



HIGHLIGHTS

Revenue	Gross Margin	Adjusted EBITDA ¹
£253.7m ▲ 13% (12% excluding acquisitions) 2017: £224.9m	49.5% ▼ (1.5)% 2017: 51.0%	£30.3m ▼ (4)% 2017: £31.7m
Adjusted Profit Before Tax ¹	Profit Before Tax	Adjusted EPS ¹
£22.5m ▼ (8)% 2017: £24.5m	£22.1m ▼ (7)% 2017: £23.7m	19.1p ▼ (6)% 2017: 20.4p
EPS	Total Dividends (per share)	Net Debt
19.6p 2017: 19.6p	9.3p ▲ 3% 2017: 9.0p	£23.5m ▲ £9.0m 2017: £14.5m

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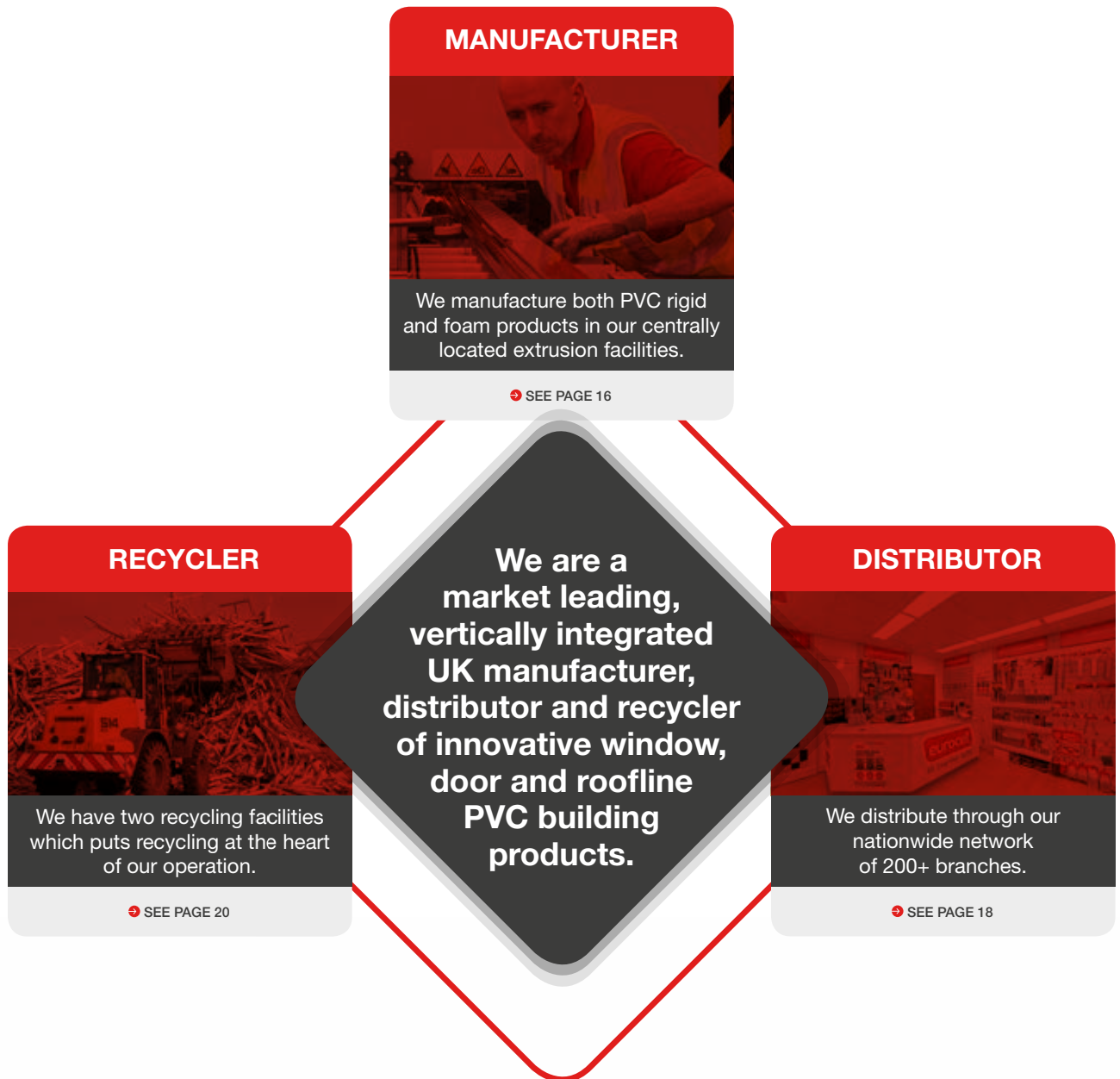
PROGRESS WITH STRATEGIC PRIORITIES

- **Gaining market share**
 - Organic sales growth of 12% for Profiles and 11% for Building Plastics.
- **Expanding the branch network**
 - 202 branches, with 12 new sites in 2018 (inclusive of 4 acquired branches).
- **Increasing use of recycled PVC in manufactured products**
 - 9.5k tonnes in 2018 (2017: 8.3k tonnes).
- **Completed acquisitions**
 - Ecoplas in August 2018.
 - Kent Building Plastics in December 2018.

¹ Adjusted measures are before non-underlying income and costs, and the related tax effect (see page 32). We use adjusted profit measures to assess business performance and they are provided here in addition to statutory measures to help describe the underlying results of the Group.



→ View the latest results online at
investors.eurocell.co.uk



OUR PROMISE

We offer a wider product range than our competitors.

We add value to our customers with our technical expertise and support services.

We collaborate with our customers to provide better solutions for the consumer.

All together better

AT A GLANCE

We operate our business through two divisions that reflect the principal routes to market for our products: Profiles and Building Plastics.

Revenue

£253.7m

Adjusted EBITDA

£30.3m

PROFILES DIVISION

The Profiles division manufactures extruded rigid PVC profiles and foam PVC products. We make rigid and foam products using virgin PVC compound, the largest component of which is resin. Our rigid products also include recycled PVC compound, produced at our market-leading recycling facilities.

Rigid PVC profiles are sold to third-party fabricators, who produce windows, trims, cavity closer systems, patio doors and conservatories for their customers.

There are broadly four types of fabricator. Trade frame fabricators supply finished products to tradesmen or small retail outlets. New build fabricators supply and install the products they make for house builders. Commercial fabricators supply and install products used in applications such as office space and education facilities. Finally, retail fabricators make products for sale via their own retail operation, which may be a large national business, or a small company servicing the local community. We are not particularly exposed to retail fabricators.

Fabricators have production facilities which are customised to the window or door system they make. As a result, fabricators predominately buy profiles from a single supplier, which in turn creates a stable and loyal customer base.

Foam PVC products are used for roofline and are supplied to customers through our nationwide branch network in the Building Plastics division (see opposite).

All of our manufacturing margin is recorded within the Profiles division, which therefore also benefits from expansion of the branch network.

The Profiles division also includes S&S Plastics, Vista and Ecoplas; businesses acquired in 2015, 2016 and 2018 respectively. S&S supplies plastic injection moulded products and services for use in windows and certain other markets. Vista manufactures composite and PVC entrance doors, which are sold to third parties either direct or via the Building Plastics division. Ecoplas is a recycler of PVC windows.

BUILDING PLASTICS DIVISION

The Building Plastics division distributes a range of Eurocell manufactured and branded foam PVC roofline products and Vista doors, as well as third-party manufactured ancillary products. These include sealants, tools and rainwater products, as well as windows fabricated by third parties using products manufactured by the Profiles division.

Distribution is through our national network of over 200 branches to installers, small and independent builders, house builders and nationwide maintenance companies. The branches also sell roofline products to independent wholesalers.

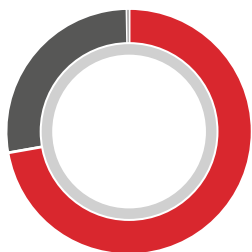
The Building Plastics division also includes Security Hardware and Kent Building Plastics, acquired in 2017 and 2018 respectively. Security Hardware is a supplier of locks and hardware, primarily to the Repair, Maintenance and Improvements ('RMI') market. Kent Building Plastics is a small group of 4 branches distributing building plastic materials in the south-west of England, which will be fully integrated into our network.

Revenue by division



■ Profiles £107.7m
■ Building Plastics £146.0m

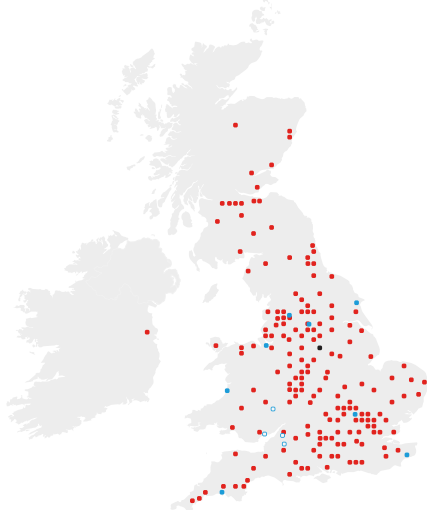
Adjusted EBITDA by division



■ Profiles £22.0m
■ Building Plastics £8.4m
■ Corporate £(0.1)m

● SEE OUR DIVISIONAL REVIEWS ON PAGES 26 TO 29

WHERE WE OPERATE



- Eurocell locations
- Head office, Alfreton
- New locations in 2018
- Acquired in 2018

Branches

202

Recycled product used in our rigid PVC profile

9.5k tonnes

Average number of employees in 2018

1,666

All together better

Our vision and values

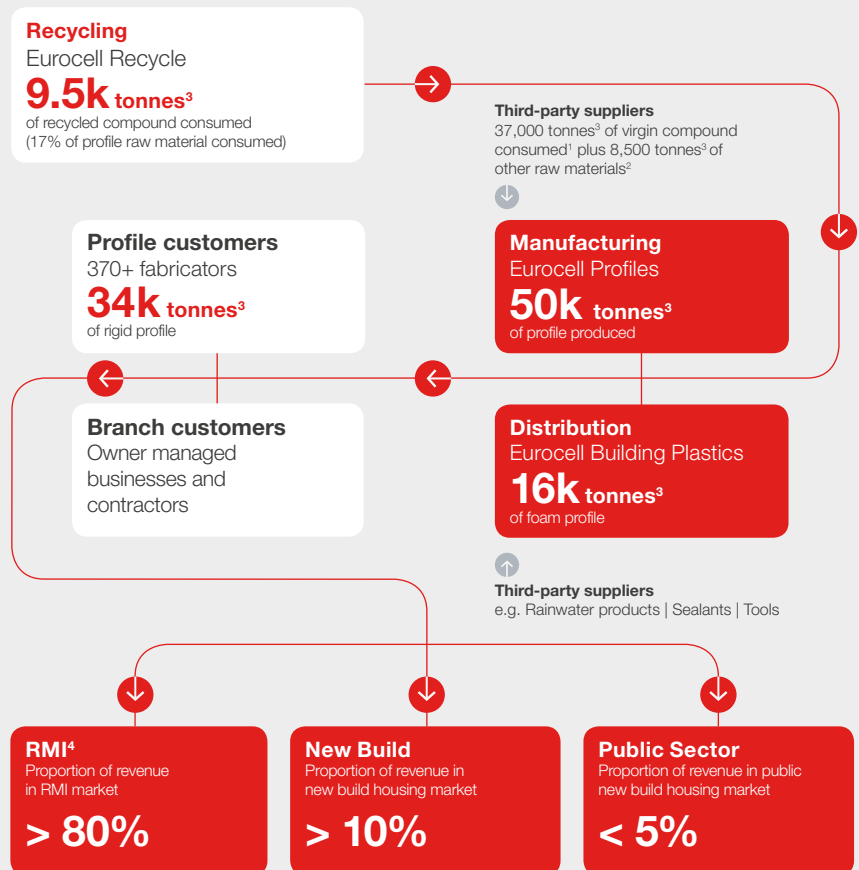
One team, customer centric, driving world class sustainable solutions everywhere we operate.

Our values are:

- One team
- Customer first
- Integrity
- Inclusive
- Execute

OUR ROUTE TO MARKET

Our sales and distribution strategy is implemented through our cross functional sales and business development teams, which target the key decision makers in the supply chain. The key decision makers include fabricators, installers, developers, architects, local authorities and planning departments. By influencing the influencers we earn the loyalty of our customers by helping them grow their businesses.



1 Virgin Resin: stabiliser, titanium dioxide, impact modifier, filler.
 2 Other raw materials: e.g. skin and rubber flex.
 3 Tonnages shown are approximate based on 2018 volumes.
 4 Repairs, Maintenance and Improvements.

SEE OUR MARKET OVERVIEW ON PAGE 6



“

The acquisition of Ecoplas represents a major step forward in our plans to put recycling at the heart of our operation.”

In 2018 we made good progress with our key strategic priorities. In particular, we continued to take market share in all areas of the business, and in so doing we believe we became the largest supplier of rigid PVC profile to the UK market. The acquisition of Ecoplas represents a major step forward in our plans to place recycling at the heart of our operation and enhance the sustainability of our business.

Financial and Operating Performance

We delivered strong sales growth across the Group, with revenue up 13% on last year (12% excluding acquisitions).

However, the combination of strong sales growth and larger than expected mix changes resulted in volumes above the immediately available manufacturing capacity. This impacted negatively on the efficiency of our manufacturing operations, leading to increased costs, and on customer service, thereby delaying our ability to recover input cost inflation with selling price increases.

As a result, despite strong sales growth, we delivered adjusted EBITDA of £30.3 million, down 4% on last year. Reported profit before tax of £22.1 million was down 7%. We have already taken action to address these matters, with more to follow in 2019.

Cash conversion was impacted by investment in working capital to support growth and a stock build programme to help mitigate the risk of disruption from Brexit. Operating cash flow was £21.7 million (2017: £28.3 million).

We completed two acquisitions in 2018 for total initial consideration of approximately £8 million. Ecoplas, a recycler of PVC windows, provides the foundation to continue increasing the use of recycled materials in our manufacturing operations. Kent Building Plastics, a distributor with 4 branches in the south-west, presents an opportunity to expand our presence in that important region. I am delighted to welcome both companies to the Group.

In December, we were pleased to execute a refinancing of our banking arrangements, with a new revolving credit facility of £60 million (up from £45 million). Net debt at year end was £23.5 million (31 December 2017: £14.5 million). We have a strong balance sheet which provides flexibility and options for the future.

Strategy

In January 2019, we conducted our annual review of the Company's strategy and the fundamental elements of our markets and activities. At the conclusion of this process, we reaffirmed that our overall objective remains 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 (set out opposite). We made good progress with each of these priorities during 2018, with the key aspects of our performance described in the Chief Executive's Review.

Looking forward, whilst we will continue to develop these areas, our primary focus in 2019 will be on self-help initiatives to support delivery of our near-term profit targets. This includes further capital investment to expand the capacity of our extrusion and recycling plants and to improve manufacturing efficiency, as well as implementing selling price increases to recover cost inflation.

Board Changes

Patrick Kalverboer has advised of his intention to step down from the Board at the upcoming AGM. I would like to thank Patrick for his enormous contribution to the Group over the last five years, particularly for the important role he played in our successful IPO in 2015 and subsequently in shaping the strategy of the business.

I was delighted to welcome Sucheta Govil to the Board in October. Her wealth of commercial and marketing experience from a wide range of companies and industries will provide real value as we continue to progress our strategic priorities.

INVESTMENT CASE

CLEAR STRATEGY

Five clear strategic priorities

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

We made good progress with all our strategic priorities during 2018.

➔ SEE PAGE 14

COMPELLING BUSINESS MODEL

Recycling, manufacturing and own distribution network

We are a leading manufacturer of rigid and foam PVC profiles. Our branches are conveniently located, offering a wide range of products and providing excellent service to local customers and nationwide groups alike.

➔ SEE PAGE 12

STRONG ON SUSTAINABILITY

In-house, closed loop recycling facility

We are the leading UK recycler of PVC windows.

We recycle both customer factory offcuts ('post-industrial' waste) and old windows ('post-consumer' waste). The recycled material is used to generate brand new extruded plastic products.

Recycling helps to lower material costs and improve product and business sustainability.

➔ SEE PAGE 22

EXPERIENCED LEADERSHIP

Strong and experienced team

We have an effective Board and a strong senior management team with the requisite and complementary skills, knowledge and experience to secure the future success of the business.

➔ SEE PAGE 42

I am comfortable that the composition of the Board provides an appropriate balance of skills, experience, independence and knowledge to take the business through the next stages of its development.

Governance

As a Board, we are committed to the highest standards of corporate governance and ensuring effective communication with shareholders. We continue to comply with the UK Corporate Governance Code as outlined in our Corporate Governance Statement on pages 45 to 47.

Dividends

We paid an interim dividend of 3.1 pence per share. The Board proposes a final dividend of 6.2 pence per share, resulting in total dividends for the year of 9.3 pence per share, representing growth of 3%.

People

The progress we have made in 2018 is a direct result of the hard work and dedication of our teams in every part of our business. On behalf of shareholders and of the Board, I offer our sincere thanks.

Bob Lawson

Chairman
14 March 2019

MARKET OVERVIEW

The level of UK economic activity, in particular the state of the repair, maintenance and improvement ('RMI') and new build housing markets, are important drivers of our performance.

Despite a subdued RMI market and the prevailing economic uncertainty, we are confident that our strategic initiatives (described in Our Strategy on pages 14 and 15), will deliver above market level growth rates for Eurocell.

EXTERNAL MARKET DRIVERS

GDP



Real UK GDP is forecast to grow by 1.6% in 2019 (2018 estimate: 1.3%).

Consumer confidence



Dropped recently due to increasing uncertainty over Brexit.

Interest rates



UK interest rates increased in August 2018 (only the second increase since 2007). Any further rate increases expected to be at a gradual pace.

Construction



Total construction activity was flat in 2018 and is forecast to be flat in 2019 and rise by 2% in 2020.



Housing construction activity was up 5% in 2018 and is forecast to rise by 2% in 2019 and 1% in 2020.

Housing market



Total housing starts were up 1% in 2018 and are forecast to rise by 3% in 2019 and 1% in 2020.



Private housing starts were up 2% in 2018 and are forecast to rise by 2% in 2019 and 1% in 2020.



Private housing RMI¹ market was flat in 2018 and is forecast to be flat in 2019 and rise by 2% in 2020.

¹ RMI is Repair, Maintenance and Improvement market.

Sources: Bank of England Monetary Policy Committee statement September 2018, CPA: Construction Industry Forecasts 2018-20 (published January 2019), Office for Budgetary Responsibility Forecast (published October 2018).

Key to potential impact on demand for Eurocell products:

↑ Positive − Neutral ↓ Negative

EUROCELL MARKETS AND DRIVERS

Private Home Improvement ('RMI')

The RMI market is currently subdued, reflecting: uncertainty over the impact of Brexit, the potential for further increases in interest rates and the relatively weak growth in real wages over the last few years.

- **Demand is influenced by the state of the economy**
 - the resulting impact on the housing market and consumer confidence influence demand.
- **Housing market**
 - home owners may choose to improve or extend their existing property rather than move house, which can be positive for Eurocell.
- **Retirement housing**
 - planned improvements to retirement housing and increased availability of funds following changes to pension scheme rules may provide support to the RMI market in the future.

Public New Build Housing

This sector represents a very small proportion of the UK housing market, as government policies are targeted towards increasing private sector affordable housing rather than public sector social housing.

- **Right to Buy scheme**
 - enables council and housing association tenants to buy their homes at a discount, therefore a reduction in public sector housing stock is expected as a result of the scheme.
- **Rent caps**
 - may reduce the financing available for new development.
- **Rental property development**
 - housing associations have relied on market sales to raise capital, weaker house price growth and fewer transactions will likely hamper this.

Private New Build Housing

New build growth has been strong in recent years. However, some of the large house builders have reported a softening in recent months.

- **Macroeconomic environment**
– uncertainty suggests affordability will likely remain a key issue.
- **Help to Buy scheme**
– continues to support demand.
- **Housing shortage**
– on-going positive government intervention remains a possibility.

Social Housing Improvement

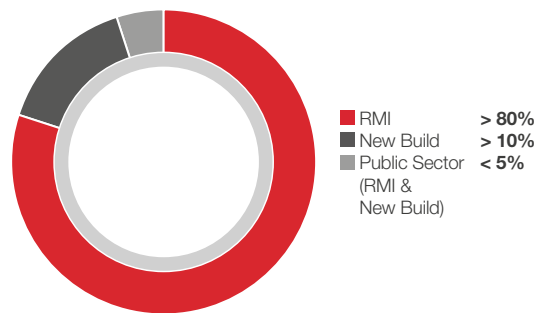
- **Decent Homes Programme and the Energy Company Obligation ('ECO') scheme both ended in 2017**
– under these schemes the support typically came in the form of heating packages, insulation and energy efficient windows.

We believe Eurocell is well-placed to service private and public new build housing.



Eurocell Revenue by Market (%)

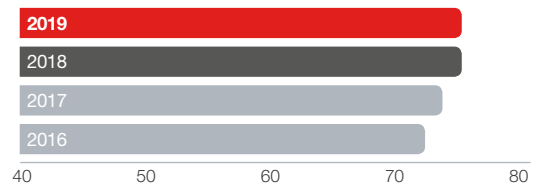
Whilst private home improvement and, increasingly, new build housing are the most important market segments for Eurocell, social housing improvement and public new build are also covered.



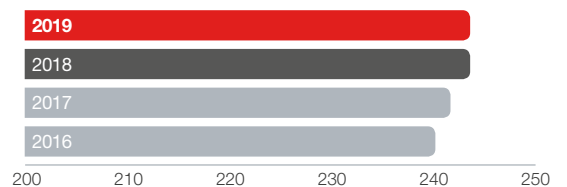
Markets for Eurocell Products

The product groups specific to Eurocell are currently expected to be flat over the next two years.

Roofline (Tonnes 000s)



Window Profile (Tonnes 000s)



Source: D&G Consulting

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.

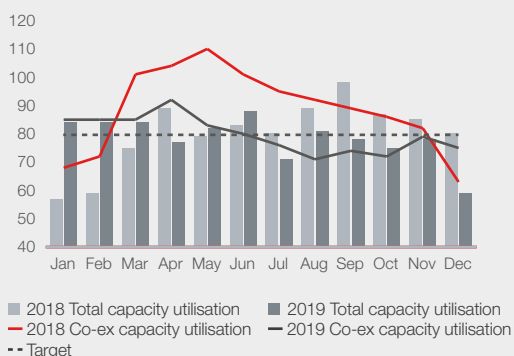
We have also experienced larger than expected changes in mix, particularly with sales of co-extruded and foiled products.

Overall Equipment Effectiveness ('OEE')¹



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

Capacity Utilisation Levels



■ 2018 Total capacity utilisation ■ 2019 Total capacity utilisation
 — 2018 Co-ex capacity utilisation — 2019 Co-ex capacity utilisation
 - - Target

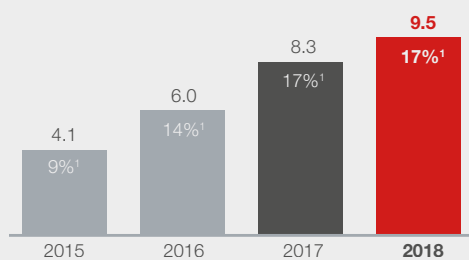
Manufacturing Capacity – Extrusion Machines

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.

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.

CHIEF EXECUTIVE'S REVIEW CONTINUED

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

OUR BUSINESS MODEL

WHAT WE DO



We manufacture

We are a leading manufacturer of rigid and foam PVC profiles, composite and PVC entrance doors for the window and building home improvement sectors. Our manufacturing process uses raw materials including PVC resin and our own produced recycled material.

49.8k tonnes
produced in 2018

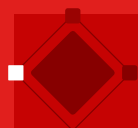


We distribute

The Profiles division supplies our manufactured profile to a network of fabricators, who in turn supply end products to installers, retail outlets and house builders.

The Building Plastics division sells, through its network of branches, our manufactured foam products and entrance doors, along with a range of third-party related products, as well as windows fabricated by third parties using products manufactured by the Profiles division. Customers are mainly installers, small builders, roofing contractors and independent stockists.

> 4 million products
delivered in 2018



We recycle

We recycle both customer factory offcuts ('post-industrial' waste) and old windows that have been replaced with new ('post-consumer' waste). The recycled material is used to generate brand new extruded plastic products.

> 1.5 million
windows
recycled in 2018

HOW WE CREATE VALUE

Vertically integrated model

The coordination of our procurement, manufacturing and distribution processes enables us to capture margin throughout all stages of our value chain.

Our recycling activities help lower material costs and improve product stability.

Scale

We operate well-invested and modern extrusion facilities.

We are the UK's largest window recycler.

Our extensive branch network is a driver of sales growth and market share. It also helps improve manufacturing efficiency, with pull-through demand driving higher factory utilisation.

Innovative products

We are committed to a strategy of continually developing new and existing products.

We support the use of Building Information Modelling ('BIM') software, giving architects and contractors access to a library of Eurocell products, making it easier to specify them.

Brand

We have a strong brand image and our marketing activities seek to maximise our brand awareness.

People and culture

Our experienced management team have a proven track record of achieving growth.

Our corporate culture is one of openness, trust, encouragement and clarity of purpose. We train and empower our people to help our customers grow their businesses.

Local footprint

Our branches are conveniently located and have readily available inventory, thereby providing excellent service to local customers and national groups alike.

We also strive to help our customers through the provision of technical, business development and marketing support services.

OUTPUTS

Sales growth

Our initiatives to support sales and deliver high levels of customer service differentiate Eurocell from our competitors. We expect this to drive good sales growth.

Sales growth
(excluding acquisitions)

12%

Solid profitability

We have a track record of solid profitability. We experienced some challenges with incremental volume in 2018, but expect our strong sales growth to drive increased returns.

Profit before tax

£22.1m

Expanding the branch network, whilst dilutive until new branches become established, should deliver healthy medium-term results as new branches mature.

Increased use of recycled materials can help mitigate raw material pricing pressure.

Good cash generation

Our operating cash flow conversion is good, particularly in Building Plastics, where a high proportion of customers pay at point of sale or shortly thereafter.

Net cash generated from
operating activities

£17.7m

Good return on sales

Our strong brand, well-invested facilities and capital-light branch expansion programme deliver a good return on sales.

Return on sales¹

12%

¹ Return on sales is Adjusted EBITDA/revenue.

KEY BENEFICIARIES

Shareholders

Our overall strategic objective is to deliver sustainable growth in shareholder value.

Employees

We work hard to train and develop our people, and provide rewards commensurate with our goal to be an employer of choice.

SEE PEOPLE ON PAGE 22

Fabricators

Through high-quality products and a strong focus on customer service, we have developed a very loyal customer base.

Small builders & installers

The independent sole traders that visit our branches benefit from the one-stop shop offering we provide.

House builders

House builders appreciate the quality of our products and benefit from Eurocell coordinating our fabricators' offering to meet their requirements.

Installers

We aim to make our products as easy as possible to work with, which is very attractive to our direct or indirect installer base.

OUR STRATEGY

Our overall objective is to deliver sustainable growth in shareholder value by increasing sales and profits at above market level growth rates through leadership in products, operations, sales, marketing and distribution. We have five key strategic priorities:



STRATEGIC PRIORITIES



Increase the use of recycled materials

Increased use of recycled material to help mitigate raw material pricing pressure, as well as enhance the stability and reduce the carbon footprint of our manufactured products.



Target growth in market share

Increase market share of rigid PVC profiles to drive sales and profit growth in Profiles.



Expand our branch network

Investment in new branches to increase market share of foam PVC profiles, and drive sales and medium-term profit growth in Building Plastics.



Develop innovative new products

Maintain market leadership by offering the latest in product innovation.



Explore potential bolt-on acquisitions

Consider acquisition opportunities when they arise.

2018 PROGRESS

- Increased use of recycled material to 9.5k tonnes (2017: 8.3k tonnes) through investment in Ilkeston site.
- Usage up from 4.1k tonnes in 2015.
- Acquisition of Ecoplas in August.

Tonnes processed in the recycling plant

23.7k

- Organic sales growth of 12%.
- Growth driven by existing and new accounts.
- 17 new accounts (following 25 in 2017).
- Growth in trade and new build fabricators alike.

Estimated market shares Profiles

14%

Building Plastics

21%

- 8 new branches opened.
- 4 branches added through acquisition of Kent Building Plastics.
- Total estate now 202 branches, with 61 new sites 2016-2018.

Growth in revenue from new branches opened in 2017/18

£8.8m

- Coastline – weatherproof lightweight composite cladding for use on coastal properties.
- Skypod and Skypod Acute – product enhancements.

Product ranges launched

14

- Acquisition of Ecoplas in August, a PVC window recycling business.
- Acquisition of Kent Building Plastics in December, a distributor with 4 branches in the south-west.

Acquisitions completed

2

2019 FOCUS

- Investment in Ilkeston and Ecoplas sites to increase usage by a further 3k tonnes.

- Seamless new account onboarding process.
- Investment in new extrusion capacity to ensure good return on higher volumes.
- Continue to build prospect pipeline.

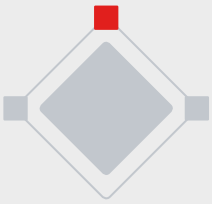
- New management team progressing initiatives to improve profitability of existing estate.
- Long-term target remains up to 350 sites, but fewer openings expected in 2019.

- Introduction of Eurologik flush sash.
- Other enhancements to existing products and complementary new product offerings.

- Integration of Ecoplas and Kent Building Plastics.
- Continue to develop acquisition pipeline and consider acquisition opportunities as they arise.

Offering the widest product range

MANUFACTURER



STRATEGIC PRIORITY



We sell a wide range of manufactured products: rigid and foam PVC profiles, other PVC building products, and composite and panel doors. We also manufacture certain ‘made-to-order’ products and we sell a wide range of third-party traded goods. These products are described below.

Manufactured Products

Our rigid PVC profiles are sold to third-party fabricators, who produce windows, trims, cavity closers systems, patio doors and conservatories for their customers. We offer a number of different window systems to our fabricators, including Aspect, Modus, Eurologik and Charisma.

Our foam PVC products are used mostly for roofline and are supplied to customers through our nationwide branch network. Products in the roofline range include soffit, capping and fascia boards.

