabilities (£0.2m). Goodwill recognised on acquisition was £8m. The assessment of the fair value of the assets and liabilities acquired with these acquisitions is an area of significant management judgement and estimates are required in recognising and valuing the acquired net assets.	We have reviewed the underlying legal agreements relating to the acquisitions and traced the payments made to bank statements. For any amounts unpaid as at 31 December 2018 we have obtained managements analysis of the accounting treatment and reviewed these in light of the requirements of IFRS 3. We have audited the acquired net assets, including any fair value adjustments made, by testing the acquired assets and liabilities on a sample basis back to source documents and records. For the additional dilapidation and environmental provisions (£0.8m) we have reviewed the assessments performed by external third parties. We have discussed these with the Audit Committee and management and concluded that these are within an acceptable range of possible outcomes for the rectification of these known issues as at the point of acquisition. Based upon the conclusion of the above audit procedures we have concluded that the acquisitions are accounted for in line with IFRS 3 and the disclosures provided are appropriate and in line with IFRS 3.

We determined that there were no key audit matters applicable to the Company 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.

Eurocell operates in the market of the extrusion of PVC window and building products to the new and replacement window market and the sale of building plastics materials. The Group has sites throughout the UK with its headquarters in Alfreton. The business is managed as two primary divisions:

– Eurocell Building Plastics, focusing on sales and distribution across over 200 branches within the UK to smaller scale customers. This segment includes the trading subsidiary companies Eurocell Building Plastics Limited, Security Hardware Limited and Kent Building Plastics Limited; and

– Eurocell Profiles, focusing on manufacture and distribution of PVC products to large-scale customers. This division includes the trading subsidiaries Eurocell Profiles Limited, Vista Panels Limited and Ecoplas Limited. The trade and assets of S&S Plastics Limited was hived up as at 31 December 2017 into Eurocell Profiles Limited.

Each legal entity has its own local finance team and management team who report directly into the head office finance and management teams.

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

All audit work, including work on components, was completed by the Group audit team.

Report on the audit of the financial statements

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:

	Group financial statements	Company financial statements
Overall materiality	£1.1m (2017: £1.3m).	£0.6m (2017: £0.7m).
How we determined it	5% of underlying profit before tax.	1% of total assets.
Rationale for benchmark applied	We believe that underlying profit before tax is the key measure used by the shareholders in assessing the performance of the Group. This benchmark, which excludes the non-underlying items described in note 7 to the financial statements, provides consistent year on year basis for determining materiality by eliminating the non-recurring and/or disproportionate impact of these items.	We believe that total assets is the primary measure used by the shareholders in assessing the financial position of the entity, and is a generally accepted auditing benchmark.

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 £1.0m and £0.7m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £60,000 (Group audit) (2017: £65,000) and £35,000 (Company audit) (2017: £35,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. 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 Group and Company's trade, customers, suppliers and the wider economy.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R (3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

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, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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. (CA06)

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. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 47 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 40 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 71, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 49 to 51 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

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 in respect of the Financial Statements, 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the Directors on 29 April 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2015 to 31 December 2018.

Mark Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
14 March 2019