When we develop new products, we look to include as much recycled content as possible. For example, our Eurologik and Modus window systems contain approximately 44% of recycled material.

Our secure and energy efficient PVC and composite doors are manufactured by Vista Panels, based on the Wirral. Distribution may be direct to trade customers or through our branch network.

Made-to-Order Products

We offer a wide range of made-to-order products, both to fabricators and via our branch network.

The made-to-order offering to our fabricators is a wide range of coloured PVC rigid profile (‘foiled’ product). All of our manufactured window systems are available in over 30 different colour options, with lead times of just 7 days. Foiling is becoming an increasingly important part of the sales mix, with sales of rigid foiled product up 25% in 2018.

The made-to-order offering through our branches includes windows (which have been fabricated by third parties using profiles manufactured by the Profiles division), composite and panel doors, bi-fold doors, Equinox roofs and Skypod sky-lights.

Developing innovative new products

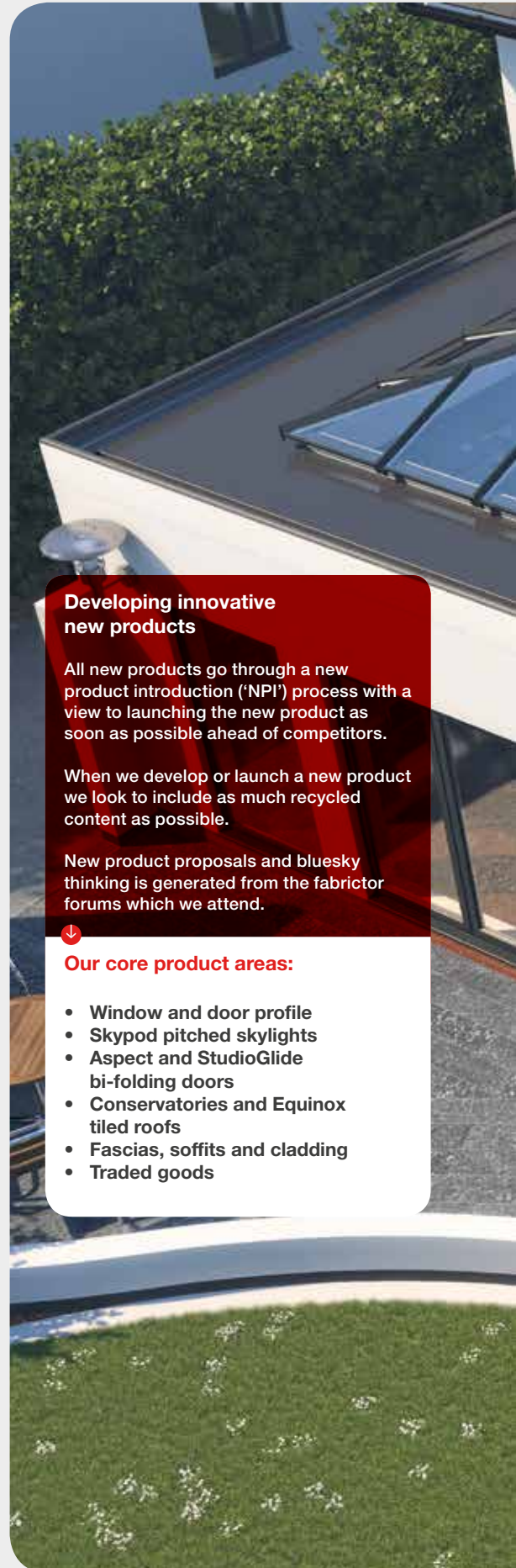
All new products go through a new product introduction (‘NPI’) process with a view to launching the new product as soon as possible ahead of competitors.

When we develop or launch a new product we look to include as much recycled content as possible.

New product proposals and bluesky thinking is generated from the fabricator forums which we attend.

Our core product areas:

- Window and door profile
- Skypod pitched skylights
- Aspect and StudioGlide bi-folding doors
- Conservatories and Equinox tiled roofs
- Fascias, soffits and cladding
- Traded goods





4

Roofline
A range of products including soffits and fascias.

1

Windows and cills
A range of window systems and colours available.

Aspect bi-folding doors
A concertina door which seamlessly connects outdoor and indoor spaces in all kinds of buildings.

3

2

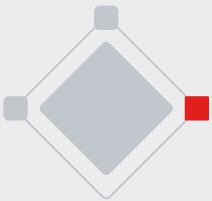
Skypod
Glass lantern roof for pitched and flat roofs.

Sale of made-to-order value added products

11%

Increasing maturity of *our branches*

DISTRIBUTOR



The Building Plastics division operates through a national network of branches and distributes a range of Eurocell manufactured and branded foam PVC roofline products and Vista doors, as well as third-party ancillary products.

Branches

Our network of over 200 branches sell to installers, small builders, roofing contractors and independent stockists.

One of our objectives is to be a one-stop-shop for our customers. Each branch offers a wide range of Eurocell manufactured foam PVC products, as well as made-to-order products.

The branches also sell a wide range of third-party products such as sealants, tools and rainwater products as well as offering a range of made-to-order products such as Skypod and Equinox.

STRATEGIC PRIORITY

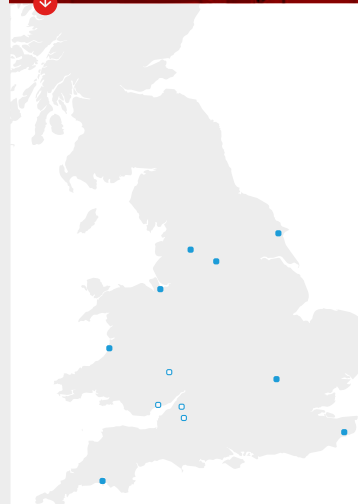


➔ Find your local store at
eurocell.co.uk/branch-finder



**Acquisition of
Kent Building Plastics**

Kent Building Plastics was acquired in December 2018 and is a building plastics distributor with 4 branches located in the south-west of England. The business model of Kent Building Plastics is in line with the Building Plastics branch network and integration is progressing to plan.



Number of new
branches in 2018
(including acquisitions)

12



“

PROGRESS WITH KEY INITIATIVES

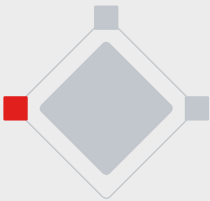
We are making progress with initiatives to improve profits as well as driving towards a more consistent offering across the stores.”

Andy McDonnell
Eurocell Building Plastics



Investing in more recycling

RECYCLER



STRATEGIC PRIORITY



Our objective is for recycling to be at the heart of our operation and we have two recycling plants which are located in Ilkeston and Selby.

Protecting our Margin

The use of recycled material in the manufacture of PVC rigid products provides a substantial saving in cost compared to virgin resin compound. Using recycled material also enhances stability and lowers the carbon footprint of our manufactured products.

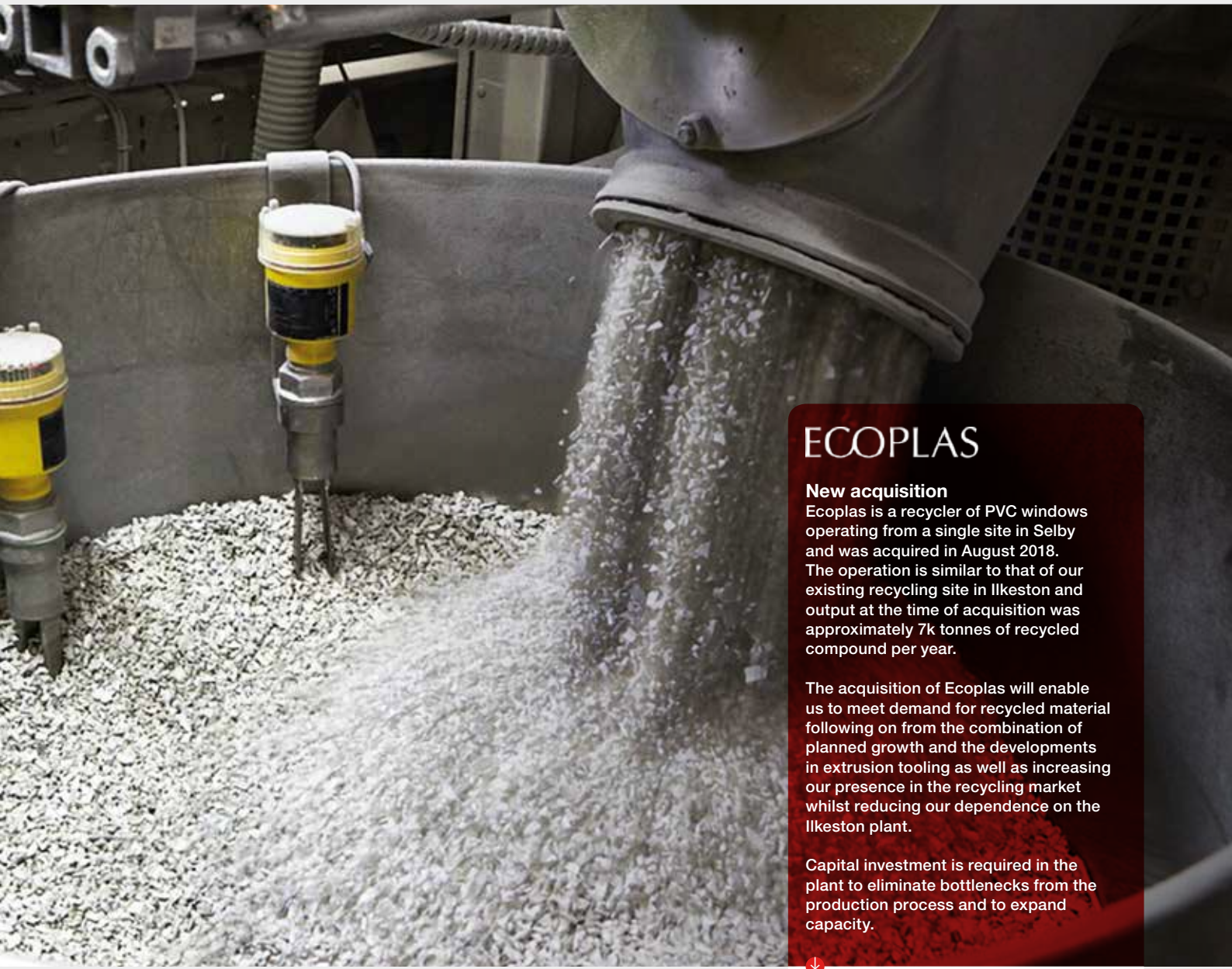
We recycle both customer factory offcuts ('post-industrial' waste) and old windows that have been replaced with new ('post-consumer' waste) at our two recycling plants in Ilkeston (Eurocell Recycle) and Selby (Ecoplas). Both sites produce recycled material in the form of pellets, micronised and granulate material. The recycled material is then used to generate brand new extruded products.

Ilkeston (Eurocell Recycle)

At our Ilkeston site in 2018 we recycled 16.5k tonnes (over 1.5 million frames) of post-consumer waste, which would have otherwise been sent to landfill, and 7.2k tonnes of post-industrial waste. Of the recycled material produced, 9.5k tonnes (generated predominately from post-consumer waste) was used alongside virgin resin in the manufacture of many of our PVC rigid profiles.

We also used 5.6k tonnes of the recycled material produced (being almost exclusively derived from post-industrial waste) for use in products which are manufactured from 100% recycled material, including thermal inserts and cavity closer systems.





ECOPLAS

New acquisition

Ecoplas is a recycler of PVC windows operating from a single site in Selby and was acquired in August 2018. The operation is similar to that of our existing recycling site in Ilkeston and output at the time of acquisition was approximately 7k tonnes of recycled compound per year.

The acquisition of Ecoplas will enable us to meet demand for recycled material following on from the combination of planned growth and the developments in extrusion tooling as well as increasing our presence in the recycling market whilst reducing our dependence on the Ilkeston plant.

Capital investment is required in the plant to eliminate bottlenecks from the production process and to expand capacity.



WHY CHOOSE EUROCELL RECYCLE



Benefits of recycling

Reduce waste to landfill

By recycling old windows ('post-consumer') we are reducing the amount of waste sent to landfill.

Sustainability

The use of recycled material enhances product stability and lowers the carbon footprint of our manufactured products.

Pricing pressures

Increasing the use of recycled material in our manufactured products helps to mitigate raw material price increases.

Increase in recycled tonnes consumed

14%

CORPORATE SOCIAL RESPONSIBILITY

PEOPLE

- Our vision and values
- Health and safety
- Incentives and rewards
- Training and development
- Equality and diversity

ENVIRONMENT

- Greenhouse gas data
- Operation Clean Sweep

CUSTOMERS

- Service levels
- Quality Policy Statement
- Sustainable and quality products

SUPPLIERS

- Ethical and sustainable sourcing
- Modern slavery

COMMUNITY

- Nominated charities
- Supporting our local community

NON-FINANCIAL INFORMATION STATEMENT

“One team, customer centric, driving world class sustainable solutions everywhere we operate.”

People

Our Vision and Values

In 2018, we launched our new Vision and Values statements at our annual Leadership Conference. Senior managers then held a series of workshops with their own teams to roll the materials out across the Group.



We believe that engaging all of our employees and galvanising their efforts behind these four key values will set us well on the way towards realising our vision and gives us the best possible chance of achieving our strategic objectives.

Health and safety

We employ over 1,600 people. The safety and the well-being of these employees and our contractors is our first operational priority.

	2018	2017
Injury frequency rate ¹	5.7	6.8
Lost time injury frequency rate ²	0.9	1.4

¹ Injuries per 100,000 hours worked.

² Lost time accidents per 100,000 hours worked

We made good progress with our two key health and safety performance measures in 2018. Our injury frequency rate fell from 6.8 to 5.7 and our lost time injury frequency rate fell from 1.4 to 0.9. These results reflect the hard work of the health and safety team and of our employees to reduce the risk of incidents in the workplace.

We recorded no major injuries in 2018 under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 ('RIDDOR'). The number of minor RIDDOR injuries reported in 2018 was 9, compared to 16 in 2017.

Our health and safety performance continues to benchmark well with industry standards.

Incentives and rewards

Our remuneration policies remain competitive and packages include combinations of salary, performance related pay and a defined contribution pension scheme.

In 2018 we launched 'Eurxtras', a staff benefits platform that entitles all of our employees to benefit from savings and special offers from a wide range of partners, including travel companies, retailers, insurers and entertainment providers. This platform also facilitates user friendly communication with all members of staff, allowing the business to provide the latest news from across the organisation, links to online training and resources, and other important messages and alerts.

We also launched a second Save As You Earn sharesave scheme in June 2018. Approximately 40% of our employees now participate in one of the two schemes.

Training and development

We continue to invest in the training and development of our staff, and support them in the delivery of our Group-wide and individual objectives.

We provide a number of training programmes for our teams, using a combination of internal and external service providers. In addition, we provide financial and study leave support for our trainees who are in the process of obtaining a professional qualification.

During 2018 we established 10 training centres across the country. These are used primarily to provide training to our Building Plastics colleagues to help improve their knowledge of the increasingly wide range of products available in our branches, allowing them to provide better support and service to our customer base.

Within the Group we also offer e-learning training programmes to employees. During 2018, staff from across the business have completed and passed over 4,000 e-learning courses.

Apprenticeships are an important part of the development of our future talent pools. As a Group we seek to take advantage of the opportunities provided by the Government's Apprentice Levy. We have 15 apprentices working towards a qualification under Levy-compliant apprenticeships, in areas of the business as diverse as production, warehousing, customer experience and finance. Apprentices spend 4 days a week working and learning within the business, supplemented by 1 day a week spent at college studying towards a relevant technical qualification.

We will continue the roll out of apprenticeships across the business, aiming to upskill our existing employees as well as support new roles within the business. This is just one component of our wider plans to invest more in the training and development of our employees in the coming years.

Overall, we work hard to ensure we remain a local employer of choice, to help us attract and retain talented people.

Equality and diversity

Equality and diversity form part of our core values.

Our equal opportunities policy requires that we give full and fair consideration to applications for employment by disabled people. In the event of a colleague becoming disabled, every effort will be made to ensure that their employment with us continues and that appropriate support is available.

Our colleagues come from wide and diverse backgrounds, nationalities and ethnic and religious groups and we respect and embrace cultural differences wherever we operate.

We recognise the benefits of encouraging diversity across the business and believe that this will contribute to our continued success. All appointments are made based on merit and are measured against specific objective criteria, including the skills and experience needed for the position. We remain committed to increasing the participation of women throughout the Group, including at Board level, within the Steering Group and senior management.

Gender analysis

	Male no.	%	Female no.	%	Total average no.
Directors	6	86	1	14	7
Executive Committee	6	86	1	14	7
Senior Managers	20	77	6	23	26
Other Employees	1,437	88	189	12	1,626
Total	1,469	88	197	12	1,666

Environment

We are committed to protecting and minimising our impact on the environment.

Recycling now sits at the very heart of our operations and we are proud to be the leading recycler of PVC windows in the UK.

We are committed to increasing the use of recycled PVC and improving the sustainability of our products and our business. We have invested more than £10m over the past decade in expanding the recycling operations at our plant in Ilkeston. In 2018, we acquired Ecoplas, another PVC window recycling plant based in Selby.

During the year, we rescued more than 1.6 million window frames from landfill, up from c.1 million in 2017. These frames are recycled at one of our facilities, with the resulting compound reused in our manufacturing operations to make new extruded products. We increased the use of recycled PVC in our manufacturing operations from 8.3k tonnes to 9.5k tonnes in 2018, representing c.17% of material consumption. We intend to continue this journey, with more investment to expand our recycling capability at both plants planned for 2019.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Environment continued

More generally, we operate in compliance with all relevant environmental legislation and we strive to use pollution prevention and environmental best practice in all that we do. We recognise that our operations result in emissions and waste and we are committed to control, recover and reuse PVC waste wherever possible.

We promote the efficient use of all materials and resources throughout our facilities, particularly non-renewable resources, and continue our development of sustainably sourced products using recycled materials wherever possible.

Environmental concerns and impacts are a consideration in all of our decision making and activities. We promote environmental awareness amongst our employees and encourage them to work in an environmentally responsible manner. This is achieved through training and education, informing our employees about environmental issues that may affect their work.

Emergency response procedures are maintained where required by legislation or where significant health, safety or environmental hazards exist.

Our general environmental objectives are set in alignment with legislation and are continually reviewed to ensure they are being met. Our environmental policies apply to all our operations and we make sure sufficient resources are made available to ensure that they are implemented. We strive to continually improve our environmental performance and review our policies regularly in the light of planned future activities.

Greenhouse gas data

We are reporting our greenhouse gas ('GHG') emissions as part of our Strategic Report and our GHG reporting period is 1st October 2017 to 30th September 2018. Previously we reported on a calendar year basis, however this resulted in difficulties in getting the data for the final months due to timing lags on invoices from suppliers, resulting in estimations. This data is used to report against our annual financial data, which keeps a calendar year reporting period.

GHG emissions for the Group for the period ending 30 September 2018 have reduced by 11% on emissions reported for 2017 and were, in tonnes of carbon dioxide equivalent (tCO₂e):

Source	2018	2017	Change
Fuel Combustion (stationary)	420	446	(6)%
Fuel Combustion (mobile)	6,417	6,365	1%
Facility operation	72	64	13%
Purchased electricity	16,007	18,792	(15)%
Total	22,916	25,666	(11)%

Overall emissions have been on a general downward trend since the previous submission. The most notable change is that emissions from electricity has decreased annually since 2014. This is mainly due to the falling national grid emission factor, driven by the closure of coal fired power stations and their replacement with gas and renewables.

Annual comparison and emissions intensity:

tCO ₂ e	2018	2017	Change
Total emissions	22,916	25,666	(11)%
Emission intensity ¹	90	114	(21)%

¹ Expressed in tCO₂e per £m revenue.

Methodology and emission factors:

These emissions were calculated using the methodology set out in the Environmental Reporting Guidelines (ref PB 13944), published by the Department for Environment, Food and Rural Affairs in June 2013. Emissions are taken from the Department for Business, Energy, Industrial Strategy emissions factor update published in 2018.

Operation Clean Sweep

In 2018 we joined a campaign called 'Operation Clean Sweep', the aim of which is to help plastic resin handling operations work towards achieving zero pellet, flake and powder loss.

Customers

Service levels

In terms of quality, our focus has been on implementing key principles of quality management and measuring systems. These are captured in our customer-focused Quality Policy Statement (see opposite), which captures the way we aspire to work at Eurocell.

Sustainable and quality products

We adhere to industry-leading specifications and ISO-based standards for Quality & Environmental Management and British Standards for health and safety.

Suppliers

Ethical and sustainable sourcing

We ensure that suppliers understand and work with us to meet our aspirations.

Over 70% of our suppliers have been supplying Eurocell for more than 3 years. All supply and tender agreements include the following statement:

"The supplier advocates the principles of Corporate Social Responsibility and requires a serious approach to social-economic issues from its supply chain.

All of our suppliers are required to confirm their commitment to the following principles:

- The obligation to the global and local environment;
- Respect for fundamental human entitlements;
- In purchasing activities, a commitment to improving the organisation's performance in relation to fairness to all;
- A system of internal and external reporting which matches espoused values;
- A proactive promotion of sustainable practices and products;
- Recognition that there is responsibility to add value to communities and societies upon which the organisation has influence; and
- An ethical approach to purchasing activities."

Modern slavery

We are absolutely committed to preventing slavery and human trafficking in our business activities, and to ensuring that our supply chains are free from these practices.

We aim to identify modern slavery risks and prevent slavery and human trafficking in our operations. We made good progress during 2017 in identifying any potential risks in the top 80% of our suppliers. In cases where medium or high risk is identified, further assessments are being carried out.

Our full Anti-Slavery and Human Trafficking Statement is published on our website at investors.eurocell.co.uk.

Community

Nominated charities

We supported Muscular Dystrophy UK in 2018, providing sponsorship and the facility to receive donations via counter-top collections across our branch network. We also matched staff contributions pound-for-pound in donating money to MacMillan Cancer Support, Save the Children and the Royal Derby Hospital Chemotherapy Department.

Supporting our local community

In the local community, we provided sponsorship to the Rigby and Alfreton Musical Theatre Company, and to a teenager from the Alfreton area who represented England in the European ITF Taekwondo Championships in Poland.

In 2018 we also participated in the Great Plastic Pick Up, a national campaign led by Keep Britain Tidy. Teams from our head office joined other local businesses to pick up litter in and around Alfreton Park.

Non-financial Information Statement

This section of the Strategic report constitutes our Non-financial Information Statement, produced to comply with sections 414CA and 414CB of the Companies Act. The information listed is incorporated by cross-reference.

Reporting Requirement	Policies and standards which govern our approach ¹	Information necessary to understand our business and its impact, policy, due diligence and outcomes.
Environmental matters	Corporate Vision and Values Corporate Social Responsibility Policy	Environment pp. 23-24 Investing in more recycling pp. 20-21
Employees	Corporate Vision and Values Corporate Social Responsibility Policy Employee Handbook	People pp. 22-23
Respect for human rights	Corporate Vision and Values Corporate Social Responsibility Policy Privacy Policy Recruitment Policy Anti-Slavery and Human Trafficking Policy Anti-Bullying and Harassment Policy Various information Security Policies Whistleblowing Policy	Equality and diversity p. 23 Modern slavery p. 25
Social matters	Corporate Social Responsibility Policy	Customers p. 24 Community p. 25
Anti-corruption and anti-bribery	Corporate Social Responsibility Policy Anti-bribery policy	Whistleblowing and bribery p. 51
Description of principal risks and impact of business activity		Risk Management pp. 34-35 Principal risks and uncertainties pp. 36-39
Description of the business model		Overview p. 1 At a glance pp. 2-3
Non-financial key performance indicators		Operational Performance pp. 9-11

¹ Certain Group Policies and internal standards as guidelines are not published externally.

The policies noted above form part of our policy framework which is founded on our risk management principles. The policies which underpin these principles define mandatory requirements in respect of risk management. Controls and processes are in place to ensure compliance.

Quality Policy Statement

Customers

To be trusted by our customers in everything we do. Working in partnership with them to ensure that they are able to differentiate their service and product offerings from their competitors. Easy to do business with and always responsive to their needs, in a consistent, timely, courteous and flexible manner.

Quality

Adherence to industry-leading specifications and ISO-based standards for Quality & Environmental Management and British Standards for Health and Safety. Ensuring that suppliers understand and work with us to meet our aspirations.

Constant improvement

Uniform standards across our business benchmarked against industry best practice, constantly reviewing and improving processes. Benchmarked leading industry best practice transferred across businesses and customers with a view to reducing waste and improving consistency. Always tracking and measuring through business and departmental KPIs reflecting the business objectives.

Everyone's responsibility

All departments are responsible for constantly reviewing, measuring, checking and improving the quality of their work and ensuring that the necessary training, facilities and tools are available to get the job done right first time through a culture of continuous improvement. All departments working together and supporting each other with no barriers and no silos.

Profiles

The Profiles division manufactures extruded rigid and foam PVC profiles.

We make rigid and foam products using virgin PVC compound, the largest component of which is resin. Our rigid products also include recycled PVC compound, produced at our market-leading recycling facilities.

Rigid PVC profiles are sold to third-party fabricators, who produce windows, trims, cavity closer systems, patio doors and conservatories for installers, retail outlets and house builders. Foam products are used for roofline and are supplied to customers through our nationwide branch network in the Building Plastics division.

As such, all of our manufacturing margin is recorded within the Profiles division, which therefore also benefits from expansion of the branch network.

The Profiles division also includes Vista Panels, S&S Plastics and Ecoplas.

Revenue

Third-party revenue was up 14% in 2018 to £107.7 million (2017: £94.2 million), which includes an organic sales increase of 12%. The remaining growth was driven by the acquisition of Ecoplas in August 2018.

Organic growth was delivered consistently across new build and trade fabricators, with new build continuing to represent approximately one-third of rigid profile sales. This growth includes strong contributions from both existing and new accounts. Following the introduction of 25 new accounts in 2017, we added 17 in 2018.

We have been pleased with recent market share gains and we believe that we are now the largest supplier of rigid profile to the UK market. Our dedicated specifications teams have been successful in generating demand, well supported by our ability to supply a comprehensive product range through the fabricator network. As well as windows, this includes composite doors, PVC and aluminium bi-fold doors. We also offer the only 60-minute fire rated cavity closure system on the market, and our InSite construction hinge allows timber frame and modular home manufacturers to install fully glazed windows into wall panels in the factory for off-site construction.

Profiles	2018 £m	2017 £m	Change %
Third-party Revenue	107.7	94.2	14%
Organic	105.5	94.2	12%
Ecoplas ¹	2.2	–	n/a
Inter-segmental Revenue	51.8	45.4	14%
Total Revenue	159.5	139.6	14%
Adjusted EBITDA	22.0	23.1	(5)%

¹ Acquired August 2018.

For 2019 we have developed, through Security Hardware, a range of hardware to complement our window profile, to be launched shortly. This will enable our fabricator customers to offer a fully-certified common specification of window (including hardware), which will support our sales to the new build market and help grow sales of windows through branches.

Organic sales also includes a strong contribution from Vista Panels, where sales were up 21% on 2017. This was driven by a significant increase in sales of composite doors to the new build sector.

Ecoplas has traded in line with expectations since the acquisition in August.

Adjusted EBITDA

Adjusted EBITDA was £22.0 million (2017: £23.1 million), a decrease of 5%.

Gross margin and EBITDA in the Profiles division are lower in 2018, largely as a result of the manufacturing conditions described in the Chief Executive's Review, and rising input costs in some areas, including electricity.

In response we have already taken action to expand the capacity of our operations and improve production efficiency, with more to follow in 2019. In addition, with customer service now back to normal levels, we are implementing selling price increases in H1 2019.

Ian Kemp

Eurocell Profiles

MANUFACTURED PRODUCTS

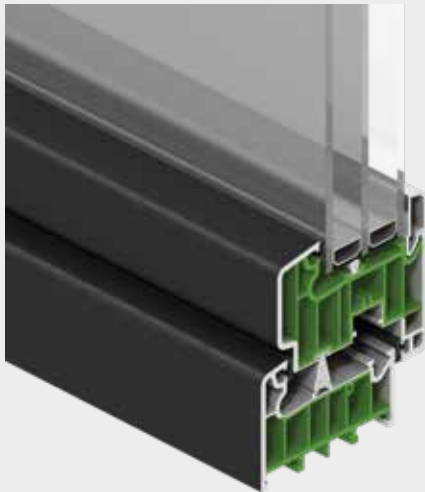
↓ PVC rigid products

Within the manufacture of PVC rigid profile, we look to include as much recycled content as possible. Our modus and Eurologik window systems contain approximately 44% of recycled material.



↓ Foiled products

All of our manufactured window systems are available in over 30 different colour options, with lead times of just 7 days.



↓ PVC foam products

We manufacture PVC foam profiles which are used for roofline, these are supplied to customers through the branch network.



YEAR OF GROWTH

In the Profiles division, sales growth reflects a good performance from new build and trade fabricators alike, as well as the positive impact of new account wins."



Building Plastics

Building Plastics distributes a range of Eurocell manufactured and branded PVC foam roofline products and Vista doors, as well as third-party manufactured ancillary products. These include windows made by our fabricator customers using products manufactured by Profiles, sealants, tools and rainwater products.

Distribution is through our national network of 202 branches to installers, small and independent builders, house builders and nationwide maintenance companies. The branches also sell roofline products to independent wholesalers.

The Building Plastics division includes Security Hardware, acquired in February 2017, and Kent Building Plastics, acquired in December 2018. Security Hardware is a supplier of locks and hardware, primarily to the RMI market, and Kent Building Plastics is a supplier of building plastic materials in the south-west of England.

Revenue

Building Plastics third-party revenue was up 12% to £146.0m (2017: £130.7m). We have continued to gain market share with growth comprised of an increase in like-for-like sales of 5%, as well as the impact of branch openings and the acquisitions of Security Hardware and Kent Building Plastics.

Like-for-like sales includes growth from branches opened in 2016 and prior. Growth also includes the benefit of the initiative to improve our proposition as a one-stop shop for customers, via the roll-out of additional product lines, with like-for-like sales of traded goods up 9% in the period.

In terms of new branches, we opened 8 new sites in 2018, compared to 31 in 2017. We added a further 4 branches in December via the acquisition of Kent Building Plastics, making a total of 12 new sites for the year. We now have an estate of 202 branches providing national coverage across the UK, which offers a significant competitive advantage. Branches opened in 2017/18 added £8.8 million to sales in 2018.

Security Hardware is performing in line with our expectations. Kent Building Plastics was acquired in December 2018. The integration of both is progressing to plan.

Adjusted EBITDA

Adjusted EBITDA for 2018 was £8.4 million (2017: £8.6 million), a decrease of 2%.

Gross margin and EBITDA in the Building Plastics division are lower in 2018. We experienced cost inflation in certain areas last year, as well as some general margin erosion and a change in mix (e.g. higher sales growth in lower-margin traded goods). However, whilst we realised some selling price increases, because the manufacturing conditions described in the Chief Executive's Review impacted on customer service, we were unable to recover all of the cost inflation we experienced. With customer service now back to normal, we are implementing selling price increases in H1 2019.

Higher overheads in Building Plastics includes the impact of new branches in 2017/18. New branches are a key driver of future sales and profit growth, but they do create downward pressure on profitability in the short-term due to investment in our teams at new sites and in supporting central infrastructure.



YEAR OF GROWTH

In the Building Plastics division, sales growth is being driven by the increasing maturity of branches opened in the last three years. Like-for-like growth rates have also remained robust."



BRANCH NETWORK

No. of branches (at the end of the year)

2018	202
2017	190
2016	159
2015	141
2014	128

Note: 2018 includes the acquisition of 4 branches

Average revenue per branch (£000)

2018	679
2017	674
2016	722
2015	681
2014	711

Indicative branch economics (rounded)

Branch open	< 2 years	2-4 years	> 4 years
No. of Branches ¹	39	33	126
Average Sales per Branch (£000)	300	450	850
Return on Sales per Branch (%) ²	Small loss	Up to 10%	Mid-teen %

¹ Excluding Kent Building Plastics.

² EBITDA as % of revenue, before regional infrastructure and central costs.



Building Plastics	2018 £m	2017 £m	Change %
Third-party Revenue	146.0	130.7	12%
Organic	142.6	128.2	11%
Security Hardware ¹	3.1	2.5	21%
Kent Building Plastics ²	0.3	–	n/a
Inter-segmental Revenue	1.3	1.1	15%
Total Revenue	147.3	131.8	12%
Adjusted EBITDA	8.4	8.6	(2)%

¹ Acquired February 2017.

² Acquired December 2018.

We estimate that investment in 39 new branches in 2017/18 created a drag on EBITDA of approximately £1.5 million in 2018, which is a similar level to 2017.

When the branches opened in the last two years mature, we expect a good improvement in performance for the division. We continue to believe new branches should reach a break-even run rate before their second anniversary, and be mature in 4-5 years.

We are making progress with initiatives to improve profits in Building Plastics, including the introduction of a more rigid pricing architecture, revised sales and account management structures and better stock availability. We are also continuing the drive towards a more consistent offering across the stores, demonstrated with sales of made-to-order value added products (e.g. windows and doors) through branches up 16% in 2018.

Following the retirement of Tony Smith in 2018, we now have a new management team in Building Plastics. The team has reaffirmed that our overall strategic objective for the division remains to provide world-class operations from up to 350 sites. However, in 2019 our principal focus will be to improve the profitability of Building Plastics 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.

Andy McDonnell

Eurocell Building Plastics



“

We are in a strong financial position, which provides flexibility and options for the future.”

Revenue

Revenue for 2018 was £253.7 million (2017: £224.9 million), which represents growth of 13%, or 12% excluding acquisitions. Like-for-like sales growth (i.e. excluding the impact of acquisitions and branches opened in 2017/18) was 8%.

Sales have been driven by strong like-for-like growth in Profiles (£11.3 million, or 12% for the division), including the benefit of new fabricator account wins, solid like-for-like growth in the branch network (£5.6 million, or 5% for the division) and the positive impact from branches opened in 2017/18 (£8.8 million, or 7% for the division). Acquisitions added £3.1 million to sales in 2018.

Gross margin

Overall, our gross margin reduced by 150 bps from 51.0% in 2017 to 49.5% in 2018. The manufacturing conditions described in the Chief Executive's Review are a significant driver of this reduction. We have already taken corrective action to increase production capacity and improve manufacturing efficiency, with more to follow in 2019.

In terms of input costs, we have also seen increases in the price of some raw materials (including resin), electricity and traded goods. We continue to mitigate cost inflation via the implementation of selling price increases where possible. However, the production capacity constraints in 2018 also impacted on customer service levels, thereby delaying our ability to realise selling price increases in the second half, resulting in a further reduction in gross margin. With service levels back to normal, we are implementing selling price increases in H1 2019.

These margin pressures were partially offset by a benefit from the increased use of recycled material in our manufactured goods to 9.5k tonnes (2017: 8.3k tonnes).

Group	2018 £000	2017 £000
Revenue	253,691	224,906
Gross profit	125,583	114,624
Gross margin %	49.5%	51.0%
Overheads	(95,276)	(82,890)
Adjusted EBITDA¹	30,307	31,734
Depreciation and amortisation	(7,095)	(6,677)
Adjusted operating profit¹	23,212	25,057
Finance costs	(705)	(553)
Adjusted profit before tax¹	22,507	24,504
Tax	(3,319)	(4,089)
Adjusted profit after tax¹	19,188	20,415
Adjusted basic EPS (pence per share)¹	19.1	20.4
Non-underlying items	431	(773)
Reported profit after tax	19,619	19,642
Reported basic EPS (pence per share)	19.6	19.6

¹ See adjusted profit measures on page 32.

Distribution costs and administrative expenses (overheads)

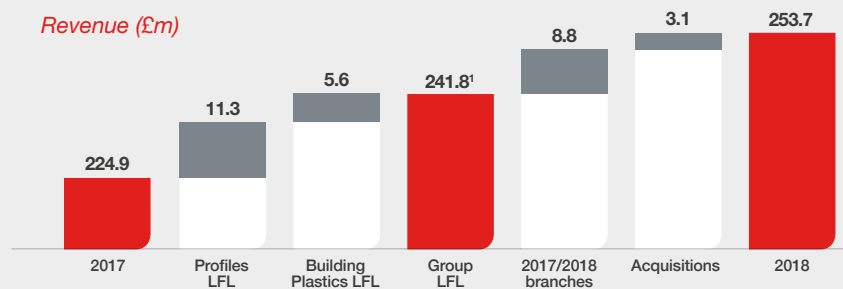
Overheads for the year were £95.3 million (2017: £82.9 million), representing a similar percentage of sales for both periods. The increase includes £3.3 million as a result of new branches opened in 2017/18 and £2.1 million from acquisitions. The balance of £7.0 million relates to an increase of 8% in the like-for-like organic business, where sales growth was strong at 8% as described above.

However, this balance of overheads also includes the impact of production capacity constraints, being primarily costs incurred to clear the sales order backlog. We estimate these costs were approximately £1.5 million, including overtime and weekend working, particularly in foiling, and higher warehouse and distribution costs, as we worked to minimise disruption to our customers by increasing the frequency of deliveries. The order backlog has now returned to normal levels.

Depreciation and amortisation

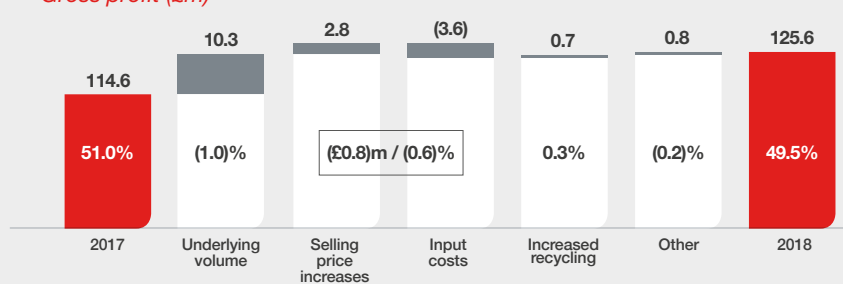
Depreciation and amortisation for 2018 was £7.1 million (2017: £6.7 million), with the increase due to amortisation of acquired intangibles relating to the acquisitions of Security Hardware and Ecoplas, as well as recent capital investment including expansion of our co-extrusion production capacity.

Revenue (£m)

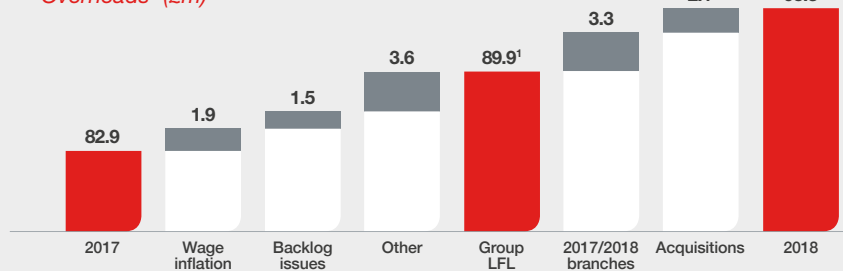


¹ Like-for-like sales up 8%.

Gross profit (£m)



Overheads² (£m)



¹ Like-for-like overheads up 8%.

² Distribution costs and administration expenses.

GROUP FINANCIAL REVIEW CONTINUED

Finance costs

Finance costs for the year were £0.8 million (2017: £0.6 million), reflecting higher average net debt in 2018 (£0.6 million), interest on debt assumed on the acquisition of Ecoplas (£0.1 million) and unamortised arrangement fees expensed following the refinancing in December 2018, presented within non-underlying items (£0.1 million). All debt assumed on the acquisition of Ecoplas was repaid in full before the end of the year.

Adjusted profit measures

Adjusted EBITDA, adjusted operating profit and adjusted profit before tax all exclude non-underlying items (see below).

Adjusted profit after tax and adjusted earnings per share exclude non-underlying expenses, the related tax effect and any other non-underlying tax items.

We classify some material items of income and expense as non-underlying when the nature and infrequency merit separate presentation. Alongside statutory measures, this facilitates a better understanding of financial performance and comparison with prior periods.

Non-underlying items

Non-underlying expenses for 2018 of £0.4 million include professional fees related to the acquisitions of Ecoplas and Kent Building Plastics, as well as unamortised arrangement fees from our previous bank facility now expensed following the refinancing in December 2018. Non-underlying expenses for 2017 of £0.8 million include professional fees and earn-out costs related to the acquisition of Security Hardware, as well as the redundancy and settlement costs of a staff reorganisation.

Non-underlying tax for both years includes the tax associated with non-underlying expenses. Non-underlying tax for 2018 also includes the benefit of a second Patent Box claim in the period (£0.9m).

Patent Box is an HMRC approved scheme, allowing a 10% tax rate on profits derived from products that incorporate patents. This second claim in 2018 is presented as non-underlying because we would typically expect to make only one claim in each financial year.

Tax

The effective tax rates on adjusted profit before tax for 2018 and 2017 of 14.7% and 16.7% respectively were lower than the standard corporation tax rate for the year due to the benefit of one Patent Box claim recognised in each year.

The effective tax rate on reported profit before tax was 11.2% (2017: 17.0%) due to the recognition of a second Patent Box claim in 2018.

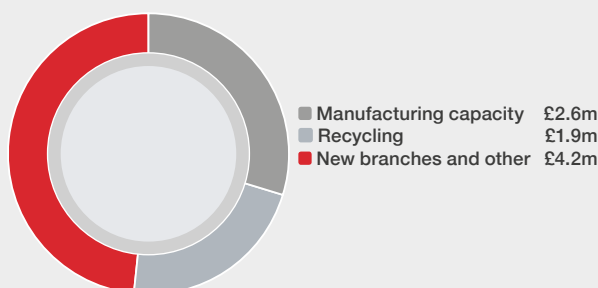
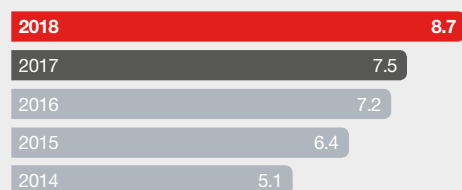
Earnings per share

Taking into account all of the factors described above, adjusted basic earnings per share for 2018 were 19.1 pence per share (2017: 20.4 pence per share).

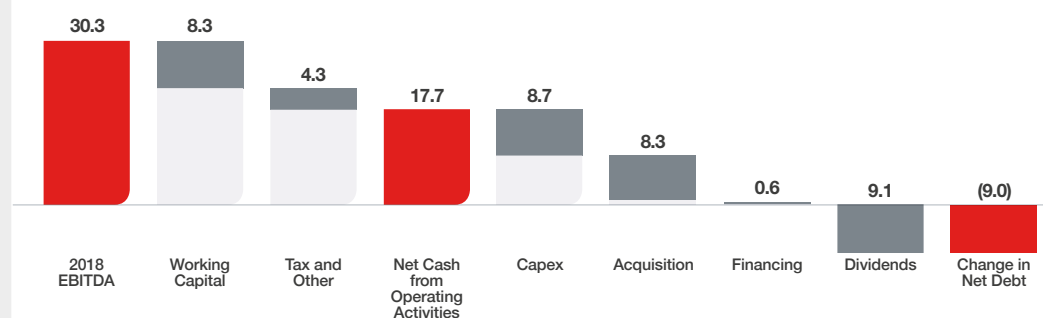
Reported basic earnings per share for 2018 were 19.6 pence per share (2017: 19.6 pence per share).

	2018 pence	2017 pence
Basic earnings per share	19.6	19.6
Adjusted basic earnings per share	19.1	20.4
Diluted earnings per share	19.5	19.6
Adjusted diluted earnings per share	19.1	20.4

Capital Expenditure (£m)



Cash Flow (£m)



Acquisitions

We acquired a 95% shareholding in Ecoplas in August 2018 for an initial consideration of £5.1 million. We expect to acquire the remaining 5% in three to five years' time for up to £1.0m based on business performance. We have recognised a liability equal to the present value of this amount in the balance sheet as at 31 December 2018.

We assumed debt of £1.1 million on acquisition (now repaid out of our bank facility) and have provided incremental working capital funding to the business also of around £1 million, primarily to ease the supply chain for waste material. We incurred capital investment of £0.3 million in 2018, with a further c.£2 million to follow in 2019, to expand capacity and improve the operating environment at the site.

We also acquired Kent Building Plastics in December 2018 for an initial consideration of £2.8m.

Both acquisitions were financed out of our existing bank facility. Their impact on Group earnings for 2018 was not material, but looking forward we expect returns for both to exceed our cost of capital and earnings to be accretive in their first full year.

Dividends

We paid an interim dividend of 3.1 pence per share in October 2018. The Board proposes a final dividend of 6.2 pence per share, resulting in total dividends for the year of 9.3 pence per share (2017: 9.0 pence per share). This represents an increase of 3%.

The dividend will be paid on 22 May 2019 to Shareholders registered at the close of business on 26 April 2019. The ex-dividend date will be 25 April 2019.

Retained earnings as at 31 December 2018 were £57.2 million (2017: £46.7 million). The Company takes steps to ensure distributable reserves are maintained at an appropriate level through intra-Group dividend flows.

Capital expenditure

Capital expenditure for 2018 was £8.7 million (2017: £7.5 million).

We incurred capital expenditure of £2.6 million to expand our manufacturing capacity, including 4 additional co-extrusion lines. We also invested £1.9 million to increase our recycling capacity, primarily at the Ilkeston plant and in the associated co-extrusion tooling. Other capex of £4.2 million includes new branches, as well as a general maintenance capex, a new product showroom, branch refurbishments and various IT-related costs.

We plan to invest c.£5 million in 2019 to expand production capacity and improve manufacturing efficiency in our primary extrusion facilities, including an additional 8 extrusion lines. We also expect to invest around £4 million to expand capacity and improve the environment at our two recycling plants and in the associated co-extrusion tooling. Inclusive of on-going maintenance capex, we therefore expect total capital investment for the Group in 2019 to be in the region of £15 million.

Cash flow

Net cash generated from operating activities was £17.7 million, compared to £23.7 million in 2017.

This includes a net outflow from working capital for 2018 of £8.3 million, comprising increases in stocks (£6.8 million), trade and other receivables (£7.0 million) offset by an increase in trade and other payables (£5.5 million). This compares to a net outflow from working capital of £2.3 million in 2017. The higher outflow in 2018 reflects the impact on working capital of the growth in our business and the support provided to Ecoplas.

More specifically, higher stocks includes an increase in raw materials, which were run down at the end of 2017, but not in 2018 in order to maintain customer service, and the start of a finished goods stock build to help mitigate Brexit risk.

The increases to trade receivables and payables are consistent with the level of growth in 2018. Debtor days were 38 at year end, compared to 37 at the end of 2017.

Net cash generated from operating activities is also stated after tax paid in the year of £4.0 million (2017: £4.6 million).

Other payments include acquisitions (including net debt acquired) of £8.3 million (2017: £1.3 million) and capital investment of £8.7 million (2017: £7.5 million).

Dividends paid represent the final dividend for 2017 of 6.0 pence per share (or £6.0 million) and the interim dividend for 2018 of 3.1 pence per share (or £3.1 million).

Taking all of these factors into account, net debt increased by £9.0 million during the year to £23.5 million at 31 December 2018 (31 December 2017: £14.5 million).

Net debt (£000)	2018	2017	Change
Cash	5,862	11,361	(5,499)
Borrowings	(29,376)	(25,851)	(3,525)
Net debt	(23,514)	(14,490)	(9,024)

Bank facility

In December, we refinanced our unsecured, multi-currency revolving credit facility. The new £60 million facility (up from £45 million) is being provided by Barclays Bank plc and HSBC UK Bank plc and matures in December 2023. The Group operates comfortably within the terms of the facility.

Key Performance Indicators ('KPIs')

We utilise the financial highlights on the inside front cover to assess the financial performance and position of the Group. Pages 2 to 33 detail the performance of the Group using both financial and non-financial benchmarks.

Michael Scott

Chief Financial Officer
14 March 2019

Risk Management

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

Approach to Risk Management

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

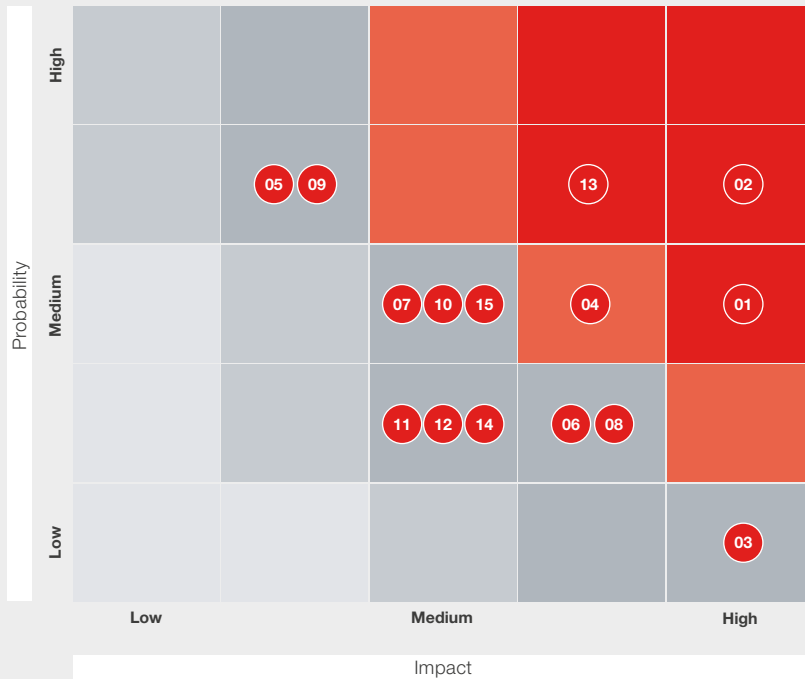
The risk management process sits alongside our strong governance culture and effective internal controls to provide assurance to the Board that risks are being appropriately identified and managed.



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.
- The Group has an executive Risk Management Committee, chaired by the Chief Financial Officer. This Committee meets on a regular basis (generally quarterly). 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.



Principal risks

- 01 Macroeconomic conditions
- 02 Brexit
- 03 Raw material supply
- 04 Raw material prices
- 05 Manufacturing capacity constraints
- 06 Unplanned plant downtime
- 07 Unsuccessful branch network expansion
- 08 Ability to attract and retain key personnel and highly skilled individuals
- 09 Shortages or increased costs of appropriately skilled labour
- 10 Customer credit risk
- 11 Competitor activity
- 12 Corporate and regulatory risks
- 13 Cyber security
- 14 Failure to develop new products
- 15 Failure to identify, complete and integrate bolt-on acquisitions

Internal control

The Group has well-defined systems of internal control.

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 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 is reviewed on a regular basis so that it matches the needs of the business.










In order to further enhance the internal control and risk management processes, KPMG provides an outsourced internal audit service to the Group. KPMG work closely with the Risk Management Committee in delivering the Group's 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
<p>MACROECONOMIC CONDITIONS</p> <p>Our 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.</p> <p>Our private RMI business is strongly correlated to the level of household disposable incomes. Our new build business is particularly influenced by the level of activity in the house building industry.</p> <p>As such, our 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.</p>	 	<ul style="list-style-type: none"> Notwithstanding macro conditions, we expect our strategic priorities and self-help initiatives to support sales and market share growth. Initiatives include: growing market share, investment in our specifications team (targeting new build, commercial and public sector work) and expanding the branch network. We operate comfortably within the terms of our newly refinanced bank facility and related financial covenants. Reducing the pace of branch network expansion in 2018/19 should improve short-term profit and cash flows. 	<ul style="list-style-type: none"> Increased political and economic uncertainty as a result of Brexit. Construction output and general RMI market were broadly flat in 2018. CPA now forecast a marginal pick up in both for 2019. New home registrations continue to increase. UK base rate was increased in 2017 and 2018, partly as a result of increasing inflationary pressure. 	▲
<p>BREXIT</p> <p>There remains significant uncertainty over the impact of Brexit.</p> <p>Risks related to the potential impact on macroeconomic conditions are described above.</p> <p>Almost all of our sales are to UK-based businesses. In addition, the vast majority of our workforce will have the right to remain and work in the UK post-Brexit.</p> <p>However, some of our key raw materials originate in Europe, so any disruption in supplies could impact on our ability to manufacture our products and meet customer demand.</p>	  	<p>Actions taken include:</p> <ul style="list-style-type: none"> 6-month resin supply agreement for H1 2019, to support continuity of supply for our most critical raw material. Some suppliers for other raw materials have agreed to hold extra stocks (very limited capacity at our manufacturing sites). Finished goods stock build programme in progress for key lines where possible. Selective credit insurance now in place. 	<ul style="list-style-type: none"> Increased uncertainty over how/when/if Brexit will be implemented. 	▲
<p>RAW MATERIAL SUPPLY</p> <p>There are only a limited number of PVC resin and certain other raw material suppliers and we operate with limited material storage capacity.</p> <p>As described above (see Brexit risk), failure to receive raw materials on a timely basis could impact on our ability to manufacture products and meet customer demand.</p>	 	<ul style="list-style-type: none"> Raw material tests to identify potential alternative suppliers. Spot market for resin often 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. 	<ul style="list-style-type: none"> Brexit related supply risks increasing as described above. Potential remains for increased resin supply originating from the US to come on line and deliver into Europe. 	▲
<p>RAW MATERIAL PRICES</p> <p>Our manufacturing operations depend on the supply of PVC resin, a material derivative of ethylene which in turn is a derivative of crude oil.</p> <p>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.</p> <p>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.</p> <p>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.</p>	 	<ul style="list-style-type: none"> Where possible we pass through raw material or traded goods price increases to our customers. Increasing the use of recycled material in our manufacturing partially mitigates exposure to resin prices. Resin supply contracts contain mechanisms to help mitigate some variations in price. Use of more than one supplier to provide competitive pricing for many raw materials and traded goods. 	<ul style="list-style-type: none"> Raw material pricing pressures continued into 2018, largely as a result of currency fluctuations and the impact of other uncertainties surrounding Brexit. 	▲

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
<p>MANUFACTURING CAPACITY CONSTRAINTS</p> <p>A requirement to run manufacturing facilities at high levels of utilisation in peak periods (e.g. to meet customer demand) can drive down Overall Equipment Effectiveness ('OEE') and result in other operational inefficiencies.</p> <p>Attempting to satisfy unexpectedly high demand without the requisite infrastructure in place may lead to a failure of people, systems and processes to perform.</p> <p>Together these factors can result in adverse financial consequences.</p>		<ul style="list-style-type: none"> Co-extrusion capacity increased by around 40% in 2018 (5 new lines). Foam capacity increased by around 9% in 2018 (2 new lines). A further 5 co-extrusion and 3 foam lines to be added in 2019. Recruitment of additional trained labour in our foiling plant. Strengthened management team in critical areas of production planning and logistics. End-to-end review of critical order fulfillment processes in progress. 	<ul style="list-style-type: none"> Some of these risks crystallised in 2018, with aspects of the mitigation (e.g. planned capital investment) currently in progress. 	
<p>UNPLANNED PLANT DOWNTIME</p> <p>The business is dependent on the continued and uninterrupted performance of our 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 (e.g. the regulated operation of the recycling facility); breakdowns in machinery; equipment or information systems; prolonged maintenance activity; strikes; natural disasters; and other unforeseen events.</p>	 	<ul style="list-style-type: none"> 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 in place. 	<ul style="list-style-type: none"> Acquisition of Ecoplas has increased our recycling capacity and reduced our reliance on a single recycling plant. 	
<p>UNSUCCESSFUL BRANCH NETWORK EXPANSION</p> <p>We have invested significantly to expand the branch network over the last 3 years.</p> <p>The network, including new branches, may fail to reach the required scale and profitability within an acceptable timeframe.</p> <p>Looking further forward, good new sites may become more difficult to find.</p>	 	<p>New Building Plastics management team progressing initiatives to improve profitability:</p> <ul style="list-style-type: none"> More rigid pricing architecture. Revised field sales and account management structure. Drive to better stock availability and trials of new front-of-house and product displays. Enhanced training to ensure all staff have the ability to sell the full range of products. Profit improvement plan template for lowest performing branches. Improved new site selection using location analysis tools. 	<ul style="list-style-type: none"> Pace of expansion slowed in 2018 to allow focus on consolidating existing estate, with more work to do in this area in 2019. 	
<p>ABILITY TO ATTRACT AND RETAIN KEY PERSONNEL AND HIGHLY SKILLED INDIVIDUALS</p> <p>Our success depends inter alia, on the efforts and abilities of certain key personnel and our ability to attract and retain such people.</p> <p>The senior team have significant experience in the relevant sectors and markets and are expected to make an important contribution to our growth and success.</p>	 	<ul style="list-style-type: none"> Clear strategic direction provides an attractive backdrop to working at Eurocell. Market rate compensation for all personnel, including leadership team. Equity-based long-term incentive plans in place for senior team. 	<ul style="list-style-type: none"> Continued focus on improving employee engagement and communication (e.g. new Group-wide Vision and Values launched in 2018.) 	

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
<p>SHORTAGES OR INCREASED COSTS OF APPROPRIATELY SKILLED LABOUR</p> <p>We are subject to supply risks related to the availability and cost of labour, both in our manufacturing operations and in our branch business. Our headquarters are located in an area of generally full employment.</p> <p>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.</p>		<ul style="list-style-type: none"> • Market level or better salaries and good benefits package. • Induction and training programme. • First SAYE share-save scheme launched for all personnel in 2017, with a second scheme introduced in 2018. • Progressing strategy to improve retention and recruitment, leadership and development, employee engagement and communication. 	<ul style="list-style-type: none"> • Third SAYE scheme planned for 2019. 	
<p>CUSTOMER CREDIT RISK</p> <p>There is an inherent risk that default by a large customer could result in a material bad debt.</p>		<ul style="list-style-type: none"> • In-depth credit review for new and ongoing customer accounts. • Experienced Credit Manager (over 15 years with the Group) and strong credit control team. • Credit insurance implemented for large Profiles accounts from January 2019. 	<ul style="list-style-type: none"> • Increased economic uncertainty and falling consumer confidence may lead to more business failures. • No material bad debts in 2018, but inherent risk remains. 	
<p>COMPETITOR ACTIVITY</p> <p>We have 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.</p>		<ul style="list-style-type: none"> • Strong market and customer awareness, with good intelligence around competitor activity. • Focus on customer proposition and points of differentiation in product and service offering. 	<ul style="list-style-type: none"> • We continued to gain market share in both divisions in 2018. • The more uncertain market environment may have weakened some of our competitors. 	
<p>CORPORATE AND REGULATORY RISKS</p> <p>We may be adversely affected by the crystallisation of unexpected corporate or regulatory risks. These could include health and safety, data, reputational and environmental events, or other legal, taxation and compliance matters.</p>	    	<ul style="list-style-type: none"> • 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. 	<p>Recent developments widen the scope and increase the penalty regime for breaches in these areas. For example:</p> <ul style="list-style-type: none"> • Corporate Criminal Offence of Failure to Prevent the Facilitation of Tax Evasion ('CCO') legislation came into force on 30 September 2017. • General Data Protection Regulations ('GDPR') came into effect in May 2018. 	

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
<p>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).</p>		<ul style="list-style-type: none"> 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 and anti-malware used. Network defences enhanced and wi-fi access controls improved in 2018. Cyber awareness/IT security campaign introduced for all employees in 2018. Financial crime protection and cyber liability insurance in place from January 2019. 	<ul style="list-style-type: none"> This remains a high profile area and is receiving considerable management focus. 	
<p>FAILURE TO DEVELOP NEW PRODUCTS Failure to innovate could reduce our growth potential or render existing products obsolete. 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 new products or how successful our competitors will be in developing products which are more attractive than ours.</p>	 	<ul style="list-style-type: none"> 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. We have a strong product pipeline with more than 25 projects in development. 	<ul style="list-style-type: none"> Recent successes include: Coastline (a lightweight composite cladding for use on coastal properties), and extensions to the Skypod range. 	
<p>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 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, system risks and unanticipated liabilities.</p>	 	<ul style="list-style-type: none"> Public communication of bolt-on acquisitions being a strategic priority. Good knowledge of companies operating in our sector and related sectors. Ecoplas and Kent Building Plastics acquired in 2018. Tried and tested procedure for the integration of new acquisitions and a good track record of recent success. 	<ul style="list-style-type: none"> Significant value at stake with integration of and investment in Ecoplas. 	

VIABILITY STATEMENT

As required by provision C.2.2 of the Code, the Directors have taken into account forecasts to assess the future funding requirements of the Group, and compared them with the level of committed available borrowing facilities.

A period of 3 years has been adopted as this is the timeframe used by the Board as our strategic and planning horizon. The assessment of viability has been made with reference to the Group's current position and future prospects, our strategy, management of risk, and also the Board's assessment of the outlook in the marketplace.

The Board considers its strategy and risks on strategy away days, and revisits these annually when considering the next year's budget. The 3-year plan considers revenue and earnings growth and how this impacts on cash flows and key ratios. Operational plans and financing options are considered as part of this process.

In preparing the plan, we adopt a prudent forecast in respect of like-for-like sales growth, but assume other initiatives, in line with the published strategy. The plan is stress tested by applying the following scenarios:

Scenario 1 **Macroeconomic conditions lead to a decline in sales**

Decreases in revenues have been applied over the 3-year plan period.

Scenario 2 **Commodity prices and/or exchange rates or raw material shortages lead to a sustained increase in resin prices**

Increases in resin costs have been applied over the 3-year plan period.

Scenario 3 **Scenario 1 and 2 combined**

There is a possibility that both of the above scenarios could materialise at the same time, therefore we have assessed the combined impact through the 3-year plan period.

The Board considers these tests to be sufficient to test the viability of the Group given our size and the markets we operate within. As described in Principal Risks and Uncertainties above, we have measures in place to help mitigate the impact of these events should they occur.

The Directors confirm that we have a reasonable expectation that the Company and the Group will continue in operation and meet our liabilities as they fall due in the next 3 years.

Going Concern

The Directors have reviewed the Company's and the Group's forecast and projections, which demonstrate that the Company and the Group will have sufficient headroom on our bank facilities for the foreseeable future and that the likelihood of breaching the related covenants in this period is remote.

Accordingly the Directors continue to adopt the going concern basis in preparing the annual Financial Statements.

This Strategic Report was approved by the Board on 14 March 2019.

Mark Kelly
Chief Executive Officer

Michael Scott
Chief Financial Officer



THE BOARD



Mark Kelly
Chief Executive Officer

Date of appointment:
29 March 2016

Experience:
Mark Kelly joined the Group in March 2016 and was appointed Chief Executive Officer in May 2016. He was formerly Chief Executive of Grafton Merchanting GB and previously worked for BDR Thermea Group BV, IMI and Novar. Mark has previous experience of the PVC windows and doors industry having worked for Duraflex and Celuform.

Committee membership:



Bob Lawson
Non-executive Chairman

Date of appointment:
4 February 2015

Experience:
Bob Lawson is the Non-executive Chairman of Genus plc. He was previously the Chairman at Barratt Developments plc, Hays plc and the Federation of Groundwork Trust. Prior to this Bob was Managing Director for the Vitec Group for 4 years, Chief Executive Officer of Electrocomponents plc for 11 years and subsequently Chairman for a further 6 years. Bob is Chairman of the Nomination Committee.

Committee membership:



Michael Scott
Chief Financial Officer

Date of appointment:
1 September 2016

Experience:
Michael Scott joined the Group as Chief Financial Officer in September 2016. Michael previously worked at Drax Group plc, where he held senior financial positions including Group Financial Controller and Head of Corporate Finance & Investor Relations. Prior to Drax, Michael worked for MT International and Arthur Andersen, where he qualified as a Chartered Accountant.

Committee membership:



Patrick Kalverboer
Non-executive Director

Date of appointment:
16 August 2013

Experience:
Patrick Kalverboer is managing partner of H2 Equity Partners, a private equity house that, prior to March 2015, held a controlling interest in Eurocell. Patrick has over 20 years of private equity experience and has been involved in various investments made by H2 (and its predecessors) in both an executive and non-executive capacity.

Committee membership:

**Date of appointment:**

4 February 2015

Experience:

Frank Nelson was Finance Director of Galliford Try plc from 2000 to 2012. He is the Senior Independent Non-executive Director at McCarthy & Stone plc and HICL Infrastructure Company Limited. Frank is also a fellow of the Chartered Institute of Management Accountants. He is the Chairman of the Audit and Risk Committee and is the Senior Independent Non-executive Director.

Committee membership:**Date of appointment:**

4 February 2015

Experience:

Martyn Coffey is the Chief Executive Officer of Marshalls plc. Prior to his role at Marshalls, Martyn was Divisional Chief Executive Officer at BDR Thermea Group BV, with responsibility for operations in the UK, France, Germany, Iberia and Italy. He is also a Director of the Mineral Products Association. Martyn is the Chairman of the Remuneration Committee.

Committee membership:**Date of appointment:**

1 October 2018

Experience:

Sucheta Govil is an independent consultant, providing advisory services to businesses on their strategic growth plans. Up until 1 November 2018, Sucheta was the Chief Marketing Officer of Royal DSM. She has a strong background in business-to-business, consumer and digital marketing, with specific expertise gained in a range of sectors and companies, including GSK and PepsiCo.

Committee membership:**Committee key:**

- Member of the Audit and Risk Committee
- Member of the Remuneration Committee
- Member of the Nomination Committee
- Denotes Committee Chairman

Chairman's Introduction

Letter from the Chairman



Dear Shareholder,
I am pleased to report that during 2018 we continued to develop and improve our systems of governance and internal control.

This Corporate Governance Statement, together with the Reports of the Nomination, Audit and Risk and Remuneration Committees on pages 45 to 67, explain how our governance framework operates and how we apply the principles of business integrity, high ethical values and professionalism in all our activities. I hope that it provides you with a meaningful insight into how we operate and the matters on which we have focused during the year.

As a Board, we recognise that we are accountable to shareholders for good corporate governance. We seek to promote consistently high standards of governance throughout the Group, which are recognised and understood by all.

Good governance involves good and effective leadership, robust systems and processes that are regularly tested, and a good understanding of risk appetite. The Board seeks to add value through guiding the strategy of the Group, constructive challenge and dialogue and through engagement with Shareholders and other stakeholders. Each Director continues to make a very valuable contribution to the Board.

This Corporate Governance Statement, which is part of the Directors' Report, has been prepared in accordance with the principles of the UK Corporate Governance Code published in April 2016 (the 'Code'), which the Board fully supports. The Code is published by the Financial Reporting Council and is available on its website at www.frc.org.uk.

I am committed to ensuring that the Company manages its affairs in compliance with the principles and provisions of the Code. I am pleased to report that the Board considers the Company to have complied with the relevant provisions of the Code throughout the year in all material respects. I can also confirm that, in the opinion of the Directors, this Annual Report presents a fair, balanced and understandable assessment of the Group's position and prospects and provides the information necessary for shareholders to assess the Group's strategy, business model and performance.

The Group's strategy is outlined on pages 14 to 21 of the Strategic Report.

The respective responsibilities of the Directors and the auditors in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities on page 71 and auditor's report pages 72 to 78.

Patrick Kalverboer has advised of his intention to step down from the Board at the upcoming AGM. I would like to thank Patrick for his enormous contribution to the Group over the last five years, particularly for the important role he played in our successful IPO in 2015 and subsequently in shaping the strategy of the business.

I was delighted to welcome Sucheta Govil to the Board in October. Her wealth of commercial and marketing experience from a wide range of companies and industries will provide real value as we continue to progress our strategic priorities.

I am comfortable that the composition of the Board provides an appropriate balance of skills, experience, independence and knowledge to take the business through the next stages of its development.

I would like to thank my Board and management colleagues for their contributions to the governance of the Company. I look forward to working with them in 2019 to continue to build on the foundations and system of governance that we have established in support of our long-term objectives.

Bob Lawson
Chairman
14 March 2019

Corporate Governance Statement

Role of the Board

The Board comprises a Non-executive Chairman, four Non-executive Directors and two Executive Directors, who are equally and collectively responsible for the proper stewardship and leadership of the Company. Their biographical details are set out on pages 42 and 43.

The Code recommends that for companies beneath the FTSE 350, the Board should comprise at least two Non-executive Directors, who are determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, this judgement. The Company regards Sucheta Govil, Martyn Coffey and Frank Nelson as 'independent Non-executive Directors' within the meaning of the Code.

The formal schedule of matters reserved for the Board's consideration includes the following:

- Approval of the Group's strategy, long-term objectives, annual operating budgets and capital expenditure plans.
- Approving transactions of significant value or major strategic importance, including acquisitions.
- Approving significant changes to the Group's capital, corporate or management structure.
- Monitoring and assessing the overall effectiveness of the Group's risk management processes and internal control systems, including those related to health and safety, financial controls and anti-bribery policies and procedures.
- Approving the Annual and Half-Year Reports, including Financial Statements.
- Approving other corporate communications related to matters decided by the Board.
- Board appointments and succession planning and setting terms of reference for Board Committees.
- Remuneration matters, including the general framework for remuneration and share and incentive schemes.

The Board has delegated specific responsibilities to the Nomination, Audit and Risk and Remuneration Committees.

The Nomination Committee Report on page 48 explains how the Board and senior management appointments, succession planning and development are being addressed.

The Audit and Risk Committee Report on pages 49 to 51 provides details of how the Board applies the Code in relation to financial reporting, risk management and internal controls.

The Remuneration Committee Report on pages 52 to 67 gives details of Directors' remuneration and policy.

Day-to-day management and the implementation of strategies agreed by the Board are delegated to the Executive Directors. The Board meets regularly to discuss key operational issues and prescribe actions as appropriate. The Group's reporting structure below Board level is designed so that all decisions are made by those most qualified to do so in a timely manner.

Key to the structure is the Executive Committee (the 'Steering Group'), comprising nine senior managers, including the two Executive Directors. Management teams report to members of the Steering Group, which meets each month. The Board receives regular updates from the Steering Group in relation to business issues and developments.

This structure enables the Board to make informed decisions on a range of key issues including strategy and risk management.

Role of the Chairman

The Board has concluded that the Chairman has met the independence criteria of the Code since appointment.

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer.

The Chairman is responsible for ensuring that the Board functions effectively. He sets the agenda for Board meetings and ensures that adequate time is devoted to discussion of all agenda items, particularly strategic issues, facilitating the effective contribution of all Directors and ensuring that the Board as a whole is involved in the decision-making process.

Role of the Chief Executive Officer

The Chief Executive Officer has principal responsibility for all operational activities and the day-to-day management of the business, in accordance with the strategies and policies approved by the Board. The Chief Executive also has responsibility for communicating to the Group's employees the expectations of the Board in relation to culture, values and behaviours.

Role of the Senior Independent Director and Non-executive Directors

The Senior Independent Director has an important role on the Board, providing a sounding board for the Chairman, leading on corporate governance issues and serving as an intermediary for the other Non-executive Directors. He is available to Shareholders if they have concerns which contact through the normal channels of the Chairman, Chief Executive Officer or other Executive Directors has failed to resolve, or for which such contact is not appropriate.

All Non-executive Directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively. The Non-executive Directors act in a way they consider will promote the long-term success of the Group for the benefit of, and with regard to the interests of its Shareholders.

Board composition, commitment and election of Directors

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board.

On appointment, Board members, in particular the Chairman and the Non-executive Directors, disclose their other commitments and agree to allocate sufficient time to the Company to discharge their duties effectively and ensure that these other commitments do not affect their contribution.

The current Board commitments of all Directors are shown on pages 42 and 43. Their terms of appointment are reported on pages 59 and 60. Directors' length of service on the Board is set out in the table overleaf.

Corporate Governance Statement continued

Length of service	Date joined Eurocell	Date joined the Board
Bob Lawson	1 January 2015	4 February 2015
Mark Kelly	29 March 2016	29 March 2016
Michael Scott	1 September 2016	1 September 2016
Patrick Kalverboer	16 August 2013	16 August 2013
Frank Nelson	1 January 2015	4 February 2015
Martyn Coffey	1 January 2015	4 February 2015
Sucheta Govil	1 October 2018	1 October 2018

The Company's Articles of Association contain powers of removal, appointment, election and re-election of Directors and provide that all of the Directors must retire and may offer themselves for re-election at each Annual General Meeting ('AGM').

At the upcoming AGM, all the Directors (other than Patrick Kalverboer) intend to offer themselves for re-election. We consider all the Directors to be effective, committed to their roles and to have sufficient time available to perform their duties.

Board evaluation and effectiveness

A performance evaluation of the Board and its Committees is undertaken on a periodic basis. These reviews typically consider the following:

- Effectiveness of the Board's decision-making.
- Strategy development process.
- Board composition.
- Succession planning.
- Risk and risk management systems.
- Culture.

The evaluation process is designed to stimulate thought and discussion, and includes consideration over the effectiveness of Executive Directors, Non-executive Directors and the Chairman. Under this process, the Senior Independent Director separately reviews the Chairman's performance with the other Non-executive Directors. Evaluation results are considered by the Chairman and discussed by the Board.

In accordance with the Code, an external evaluation of the Board is carried out every 3 years by an independent third-party facilitator. Such an external evaluation was recently completed by Deloitte LLP.

In this instance, the review covered specific areas relating to leadership, development of strategy and forward plan, Board composition, engagement and dynamics. The anonymity of respondents was ensured in order to promote an open and frank exchange of views. The findings indicated a consensus view that the Board and its committees work in a constructive and collaborative way, and are operating effectively.

The review did highlight a number of focus areas for the Board and its committees to consider during 2019, including:

- Ensuring that Board engagement includes consideration of broader stakeholders across the whole organisation.
- More Board time on development of the strategy and the forward plan.
- Better reporting of early warning indicators/red flags.

An evaluation report has been prepared for discussion at the May 2019 Board meeting. This will likely result in an action plan to be approved and progressed through the year.

The Board believes that the evaluation process described above is thorough, robust and works well. All Directors engage fully, with a genuine desire to enhance overall Board performance. The process includes sufficient objectivity and confidentiality to ensure that challenge is acknowledged and acted upon. Taking all of the above into account, the Board is satisfied that the composition of the Board and its Committees provides an appropriate balance of skills, experience, independence and knowledge to allow the Board and its Committees to discharge their duties and responsibilities effectively and in line with the Code.

Board meetings and attendance

There were 6 regular Board meetings scheduled during 2018, 4 meetings of the Audit and Risk Committee, 3 meetings of the Remuneration Committee and 2 meetings of the Nomination Committee. Non-executive Directors also attended site visits.

The Chief Executive and Chief Financial Officer are usually invited to attend Audit and Risk Committee meetings, although the Audit and Risk Committee also meets with the external auditor without any Executive Director being present.

The Chief Executive is invited to attend Remuneration Committee meetings when appropriate.

The Company Secretary is also Secretary to the Remuneration Committee and the Audit and Risk Committee, and attends meetings for this purpose.

Number of meetings attended	Audit and Risk Committee			
	Board	Risk Committee	Remuneration Committee	Nomination Committee
Bob Lawson	6/6	–	3/3	2/2
Frank Nelson	6/6	4/4	3/3	2/2
Martyn Coffey	6/6	4/4	3/3	2/2
Patrick Kalverboer	5/6	–	–	1/2
Mark Kelly	6/6	–	–	2/2
Michael Scott	6/6	–	–	–
Sucheta Govil	2/2	1/1	1/1	0/0

The Company Secretary

All the Directors have access to the advice and services of the Company Secretary. The Company Secretary has responsibility for ensuring that all Board procedures are followed and for advising the Board, through the Chairman, on governance matters. The Company Secretary provides updates to the Board on regulatory and corporate governance issues, new legislation, and Directors' duties and obligations. The appointment and removal of the Company Secretary is one of the matters reserved for the Board.

Whenever necessary, Directors may take independent professional advice at the Company's expense. Board Committees are provided with sufficient resources to undertake their duties, including the option to appoint external advisers when they deem it appropriate.

Board induction, development and support

New Directors receive a formal induction on joining the Board, which covers Group policies and other key information. Tailored training may be arranged to meet individual needs, for example to refresh knowledge of the Listing Rules and regulatory compliance. Typically, a new Director will meet the Chairman and other Non-executive Directors in one-on-one sessions; he or she will have meetings with key management, briefings with external advisers and Shareholders, and a programme of site visits will be arranged at which the Director meets site-based staff to gain a full understanding of the business.

Looking forward, it is the Company's expectation that training will be built in to the annual Board programme, designed to incorporate a range of in-depth topics of particular relevance to the business. Training needs will be identified through the Board evaluation process and through individual reviews between the Directors and the Chairman. Directors are expected to attend external courses and seminars as appropriate to maintain and develop their Board competencies.

During 2018, there were Board briefings relating to changes to financial reporting and corporate governance (including the Revised UK Corporate Governance Code and related remuneration provisions) and defence. There were also individual meetings between Non-executive Directors and senior managers relating to areas of particular interest.

Engagement with Shareholders

The Board considers that communications with Shareholders are extremely important. Since becoming a listed business, we have developed open and frequent dialogue with investors. The Chief Executive and Chief Financial Officer meet regularly with major Shareholders and potential investors to discuss the Group's performance, strategic issues and shareholder investment objectives. We also periodically arrange site visits for investors.

Alongside the Annual and Half-Year Results, the Group follows a regular reporting and announcement schedule to ensure that matters of importance affecting the Group are communicated to investors. In addition, the Group continues to improve its investor website (investors.eurocell.co.uk), which was launched during 2017.

During 2018, a total of approximately 70 investor meetings were held, at which at least 45 institutions were represented. Feedback from these meetings and other shareholder communications are provided to the Board. The Board also receives copies of analysts' and brokers' briefings.

The Chairman is available to meet with institutional Shareholders to discuss governance and strategy and gain an understanding of Shareholder views and concerns. The Chairman ensures that the views of Shareholders are communicated to the Board as a whole. The Senior Independent Director and other Non-executive Directors are also available to meet Shareholders separately if requested.

Risk management and internal control

The Board acknowledges its responsibility for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives, and for the Group's system of internal control.

The Board has carried out a review of the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls, for the period covered by this Annual Report.

The Strategic Report comments in detail (pages 34 to 39) on the nature of the principal risks and uncertainties facing the Group; in particular those that would threaten our business model, future performance, solvency or liquidity and the measures in place to mitigate them. In conducting its review, the Board has included a robust assessment of these risks and the effectiveness of mitigating controls.

The Audit and Risk Committee Report on pages 49 to 51 describes the internal control system and how it is managed and monitored.

The Board confirms that no significant failings or weaknesses were identified in relation to the review. The Board also acknowledges that such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Statement of compliance with the Code

This Corporate Governance Statement, together with the Nominations Committee Report, the Audit and Risk Committee Report and the Remuneration Committee Report, provide a description of how the main principles of the Code have been applied within Eurocell during 2018.

It is the Board's view that Eurocell was in compliance with the relevant provisions set out in the Code in all material respects. This statement complies with sub sections 2.1, 2.2(1), 2.3(1), 2.5, 2.7 and 2.10 of Rule 7 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority. The information required to be disclosed by sub-section 2.60 of Rule 7 is shown on pages 68 and 70.

Annual General Meeting

Our AGM will be held at Fairbrook House on 10 May 2019.

The notice of our AGM, together with the Directors' voting recommendations on the resolutions to be proposed, is included on a separate circular to shareholders and will be dispatched at least 20 working days before the meeting. The notice will be available to view at investors.eurocell.co.uk.

All Directors attend the AGM, including the Chairs of the Audit and Risk, Remuneration and Nomination Committees, who are available to answer questions. The Board welcomes questions from Shareholders who have an opportunity to raise issues informally or formally before or during the meeting.

For each proposed resolution, the proxy appointment forms provide Shareholders with the option to direct their proxy vote either for or against the resolution or to withhold their vote. The proxy form and any announcement of the results of a vote make it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.

All valid proxy appointments are properly recorded and counted by Equiniti, the Company Registrars. Information on the number of shares represented by proxy, the proxy votes for and against each resolution, and the number of shares in respect of which the vote was withheld for each resolution, together with the proxy voting result, are given at the AGM. The total votes cast, including those at the AGM are published on our website (investors.eurocell.co.uk) immediately after the meeting.

Nomination Committee

Statement from Bob Lawson, Chair of the Nomination Committee



Members:

Bob Lawson (Chairman)
Patrick Kalverboer
Frank Nelson
Martyn Coffey
Mark Kelly
Sucheta Govil

Role and responsibilities:

The principal duties of the Nomination Committee are to:

- Keep under review the structure, size and composition of the Board, including the skills, knowledge and experience required by it.
- Keep under review the time commitments required from Non-executive Directors.
- Consider succession planning for the Directors and other senior managers, giving due weight to the achievement of diversity in its widest sense.
- Identify and nominate candidates to fill any vacancies arising in Board positions.

Dear Shareholder,

I am pleased to report to you on the main activities of the Committee and how it has performed its duties during 2018. I chair Nomination Committee meetings, but would not do so where the Committee was discussing matters relating to my own reappointment or replacement as Chairman.

During the year the Nomination Committee held 2 scheduled meetings. Attendance at meetings is shown on page 46.

Activities during the year

- Recruitment of a new independent Non-executive Director, Sucheta Govil.
- Organisational succession and development planning at Board and senior management level.

Diversity

The Committee remains committed to achieving diversity in its widest sense in the composition of the Board, senior management and throughout the Group. This includes diversity in gender and ethnicity.

Our objective is to recruit people with an appropriate range of skills, knowledge and experience. We would like to see women represented fairly on the Board and Steering Group and we will continue to work towards this. Our overriding policy in any new appointment is to select on merit to ensure the continued success of the business.

Bob Lawson

Chair of Nomination Committee
14 March 2019

Audit and Risk Committee

Statement from Frank Nelson, Chair of the Audit and Risk Committee



Members:

Frank Nelson (Chairman)
Martyn Coffey
Sucheta Govil

The Company Secretary acts as secretary to the Committee.

Role and responsibilities:

The key responsibilities of the Committee are to:

- Review the Annual Report, Half-Year Report and any other formal announcements relating to the Group's financial performance, giving due consideration to significant accounting issues and judgements contained therein, as well as compliance with accounting standards and other legal and regulatory requirements.
- Review the Annual Report and Financial Statements to advise the Board on whether they give a fair, balanced and understandable explanation of the Group's business and performance over the relevant period.
- Review the Group's financial reporting systems and procedures.
- Review the Group's internal controls and risk management systems and advise the Board whether they are adequate, by considering reports on their effectiveness from the Chief Financial Officer and Chief Executive Officer, together with reports from the Group's outsourced internal auditor and from the external auditor.
- Review and update the Group's risk register.
- Review the Group's procedures to ensure compliance with the provisions of the Bribery Act 2010 and the Group's whistleblowing policy.
- Review external auditor's independence and objectivity, audit and non-audit fees and make recommendations regarding audit tender and the appointment and remuneration of the auditor, together with the terms of their engagement.
- Review the annual audit plan and monitor the effectiveness of the external audit process.
- Monitor and review the effectiveness of the outsourced internal audit function. Review the internal audit plan, all internal audit reports, and review and monitor management's responses to the findings and recommendations of the internal audit function.
- Consider the adequacy of the Group's finance function.
- Review the Group's tax strategy.
- Review the Committee Terms of Reference.

Dear Shareholder,

I am pleased to report to you on the Audit and Risk Committee's objectives and activities during 2018. This report, which is part of the Directors' Report, explains how the Audit and Risk Committee has discharged its responsibilities during 2018, and reflects the recent changes to reporting under the Code. I hope you find it useful and informative.

The role of the Audit and Risk Committee is to oversee financial reporting. The Committee reviews the ongoing effectiveness of the Group's internal controls and provides assurance on the Group's risk management processes. The Committee also assesses information received from the external and internal audit functions.

The Committee has reviewed the Group's Financial Statements contained in this Annual Report and is satisfied that they present a fair, balanced and understandable assessment of the Group's position and prospects. The Committee has provided assurance to this effect to the Board.

The Audit and Risk Committee is the body appointed by the Board with responsibility for carrying out the functions required by the Listing Rules DTR 7.1.3R. The terms of reference of the Committee include all the matters required under the Code. The Chairman of the Committee is a Fellow of the Chartered Institute of Management Accountants and the Board is satisfied he has recent and relevant financial experience as required by the Code.

During the year, the Audit and Risk Committee held 4 scheduled meetings. Attendance is shown on page 46.

The external auditors were invited to attend all meetings of the Committee. Other individuals, such as the Chief Executive Officer, the Chief Financial Officer and other members of the Board are invited to attend the Committee meetings as and when appropriate.

In addition, the external auditor met with the Committee without executive management being present. The external auditor met separately with each of the Audit and Risk Committee Chairman and the Chief Financial Officer.

Summary of activities

The areas of particular focus for the Committee in 2018, and up to the date of this Annual Report, were as follows:

- Reviewed the 2017 and 2018 Annual Reports, as well as the 2018 Half-Year Report.
- Considered information presented by management on significant accounting estimates and judgements adopted in respect of the Group's 2017 and 2018 Financial Statements and the 2018 Half-Year Report.
- Reviewed reports from the external auditor setting out their findings as a result of their audits for the years ended 31 December 2017 and 2018, as well as their review of the 2018 Half-Year Report.
- Reviewed the external auditor's plan for their audit for the year ended 31 December 2018.
- Reviewed documentation prepared to support the viability statement and going concern assumption set out on page 40.

Audit and Risk Committee continued

Summary of activities continued

- Considered the impact of new accounting standards and financial reporting requirements, including guidance issued by the Financial Reporting Council ('FRC').
- Considered reports by management related to the effectiveness of the Group's systems of risk management and internal control.
- Reviewed the Group's risk register.
- Considered reports prepared by the Group's outsourced internal audit function.
- Reviewed and updated the Group's Whistleblowing and Anti-bribery policies.

The Committee is kept up to date with changes to accounting standards and developments in financial reporting, company law and other regulatory matters through presentations from the external auditor, Chief Financial Officer and the Company's Finance function.

Key accounting estimates and judgements

As described above, the Committee reviewed the key estimates and judgements used in the preparation of the Group's 2018 Financial Statements. These were as follows:

Inventory valuation

The Committee critically reviewed the carrying value of the Group's inventory, particularly with regard to management's assessment of the appropriate level of provisioning against obsolescence as at 31 December 2018. This review was undertaken in the context of current trading and the forecast for the next financial year. The Committee concurred with management's assessment of the carrying value of Group inventory. The Committee noted that there continues to be considerable management focus on both the optimisation of finished goods inventory levels and, looking forward, on the operational controls over the management of inventory.

Accounts receivable recoverability

The Committee considered and critically evaluated the Group's methodology with respect to setting provisions for potential bad and doubtful debts, as well as the absolute level of provisions held as at 31 December 2018. This work included a review of the Group's implementation of IFRS 9 (Financial Instruments), which became effective on 1 January 2018. Under the new standard, the Group adopted the expected credit loss approach to receivables impairment, which requires the use of forward-looking statistical modelling to determine the appropriate level of provision. The Committee's review also took into account the specific nature and characteristics of customers in the Group's 2 major divisions. The Committee is satisfied that the current level of provisions is appropriate.

Provisions for dilapidations on leased properties

The Group currently operates with over 200 branches, each of which is situated in a leased property. Leases are typically for 5 years, with a 3-year break clause. The Committee undertook a review of the methodology used to estimate the liability for remedial works that may arise with respect to the Group's leasehold properties, as well as the absolute level of provision held and amounts utilised. The Committee is satisfied that the current level of provision is reasonable.

Valuation of intangible assets

The Committee considered the key estimates applied in valuing identifiable intangible assets generated through business combinations, including customer relationship assets. The Committee is satisfied that key estimates applied to value acquired intangibles are reasonable.

Implementation of IFRS 15 (Revenue from Contracts with Customers) and IFRS 16 (Leases)

The Committee reviewed the Group's implementation of IFRS 15, effective 1 January 2018. The Committee agreed with management's conclusion that the impact of IFRS 15 is not material, because the Group's revenue contracts are constructed around the delivery of goods in satisfaction of individual purchase orders, and do not contain multiple performance criteria.

The Committee also reviewed the Group's preparation for the implementation of IFRS 16, effective 1 January 2019. This work included completeness tests for transactions within the scope of the new standard and an assessment of key assumptions (e.g. discount rates applied). The Committee is satisfied that the Group is well prepared to implement the new leasing standard from the effective date and that the associated disclosures included in the 2018 Financial Statements are appropriate.

Non-underlying income and expenditure

The Committee reviewed the presentation of the Statement of Comprehensive Income, which includes the classification of certain items of income and expenditure as non-underlying. The Committee is satisfied that the non-underlying items are appropriately classified and that application of a three-column approach to the statement provides a fair and balanced presentation of the Group's results for the year.

Risk management

The Group's risk management processes are set out in detail on pages 34 to 35.

The Group maintains a risk register that identifies key risks, the probability of those risks occurring and the impact they would have on the Group if unmitigated. Against each gross risk, the controls that exist to manage and, where possible, minimise or eliminate those risks are also listed, and an assessment of net risk is provided. The risk register also identifies any further actions required such that net residual risk is consistent with the risk appetite set by the Board. The register is regularly updated to reflect changes in circumstances.

The Group's Risk Management Committee is chaired by the Chief Financial Officer. This Committee reviews significant risks and the status of related mitigating actions each quarter.

The Audit and Risk Committee reviews the risk register twice per year to ensure the timely identification and robust management of inherent and emerging risks is taking place. To the extent that any failings or weaknesses are identified during the review process, appropriate measures are taken to remedy these.

Information relating to the management of risks and any changes to the assessment of key risks is reported by the Audit and Risk Committee to the Board.

Internal controls

The Group has an established internal control framework, the key features of which include clearly defined reporting lines and authorisation limits and a comprehensive budget and monthly reporting system. The schedule of authorisation limits is regularly reviewed to ensure it remains appropriate as the business develops.

The internal control framework governs the internal financial reporting process of the business, with checks and balances built into the system that are designed to reduce the likelihood of material error or fraud.

The Committee monitors and reviews the effectiveness of internal controls on an ongoing basis, primarily by reviewing reports from senior management.

Internal audit

KPMG provide an outsourced Internal Audit function. During 2018, the Committee worked with KPMG to set the programme for the year, which included reviews of health and safety processes, cyber security and GDPR compliance, as well as the procure-to-pay and recruitment and retention processes. The Committee also reviewed the Group's progress implementing improvement recommendations raised through the internal audit process and found it to be satisfactory.

External audit and auditors' independence

The Audit and Risk Committee has primary responsibility for making a recommendation to the Board on the appointment, reappointment and removal of the external auditors. It keeps under review the scope and results of the audit, its cost-effectiveness and the independence and objectivity of the auditors. There are no contractual obligations restricting our choice of external auditors.

The Group's current auditors, PwC were appointed at the Audit and Risk Committee meeting on 29 April 2015, following the Company's IPO. PwC has processes in place designed to maintain independence, including regular rotation of the audit partner.

The Committee has also adopted policies to safeguard the independence of its external auditors. Any work awarded to the external auditors with a value of more than £5,000 in aggregate in any financial year, other than an audit, requires the specific approval of the Committee. Where the Committee perceives that the independence of the auditors could be compromised, the work will not be awarded to it. Details of amounts paid to PwC for audit and audit related assurance services in 2018 are set out on page 91. The audit related assurance services provided were in relation to the Half-Year Report.

An annual review of external audit effectiveness is undertaken by the Committee.

Whistleblowing and bribery

The Audit and Risk Committee monitors any reported incidents under our whistleblowing policy, which is available to all employees. This policy sets out the procedure for employees to raise legitimate concerns about any wrongdoing without fear of criticism, discrimination or reprisal. No matters were raised under the policy during 2018.

The Audit and Risk Committee also takes responsibility for reviewing the policies and procedures adopted by the Group to prevent bribery. The Group is committed to a zero-tolerance position with regard to bribery. The Committee is satisfied that the Group's procedures with respect to these matters are adequate.

Frank Nelson

Chair of the Audit and Risk Committee
14 March 2019

Directors' Remuneration Report

Remuneration Committee Chairman's Letter



Members:

Martyn Coffey (Chairman)
Bob Lawson
Frank Nelson
Sucheta Govil

Role and Responsibilities:

The Committee's principal responsibilities are to:

- Recommend to the Board the remuneration strategy and framework for the Chairman, Executive Directors and senior managers.
- Determine, within that framework, the individual remuneration arrangements for the Executive Directors and senior managers.
- Oversee any major changes in employee benefit structures throughout the Group.

Dear Shareholder,

I am pleased to present the Directors' Remuneration Report for 2018. The report is split into two parts:

- Part A: The Directors' Remuneration Policy – which sets out the remuneration policy for which shareholder approval will be sought at the 2019 AGM, given that Eurocell has reached the end of its 3-year shareholder approved policy period; and
- Part B: The Annual Report on Remuneration – which sets out payments and awards made to the Directors and details the link between Company performance and remuneration for 2018 and how the policy will be operated for 2019.

Accordingly, at our 2019 AGM, there will be 2 remuneration-related resolutions presented: (i) the normal annual advisory vote on our Directors' Remuneration Report; and (ii) the vote to approve our new Directors' remuneration policy, which will apply to all payments to be made to Directors from the 2019 AGM and which (unless altered with shareholders' approval) will apply for a period of 3 years.

Work of the committee during the year

The Committee met 3 times during 2018. The main Committee activities during the year (full details of which are set out in the relevant sections of this report) included:

- Agreeing the performance against the targets and payout for the 2017 annual bonus awards.
- Agreeing Executive Director base salary increases from 1 April 2018.
- Setting the performance targets for the 2018 annual bonus.
- Agreeing the award levels and earnings per share and operating cash flow targets for the 2018 PSP awards.
- Considering the new UK Corporate Governance Code and updating the Remuneration Committee terms of reference.
- Reviewing the Remuneration Policy, considering appropriate updates where necessary and communicating with the Company's major investors and representative bodies.

Pay for performance

As described in earlier sections of this Annual Report, our senior management team delivered good progress against our strategic priorities in 2018. The highlights include further increases in market share, with strong organic sales growth of 12% driven from all areas of the business. We also increased our use of recycled material, with further progress secured for the future via the acquisition of Ecoplas.

However, strong sales growth combined with significant mix changes impacted negatively on the efficiency of our manufacturing operations, leading to increased manufacturing and distribution costs.

As a result, despite strong sales growth, we reported adjusted profit before tax of £22.5 million, down 8% on last year. Reported profit before tax of £22.1 million is down 7% on last year.

Cash conversion was impacted by working capital investment required to support the strong sales growth and a stock build programme commenced towards the end of the year, designed to partially mitigate the risk of disruption to our business due to Brexit. Underlying operating cash flow was £22.0 million (2017: £28.8 million).

Against stretching targets, this performance has resulted in no bonus being awarded to the Executive Directors under the Annual Bonus Plan. Further details of performance against the relevant targets can be found on page 63 of this report.

Performance Share Plan ('PSP') awards originally granted in 2016 are expected to lapse in 2019 as a result of EPS and cash flow performance to 31 December 2018 being below threshold.

Proposed changes to the remuneration policy

Following a detailed review of the Remuneration Policy, the Committee's main conclusions were that the current policy, originally set at IPO in 2015 and formally approved by shareholders at the 2016 AGM, continues to remain appropriate for Eurocell. As such, the Committee is only proposing minor updates in respect of recent developments in governance and to ensure the policy is not out of line with that of similarly sized FTSE SmallCap companies. No increases to variable pay levels are proposed.

The proposed changes to Eurocell's remuneration policy are as follows:

- Annual bonus deferral will be formalised and made compulsory. Currently, the Committee can determine each year whether to operate bonus deferral into shares (most recently deferring half of the bonus paid). Going forwards, 100% of any annual bonus awarded to Executive Directors above 75% of salary will be compulsorily deferred into Eurocell shares for 3 years from grant. The proposed approach is considered to be simpler from an administrative perspective, where low levels of bonus are awarded, and is considered fairer as participants will have greater certainty in respect of the level of deferral that will be operated. It also ensures that the bonus potential is competitive against similarly sized SmallCap companies. Formally deferring half of any annual bonus awarded on a compulsory basis is considered too onerous from both an administrative and market competitive perspective.
- Shareholding guidelines will be increased from 100% to 200% of salary from the 2019 AGM in line with best practice. However, rather than operating a fixed timeframe to achieve the guidelines, a more market standard approach will be adopted. Going forwards, Executive Directors will be required to retain 50% of the net of tax shares which vest under deferred bonus and PSP awards until the new guideline is met.
- To ensure compliance with the new UK Corporate Governance Code:
 - A 2 year post-vesting holding period will be introduced for all PSP awards granted to Executive Directors after the 2019 AGM; and
 - Future Executive Director appointments will be offered a lower pension than the 15% of salary currently offered, to the extent this is possible, so as to align senior executive pension provision closer to workforce norms over time. No changes will be made to incumbent pension provision.

Annual bonus and the normal PSP award grant policy will each remain capped at 100% of salary.

Implementation of the Remuneration Policy for 2019

The Remuneration Committee intends to operate the Remuneration Policy for 2019 as follows.

Base salaries

Salary levels will be positioned to reflect experience and responsibility. Mark Kelly's and Michael Scott's current salaries are £374,544 and £239,292 respectively. With effect from 1 April 2019, these salaries will be increased by 5%.

Pensions/benefits

A defined contribution/salary supplement of 15% of salary will continue to be offered, together with a standard suite of other benefits.

Annual bonus

The maximum annual bonus remains at 100% of salary. For 2019, reflecting Eurocell's underlying strategy, 70% of the bonus will be based on adjusted profit before tax and 30% will be based on cash flow targets. The targets will be subject to a health and safety underpin. Any bonus in excess of 75% of salary will be deferred into shares for 3 years.

Long-term incentives

PSP awards are expected to be made in April 2019. Award levels will be set at 100% of salary for Mark Kelly and Michael Scott. Performance targets will be based on 3-year earnings per share growth (two-thirds of the award) and cash flow (one-third) targets.

The Committee believes that the above approach takes due account of market and best practice and, importantly, also reflects and supports Eurocell's strategy and promotes the Company's long-term success.

I hope that you will continue to show support for our approach to remuneration at Eurocell. Should you have any queries or comments, please feel free to contact me at martyn.coffey@eurocell.co.uk.

Yours sincerely

Martyn Coffey

Chair of the Remuneration Committee
14 March 2019

Directors' Remuneration Report continued

Explanatory foreword

This report contains the material required to be set out as the Directors' Remuneration Report for the purposes of Part 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Part A sets out the Remuneration Policy for which shareholder approval will be sought at the 2019 AGM, given that Eurocell has reached the end of its 3-year shareholder approved policy period.

Part B constitutes the Annual Report on Remuneration. The auditors have reported on certain parts of the Annual Report on Remuneration and stated whether, in their opinion, those parts have been properly prepared in accordance with the Companies Act 2006. Those parts which have been subject to audit are clearly indicated.

PART A: DIRECTORS' REMUNERATION POLICY

Policy scope

The Policy applies to the Chairman, Executive Directors and Non-executive Directors.

Policy duration

The new Directors' remuneration policy will be put to a binding shareholder vote at the 2019 AGM and, subject to receiving majority shareholder support, the policy will apply from the date of approval for a maximum of 3 years.

Changes from the 2016 Remuneration Policy

The main changes from the 2016 remuneration policy are summarised below:

- Annual bonus deferral will be formalised and made compulsory. Going forwards, 100% of any annual bonus awarded to Executive Directors above 75% of salary will be compulsorily deferred into Eurocell shares for 3 years from grant.
- Shareholding guidelines for Executive Directors will be increased from 100% to 200% of salary. Executive Directors will be required to retain at least 50% of the net of tax shares which vest under the PSP and deferred bonus until the guideline is met.
- A 2-year post-vesting holding period will be introduced to PSP awards granted to Executive Directors from the 2019 AGM onwards.
- Future Executive Director appointments will be offered a lower pension than the 15% of salary currently offered, to the extent this is possible, so as to align senior executive pension provision closer to workforce norms over time. No changes will be made to incumbent pension provision.

To aid the administration and clarity of its operation, a number of minor changes have also been made to the wording of the remuneration policy where appropriate.

The following table summarises the key aspects of the Directors' Remuneration Policy:

Executive Directors

Element and Purpose	Policy and Operation	Maximum	Performance Measures
<p>Base salary This is the core element of pay and reflects the individual's role and position within the Group with some adjustment to reflect their capability and contribution.</p>	<p>Base salaries will be reviewed each year by the Committee.</p> <p>The Committee does not strictly follow data, but uses the median position (as against appropriate size and/or sector peers) as a reference point in considering, in its judgement, the appropriate level of salary having regard to other relevant factors including corporate and individual performance and any changes in an individual's role and responsibilities.</p> <p>Base salary is normally paid monthly in cash.</p>	<p>It is anticipated that salary increases will generally be in line with those awarded to salaried employees. However, in certain circumstances (including, but not limited to, changes in role and responsibilities, market levels, individual and Company performance), the Committee may make larger salary increases to ensure they are market competitive. The rationale for any such increase will be disclosed in the relevant Annual Report on Remuneration.</p>	n/a
<p>Benefits To provide benefits valued by recipients.</p>	<p>The Executive Directors can receive a car allowance or company car, private family medical cover, permanent health insurance and life assurance.</p> <p>The Committee reserves discretion to introduce new benefits where it concludes that it is appropriate to do so, having regard to the particular circumstances and to market practice.</p> <p>Where appropriate, the Company will meet certain costs relating to Executive Director relocations.</p>	<p>It is not possible to prescribe the likely change in the cost of insured benefits or the cost of some of the other reported benefits year-to-year, but the provision of benefits will operate within an annual limit of £100,000 (plus a further 100% of base salary in the case of relocations).</p> <p>The Committee will monitor the costs of benefits in practice and will ensure that the overall costs do not increase by more than the Committee considers appropriate in all the circumstances.</p>	n/a
<p>Pension To provide retirement benefits.</p>	<p>Executive Directors can receive pension contributions to personal pension arrangements or, if a Director is impacted by annual or lifetime limits on contribution levels to qualifying pension plans, the balance can be paid as a cash supplement.</p>	<p>The maximum employer's contribution is limited to up to 15% of base salary although future Executive Director appointments will be offered a lower pension, to the extent this is possible, so as to align senior executive pension provision closer to workforce norms over time.</p>	n/a

Directors' Remuneration Report continued

Element and Purpose	Policy and Operation	Maximum	Performance Measures
<p>Annual Bonus Plan To motivate executives and incentivise delivery of performance over a 1-year operating cycle, focusing on the short-to-medium-term elements of our strategic aims.</p>	<p>Annual Bonus Plan levels and the appropriateness of measures are reviewed annually at the commencement of each financial year to ensure they continue to support our strategy.</p> <p>Once set, performance measures and targets will generally remain unchanged for the year, except to reflect events such as corporate acquisitions or other significant events where the Committee considers it to be necessary in its opinion to make appropriate adjustments.</p> <p>Any annual bonus award above 75% of salary will be compulsorily deferred into Eurocell shares, under the Company's Deferred Share Plan ("DSP"), for 3 years from grant.</p> <p>The number of shares subject to vested DSP awards may be increased to reflect the value of dividends that would have been paid in respect of any ex-dividend dates falling between the grant of awards and the expiry of the vesting period.</p> <p>A 2 year post-vesting holding period will apply to PSP awards granted to Executive Directors after the 2019 AGM.</p> <p>Clawback and malus provisions apply to the Annual Bonus Plan and DSP, as explained in more detail below.</p>	<p>The maximum level of Annual Bonus Plan outcomes is 100% of base salary per annum for the duration of this policy.</p>	<p>The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate.</p> <p>Attaining the threshold level of performance for any measure will not produce a pay-out of more than 20% of the maximum portion of overall annual bonus attributable to that measure.</p> <p>However, the Annual Bonus Plan remains a discretionary arrangement and the Committee retains a standard power to apply its judgement to adjust the outcome of the Annual Bonus Plan for any performance measure (from zero to any cap) should it consider that to be appropriate.</p>
<p>Long-term incentives To motivate and incentivise delivery of sustained performance over the long term, and to promote alignment with shareholders' interests, the Company operates the Performance Share Plan ("PSP").</p>	<p>Awards under the PSP take the form of nil-cost options which vest to the extent performance conditions are satisfied over a period of at least 3 years.</p> <p>The number of shares subject to vested PSP awards may be increased to reflect the value of dividends that would have been paid in respect of any ex-dividend dates falling between the grant of awards and the expiry of the vesting period (or at the end of any holding period in respect of unexercised awards).</p> <p>Malus and clawback provisions apply to PSP awards and are explained in more detail below.</p>	<p>The PSP allows for awards over shares with a maximum value of 150% of base salary per financial year.</p> <p>The Committee expressly reserves discretion to make such awards as it considers appropriate within these limits.</p>	<p>The Committee may set such performance conditions on PSP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual).</p> <p>Performance periods may be over such periods as the Committee selects at grant, which will not normally be less than (but may be longer than) 3 years.</p> <p>No more than 25% of awards vest for attaining the threshold level of performance conditions.</p>

Element and Purpose	Policy and Operation	Maximum	Performance Measures
Share ownership guidelines To further align the interests of Executive Directors with those of shareholders.	Executive Directors are required to retain 50% of the net of tax shares which vest under the PSP and DSP awards until the guideline is met.	200% of base salary for all Executive Directors.	n/a
All-employee share plans To encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders.	These are all-employee share plans established under HMRC tax-advantaged regimes and follow the usual form for such plans. Executive Directors will be able to participate in all-employee share plans on the same terms as other Group employees.	The maximum participation levels for all-employee share plans will be the limits for such plans set by HMRC from time to time.	Consistent with normal practice, such awards will not be subject to performance conditions.

Chairman and Non-executive Directors

Element and Purpose	Policy and Operation	Maximum	Performance Measures
Chairman/Non-executive Director fees To enable the Company to recruit and retain Chairmen and Non-executive Directors of the highest calibre, at the appropriate cost.	The fees paid to the Chairman and Non-executive Directors aim to be competitive with other fully listed companies of equivalent size and complexity. The fees payable to the Non-executive Directors are determined by the Board, with the Chairman's fees determined by the Remuneration Committee. Fees are paid monthly in cash. The Chairman and Non-executive Directors will not participate in any cash or share incentive arrangements. The Company reserves the right to provide benefits (including travel and office support) to the Chairman and Non-executive Directors where appropriate.	The aggregate fees (and any benefits) of the Chairman and Non-executive Directors will not exceed the limit from time to time prescribed within the Company's Articles of Association. If the Chairman and/or Non-executive Directors devote special attention to the business of the Company, or otherwise perform services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, they may be paid such additional remuneration as the Directors or any Committee authorised by the Directors may determine.	n/a

Notes to the policy table

Performance targets

Details of the performance targets applying to annual bonus awards and PSP grants, which are set to reflect the Company's strategic goals and to align with shareholder's interests, can be found in the relevant sections of the Annual Report on Remuneration.

Malus and clawback

Malus (being the forfeiture of unpaid or unvested awards) and clawback (being the ability of the Company to claim repayment of paid amounts) provisions apply to the Annual Bonus Plan, DSP and PSP in certain circumstances (e.g. material misstatement of accounts, miscalculation of vesting/payouts and conduct that would or could justify summary dismissal) and within certain time periods.

Stating maximum amounts for the remuneration policy

The DFR regulations and related investor guidance encourages companies to disclose a cap within which each element of the Directors' Remuneration Policy will operate. Where maximum amounts for elements of remuneration have been set within the Directors' Remuneration Policy, these will operate simply as caps and are not indicative of any aspiration.

Directors' Remuneration Report continued

Travel and hospitality

While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by the Company or another) and business travel for Directors (and exceptionally their families) may technically come within the applicable rules and so the Committee expressly reserves the right for the Committee to authorise such activities within its agreed policies.

Differences between the policy on remuneration for Directors and remuneration of other employees

While the appropriate benchmarks vary by role, the Company seeks to apply the philosophy behind this policy across the Company as a whole. Where Eurocell's pay policy for Directors differs from its pay policies for groups of employees, this reflects the appropriate market rate position and/or typical practice for the relevant roles. The Company takes into account pay levels, bonus opportunity and share awards applied across the Group as a whole when setting the Executive Directors' Remuneration Policy.

Committee discretions

The Committee will operate the Annual Bonus Plan, DSP and PSP according to their respective rules and the above policy table. The Committee retains discretion, consistent with market practice, in a number of respects, in relation to the operation and administration of these plans. These discretions include, but are not limited to, the following:

- the selection of participants;
- the timing of grant of an award/bonus opportunity;
- the timing of vesting an award/bonus opportunity;
- the size of an award/bonus opportunity subject to the maximum limits set out in the policy table;
- the determination of the extent to which performance targets are satisfied and the resultant vesting/bonus pay-outs;
- discretion required when dealing with a change of control or restructuring of the Group;
- determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends);
- the annual review of performance measures, weightings and targets from year-to-year; and
- application of malus and/or clawback provisions.

In addition, while performance measures and targets used in the Annual Bonus Plan and PSP will generally remain unaltered, if events occur which, in the Committee's opinion, would make a different or amended target a fairer measure of performance, such amended or different target can be set provided that it is not materially more or less difficult to satisfy (having regard to the event in question).

Any use of these discretions would, where relevant, be explained in the Directors' Remuneration Report and may, where appropriate and practicable, be the subject of consultation with the Company's major Shareholders. In addition, for the avoidance of doubt, in approving this policy report, authority is given to the Company to honour any commitments entered into with current or former Directors under previous policies.

The Committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Recruitment remuneration policy

The Company's recruitment remuneration policy aims to give the Committee sufficient flexibility to secure the appointment and promotion of high-calibre executives to strengthen the management team and secure the skill sets to deliver our strategic aims.

In terms of the principles for setting a package for a new Executive Director, the starting point for the Committee will be to apply the general policy for Executive Directors as set out above and structure a package in accordance with that policy. Any caps contained within the policy for fixed pay do not apply to new recruits, although the Committee would not envisage exceeding these caps in practice.

The Annual Bonus Plan, DSP and PSP will operate (including the maximum award levels) as detailed in the general policy in relation to any newly appointed Executive Director. For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as it considers appropriate.

For external candidates, it may be necessary to make additional awards in connection with the recruitment to buy-out awards forfeited by the individual on leaving a previous employer.

For the avoidance of doubt, buy-out awards are not subject to a formal cap. Any recruitment-related awards which are not buy-outs will be subject to the limits for Annual Bonus Plan and PSP as stated in the general policy. Details of any recruitment-related awards will be appropriately disclosed.

For any buy-outs the Company will not pay more than is, in the view of the Committee, necessary and will in all cases seek, in the first instance, to deliver any such awards under the terms of the existing Annual Bonus Plan, DSP or PSP. It may, however, be necessary in some cases to make buy-out awards on terms that are more bespoke than the existing Annual Bonus Plan, DSP or PSP.

All buy-outs, whether under the Annual Bonus Plan, DSP, PSP or otherwise, will take due account of the service obligations and performance requirements for any remuneration relinquished by the individual when leaving a previous employer. The Committee will seek (where it is practicable to do so) to make buy-outs subject to what are, in its opinion, comparable requirements in respect of service and performance. However, the Committee may choose to relax this requirement in certain cases (such as where the service and/or performance requirements are materially completed, or where such factors are, in the view of the Committee, reflected in some other way, such as a significant discount to the face value of the awards forfeited) and where the Committee considers it to be in the interests of shareholders.

A new Chairman/Non-executive Director would be recruited on the terms explained above in respect of the main policy for such Directors.

Service contracts Executive Directors

The Committee's policy is that each Executive Director's service agreement should be of indefinite duration, subject to termination upon no more than 12 months' notice by either party. The service agreements of both Executive Directors comply with that policy. Contracts contain provisions allowing the Company to make payments in lieu of notice (albeit not including bonus or benefits) but do not contain change of control provisions.

The Committee reserves flexibility to alter these principles if necessary to secure the recruitment of an appropriate candidate and, if appropriate, introduce a longer initial notice period (of up to 2 years) reducing over time.

The date of each Executive Director's contract is:

Mark Kelly	29 March 2016
Michael Scott	1 September 2016

Directors' Remuneration Report continued

Chairman/Non-executive Directors

The Chairman and each Non-executive Director is engaged for an initial period of 3 years. These appointments can be renewed following the initial 3-year term. These engagements can be terminated by either party on 12 months' notice.

Neither the Chairman nor any Non-executive Directors can participate in the Company's incentive plans, are not entitled to any pension benefits and are not entitled to any payment in compensation for early termination of their appointment beyond the 12 months' notice referred to above.

Name	Date of Original Appointment	Date of Latest Appointment	Term
Bob Lawson	4 February 2015	2 February 2018	3 years
Patrick Kalverboer	4 February 2015	2 February 2018	3 years
Frank Nelson	4 February 2015	2 February 2018	3 years
Martyn Coffey	4 February 2015	2 February 2018	3 years
Sucheta Govil	1 October 2018	1 October 2018	3 years

The Directors' service agreements and letters of appointment are available for shareholders to view from the Company Secretary on request.

Termination/change of control policy summary

It is appropriate for the Committee to consider treatments on a termination having regard to all of the relevant facts and circumstances available at that time. This policy applies both to any negotiations linked to notice periods on a termination and any treatments that the Committee may choose to apply under the discretions available to it under the terms of the Annual Bonus Plan, DSP and PSP. The potential treatments on termination under these plans are summarised in the table below:

Incentives	If a leaver is deemed to be a 'good leaver'; for example, leaving through injury, ill-health, disability, retirement, redundancy, sale of business or otherwise at the discretion of the Committee	If a leaver is not a 'good leaver'	Change in control
Annual bonus	Committee has discretion to determine an annual bonus which may be limited to the period actually worked.	Annual bonus generally paid.	Committee has discretion to determine annual bonus.
DSP	Awards normally vest either on cessation or the normal vesting date. The Committee can pro-rate awards if considered appropriate.	All awards will normally lapse.	Awards vest on a pro rata basis, unless the Committee determines not to pro-rate.
PSP	Will receive a pro-rated award subject to the application of the performance conditions at the end of the normal performance period. Committee retains standard discretions to either vary/disapply time pro-rating or to accelerate vesting to the earlier date of cessation (determining the performance conditions at that time).	All awards will normally lapse.	Will receive a pro-rated award subject to the application of the performance conditions at the date of the event, unless the Committee determines not to pro-rate.

On death, the Annual Bonus Plan, DSP and PSP awards typically vest in full (with pro-rating also potentially applying).

The Company has the power to enter into settlement agreements with Directors and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of the termination of an Executive Director, the Company may make a contribution towards that individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees will be disclosed as part of the detail of termination arrangements. For the avoidance of doubt, the policy does not include an explicit cap on the cost of termination payments.

External appointments

The Company's policy is to permit an Executive Director to serve as a non-executive director elsewhere when this does not conflict with the individual's duties to the Company, and where an Executive Director takes such a role they will be entitled to retain any fees which they earn from that appointment (unless the Committee determines otherwise).

Statement of consideration of employment conditions elsewhere in the Group

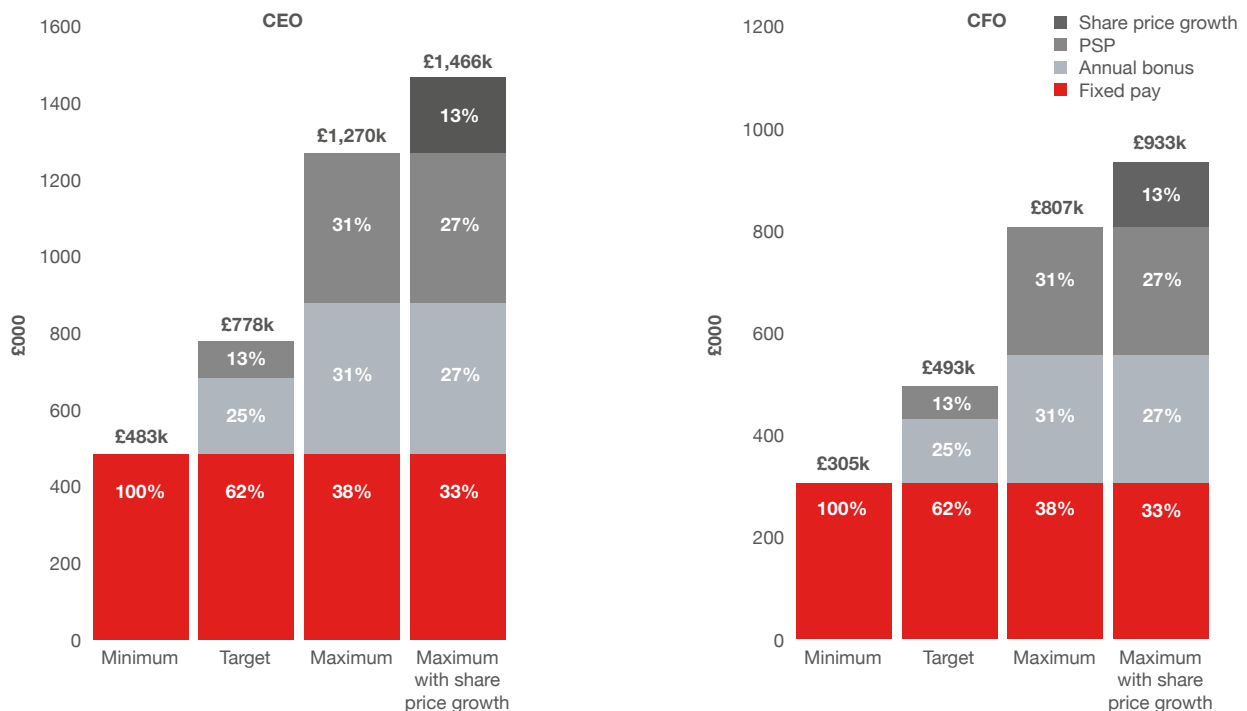
Pay and employment conditions generally in the Group are taken into account when setting Executive Directors' remuneration. The Committee receives regular updates on overall pay and conditions in the Group, including (but not limited to) changes in base pay and any staff bonus pools in operation. Reflecting standard practice, the Company did not consult with employees in drawing up this policy or the Remuneration Report.

Statement of consideration of shareholder views

When determining executives' remuneration, the Committee takes into account views of shareholders and best practice guidelines issued by institutional shareholder bodies. The Committee is always open to feedback from shareholders on remuneration policy and arrangements, and commits to undergoing shareholder consultation in advance of any significant changes to remuneration policy.

The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure that the structure of the executive remuneration remains appropriate.

Illustrations of application of remuneration policy



The charts above aim to show how the remuneration policy for Executive Directors will be applied in 2019 using the assumptions in the table below.

Minimum

- Consists of base salary, benefits and pension.
- Base salary is the salary to be paid with effect from 1 April 2019.
- Estimated value of a full year's benefits, including car allowance, private medical cover, health insurance and life assurance.
- Pension measured as the cash allowance in lieu of Company contributions at 15% of salary.

	Base Salary	Benefits	Pension	Total Fixed
Mark Kelly	£393,271	£30,678	£58,991	£482,940
Michael Scott	£251,257	£16,356	£37,688	£305,301

Target

Based on what the Director would receive if performance was on-target (excluding share price appreciation and dividends):

- Annual bonus: consists of the on-target bonus of 50% of maximum opportunity.
- Long-term incentives: consists of the threshold level of vesting (25% vesting) under the PSP.

Maximum

Based on the maximum remuneration receivable (excluding share price appreciation and dividends):

- Annual bonus: consists of maximum bonus of 100% of base salary.
- Long-term incentives: consists of the face value of awards (at 100% of salary for both Executive Directors) under the PSP.

Maximum with Share Price Growth

As per the maximum but with a 50% share price growth assumption for the PSP awards.

Directors' Remuneration Report continued

PART B: THE ANNUAL REPORT ON REMUNERATION

The Committee (unaudited information)

The members of the Remuneration Committee are: Martyn Coffey (Chairman), Bob Lawson, Frank Nelson and Sucheta Govil (from 1 October 2018).

The Committee's principal responsibilities are to:

- recommend to the Board the remuneration strategy and framework for the Chairman, Executive Directors and senior managers;
- determine, within that framework, the individual remuneration arrangements for the Executive Directors and senior managers; and
- oversee any major changes in employee benefit structures throughout the Group.

The Chief Executive Officer is invited to attend meetings of the Committee, except when his own remuneration is being discussed, and the Chief Financial Officer and other Executive and Non-executive Directors attend meetings as required. Bob Lawson takes no part in any discussions relating to his own remuneration.

The Committee met 3 times during the year, with all members of the Committee present at these meetings.

The Committee has formal terms of reference which can be viewed on the Company's website (investors.eurocell.co.uk).

FIT Remuneration Consultants LLP ('FIT'), signatories to the Remuneration Consultants Group's Code of Conduct, are appointed by the Committee and provide advice to the Committee on all matters relating to remuneration, including best practice. FIT provided no other services to the Group and, accordingly, the Committee was satisfied that the advice provided by FIT was objective and independent. FIT's fees in respect of 2018 were £20,889 (excluding VAT). FIT's fees were charged on the basis of the firm's standard terms of business for advice provided.

Audited information

Single total figure table (audited)

The remuneration for the Chairman, Executive and Non-executive Directors of the Company who performed qualifying services during the relevant financial year is detailed below. The Chairman and Non-executive Directors received no remuneration other than their annual fee.

For the year ended 31 December 2018:

Director	Salary/fees £000	Taxable benefits ¹ £000	Bonus £000	Long-term incentives £000	Pension £000	Other £000	Total remuneration £000
Mark Kelly	372	31	–	–	56	–	459
Michael Scott	238	14	–	–	36	–	288
Robert Lawson	120	–	–	–	–	–	120
Patrick Kalverboer	40	–	–	–	–	–	40
Frank Nelson	48	–	–	–	–	–	48
Martyn Coffey	45	–	–	–	–	–	45
Sucheta Govil ²	10	–	–	–	–	–	10

For the year ended 31 December 2017:

Director	Salary/fees £000	Taxable benefits ¹ £000	Bonus £000	Long-term incentives £000	Pension £000	Other £000	Total remuneration £000
Mark Kelly ³	365	28	146	–	55	322	916
Michael Scott	233	14	93	–	35	–	375
Robert Lawson	120	–	–	–	–	–	120
Patrick Kalverboer	40	–	–	–	–	–	40
Frank Nelson	48	–	–	–	–	–	48
Martyn Coffey	45	–	–	–	–	–	45

Notes:

1 Taxable benefits comprise car allowance, private family medical cover, permanent health insurance and life assurance.

2 Sucheta Govil joined the Board on 1 October 2018.

3 Other for Mark Kelly in 2017 relates to the value of the recruitment award over 123,864 Eurocell plc shares granted on 28 June 2016 in connection with an amount forfeited on cessation of employment with his previous employer. The award vested after the expiry of a 12-month deferral period and was subject to continued employment but no other performance conditions.

The aggregate emoluments (being salary/fees, bonuses, benefits and pension allowances) of all Directors for 2018 was £1,010,000 (2017: £1,544,000).

Further information on the 2018 annual bonus (audited)

In 2018, the annual bonus metrics were a blend of targets relating to adjusted profit before tax (70% of the bonus opportunity) and cash flow (30% of the bonus opportunity). In addition, a health and safety adjustment underpin applied which, if not achieved, could reduce the bonus pay-out (including to zero).

More particularly, the adjusted profit before tax and cash flow bonus targets were as follows:

£m	Threshold	Target	Maximum	Actual	Pay-out (% of max)
Adjusted Profit before Tax	23.6	24.8	26.7	22.5	0%
Cash flow	26.5	27.9	30.0	22.0	0%

Performance below the threshold against both the adjusted profit before tax and the cash flow elements of the bonus resulted in no bonus being awarded.

PSP awards vesting in respect of 2018

The PSP values included in the single figure table above relate to awards granted in 2016 which vest in 2019, dependent on EPS and cash flow performance measured over the 3-year period ended 31 December 2018.

Under the EPS performance target (two-thirds of awards) which uses a sliding scale, 25% of this part of an award vests where growth of adjusted earnings per share of 7% p.a. is achieved over the 3-year performance period, increasing pro-rata to full vesting where growth of 13% p.a. is achieved.

Performance target	Base EPS	EPS at 31 December 2018	EPS growth	Threshold 7% p.a.	Maximum 13% p.a.	Vesting %
Adjusted EPS	18.6p	19.1p	3%	22.8p	26.8p	0%

Under the cash-flow target (defined as aggregate of EBITDA less working capital and excluding capital expenditure over the 3-year period) (one-third of awards), 25% of this part of an award vests for cash flow of £84.9m increasing pro-rata to full vesting for cash flow of £103.7m.

Performance target	Threshold	Maximum	Actual	Vesting %
Cash flow	£84.9m	£103.7m	£83.2m	0%

As a result of EPS (two-thirds of awards) and cash flow (one-third of awards) performance, no PSP share awards are expected to vest in 2019.

Directors' Remuneration Report continued

Statement of Directors' shareholding and share interests (audited)

The table below details for each Director, the total number of Directors' interests in shares at 31 December 2018:

Director	Beneficially owned 31 Dec 17 ²	Beneficially owned 31 Dec 18 ²	Vested but unexercised awards	Unvested DSP	Unvested PSP ³	Unvested SAYE	SOG (% of salary) ⁴	SOG met? ⁴
Mark Kelly	109,469	109,469	–	79,210	595,114	11,029	200	No
Michael Scott	14,215	14,215	–	34,259	331,535	11,029	200	No
Patrick Kalverboer ¹	30,000	30,000	–	–	–	–	–	n/a
Robert Lawson	72,811	72,811	–	–	–	–	–	n/a
Frank Nelson	28,571	28,571	–	–	–	–	–	n/a
Martyn Coffey	10,714	10,714	–	–	–	–	–	n/a
Sucheta Govil	–	–	–	–	–	–	–	n/a

Notes:

- The interests of H2 Equity Partners were previously noted as interests of Patrick Kalverboer. Mr Kalverboer is a managing partner of H2 Equity Partners. On 16 March 2017 H2 Equity Partners disposed of its entire shareholding in the Company.
- The beneficial shareholdings set out above include those held by Directors and their respective connected persons.
- Performance-based share awards.
- Under the new policy, shareholding guidelines for Executive Directors will be increased from 100% to 200% of salary. Executive Directors will be required to retain at least 50% of the net of tax shares which vest under the PSP and DSP until the guideline is met.

PSP awards granted in 2018

The following awards were made under the PSP in 2018:

	Date of grant	Basis of award (% salary)	Share price ¹	Number of shares	Face value of award at grant	Exercise period
Mark Kelly	18 April 2018	100%	215.8	173,549	374,544	April 2021 to April 2022
Michael Scott	18 April 2018	100%	215.8	110,879	239,292	April 2021 to April 2022

Notes:

- Rounded to one decimal place for the purposes of presentation in this report.

The performance conditions applying to the awards made in April 2018 relate to: (i) adjusted earnings per share growth for two-thirds of the award; and (ii) Group cash flow targets for one-third of the award. Group cash flow is defined as the aggregate of EBITDA less working capital (and excluding capital expenditure) for each of the 3 financial years falling in the performance period.

More specifically:

Adjusted EPS growth target to 31 December 2020	Portion of award vesting
Above 10% p.a.	100%
Between 4% p.a. and 10% p.a.	Pro rata on straight-line between 25% and 100%
4% p.a.	25%
Below 4% p.a.	0%

Group cash flow to 31 December 2020	Portion of award vesting
Above £97.0 million	100%
Between £79.4 million and £97.0 million	Pro rata on straight-line between 25% and 100%
£79.4 million	25%
Below £79.4 million	0%

DSP awards granted in 2018

The following awards were made under the DSP in 2018 in respect to the 2017 annual bonus:

	Date of grant	2017 Annual bonus award	Basis of deferred award (% bonus)	Share price ¹	Number of shares	Face value of award at grant	Exercise period
Mark Kelly	18 April 2018	146,160	50	216.8	33,708	£73,080	April 2021 to April 2022
Michael Scott	18 April 2018	93,380	50	216.8	21,535	£46,690	April 2021 to April 2022

- Rounded to one decimal place for the purposes of presentation in this report.

Outstanding share plan awards

Details of all outstanding share awards made to Executive Directors are set out below:

Executive	Award type	Ex price (p)	Grant date	Interest at 1 January 2018	Awards granted in the year	Awards lapsed in the year	Awards vested in the year	Interest at 31 December 2018	Exercise period	Notes
Mark Kelly	PSP	0	28/06/16	273,417	–	–	–	273,417	Jun 19 – Jun 20	1
	PSP	0	04/04/17	148,148	–	–	–	148,148	Apr 20 – Apr 21	2
	PSP	0	18/04/18	–	173,549	–	–	173,549	Apr 21 – Apr 22	3
	DSP	0	04/04/17	45,502	–	–	–	45,502	Apr 20 – Apr 21	4
	DSP	0	18/04/18	–	33,708	–	–	33,708	Apr 21 – Apr 22	5
	SAYE	163.2	07/04/17	11,029	–	–	–	11,029	Apr 20 – Oct 20	6
Michael Scott	PSP	0	19/12/16	126,006	–	–	–	126,006	Dec 19 – Dec 20	1
	PSP	0	04/04/17	94,650	–	–	–	94,650	Apr 20 – Apr 21	2
	PSP	0	18/04/18	–	110,879	–	–	110,879	Apr 21 – Apr 22	3
	DSP	0	04/04/17	12,724	–	–	–	12,724	Apr 20 – Apr 21	4
	DSP	0	18/04/18	–	21,535	–	–	21,535	Apr 21 – Apr 22	5
	SAYE	163.2	07/04/17	11,029	–	–	–	11,029	Apr 20 – Oct 20	6

1 See 'PSP Awards Vesting in Respect of 2018' section above.

2 As disclosed in the 2017 Directors' Remuneration Report.

3 See 'PSP Awards Granted in 2018' section above.

4 DSP awards in respect of the 2016 annual bonus award.

5 DSP awards in respect of the 2017 annual bonus award.

6 Awards granted under the Eurocell plc Save As You Earn Scheme. Awards are based on a 3-year savings contract with an exercise price of 163.2p.

During the year ended 31 December 2018, the highest mid-market price of the Company's shares was 264p and the lowest mid-market price was 210p. At 31 December 2018 the share price was 211p.

The aggregate gains by all Directors during 2018 was £nil (2017: £322,146).

Payments to past directors (audited)

PSP share awards vested during the year to Patrick Bateman (76,144 shares) and Matthew Edwards (36,843 shares), both of whom are past Directors. The gross value of the awards vesting was £162,187 and £78,476 for Patrick and Matthew respectively. No other payments to past directors were made during the year.

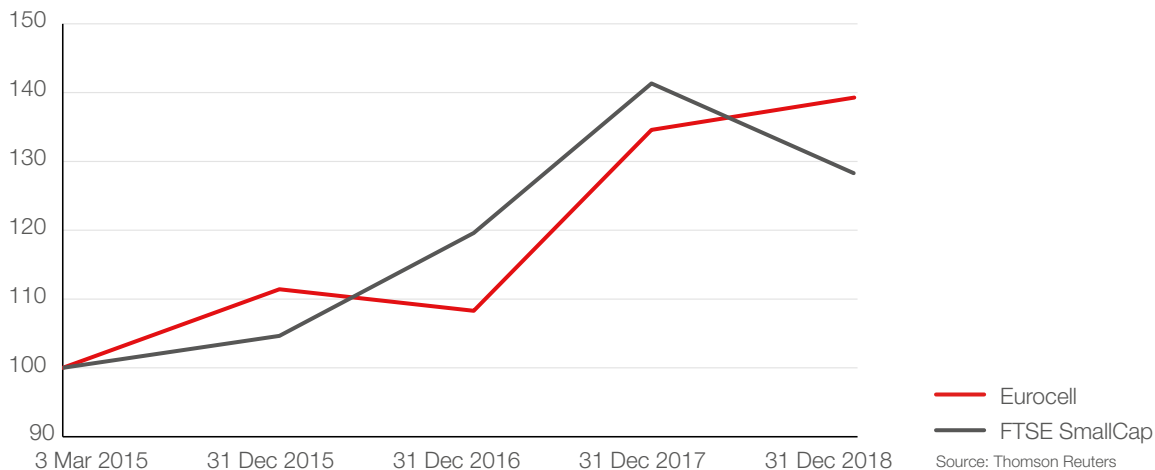
Payments for loss of office (audited)

No payments for loss of office were made during the year.

Performance graph and CEO remuneration table (unaudited)

The following graph shows the Total Shareholder Return ('TSR') performance of an investment of £100 in Eurocell plc's shares from its listing in March 2015 to the end of the period, compared with a £100 investment in the FTSE SmallCap Index over the same period. The FTSE SmallCap Index was chosen as a comparator because it represents a broad equity market index of similar sized companies.

TSR Index



Directors' Remuneration Report continued

The table below details certain elements of the CEO's remuneration over the same period as presented in the TSR Index graph:

Year	CEO	Single figure of total remuneration	Annual Bonus pay-out against maximum %	Long-term incentive vesting rates against maximum opportunity %
2018	Mark Kelly	£459,294	0%	0%
2017	Mark Kelly	£916,442	40%	n/a
2016	Mark Kelly	£560,558	80%	n/a
	Patrick Bateman	£284,457	33%	n/a
2015	Patrick Bateman	£637,098	87%	n/a

As the Company listed in March 2015, part of the 2015 remuneration relates to when Eurocell was a privately owned Company.

Percentage change in remuneration of director undertaking the role of CEO (unaudited)

The table below presents the year-on-year percentage change in remuneration for the CEO and for all UK employees:

	Percentage increase in remuneration between 2017 and 2018	
	CEO	All staff
Salary and fees	2%	4%
Short-term incentives	(100)%	21%
All taxable benefits	10%	10%

Relative importance of spend on pay (unaudited)

The table below details the change in total employee pay between 2017 and 2018 as detailed in Note 8 of the Financial Statements, compared with distributions to shareholders by way of dividend, share buybacks or any other significant distributions or payments.

	% change	2018 £m	2017 £m
Total gross employee pay	18%	56.1	47.4
Dividends/share buybacks	3%	9.3	9.0

The average number of employees during the year was 1,666 (2017: 1,496).

Statement of voting at General Meeting

The following table shows the results of the binding Remuneration Policy vote at the 19 May 2016 AGM and the advisory Directors' Remuneration Report vote at the 18 May 2018 AGM.

	19 May 2016 AGM (Binding Vote)		18 May 2018 AGM (Advisory Vote)	
	Approval of the Directors' Remuneration Policy		Annual Report on Remuneration	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	85,931,870	100%	89,257,815	100%
Against	–	–	1,500	0.0%
Votes withheld	–	–	0	–

Implementation of policy for 2019 (unaudited information)

Base salary

- Base salaries from 1 April 2018 were as follows: £374,544 for Mark Kelly, and £239,292 for Michael Scott. With effect from 1 April 2019, these salaries will be increased by 5% to £393,271 and £251,257 respectively. The salary increase reflects the individuals' performance in their respective roles during the year ended 31 March 2019.

Pension

- Contribution rates for Executive Directors will be 15% of salary in 2019.

Benefits

- Details of the benefits received by Executive Directors are set out in Note 1 to the Single Total Figure Table on page 62. There is no intention to introduce additional benefits in 2019.

Annual bonus

- The annual bonus opportunity for 2019 will be structured in a similar manner to 2018. The maximum bonus will be 100% of salary and will be payable based on performance against a blend of adjusted profit before tax (70% of the bonus opportunity) and operating cash flow (30% of the bonus opportunity) targets.
- These targets will be set in light of internal and external forecasts and will require significant outperformance to generate higher levels of pay-out. In addition, a health and safety adjustment underpin will apply which, if not achieved, could reduce the bonus pay-out.
- Any bonus earned above 75% of salary will be deferred into shares for three years.
- Given the competitive nature of the Company's sector, the specific performance targets for 2019 are considered to be commercially sensitive and, accordingly, are not disclosed at this time, although the targets will be disclosed in next year's report in relation to the 2019 bonus outturn.

Long-term incentives

- Awards will be made under the PSP in 2019 to the Executive Directors structured in a similar manner to the awards made in 2018, in that awards will be made which will vest subject to three-year earnings per share (two-thirds of the award) and operating cash flow (one-third) targets.
- Full details of these targets will be disclosed in next year's report, with these targets no less challenging in relative terms than the targets applied to the 2018 PSP awards.

Chairman and Non-executive Directors' fees

- The fees of the Chairman and Non-executive Directors will remain unchanged from 2018 levels.

Directors' Report

The Directors' Report includes the Corporate Governance Statement set out on pages 45 to 47.

The Directors' Report and Strategic Report comprise the 'Management Report' for the purpose of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR 4.1.8R).

The Directors of the Company are listed on pages 42 and 43 and were in place on the date this Directors' Report was approved.

The Group is UK domiciled and the majority of its activity is within the United Kingdom.

Strategic Report

As permitted by section 414C of the Companies Act 2006, certain information required to be included in the Directors' Report has been included in the Strategic Report, which is set out on pages 4 to 40. Specifically, this relates to information on the Group's strategy, business model, likely future developments and risk management.

UK Corporate Governance Code

Matters related to corporate governance and our compliance with the Code are set out in the Corporate Governance Statement on pages 45 to 47, which is incorporated herein by reference.

Results

Our Financial Statements for year ended 31 December 2018 are set out on pages 79 to 112. The Financial Statements should be read in conjunction with the Chief Executive's Review, Divisional Reviews and the Group Financial Review.

Dividends

The Board is recommending a final dividend of 6.2 pence (2017: 6.0 pence) per share which, together with the interim dividend of 3.1 pence (2017: 3.0 pence) per share, makes a combined dividend of 9.3 pence (2017: 9.0 pence) per share.

Payment of the final dividend, if approved at the Annual General Meeting ('AGM'), will be made on 22 May 2019 to Shareholders registered at the close of business on 26 April 2019. The ex-dividend date will be 25 April 2019.

Dividends paid in the year to 31 December 2018 and disclosed in the Consolidated Cash Flow Statement of £9.1 million (2017: £8.7 million), is comprised of the 2017 final dividend of 6.0 pence per share and the 2018 interim dividend of 3.1 pence per share, which were paid in May and October 2018 respectively.

Tax governance

Our tax policy is set out below. It is determined by the Board and overseen by the Audit and Risk Committee. The Board reviews the policy, and our compliance with it, on an annual basis. Operational responsibility for the execution of the Group's tax policy rests with the Chief Financial Officer, who reports the Group's tax position to the Audit and Risk Committee on a regular basis.

Tax Policy

We are committed to compliance with tax law and practice in the UK. Compliance for us means paying the amount of tax we are legally obliged to pay and doing so at the right time. It involves disclosing all relevant facts and circumstances to the UK tax authorities and claiming appropriate reliefs and incentives where available.

Risk management

The level of risk that we accept in relation to UK tax is consistent with our overall objective of achieving certainty in the Group's tax affairs. At all times, we seek to comply fully with our regulatory and other obligations, and to act in a way that upholds our core values and reputation as a responsible corporate citizen. We see compliance with tax legislation as key to managing tax risk, and understand the importance of tax in the wider context of business decisions.

Processes have been put in place to ensure tax is considered as part of our overall decision-making processes, with tax risks managed by local finance teams and escalated through to appropriate levels of management and, ultimately, to the Board when necessary.

Tax planning

In structuring our commercial activities, we will always consider, among other factors, the relevant tax laws. We believe that it is fair to mitigate tax using generally available reliefs in the spirit in which they are intended. However, any tax planning that we undertake will have commercial and economic substance and we will not use aggressive tax planning or enter into complicated tax avoidance schemes.

Engaging with HMRC

We aim to have a good working relationship with HMRC. We will engage with honesty and integrity, and in a spirit of cooperative compliance. We will make all returns and pay tax on a timely basis, across all types of tax.

Share Capital

Details of our issued share capital, including movements during the year, are shown in Note 23 to the Financial Statements. We have one class of ordinary shares, which carries no fixed income. Each share carries the right to one vote at our general meetings. The ordinary shares are listed on the Official List and traded on the London Stock Exchange.

As at 31 December 2018, we had 100,310,472 (2017: 100,137,186) ordinary shares of 0.001 pence each in nominal value in issue (the 'issued share capital').

Holders of ordinary shares are entitled to receive dividends when declared, to receive the Company's Annual Report, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

Whilst the Board has the power under the Articles of Association to refuse to register a transfer of shares, there are no such restrictions on the transfer of shares in place.

Under the Company's Articles of Association, the Directors have the power to suspend voting rights and the right to receive dividends in respect of shares in circumstances where the holder of those shares fails to comply with a notice issued under section 793 of the Companies Act 2006. The Company is not aware of any agreements between Shareholders that may result in restrictions on the transfer of securities or voting rights.

Share schemes

The Company operates a number of share schemes.

Long-Term Incentive Plans payable to executives and senior managers are operated under our Performance Share Plan ('PSP'). Executive Directors and PDMRs have a proportion of their annual bonus deferred for three years under our Deferred Share Plan ('DSP'). The Company also operates Save As You Earn (or sharesave) schemes, which are available to all employees.

All shares issued under these plans carry the same rights as those already in issue.

Related party transactions

Other than in respect of arrangements set out in Note 28 to the Financial Statements and in relation to the employment of Directors, details of which are provided in the Remuneration Committee Report on pages 52 to 67, there is no material indebtedness owed to or by us to any employee or any other person or entity considered to be a related party.

Substantial Shareholders

As at 31 December 2018, the Company had been notified of the following holdings of voting rights in its shares under Chapter 5 of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority:

Shareholder	No. of Shares	% of voting rights
Woodford Investment Management	19,467,249	19%
Aberforth Partners	14,364,613	14%
JO Hambro Capital Management	10,501,456	10%
Alantra Asset Management	9,839,179	10%
AXA Investment Managers	8,211,862	8%
Santander Asset Management UK	5,917,321	6%
Canaccord Genuity Wealth Management	4,330,514	4%
Janus Henderson Investors	3,512,964	4%

The Takeover Directive

The rights and obligations attached to the issued share capital are set out in the Articles of Association (see below).

There are no agreements in place between the Company, its employees or Directors for compensation for loss of office or employment that trigger as a result of a takeover bid.

Articles Of Association

The Company's Articles of Association can only be amended by special resolution of the Shareholders. Our current articles are available on our website at investors.eurocell.co.uk.

The Company's Articles of Association give powers to the Board to appoint Directors. All Board members are required to retire and submit themselves for re-election by Shareholders at each Annual General Meeting.

The Board of Directors may exercise all the powers of the Company, subject to the provisions of relevant legislation, the Company's Articles of Association and any directions given by the Company in general meetings. The powers of the Directors include those in relation to the issue and buyback of shares.

Directors' retirement by rotation

In accordance with above and in line with the Code, all Directors in office (other than Patrick Kalverboer) will retire and offer themselves for re-election at the 2019 AGM.

The Articles of Association provide that a Director may be appointed by an ordinary resolution of Shareholders or by existing Directors, either to fill a vacancy or as an additional Director.

The Executive Directors serve under contracts that are terminable with 12 months' notice from the Company and 12 months' notice from the Executive Director. The Non-executive Directors serve under letters of appointment and do not have service contracts with the Company.

Copies of the service contracts of the Executive Directors and the letters of appointment of the Non-executive Directors are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

Directors' interests

Details of Directors' remuneration, interests in the share capital (or derivatives or other financial instruments relating to those shares) of the Company and of their share-based payment awards are contained in the Remuneration Committee Report on pages 52 to 67. No change in the interests of the Directors has been notified between 31 December 2018 and the date of this report.

Directors' indemnities

Pursuant to the Articles of Association, the Company has executed a deed poll of indemnity for the benefit of the Directors of the Company and persons who were Directors of the Company in respect of costs of defending claims against them and third-party liabilities. These provisions, deemed to be qualifying third-party indemnity provisions pursuant to section 234 of the Companies Act 2006, were in force during the year ended 31 December 2018 and remain in force. The indemnity provision in the Company's Articles of Association also extends to provide a limited indemnity in respect of liabilities incurred as a director, secretary or officer of an associated company of the Company.

A copy of the deed poll of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's AGM.

Directors' Report continued

Conflicts of interest

Under the Companies Act 2006, Directors must avoid situations where they have, or could have, a direct or indirect interest that conflicts or possibly may conflict with the Company's interests. As permitted by the Act, the Company's Articles of Association enable Directors to authorise actual or potential conflicts of interest.

Legal and regulatory compliance

The executive team is responsible for identifying and carrying out assessments of those areas of the business where material legal and regulatory risks may be present. Where issues are identified, mitigating actions are built into an action plan involving the drafting and communication of policies and the delivery of training where appropriate, or are approached by way of a revision to key contractual terms. The Board receives regular reports on material litigation and the legal action taken to support our strategy.

Health and Safety

We are committed to providing a safe place for employees to work. Our policies are reviewed on an ongoing basis to ensure that the approach to training, risk assessment, safe systems of working and accident management are appropriate. As part of this process, a rolling audit programme is in place to ensure that health, safety, environmental and security risks are assessed stringently and that robust control measures are in place to limit or mitigate risk as appropriate.

Other matters

Employee disclosure (including Equality and Diversity)

See Corporate Social Responsibility on page 23.

Financial risk management

Please refer to Note 3 of the Financial Statements.

Research and development

The Group undertakes research and development work in support of its objectives. Further details of our research and development activities can be found in the Strategic Report on pages 4 to 40.

Payments to suppliers

It is Group policy to abide by the payment terms agreed with suppliers, provided that the supplier has performed its obligations under the contract.

Donations

In accordance with the Group's policy, no political donations were made and no political expenditure was incurred during 2018.

Greenhouse gas emissions

See Corporate Social Responsibility on page 24.

Disclosures required by Listing Rule 9.8.4R

There were no waivers of dividends during the year. There are no other disclosures to be made under the above listing rule.

By Order of the Board

Gerald Copley

Company Secretary
14 March 2019

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 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 Company and of the profit or loss of the Group and 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.
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

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

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Corporate Governance section on pages 42 and 43 confirm that, to the best of their knowledge:

- The Company Financial Statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the Company.
- The Group Financial Statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group.
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

The Directors' Responsibility Statement was approved by the Board on 14 March 2019.

Mark Kelly
Chief Executive Officer

Michael Scott
Chief Financial Officer

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

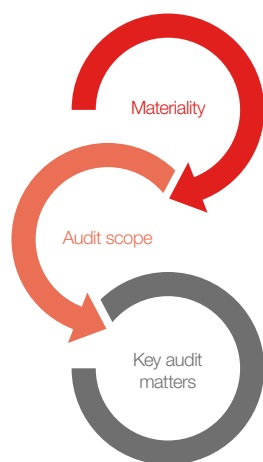
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 Underlying £000	Year ended 31 December 2018 Non-underlying* £000	Year ended 31 December 2018 Total £000	Year ended 31 December 2017 Underlying £000	Year ended 31 December 2017 Non-underlying* £000	Year ended 31 December 2017 Total £000
Revenue	4,9	253,691	–	253,691	224,906	–	224,906
Cost of sales		(128,108)	–	(128,108)	(110,282)	–	(110,282)
Gross profit		125,583	–	125,583	114,624	–	114,624
Distribution costs		(18,507)	–	(18,507)	(17,254)	–	(17,254)
Administrative expenses		(83,864)	(326)	(84,190)	(72,313)	(843)	(73,156)
Operating profit	9	23,212	(326)	22,886	25,057	(843)	24,214
Finance expense	10	(705)	(88)	(793)	(553)	–	(553)
Profit before tax	9	22,507	(414)	22,093	24,504	(843)	23,661
Taxation	11	(3,319)	845	(2,474)	(4,089)	70	(4,019)
Profit for the year and total comprehensive income		19,188	431	19,619	20,415	(773)	19,642
Basic earnings per share	12	19.1p		19.6p	20.4p		19.6p
Diluted earnings per share	12	19.1p		19.5p	20.4p		19.6p

* Non-underlying items are detailed in Note 7. The Group's policy regarding the recognition of non-underlying items is outlined on page 84.

The Notes on pages 83 to 105 are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 £000	2017 £000
Assets			
Non-current assets			
Property, plant and equipment	14	35,003	31,167
Intangible assets	15	27,795	19,431
Total non-current assets		62,798	50,598
Current assets			
Inventories	17	28,323	21,094
Trade and other receivables	18	40,311	31,578
Cash and cash equivalents		5,862	11,361
Total current assets		74,496	64,033
Total assets		137,294	114,631
Liabilities			
Current liabilities			
Trade and other payables	20	(41,303)	(33,011)
Provisions	21	(492)	(405)
Corporation tax		(1,162)	(2,448)
Total current liabilities		(42,957)	(35,864)
Non-current liabilities			
Borrowings	19	(29,376)	(25,851)
Trade and other payables	20	(1,230)	(718)
Provisions	21	(1,141)	(654)
Deferred tax	22	(2,502)	(2,170)
Total non-current liabilities		(34,249)	(29,393)
Total liabilities		(77,206)	(65,257)
Net assets		60,088	49,374
Equity attributable to equity holders of the parent			
Share capital	23	100	100
Share premium account	23	2,381	2,104
Share-based payment reserve	24	416	480
Retained earnings		57,191	46,690
Total equity		60,088	49,374

The Financial Statements on pages 79 to 105 were approved and authorised for issue by the Board of Directors on 14 March 2019 and were signed on its behalf by:

Mark Kelly
Director

Michael Scott
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Cash generated from operations	30	21,676	28,280
Income taxes paid		(3,981)	(4,557)
Net cash generated from operating activities		17,695	23,723
Investing activities			
Acquisition of subsidiaries (net of cash acquired)	29	(7,168)	(1,260)
Purchase of property, plant and equipment		(8,380)	(7,068)
Sale of property, plant and equipment		39	15
Purchase of intangible assets		(362)	(413)
Net cash used in investing activities		(15,871)	(8,726)
Financing activities			
Proceeds from bank borrowings		30,000	–
Repayment of bank and other borrowings		(27,126)	(42)
Finance expense paid		(1,079)	(449)
Dividends paid to equity Shareholders	13	(9,118)	(8,704)
Net cash used in financing activities		(7,323)	(9,195)
Net (decrease)/increase in cash and cash equivalents		(5,499)	5,802
Cash and cash equivalents at beginning of year	31	11,361	5,559
Cash and cash equivalents at end of year	31	5,862	11,361

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital £000	Share premium account £000	Share-based payment reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2018	100	2,104	480	46,690	49,374
Comprehensive income for the year					
Profit for the year	–	–	–	19,619	19,619
Total comprehensive income for the year	–	–	–	19,619	19,619
Contributions by and distributions to owners					
Exercise of share options	–	277	(277)	–	–
Share-based payments	–	–	249	–	249
Deferred tax on share-based payments	–	–	(36)	–	(36)
Dividends paid	–	–	–	(9,118)	(9,118)
Total transactions with owners recognised directly in equity	–	277	(64)	(9,118)	(8,905)
Balance at 31 December 2018	100	2,381	416	57,191	60,088
	Share capital £000	Share premium account £000	Share-based payment reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017	100	1,926	348	35,752	38,126
Comprehensive income for the year					
Profit for the year	–	–	–	19,642	19,642
Total comprehensive income for the year	–	–	–	19,642	19,642
Contributions by and distributions to owners					
Exercise of share options	–	178	(178)	–	–
Share-based payments	–	–	260	–	260
Deferred tax on share-based payments	–	–	50	–	50
Dividends paid	–	–	–	(8,704)	(8,704)
Total transactions with owners recognised directly in equity	–	178	132	(8,704)	(8,394)
Balance at 31 December 2017	100	2,104	480	46,690	49,374

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1 ACCOUNTING POLICIES (GROUP)

Corporate information

Eurocell plc (the 'Company') and its subsidiaries (together the 'Group') is a publicly listed company incorporated and domiciled in England and Wales. The registered office is Fairbrook House, Clover Nook Road, Alfreton, Derbyshire, DE55 4RF.

The Group is principally engaged in the extrusion of PVC window and building products to the new and replacement window market and the sale of building materials across the UK.

Basis of preparation

The principal accounting policies adopted in the preparation of the Financial Statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated.

The Group has adequate resources to continue in operational existence for the foreseeable future and, as a result of this, the going concern basis has been adopted in preparing the Financial Statements.

The Group Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and with the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements have been prepared under the historical cost convention, as modified by fair values.

The preparation of the Group Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 2.

Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries at 31 December 2018 and present the results as if they formed a single entity. Where the Company has power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date when such control ceases. Intercompany transactions and balances, unrealised gains and losses resulting from intra-Group transactions and dividends are eliminated in full.

The Consolidated Financial Statements incorporate the results of business combinations using the purchase method. In the balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date.

Changes in accounting policies and disclosures applicable to the Company and the Group

The Company has applied the following new standards and guidance for the financial reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers;
- Annual improvements 2014-16 cycle;
- IFRS 2 Share-based payment;
- IAS 40 Investment Property; and
- IFRIC 22 Foreign Currency Transactions and Advanced Consideration.

The Group changed its accounting policies in respect of revenue recognition and impairment of financial assets following the adoption of IFRS 9 and IFRS 15, with no material impact on the Financial Statements. Of the other standards listed, none have had a material impact on the Company or Group for the year ended 31 December 2018.

Certain new standards and interpretations have been issued but are not yet effective (and in some cases not yet approved by the EU) for the year ended 31 December 2018:

- IFRS 16 Leases (effective from 1 January 2019);
- IFRS 17 Insurance Contracts (effective from 1 January 2021);
- IAS 28 Investments in Associates and Joint Ventures (effective from 1 January 2019); and
- IFRIC 23 Uncertainty Over Income Tax Treatment (effective from 1 January 2019).

IFRS 16 Leases (effective from 1 January 2019) removes the distinction between operating and finance leases, and requires most leases to be brought on to the balance sheet. The standard replaces IAS 17 Leases and Related Interpretations, and addresses the definitions of a lease, recognition and measurement of leases and establishes principles for reporting useful information to the users of Financial Statements about the leasing activities of both lessees and lessors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

1 ACCOUNTING POLICIES (GROUP) CONTINUED

Changes in accounting policies and disclosures applicable to the Company and the Group continued

In adopting this standard the Group intends to apply the Modified Retrospective transition approach. As a result on 1 January 2019 the Group will recognise additional non-current assets and lease liabilities of c.£35 million, with additional depreciation of c.£9 million and finance costs of c.£1 million being incurred in the first year of adoption, offset by a corresponding reduction in administrative costs of c.£9 million. This is lower than the charge disclosed in Note 6 (£14.7 million) due to short term leases not requiring to be presented in accordance with IFRS 16. Operating cash flows will increase, and financing cash flows decrease, by c.£8 million due to the repayment of the principal portion of lease liabilities being classified as cash flows from financing activities.

The key judgements in applying IFRS 16 are the discount applied to the future cash flows arising on lease contracts and management's assessment of the likelihood of lease extensions and terminations.

With the exception of IFRS 16, none of the standards in issue but not yet effective are expected to have a material impact on the Group's future Financial Statements. The Group does not intend to adopt any standard, revision or amendment before the required implementation date.

Revenue

The Group manufactures and distributes a range of building plastic materials, along with associated ancillary products, via direct sales to its Fabricator customers and through its branch network. Revenue is recognised when control of the products has transferred. Control is considered to have transferred once the customer has taken delivery of the products, or has collected them from the branch, has full discretion over the future use of those products, and where there is no unfulfilled obligation that could affect the customer's acceptance of the products. See Note 2 relating to critical accounting estimates and judgements.

A receivable is recognised on the transfer of the products, as this is the point at which consideration is deemed to be unconditional.

Where costs are incurred by the Group in securing a contract to supply products, those costs are recognised as an asset in the Consolidated Statement of Financial Position, and amortised over the period in which revenue pertaining to those costs is recognised.

Non-underlying items

The Group presents some material items of income and expense as non-underlying items. This is done when, in the opinion of the Directors, the nature and expected infrequency of the circumstances merit separate presentation in the Financial Statements. This treatment allows users of the Financial Statements to better understand the elements of financial performance in the year; it facilitates comparison with prior periods and it helps in understanding trends in financial performance. Further details as to why certain items have been classified as non-underlying are provided in Note 7.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree. Direct costs of acquisition are recognised immediately as an expense.

Goodwill is initially measured at cost, being the excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the acquisition date. Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the Consolidated Statement of Comprehensive Income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the Consolidated Statement of Comprehensive Income on the acquisition date.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see Note 2 relating to critical estimates and judgements below).

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Software	5 to 10 years	Cost to acquire
Technology-based	10 to 17 years	Cost to acquire
Marketing-related	10 to 15 years	Cost to acquire

The amortisation charge for the year is included within administration costs within the Consolidated Statement of Comprehensive Income.

Impairment of tangible assets, intangible assets and investments

Impairment tests on non-current assets are undertaken annually at the financial year end or at any other time when an indication of impairment arises. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows – its cash-generating unit ('CGU'). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the Consolidated Statement of Comprehensive Income, except to the extent they reverse gains previously recognised in Other Comprehensive Income. An impairment loss recognised for goodwill is not reversed.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Freehold land and assets in the course of construction are not depreciated. Depreciation is provided on all other items of property, plant and equipment so as to write-off their cost less residual value over their expected useful economic lives. It is provided at the following rates:

Asset class	Depreciation policy
Freehold property	2.5% per annum straight-line
Leasehold improvements	Equal instalments over the period of the lease
Plant and machinery	
Mixing plant	Between 20% and 25% per annum on cost
Extruders	13 years based on production usage
Stillages and tooling	5 to 10 years based on production usage
Other	Between 10% and 25% per annum on cost
Motor vehicles	Between 20% and 25% per annum on cost
Office equipment and fixtures	Between 20% and 25% per annum on cost

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase and conversion and other costs incurred in bringing the inventories to their present location and condition. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods, cost is taken as production cost, which includes a proportion of attributable overheads.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred up to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Financial assets

The Group classifies all of its financial assets as loans and receivables and has not classified any of its financial assets as held to maturity. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

Loans and receivable assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers, but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Group has adopted IFRS 9 with effect from 1 January 2018 and applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all financial assets. The Group has two types of financial asset that are subject to the expected credit loss model: trade receivables and contract assets. In measuring expected credit losses for trade receivables, receivables have been grouped based on shared characteristics and days past due. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

In the prior year, the Group applied the incurred loss model under IAS 39. Under the incurred loss model impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net of provisions, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Consolidated Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written-off against the associated provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

1 ACCOUNTING POLICIES (GROUP) CONTINUED

Financial assets continued

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less from inception, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities in the balance sheet.

Financial liabilities

The Group classifies its financial liabilities as other financial liabilities which include the following items:

- Bank borrowings which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet.
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Taxation

Tax on the profit for both the current and prior periods comprises both current and deferred tax and is recognised in the Consolidated Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates that have been enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

The Group recognises a current tax asset in respect of relief claimed under the Patent Box when the inflow of economic benefits arising from that asset is virtually certain, deemed to be the submission of a claim to HM Revenue and Customs.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that future taxable profits will arise against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/assets are settled/recovered.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group Company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

The Group has recognised provisions for liabilities of uncertain timing or amount in respect of leasehold dilapidations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, discounted at a pre-tax rate as described above.

Share capital

The Group's ordinary shares are classified as equity instruments.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when paid. In the case of final dividends, this is when approved by the Shareholders at the Annual General Meeting.

Retirement benefits: defined contribution scheme

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the Consolidated Statement of Comprehensive Income represents the contributions payable to the scheme in respect of the accounting period. The Group has no obligation to pay future pension benefits.

Operating leases

Operating leases are contractual arrangements conferring the right of use of an asset but where substantially all of the risks and rewards incidental to ownership are not transferred to the Group, the total rentals payable under the lease are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Foreign currency

The Group's Financial Statements are presented in British pounds sterling. For each entity, the Group determines the functional currency, and items included in the Financial Statements of each entity are measured using that functional currency.

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their 'functional currency') are recorded at the prevailing rate when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the Consolidated Statement of Comprehensive Income.

Share-based payment transactions

The Group has applied the requirements of IFRS 2 Share-based Payment.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value is determined at the grant date using the Black-Scholes valuation model and equity-settled share-based payments are expensed on a straight-line basis over the vesting period, based upon the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured based on the value of options over shares on the date of grant and the likelihood of all or part of the option vesting.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes certain estimates and judgements regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and judgements.

Critical estimates and judgements

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Revenue recognition

The critical judgement with regard to revenue is the point at which control is deemed to have passed to the customer. The Group considers this to be the point at which the goods are physically transferred to the customer. This is due to the fact that very little time transpires between the transfer of goods and their use in fabrication or installation by the customer, such that any quality or other issues, and therefore any subsequent reversal of revenue, would be apparent almost immediately.

A further critical estimate is the recoverability of contract assets. Contract assets are regularly assessed for indications of impairment by reviewing revenue and profitability projections over the period of each contract. Where the present value of future cash flows associated with a contract is below the book value of the asset, the carrying value is reduced via an impairment charge.

b) Carrying value of inventories

Management review the market value of, and demand for, its inventories on a periodic basis to ensure inventory is recorded in the Financial Statements at the lower of cost and net realisable value. Any provision for impairment is recorded against the carrying value of inventories. The key judgement is the extent to which items of inventory remain saleable as they age. Management use their knowledge of market conditions to assess future demand for the Group's products and achievable selling prices.

Further disclosures relating to inventories are provided in Note 17.

c) Recoverability of trade receivables

The Group has adopted IFRS 9 with effect from 1 January 2018 and applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables. Expected loss rates are derived based upon the payment profile of sales over a 2-year period before 31 December 2018, and the corresponding credit losses experienced. These rates are then adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle receivables, including GDP, the rate of unemployment, new housing starts, interest rates and household disposable income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

Critical estimates and judgements continued

Where the adjusted loss rates are different from the original estimate, such difference will impact on the carrying value of trade receivables and the amount credited or charged on a net basis to operating expenses within the Consolidated Statement of Comprehensive Income. The key judgement is the extent to which macroeconomic factors impact upon the recoverability of trade receivables. The key estimate is the adjusted loss rate applied to each category of trade receivables. If loss rates were, on average, 500 basis points higher than current estimates, the provision for impairment would increase by £35,000.

Further disclosures relating to trade receivables are provided in Note 18.

Other estimates and judgements

The following estimates and judgements are important, but are not considered to have a significant risk of leading to a material misstatement.

d) Dilapidation provisions

The Group recognises dilapidation provisions on the leasehold properties it occupies. The key estimate is the level of provision required for each property, which management assesses based on past experience within the property portfolio. If the actual cost of dilapidations in respect of the Group's branch network was on average 10% greater or less than expected, the provision would change by less than £50,000. These provisions are reviewed semi-annually to ensure that they reflect the current best estimate of the provision required. Further disclosures relating to dilapidation provisions are provided in Note 21.

e) Carrying value of intangible assets

Management assesses the carrying value of its goodwill and intangible assets at least annually, or when an indication of impairment arises. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly. Recoverable amounts are determined from 'value-in-use' calculations applied to each Cash Generating Unit ('CGU'), which have been predicated on discounted cash flow projections from formally approved budgets covering a three-year period. The key estimates as highlighted in Note 16 are the discount rate and the level of profit growth assumed in perpetuity. If the discount rate increased by 100 basis points, or if the level of profit growth in perpetuity was zero, none of the Group's CGUs would be at risk of impairment.

3 FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group is exposed through its operations to the following financial risks:

- credit risk;
- market risk;
- foreign exchange risk; and
- liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these Financial Statements. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade and other receivables;
- cash and cash equivalents;
- trade and other payables;
- bank overdrafts; and
- floating-rate bank loans.

The Group finances its activities using cash generated from operations and its revolving credit facility. It does not use invoice discounting or any other financing facilities.

A summary of the financial instruments held by category is provided below:

	2018 £000	2017 £000
Financial assets		
Cash and cash equivalents	5,862	11,361
Trade and other receivables	34,117	27,702
Total financial assets	39,979	39,063
Financial liabilities		
Trade and other payables	42,129	33,729
Borrowings	30,000	25,851
Total financial liabilities	72,129	59,580

Impairment of financial assets

Impairments of trade receivables are outlined in Note 18. No further impairments to financial assets are considered necessary. The Group has adopted IFRS 9 with effect from 1 January 2018 and applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The Board receives monthly reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. These are then discussed at regular Board meetings.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk through its trade receivables arising from its normal commercial activities. It is Group policy, implemented locally, to assess the credit risk of new customers before entering into contracts.

Existing credit risks associated with trade receivables are managed in line with Group policies as discussed in the financial assets section of accounting policies.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. This risk is mitigated by ensuring that deposits are only made with banks and financial institutions with a good rating issued by an industry-recognised independent third party (e.g. Standard and Poor's).

Further disclosures regarding financial assets are provided in Note 18.

Market risk

The Group is exposed to market risk from bank borrowings which incur variable interest rate charges linked to base rate plus a margin. The Group's policy aims to manage the interest cost of the Group within the constraints of its financial covenants and forecasts.

During 2018 and 2017 the Group's borrowings at variable rate were denominated in sterling. Further disclosures relating to bank borrowings are provided in Note 19.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of a financial instrument or future cash flow will fluctuate because of changes in foreign exchange rates. The Group's exposure to foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group manages its exposure to fluctuations in currency rates by wherever possible negotiating both purchases and sales to be denominated in sterling. The profit or loss arising from likely changes in foreign exchange is not significant.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, cash flow forecasts are prepared and updated on a regular basis to ensure that the Group has adequate headroom in its facilities.

The Board receives monthly updates on the Group's liquidity position and any issues are reported by exception.

At the end of the financial year, the most recent cash flow projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably foreseeable circumstances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

3 FINANCIAL INSTRUMENTS – RISK MANAGEMENT CONTINUED

General objectives, policies and processes continued

Liquidity risk continued

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	Total £000	Up to 3 months £000	Between 3 and 12 months £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
At 31 December 2018						
Trade and other payables	(42,129)	(40,904)	(300)	(115)	(810)	–
Borrowings	(30,000)	–	–	–	(30,000)	–
Total	(72,129)	(40,904)	(300)	(115)	(30,810)	–
At 31 December 2017						
Trade and other payables	(33,729)	(32,905)	(106)	(307)	(411)	–
Borrowings	(26,000)	–	–	–	(26,000)	–
Total	(59,729)	(32,905)	(106)	(307)	(26,411)	–

Capital management

The Group's objective when managing capital, which is deemed to be total equity plus total debt and which totalled £89.5 million (2017: £75.2 million) at the balance sheet date, is to safeguard the Group's ability to continue as a going concern, through the optimisation of the debt and equity balance, and to maintain good headroom on its debt facilities and financial covenants. The Group manages its capital structure and makes appropriate decisions in the light of current economic conditions and its strategic objectives.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and sustain the future development of the business.

The funding requirements of the Group are met by the utilisation of external borrowings together with available cash.

A key objective of the Group's capital management is to maintain comfortable headroom over the covenants set out in its existing facility agreements.

The financial covenants which are in place are as follows:

- Leverage: the ratio of total net debt to consolidated EBITDA of any relevant period of not more than 3:1.
- Interest cover: the ratio of EBITDA to net interest payable in respect of any relevant period of not less than 4:1.

Covenants are measured semi-annually on a rolling 12-month basis. As at 31 December 2018 they were 0.7:1 and 46:1 respectively (2017: 0.5:1 and 57:1). The Group operated well within its covenants throughout the current and prior periods.

The following table sets out the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date:

	As at 31 December 2018			
	GBP £000	EUR £000	USD £000	Total £000
Trade and other receivables	33,954	146	17	34,117
Cash and cash equivalents	5,519	340	3	5,862
Other interest-bearing borrowings	(30,000)	–	–	(30,000)
Trade and other payables	(41,087)	(993)	(49)	(42,129)
	(31,614)	(507)	(29)	(32,150)
As at 31 December 2017				
	GBP £000	EUR £000	USD £000	Total £000
Trade and other receivables	31,403	175	–	31,578
Cash and cash equivalents	11,073	288	–	11,361
Other interest-bearing borrowings	(25,851)	–	–	(25,851)
Trade and other payables	(33,271)	(458)	–	(33,729)
	(16,646)	5	–	(16,641)

4 REVENUE

Revenue arises from:

	2018 £000	2017 £000
Sale of goods	253,691	224,906

External revenue by location of customers:

	2018 £000	2017 £000
United Kingdom	250,139	221,667
Rest of European Union	3,021	2,943
Rest of World	531	296
	253,691	224,906

There are no customers with sales in excess of 10% of total Group revenues.

5 AUDITORS' REMUNERATION

Total amounts payable to the Group's auditors were as follows:

	2018 £000	2017 £000
Audit of these Financial Statements	50	43
Amounts receivable by auditors and their associates in respect of:		
Audit of Financial Statements of subsidiaries pursuant to legislation	134	116
Audit-related assurance services	25	25
	209	184

6 EXPENSES BY NATURE

	2018 £000	2017 £000
Depreciation of property, plant and equipment	5,481	5,119
Amortisation of intangible assets	1,614	1,558
Profit on disposal of property, plant and equipment and intangible assets	(33)	(51)
Cost of inventories	113,243	100,210
Employee benefits expense (Note 8)	56,134	47,378
Non-underlying operating expenses (Note 7)	326	843
Rentals under operating leases	14,711	10,415
Other expenses	39,329	35,220
Total cost of sales, distribution costs and administration expenses	230,805	200,692

7 NON-UNDERLYING ITEMS

Amounts included in the Consolidated Statement of Comprehensive Income are as follows:

	2018 £000	2017 £000
Acquisition-related costs	326	414
Redundancy and settlement costs	–	361
HSE penalty	–	68
Non-underlying operating expenses	326	843
Finance expense – unamortised prepaid arrangement fees	88	–
Total non-underlying expenses	414	843
Tax on non-underlying expenses	7	(70)
Benefit of second Patent Box claim in the year	(852)	–
Taxation	(845)	(70)
Impact on profit after tax	(431)	773

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

7 NON-UNDERLYING ITEMS CONTINUED

Operating expenses

Expenses arising from the acquisition of subsidiary undertakings are classified as non-underlying due to the fact that they relate solely to the transfer of ownership rather than ongoing operations. All of the £326,000 acquisition costs (2017: £92,000) relate to professional fees and transaction costs incurred in respect of completed acquisitions and none (2017: £322,000) relate to contingent consideration which is dependent upon continued employment.

In 2017, redundancy and settlement costs of £361,000 related to a reorganisation of the production function in the Profiles division and were classified as non-underlying because they related to termination costs for positions that no longer existed. The 2017 penalty of £68,000 related to a fine imposed by the Health and Safety Executive ('HSE') following their prosecution of the Company in respect of an accident incurred in August 2016. The penalty was classified as non-underlying because such costs are not in the normal course of business and were not expected to recur in the foreseeable future.

Finance expense

In December 2018 the Group refinanced, cancelling its £45 million Revolving Credit Facility ('RCF') and replacing it with a new £60 million RCF. As a result of this extinguishment, unamortised prepaid arrangement fees relating to the existing facility were expensed to the Consolidated Statement of Comprehensive Income. This gave rise to an additional finance expense of £88,000, which has been classified as non-underlying because it does not relate to the Group's ongoing financing arrangements.

Taxation

Non-underlying items includes a tax charge on non-underlying items of £7,000 (2017: credit of £70,000). It also includes the benefit of a second Patent Box claim. The Group makes annual claims for tax relief under HMRC's Patent Box legislation. In 2018, the Group filed claims in respect of the years ended 31 December 2016 and 31 December 2017, realising a total benefit of £1,820,000 in cash tax. The benefit of the second claim (£852,000) is presented as non-underlying because the Group typically makes only one claim in each financial year.

8 EMPLOYEE BENEFITS EXPENSE

	2018 £000	2017 £000
Staff costs (including Directors) comprise:		
Wages and salaries	49,388	41,808
Share-based payments	249	260
Social security costs	5,086	4,137
Pension costs – defined contribution plans	1,411	1,173
	56,134	47,378
	2018 No.	2017 No.
The average monthly number of employees, including Directors, during the year was as follows:		
Production	538	432
Office and administration	354	302
Distribution	774	762
	1,666	1,496

Key management personnel compensation and Directors' remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, which is considered to be the Directors of the Company and the Directors of the Group's subsidiary companies.

	2018 £000	2017 £000
Emoluments	1,208	1,889
Share-based payments	39	169
Pension and other post-employment benefit costs	117	190
	1,364	2,248

Directors' remuneration is set out in the Remuneration Report.

During the year, retirement benefits were accruing to two Directors in respect of defined contribution pension schemes (2017: two).

The highest paid Director received remuneration of £459,000 (2017: £916,000).

No share options were exercised by Directors of the Group during the year (2017: 123,864).

The value of contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £56,000 (2017: £55,000).

The Group's policy for consulting with, sharing information with, and encouraging the involvement employees is discussed on pages 22 and 23.

9 SEGMENTAL INFORMATION

The Group organises itself into a number of operating segments that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Internal reporting provided to the chief operating decision-maker, which has been identified as the executive management team including the Chief Executive Officer and the Chief Financial Officer, reflects this structure.

The Group has aggregated its operating segments into two reported segments, as these business units have similar products, production processes, types of customer, methods of distribution, regulatory environments and economic characteristics:

- Profiles – extrusion and sale of PVC window and building products to the new and replacement window market across the UK. This segment includes Vista Panels, S&S Plastics and Ecoplas.
- Building Plastics – sale of building plastic materials across the UK. This segment includes Security Hardware and Kent Building Plastics.

The Corporate segment includes amortisation in respect of acquired intangible assets.

	Profiles 2018 £000	Building Plastics 2018 £000	Corporate 2018 £000	Total 2018 £000
Revenue				
Total revenue	159,496	147,345	–	306,841
Inter-segmental revenue	(51,768)	(1,382)	–	(53,150)
Total revenue from external customers	107,728	145,963	–	253,691
Adjusted EBITDA	22,008	8,394	(95)	30,307
Amortisation	(158)	(53)	(1,403)	(1,614)
Depreciation	(4,074)	(908)	(499)	(5,481)
Operating profit before non-underlying expenses	17,776	7,433	(1,997)	23,212
Non-underlying expenses				(326)
Finance expense				(793)
Profit before tax				22,093

	Profiles 2017 £000	Building Plastics 2017 £000	Corporate 2017 £000	Total 2017 £000
Revenue				
Total revenue	139,553	131,877	–	271,430
Inter-segmental revenue	(45,377)	(1,147)	–	(46,524)
Total revenue from external customers	94,176	130,730	–	224,906
Adjusted EBITDA	23,166	8,568	–	31,734
Amortisation	(159)	(112)	(1,287)	(1,558)
Depreciation	(3,859)	(795)	(465)	(5,119)
Operating profit before non-underlying expenses	19,148	7,661	(1,752)	25,057
Non-underlying expenses				(843)
Finance expense				(553)
Profit before tax				23,661

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

9 SEGMENTAL INFORMATION CONTINUED

	Profiles 2018 £000	Building Plastics 2018 £000	Corporate 2018 £000	Total 2018 £000
Additions to plant, property, equipment and intangible assets	6,249	1,002	1,389	8,640
Segment assets	75,000	46,204	16,090	137,294
Segment liabilities	(25,016)	(17,173)	(1,977)	(44,166)
Borrowings				(29,376)
Corporation tax payable				(1,162)
Deferred tax liability				(2,502)
Total liabilities				(77,206)
Total net assets				60,088

	Profiles 2017 £000	Building Plastics 2017 £000	Corporate 2017 £000	Total 2017 £000
Additions to plant, property, equipment and intangible assets	4,044	2,423	1,116	7,583
Segment assets	58,861	39,965	15,805	114,631
Segment liabilities	(19,274)	(13,974)	(1,540)	(34,788)
Borrowings				(25,851)
Corporation tax payable				(2,448)
Deferred tax liability				(2,170)
Total liabilities				(65,257)
Total net assets				49,374

10 FINANCE EXPENSE

	2018 £000	2017 £000
Finance expense		
Bank borrowings	558	535
Other borrowings	100	18
Unwinding of discounting	47	–
Underlying finance expense	705	553
Non-underlying finance expense (Note 7)	88	–
Total finance expense	793	553

11 TAXATION

	2018 £000	2017 £000
Current tax expense		
Current tax on profits for the year	2,643	4,253
Adjustment in respect of prior years	(40)	(170)
Total current tax	2,603	4,083
Deferred tax expense		
Origination and reversal of temporary differences	(165)	53
Adjustment in respect of change in rates	(21)	(15)
Adjustment in respect of prior years	57	(102)
Total deferred tax	(129)	(64)
Total tax expense	2,474	4,019

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	2018 £000	2017 £000
Profit before tax	22,093	23,661
Expected tax charge based on the standard rate of corporation tax in the UK of 19.0% (2017: 19.25%)	4,198	4,555
Taxation effect of:		
Expenses not deductible for tax purposes	136	439
Patent Box claims	(1,820)	(738)
Adjustments to tax charge in respect of prior years	17	(272)
Tax on share-based payments recognised in equity	(36)	50
Adjustment in respect of change in rates	(21)	(15)
Total tax expense	2,474	4,019

Changes in tax rates and factors affecting the future tax charge

The mainstream rate of UK corporation tax changed in April 2017 from 20% to 19%. This gives rise to an effective rate of 19% (2017: 19.25%) for the year. A further reduction to 17% from 1 April 2020 has been substantively enacted. Deferred taxes at the year-end date have been measured using these enacted tax rates and reflected in the Financial Statements.

There are no material uncertain tax provisions.

Tax on non-underlying items

The net tax charge arising on non-underlying items within the Comprehensive Income Statement is £7,000 (2017: credit of £70,000). Non-underlying tax also includes a credit of £852,000, being the benefit of a second Patent Box claim in the year.

Tax included in Other Comprehensive Income

The tax charge arising on share-based payments within Other Comprehensive Income is £36,000 (2017: credit of £50,000).

Based on the current investment plans of the Group, and assuming the rates of capital allowances on capital expenditure continue into the future, there is little prospect of any significant part of the deferred tax liability becoming payable over the next three years.

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options. Adjusted earnings per share excludes the impact of non-underlying items.

	2018 £000	2017 £000
Profit attributable to ordinary Shareholders	19,619	19,642
Profit attributable to ordinary Shareholders excluding non-underlying items	19,188	20,415
	Number	Number
Weighted average number of shares – basic	100,278,663	100,040,383
Weighted average number of shares – diluted	100,627,058	100,301,071
	Pence	Pence
Basic earnings per share	19.6	19.6
Adjusted basic earnings per share	19.1	20.4
Diluted earnings per share	19.5	19.6
Adjusted diluted earnings per share	19.1	20.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

13 DIVIDENDS

	2018 £000	2017 £000
Dividends paid during the year		
Final dividend for 2017 of 6.0p per share (2016: 5.7p per share)	6,008	5,700
Interim dividend for 2018 of 3.1p per share (2017: 3.0p per share)	3,110	3,004
	9,118	8,704
Dividends proposed		
Final dividend for 2018 of 6.2p per share (2017: 6.0p per share)	6,219	6,008

14 PROPERTY, PLANT AND EQUIPMENT

	Freehold property £000	Leasehold improvements £000	Plant and machinery £000	Motor vehicles £000	Office equipment and fixtures £000	Assets under construction £000	Total £000
Cost							
Balance at 1 January 2017	8,644	63	31,406	197	84	2,301	42,695
Additions	–	122	3,484	45	–	3,417	7,068
Added on acquisition	–	–	43	–	–	–	43
Disposals	–	–	(103)	(30)	–	–	(133)
Transfers	23	–	3,876	–	–	(4,003)	(104)
Balance at 1 January 2018	8,667	185	38,706	212	84	1,715	49,569
Additions	12	13	2,412	26	13	5,904	8,380
Added on acquisition	–	4	1,321	45	19	–	1,389
Disposals	–	–	(205)	(32)	(82)	–	(319)
Transfers	336	–	4,187	–	–	(4,969)	(446)
Balance at 31 December 2018	9,015	202	46,421	251	34	2,650	58,573
Accumulated depreciation							
Balance at 1 January 2017	679	43	12,538	57	84	–	13,401
Charge for the year	228	7	4,839	45	–	–	5,119
Disposals	–	–	(88)	(30)	–	–	(118)
Balance at 1 January 2018	907	50	17,289	72	84	–	18,402
Charge for the year	230	16	5,176	36	23	–	5,481
Disposals	–	–	(199)	(32)	(82)	–	(313)
Balance at 31 December 2018	1,137	66	22,266	76	25	–	23,570
Net book value							
At 31 December 2018	7,878	136	24,155	175	9	2,650	35,003
At 31 December 2017	7,760	135	21,417	140	–	1,715	31,167

Included within freehold property is non-depreciable land of £2,320,000 (31 December 2017: £2,320,000).

During the year £446,000 of assets under construction were transferred to Intangible Assets.

15 INTANGIBLE ASSETS

	Software £000	Technology -based £000	Customer -related £000	Marketing -related £000	Goodwill £000	Total £000
Cost						
Balance at 1 January 2017	745	1,612	5,926	6,338	8,328	22,949
Additions	510	–	5	–	–	515
Added on acquisition	–	–	486	–	222	708
Disposals	–	–	(101)	–	–	(101)
Transfers	104	–	–	–	–	104
Balance at 1 January 2018	1,359	1,612	6,316	6,338	8,550	24,175
Additions	255	–	–	5	–	260
Added on acquisition	–	–	1,376	–	7,996	9,372
Transfers	446	–	(399)	–	–	47
Balance at 31 December 2018	2,060	1,612	7,293	6,343	16,546	33,854
Accumulated amortisation						
Balance at 1 January 2017	329	317	1,343	1,247	–	3,236
Charge for the year	158	95	882	423	–	1,558
Disposals	–	–	(50)	–	–	(50)
Balance at 1 January 2018	487	412	2,175	1,670	–	4,744
Charge for the year	213	95	984	322	–	1,614
Transfers	–	–	(299)	–	–	(299)
Balance at 31 December 2018	700	507	2,860	1,992	–	6,059
Net book value						
At 31 December 2018	1,360	1,105	4,433	4,351	16,546	27,795
At 31 December 2017	872	1,200	4,141	4,668	8,550	19,431

During 2018 customer-related intangible assets with a net book value of £100,000 were transferred to Contract Assets within Trade and Other Receivables.

16 IMPAIRMENT

For the purpose of impairment testing, goodwill is allocated to Cash Generating Units ('CGUs') as follows:

	2018 £000	2017 £000
Ecoplas	5,768	–
Eurocell Building Plastics	4,812	2,584
Eurocell Profiles	3,350	3,350
Vista Panels	2,243	2,243
S & S Plastics	151	151
Security Hardware	222	222
	16,546	8,550

During the year the Group recognised Goodwill in respect of the acquisition of Ecoplas (£5,768,000) and Kent Building Plastics (£2,228,000), with the latter being incorporated into the Eurocell Building Plastics CGU.

The recoverable amounts of the CGUs have been determined from 'value-in-use' calculations which have been predicated on discounted pre-tax cash flow projections based on a three-year business plan approved by the Board. These projections are based on all available information and growth rates do not exceed growth rates achieved in prior periods.

The key assumptions in preparing these forecasts are in line with our published strategy of continuing to open further branches, developing new products, increasing our use of recycled materials and adding bolt-on acquisitions when they arise.

	2018	2017
Period on which management approved forecasts are based (years)	3	3
Discount rate (pre-tax)	10%	10%
Profit growth rate in perpetuity	2%	2%

The goodwill is considered to have an indefinite useful life. The discount rate was estimated based on past experience and an estimated industry average weighted average cost of capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

16 IMPAIRMENT CONTINUED

The total recoverable amount in respect of goodwill, as assessed by the Directors using the above assumptions, is greater than the carrying amount and therefore no impairment charge has been recorded. The Directors consider that it is not reasonably possible for the assumptions to change so significantly as to eliminate the headroom.

17 INVENTORIES

	2018 £000	2017 £000
Raw materials	2,759	1,108
Work in progress	1,632	1,209
Finished goods and goods for resale	23,932	18,777
	28,323	21,094

All inventories are carried at cost less a provision to take account of slow-moving and obsolete items. At 31 December 2018 the inventory provision amounted to £1.8 million (2017: £1.8 million).

18 TRADE AND OTHER RECEIVABLES

	2018 £000	2017 £000
Trade receivables	34,751	28,833
Less: provision for impairment of trade receivables	(740)	(880)
Less: provision for rebates payable	(443)	(354)
Net trade receivables	33,568	27,599
Contract assets	3,140	–
Total financial assets other than cash and cash equivalents classified as loans and receivables	36,708	27,599
Prepayments	3,054	3,876
Other receivables	549	103
Total trade and other receivables	40,311	31,578

Trade receivables are non-interest bearing and are generally on 30 days credit.

The fair values of trade and other receivables classified as loans and receivables are not materially different to their carrying values.

The Group has adopted IFRS 9 and applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all financial assets. In measuring expected credit losses for trade receivables, receivables have been grouped based on shared characteristics and days past due.

Expected loss rates are derived based upon the payment profile of sales over a 2-year period before 31 December 2018, and the corresponding credit losses experienced. These rates are then adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle receivables, including GDP, the rate of unemployment, new housing starts, interest rates and household disposable income.

The closing loss allowances for trade receivables and contract assets as at 31 December 2018 reconcile to the opening loss allowances as follows:

	2018 £000	2017 £000
At 31 December – calculated under IAS 39	880	738
Amounts restated through comprehensive income	(59)	–
At 1 January – calculated under IFRS 9	821	738
Charged during the year	867	826
Added on acquisition (Note 29)	23	–
Released or utilised during the year	(450)	(476)
Receivables written-off during the year as uncollectible	(521)	(208)
At 31 December	740	880

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

In accordance with IFRS 15 Revenue from Contracts with Customers, contract assets have been separately disclosed for the first time in 2018. Contract assets held within prepayments and intangible assets at 31 December 2017 amounted to £1,466,000.

19 BORROWINGS

The book value and fair value of borrowings are as follows:

	Book value 2018 £000	Fair value 2018 £000	Book value 2017 £000	Fair value 2017 £000
Non-current				
Bank borrowings unsecured	29,376	29,376	25,851	25,851
Total borrowings	29,376	29,376	25,851	25,851

The bank borrowings outstanding at 31 December 2018 are classified as non-current liabilities as they relate to committed facilities available to the Group until 2023. The book value and fair value are not considered to be materially different.

Borrowings

Following a refinancing in December 2018 the Company has a £60 million committed multi-currency revolving unsecured credit facility with Barclays Bank plc and HSBC UK Bank plc which expires in 2023. The previous facility, a £45 million committed multi-currency revolving unsecured credit facility, was cancelled, with all unamortised prepaid arrangement fees being expensed as a non-underlying interest charge in the Consolidated Statement of Comprehensive Income.

Fees of £635,000 incurred in the course of arranging the new facility have been capitalised within bank borrowings, and will be expensed to the Consolidated Statement of Comprehensive Income over the remaining period of the new facility.

Borrowings of £30,000,000 were drawn down at 31 December 2018 (2017: £26,000,000) less unamortised issue costs of £624,000 (2017: £149,000).

Interest is charged at an excess over base rate of between 1.25% and 2.25% per annum and is dependent upon the ratio of total net debt to consolidated EBITDA.

Based upon current economic and market trends, management consider that the sterling LIBOR rate will remain relatively stable during the next reporting period to 31 December 2019, and any changes, when applied to the Group's current bank borrowings of £30,000,000 would not lead to a significant change in finance expense.

All of the Group's borrowings are denominated in sterling.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

19 BORROWINGS CONTINUED

Borrowings continued

The analysis of repayments on the combined borrowings is as follows:

	2018 £000	2017 £000
Within 1 year or repayable on demand	-	-
Between 1 and 2 years	-	-
Between 2 and 5 years	29,376	25,851
	29,376	25,851

20 TRADE AND OTHER PAYABLES

	2018 £000	2017 £000
Current liabilities		
Trade payables	29,706	23,179
Other tax and social security	4,117	4,429
Other payables	1,064	429
Accruals	6,416	4,974
Total current trade and other payables	41,303	33,011
Non-current liabilities		
Other payables	1,230	718

Book values approximate to fair value at 31 December 2018 and 2017.

21 PROVISIONS

	Dilapidations and environmental provisions £000
At 1 January 2017	1,511
Credited to Statement of Comprehensive Income	(477)
Discounting of provisions	(47)
Utilised	(25)
Added on acquisition	97
At 1 January 2018	1,059
Credited to Statement of Comprehensive Income	(157)
Discounting of provisions	21
Utilised	(62)
Added on acquisition (Note 29)	772
At 31 December 2018	1,633
Current	492
Non-current	1,141
At 31 December 2018	1,633

Dilapidations and environmental provisions

Under property operating lease agreements, the Group has obligations to maintain all properties to the standard that prevailed at the inception of the respective leases. The provision represents the Directors' best estimate of the costs associated with this obligation.

The timing of the utilisation of the provision is variable dependent on the lease expiry dates of the properties concerned, which vary between 1 and 10 years.

22 DEFERRED TAX

The movement in the net deferred tax liability is as follows:

	2018 £000	2017 £000
At 1 January	(2,170)	(2,194)
Credited to Statement of Comprehensive Income	129	64
(Charged)/credited to equity	(36)	50
Added on acquisition (Note 29)	(191)	–
Recognised on acquisition (Note 29)	(234)	(90)
At 31 December	(2,502)	(2,170)

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the Directors believe it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year, together with amounts recognised in the Consolidated Statement of Comprehensive Income and amounts recognised in Other Comprehensive Income are as follows:

	Asset 2018 £000	Liability 2018 £000	Net* 2018 £000	Statement of Comprehensive Income 2018 £000	Equity 2018 £000
Accelerated capital allowances/intangible fixed assets	238	(2,923)	(2,685)	102	–
Other temporary differences	114	69	183	27	(36)
Net tax assets/(liabilities)	352	(2,854)	(2,502)	129	(36)

* Included in the net liability is a deferred tax liability of £425,000 relating to the acquisitions of Ecoplas Limited and Kent Building Plastics Limited.

	Asset 2017 £000	Liability 2017 £000	Net* 2017 £000	Statement of Comprehensive Income 2017 £000	Equity 2017 £000
Accelerated capital allowances/intangible fixed assets	380	(2,742)	(2,362)	(63)	–
Other temporary differences	117	75	192	127	50
Net tax assets/(liabilities)	497	(2,667)	(2,170)	64	50

* Included in the net liability is a deferred tax liability of £90,000 relating to the acquisition of Security Hardware Limited.

23 SHARE CAPITAL

	Allotted, called up and fully paid	
	2018 Number	2017 Number
Ordinary shares of £0.001 each	100,310,472	100,137,186
	2018 £000	2017 £000
Ordinary shares of £0.001 each	100	100
Share premium account	2,381	2,104

The ordinary shares carry the rights to attend and vote at general meetings, the right to receive payment in respect of dividends declared and the right to participate in the distribution of capital. The ordinary shares are not redeemable.

During the year no shares were issued in respect of share-based payment transactions for Directors and 43,288 shares vested and were issued in respect of share-based payment transactions for other key management personnel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

24 SHARE-BASED PAYMENTS

The Group enters into equity-settled payment transactions with its employees. For the year ended 31 December 2018, the charge was £249,000 (2017: £260,000). The overall Consolidated Statement of Financial Position is unchanged as a result of this.

The Group operates an annual Save As You Earn scheme, allowing employees to make monthly contributions over a three year period which are then used to purchase Company shares at a fixed price. This price is agreed at the inception of the scheme, and carried a discount on the market value at that date of 20%.

For details of share-based payment schemes see pages 63 to 65 of the Directors' Remuneration Report.

No further disclosure has been provided on the grounds of materiality.

25 OPERATING LEASES

The Group has entered into commercial leases on certain non-current assets. There are no restrictions placed on the Group by entering into these leases.

The total future value of minimum lease payments under non-cancellable operating leases are as follows:

	2018 £000	2017 £000
Land and buildings		
Not later than 1 year	5,989	5,062
Later than 1 year and not later than 5 years	17,521	10,169
Later than 5 years	3,076	3,443
	26,586	18,674
Other		
Not later than 1 year	5,440	6,712
Later than 1 year and not later than 5 years	6,065	8,179
Later than 5 years	–	38
	11,505	14,929

Included within operating lease commitments as at 31 December 2018 are the total future minimum lease payments in respect of the outsourcing of the Group's logistics operation, which amount to £2,415,000 (2017: £6,027,000).

26 CONTINGENT ASSETS AND LIABILITIES

The Group has entered into a cross-guarantee arrangement to cover the bank borrowings of all other Group companies in the event of default. As at 31 December 2018 the bank borrowings were £30.0 million (2017: £26.0 million).

The Group had no other material contingent assets or liabilities (31 December 2017: £nil).

27 RETIREMENT BENEFITS

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost represents contributions payable by the Group to the fund and amounted to £1,411,000 (2017: £1,173,000).

28 RELATED PARTY TRANSACTIONS

The remuneration of Executive and Non-executive Directors is disclosed on pages 52 to 67.

Transactions with key management personnel

Kalverboer Management UK LLP is controlled by P H L Kalverboer, a Director of Eurocell plc. Kellmann Recruitment Limited is controlled by T Kelly, a close family member of M Kelly who is a Director of Eurocell plc.

	2018 £000	2017 £000
Kellmann Recruitment Limited – recruitment services	70	84
Kalverboer Management UK LLP – Director Remuneration	40	40

The following balances are outstanding at the balance sheet date:

	2018 £000	2017 £000
Kellmann Recruitment Limited	–	13
Kalverboer Management UK LLP	20	10

29 ACQUISITION OF SUBSIDIARIES

The Group acquired two businesses in the year: Ecoplas Limited and Kent Building Plastics Limited.

Goodwill represents potential synergies arising from the enlarged Group. The amount of Goodwill deductible for tax purposes is £nil. Goodwill has been calculated as follows:

Total	Book value on acquisition £000	Fair value adjustments £000	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date			
Intangible assets	3	1,373	1,376
Property, plant and equipment	1,407	(18)	1,389
Inventories	443	(12)	431
Trade and other receivables	1,610	(5)	1,605
Cash and cash equivalents	766	–	766
Borrowings	(1,126)	–	(1,126)
Trade and other payables	(2,009)	(2)	(2,011)
Provisions	–	(772)	(772)
Corporation tax	(112)	–	(112)
Deferred tax	(191)	(234)	(425)
Identifiable assets and liabilities	791	330	1,121
Cash consideration paid			7,934
Cash consideration not yet paid			399
Present value of put and call option			784
Goodwill on acquisition			7,996

Cash flows arising on the acquisitions were £7,168,000 comprising the consideration paid less cash acquired.

On 1 August 2018, the Group acquired 95% of the ordinary share capital of Ecoplas Limited, a recycler of PVC windows, with annual sales of approximately £7 million. Initial consideration paid was £5.1 million (or £5.0 million net of cash acquired). Further consideration of up to £1.0 million will be paid for the final 5% of the ordinary share capital of the company in 3 to 5 years' time, contingent upon future performance.

Ecoplas Limited	Book value on acquisition £000	Fair value adjustments £000	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date			
Intangible assets	–	898	898
Property, plant and equipment	1,359	(18)	1,341
Inventories	80	–	80
Trade and other receivables	1,168	(5)	1,163
Cash and cash equivalents	168	–	168
Borrowings	(1,126)	–	(1,126)
Trade and other payables	(1,287)	–	(1,287)
Provisions	–	(752)	(752)
Deferred tax	(182)	(153)	(335)
Identifiable assets and liabilities	180	(30)	150
Cash consideration paid			5,134
Present value of put and call option			784
Goodwill on acquisition			5,768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

29 ACQUISITION OF SUBSIDIARIES CONTINUED

On 8 December 2018, the Group acquired 100% of the ordinary share capital of Kent Building Plastics Limited, a distributor of building plastic materials, with annual sales of approximately £4.5 million. Initial consideration paid was £2.8 million, with a further £0.4 million payable in 2019 in relation to cash acquired taking total consideration to £3.2 million. The Group has provisionally assessed the fair values of assets and liabilities acquired as follows:

Kent Building Plastics Limited Acquiree's net assets at the acquisition date	Book value on acquisition £000	Fair value adjustments £000	Provisionally assessed fair values £000
Intangible assets	3	475	478
Property, plant and equipment	48	–	48
Inventories	363	(12)	351
Trade and other receivables	442	–	442
Cash and cash equivalents	598	–	598
Trade and other payables	(722)	(2)	(724)
Provisions	–	(20)	(20)
Corporation tax	(112)	–	(112)
Deferred tax	(9)	(81)	(90)
Identifiable assets and liabilities	611	360	971
Cash consideration paid			2,800
Cash consideration not yet paid			399
Goodwill on acquisition			2,228

Fair value adjustments

- The adjustment to intangible assets is to recognise intangible assets in respect of customer relationships, and has been valued using discounted cash flows.
- The adjustment to inventories is to reflect the fair value of finished goods acquired.
- The adjustment to trade receivables is a bad debt provision which has been made as part of the fair value exercise.
- The adjustments to provisions is to recognise a dilapidations and environmental provision in respect of the leased premises.
- The adjustment to deferred taxation is to recognise the associated deferred tax liability arising on the intangible assets.

Subsequent payments

Under the terms of the acquisition agreement, the vendor of Ecoplas is entitled to cash consideration for their remaining 5% shareholding in the Company based on financial performance for the years ended 31 December 2020-23, via a put and call option (the 'option'), provided they remain employed by the Group. The estimated total amount payable under the option is £1,000,000, and a liability for the present value of this amount (£784,000) has been recognised within non-current liabilities. The discount will be unwound through interest expense.

Acquisition-related costs

The Group incurred acquisition-related costs of £326,000 in relation to professional fees and transaction costs arising upon acquisition. These costs have been expensed to the Consolidated Statement of Comprehensive Income.

Impact of acquisitions on the Consolidated Statement of Comprehensive Income

Included within the Consolidated Statement of Comprehensive Income is revenue of £2.5 million and loss before tax of £0.1 million relating to Ecoplas Limited and Kent Building Plastics Limited. Had the acquisitions occurred on 1 January 2018 revenue of £10.8 million and profit before tax of £0.4 million would have been recognised by the Group.

Acquisition after the balance sheet date

On 6 March 2019 the Group acquired 100% of the ordinary share capital of Trimseal Limited, a distributor of building plastic materials, for a total consideration of £0.4m.

30 RECONCILIATION OF PROFIT AFTER TAX TO CASH GENERATED FROM OPERATIONS

	2018 £000	2017 £000
Profit after tax	19,619	19,642
Taxation	2,474	4,019
Finance expense	793	553
Operating profit	22,886	24,214
Adjustments for:		
Depreciation of tangible fixed assets	5,481	5,119
Amortisation of intangible fixed assets	1,614	1,558
Profit on sale of property, plant and equipment and intangible fixed assets	(33)	(51)
Share-based payments	249	260
Increase in inventories	(6,798)	(2,789)
Increase in trade and other receivables	(7,051)	(3,057)
Increase in trade and other payables	5,547	3,575
Decrease in provisions	(219)	(549)
Cash generated from operations	21,676	28,280

31 RECONCILIATION OF NET DEBT

	1 January 2018 £000	Added on acquisition £000	Cash flows £000	Non-cash movements* £000	31 December 2018 £000
Cash and cash equivalents	11,361	–	(5,499)	–	5,862
Borrowings	(25,851)	(1,126)	(2,874)	475	(29,376)
Total	(14,490)	(1,126)	(8,373)	475	(23,514)

* Non-cash movements relate to the recognition and amortisation of prepaid arrangement fees in respect of the Group's borrowings.

	1 January 2017 £000	Cash flows £000	Non-cash movements* £000	31 December 2017 £000
Cash and cash equivalents	5,559	5,802	–	11,361
Borrowings	(25,827)	42	(66)	(25,851)
Total	(20,268)	5,844	(66)	(14,490)

* Non-cash movements relate to the amortisation of arrangement fees in respect of the Group's borrowings.

31 December 2018	Current assets £000	Current liabilities £000	Non-current liabilities £000	Total £000
Cash and cash equivalents	5,862	–	–	5,862
Borrowings	–	–	(29,376)	(29,376)
Total	5,862	–	(29,376)	(23,514)

31 December 2017	Current assets £000	Current liabilities £000	Non-current liabilities £000	Total £000
Cash and cash equivalents	11,361	–	–	11,361
Borrowings	–	–	(25,851)	(25,851)
Total	11,361	–	(25,851)	(14,490)

32 EVENTS AFTER THE BALANCE SHEET DATE

The Directors are not aware of any material events that have occurred after 31 December 2018 which would require disclosure under IAS 10.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 £000	2017 £000
Assets			
Non-current assets			
Investments	35	17,839	17,839
Total non-current assets		17,839	17,839
Current assets			
Trade and other receivables	36	40,857	53,183
Deferred tax	37	95	105
Total current assets		40,952	53,288
Total assets		58,791	71,127
Liabilities			
Current liabilities			
Trade and other payables	38	(243)	(26,419)
Total current liabilities		(243)	(26,419)
Non-current liabilities			
Borrowings	39	(29,376)	(25,851)
Total non-current liabilities		(29,376)	(25,851)
Total liabilities		(29,619)	(52,270)
Net assets		29,172	18,857
Issued capital and reserves attributable to owners of the Company			
Share capital	23	100	100
Share premium account	23	2,381	2,104
Share-based payment reserve	24	416	480
Retained earnings		26,275	16,173
Total equity		29,172	18,857

A separate Statement of Comprehensive Income for the Company is not presented, in accordance with Section 408 of the Companies Act 2006. The Company recognised a profit of £19,220,000 in the year (2017: loss of £146,000). Dividend income from subsidiary undertakings included in the results was £21,000,000 (2017: £nil).

The Financial Statements on pages 106 to 112 were approved and authorised for issue by the Board of Directors on 14 March 2019 and were signed on its behalf by:

Mark Kelly
Director

Michael Scott
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital £000	Share premium account £000	Share-based payment reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2018	100	2,104	480	16,173	18,857
Comprehensive income for the year					
Profit for the year	–	–	–	19,220	19,220
Total comprehensive income for the year	–	–	–	19,220	19,220
Contributions by and distributions to owners					
Exercise of share options	–	277	(277)	–	–
Share-based payments	–	–	249	–	249
Deferred tax on share-based payments	–	–	(36)	–	(36)
Dividends paid	–	–	–	(9,118)	(9,118)
Total transactions with owners recognised directly in equity	–	277	(64)	(9,118)	(8,905)
Balance at 31 December 2018	100	2,381	416	26,275	29,172
	Share capital £000	Share premium account £000	Share-based payment reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017	100	1,926	348	25,023	27,397
Comprehensive income for the year					
Loss for the year	–	–	–	(146)	(146)
Total comprehensive income for the year	–	–	–	(146)	(146)
Contributions by and distributions to owners					
Exercise of share options	–	178	(178)	–	–
Share-based payments	–	–	260	–	260
Deferred tax on share-based payments	–	–	50	–	50
Dividends paid	–	–	–	(8,704)	(8,704)
Total transactions with owners recognised directly in equity	–	178	132	(8,704)	(8,394)
Balance at 31 December 2017	100	2,104	480	16,173	18,857

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2018

33 ACCOUNTING POLICIES (COMPANY)

Corporate information

Eurocell plc (the 'Company') is a publicly listed company incorporated and domiciled in England and Wales. The registered office is Fairbrook House, Clover Nook Road, Alfreton, Derbyshire, DE55 4RF.

The Company is principally engaged as a holding company for its subsidiaries which are engaged in the extrusion of PVC window and building products to the new and replacement window market and the sale of building materials across the UK.

Basis of preparation

The principal accounting policies adopted in the preparation of the Financial Statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The Company has adequate resources to continue in operational existence for the foreseeable future and, as a result of this, the going concern basis has been adopted in preparing the Financial Statements.

The Company Financial Statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework (FRS 101). These Financial Statements have been prepared under the historical cost convention in accordance with UK GAAP and the Companies Act 2006.

Changes in accounting policies and disclosures applicable to the Company

There were no standards or interpretations which took effect in the year which materially affect the Financial Statements.

Investments in subsidiary undertakings

Investments in subsidiaries are stated at cost less provision for impairment.

Financial assets

The Company classifies all of its financial assets as loans and receivables and has not classified any of its financial assets as held to maturity.

Loans and receivable assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

From time to time, the Company elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in administrative expenses.

The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

Financial liabilities

The Company classifies its financial liabilities as other financial liabilities which include the following items:

- Bank borrowings which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Further information is provided in Note 3.
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Share capital

The Company's ordinary shares are classified as equity instruments.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when paid. In the case of final dividends, this is when approved by the shareholders at the Annual General Meeting.

Further information regarding dividends is provided in Note 13.

FRS 101 exemptions

The following exemptions from the requirements of IFRS have been applied in the preparation of the Company Financial Statements, in accordance with FRS 101:

Paragraphs 45(b) and 46 to 52 of IFRS 2, Share-based Payment (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).

Paragraph 38 of IAS 1, Presentation of Financial Statements, comparative information requirements in respect of:

- paragraph 79(a)(iv) of IAS 1;
- paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
- paragraph 118(e) of IAS 38 Intangible Assets (reconciliations between the carrying amount at the beginning and end of the period).

The following paragraphs of IAS 1, Presentation of Financial Statements:

- 10(d), (statement of cash flows);
- 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its Financial Statements, or when it reclassifies items in its Financial Statements);
- 16 (statement of compliance with all IFRS);
- 38A (requirement for minimum of two primary statements, including cash flow statements);
- 38B-D (additional comparative information);
- 40A-D (requirements for a third statement of financial position);
- 111 (cash flow statement information); and
- 134-136 (capital management disclosures).

Paragraph 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

Paragraph 17 of IAS 24, Related Party Disclosures (key management compensation).

The requirements in IFRS 7 Financial Instruments: Disclosures.

The requirements in IAS 24, Related Party Disclosures to disclose related party transactions entered into between 2 or more members of a group.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

34 EMPLOYEE BENEFITS EXPENSE

	2018 £000	2017 £000
Staff costs (including Directors) comprise:		
Wages and salaries	223	213
Social security contributions and similar taxes	27	27
	250	240

The average number of monthly employees was 3 (2017: 3).

35 INVESTMENTS

Cost	Investments in subsidiary undertakings £000
At 31 December 2018 and at 31 December 2017	17,839

The subsidiaries of Eurocell plc, all of which have been incorporated in the United Kingdom are included in these Consolidated Financial Statements, as follows:

Name	Principal activity	Holding	
		2018	2017
Eurocell Holdings Limited*	Holding company	100%	100%
Eurocell Group Limited	Holding company	100%	100%
Eurocell Building Plastics Limited	Sale of building plastic materials	100%	100%
Eurocell Profiles Limited	Manufacture and sale of building plastic materials	100%	100%
S&S Plastics Limited	Manufacture and sale of injection moulded products	100%	100%
Vista Panels Limited	Manufacture and sale of doors	100%	100%
Security Hardware Limited	Sale of locks and security hardware products	100%	100%
Ecoplas Limited	Recycler of PVC windows	95%	–
Kent Building Plastics Limited	Sale of building plastic materials	100%	–
Fairbrook Group Limited	Dormant	100%	100%
Fairbrook Limited	Dormant	100%	100%
Fairbrook Holdings Limited	Dormant	100%	100%
Eurocell Window Systems Limited	Dormant	100%	100%
Eurocell Plastics Limited	Dormant	100%	100%
Cavalok Building Products Limited	Dormant	100%	100%
Merritt Plastics Limited	Dormant	100%	100%
Merritt Engineering Limited	Dormant	100%	100%
Deeplas Limited	Dormant	100%	100%
Deeplas Building Plastics Limited	Dormant	100%	100%
Ampco 113 Limited	Dormant	100%	100%

* Directly held by Eurocell plc.

All of the above have a registered address of Fairbrook House, Clover Nook Road, Alfreton, Derbyshire, DE55 4RF.

36 TRADE AND OTHER RECEIVABLES

	2018 £000	2017 £000
Prepayments and other debtors	560	45
Amounts owed by Group undertakings	40,297	53,138
Total trade and other receivables	40,857	53,183

37 DEFERRED TAX

	2018 £000	2017 £000
At 1 January	105	94
(Charged)/credited to equity	(36)	50
Charged to Statement of Comprehensive Income	26	(39)
At 31 December	95	105

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the Directors believe it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year, together with amounts recognised in the Consolidated Statement of Comprehensive Income and amounts recognised in Other Comprehensive Income are as follows:

	Asset 2018 £000	Liability 2018 £000	Net 2018 £000	Statement of Comprehensive Income 2018 £000	Equity 2018 £000
Other temporary differences	95	–	95	26	(36)
Net tax assets	95	–	95	26	(36)

	Asset 2017 £000	Liability 2017 £000	Net 2017 £000	Statement of Comprehensive Income 2017 £000	Equity 2017 £000
Other temporary differences	105	–	105	(39)	50
Net tax assets	105	–	105	(39)	50

38 TRADE AND OTHER PAYABLES

	2018 £000	2017 £000
Trade and other payables	243	129
Amount owed to Group undertakings	–	26,290
Total current liabilities	243	26,419

Book values approximate to fair value at 31 December 2018 and 2017.

Trade payables are non-interest bearing and are generally settled on 30-60 day terms.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

39 BORROWINGS

The book value and fair value of borrowings are as follows:

	Book value 2018 £000	Fair value 2018 £000	Book value 2017 £000	Fair value 2017 £000
Non-current				
Bank borrowings unsecured	29,376	29,376	25,851	25,851
Total borrowings	29,376	29,376	25,851	25,851

Borrowings

The Company has a £60 million committed multi-currency revolving unsecured credit facility with Barclays Bank plc and HSBC UK Bank plc which expires in 2023.

Borrowings of £30,000,000 were drawn down at 31 December 2018 (2017: £26,000,000) less unamortised issue costs of £624,000 (2017: £149,000).

Interest is charged at an excess over base rate of between 1.25% and 2.25% per annum and is dependent upon the ratio of total net debt to consolidated EBITDA.

Based upon current economic and market trends, management consider that the sterling LIBOR rate will remain relatively stable during the next reporting period to 31 December 2019, and any changes, when applied to the Company's current bank borrowings of £30,000,000 would not lead to a significant change in finance expense.

COMPANY INFORMATION

For the year ended 31 December 2018

Directors	Bob Lawson Frank Nelson Martyn Coffey Patrick Kalverboer Sucheta Govil Mark Kelly Michael Scott
Registered Number	08654028
Registered Office	Fairbrook House Clover Nook Road Alfreton Derbyshire DE55 4RF
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Cornwall Court 19 Cornwall Street Birmingham B3 2DT
Bankers	Barclays Bank plc 1 Churchill Place London E14 5HP HSBC UK Bank plc 1 Centenary Square Birmingham B1 1HQ



All together better

For more investor information,
visit www.eurocell.co.uk/investors

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