eurocell

All together better

MANUFACTURER DISTRIBUTOR RECYCLER

ANNUAL REPORT 2016

We are a market leading, vertically integrated UK manufacturer, recycler and distributor of innovative window, door and roofline PVC building products.

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A STRONG YEAR

GROUP HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Revenue

£204.8m

▲ 16% (11% excluding acquisitions)

Gross Margin

52.0%

▲ 0.3% (2015: 51.7%)

Adjusted EBITDA(1)

£31.3m

▲ 5% (2015: £29.7m)

Adjusted Profit before Tax(1)

£24.3m

▲ 5% (2015: £23.0m)

Adjusted EPS(1)

20.0p

▲ 7% (2015: 18.6p)

Total Dividends (per share)

8.5p

▲ 8% (2015: 7.9p)

- Reported profit before tax £23.8m (2015: £19.7m), +21%
- Cash generated from operations £31.8m (2015: £26.3m), +21%
- Net debt reduced from £25.9m to £20.3m
- Proposed final dividend for 2016 of 5.7p per share (2015: 5.2p per share)

(1) Adjusted measures are before non-recurring costs and the related tax effect.

OPERATIONAL HIGHLIGHTS

- Expanding the branch network – 159 branches, with 18 new sites in 2016.
- Successful specifications team – providing customised product solutions unique to Eurocell.
- 500 new product lines in the branches – objective to become a one-stop shop for our customers.
- Growing sales of windows through branches and innovative products – Equinox and Skypod.
- Increasing use of recycled PVC in manufactured products – 14% in 2016 (2015: 9%).
- Completed acquisitions – Vista Panels in March 2016 and Security Hardware in February 2017.

"We have continued to make good progress with all of our strategic priorities and now have an experienced and settled management team."

Bob Lawson
Chairman

See full Chairman's Statement on page 04

THE UK'S NUMBER ONE

AT A GLANCE

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

OUR DIVISIONS

PROFILES DIVISION

The Profiles division manufactures extruded rigid and foam PVC profiles.

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. Most of Eurocell's customers are trade frame fabricators, although new build is becoming increasingly important.

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).

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

Recycled product used in our rigid PVC profile

14%

See our Divisional Reviews on page 28

The Profiles division also includes S&S Plastics and Vista; businesses acquired in 2015 and 2016 respectively. S&S supplies plastic injection moulding 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.

BUILDING PLASTICS DIVISION

The Building Plastics division 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 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 159 branches to installers, small and independent builders, house builders and nationwide maintenance companies. The branches also sell roofline products to independent wholesalers.

Average number of employees in 2016

1,289

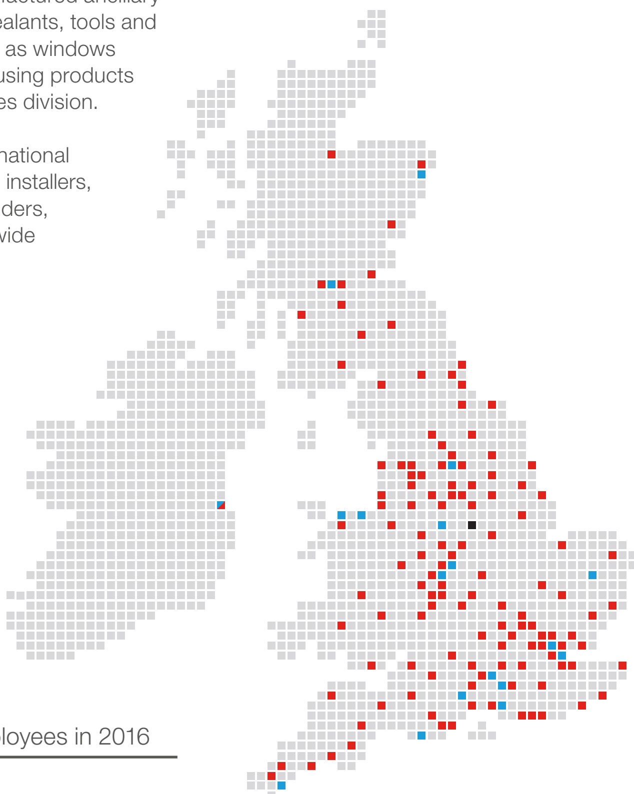
See how we are expanding our branch network on page 12

WHERE WE OPERATE

- Eurocell locations
- Head office, Alfreton
- New locations for 2016

Branches

159



OUR ROUTE TO MARKET

Our cross-functional sales and business development teams implement our sales and distribution strategy. They target key decision makers in the supply chain, including fabricators, installers, developers, architects and local authorities. By 'influencing the influencers' we earn the loyalty of our customers by helping them grow their businesses.

RECYCLING

THIRD PARTY SUPPLIERS

EUROCELL PROFILES
Manufacture

EUROCELL BUILDING PLASTICS
Branches

THIRD PARTY SUPPLIERS

FABRICATORS
Number of fabricators
350+

OWNER MANAGED BUSINESSES & CONTRACTORS

RMI (Repairs, Maintenance and Improvements)
Proportion of revenue in RMI Market
>80%

NEW BUILD
Proportion of revenue in new build housing market
10-15%

PUBLIC SECTOR (RMI & NEW BUILD)
Proportion of revenue in public new build housing market
<5%

See our Market Overview on page 06

A STRONG PERFORMANCE IN 2016

CHAIRMAN'S STATEMENT

I am delighted to report a successful year for the business. We have reported good financial results, with higher underlying revenues and increased profits, and delivered a strong operational performance. In addition, we continued to make good progress with all of our strategic priorities and now have an experienced and settled management team.

Conditions in the markets in which we operate have been stable. There is some general economic uncertainty driven by the macro environment, but this has not been reflected in our sales or order books.

FINANCIAL AND OPERATING PERFORMANCE

Our sales grew by +16% (+11% excluding acquisitions), despite a broadly flat RMI market. This was driven by a number of self-help initiatives, including continued investment in the expansion of our branch network and a focus on specific customer groups to provide customised product solutions that are unique to Eurocell.

We have worked hard to maintain our gross margin, with raw material pricing pressure mitigated by price increases implemented in the second half and assisted by continuing manufacturing efficiency gains. Overheads were a little higher than expected, reflecting accelerated investment in the branch network and business development teams, as well as increased logistics costs.

As a result, we reported adjusted profit before tax of £24.3 million, up 5% on last year. Reported profit before tax of £23.8 million is up 21% on last year.

Cash flow generation remains strong, with underlying operating cash flow of £32.2 million (2015: £29.6 million) driving a reduction in net debt to £20.3 million (31 December 2015: £25.9 million). We have a strong balance sheet which provides flexibility and options for the future.

During 2016 we acquired Vista Panels Limited. Vista specialises in the manufacture of composite and PVC entrance doors. The integration is proceeding to plan and the business is performing in line with expectations. In February 2017, we completed the acquisition of Security Hardware Limited, a supplier of locks and hardware primarily to the RMI market, with annual sales of approximately £3 million.

Bob Lawson
Chairman

STRATEGY

Following the Board changes, in January 2017 we conducted a full 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 market level growth rates.

We have five clear strategic priorities to help us achieve our overall objective:

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

Further information on our strategic initiatives is set out on pages 10 to 17.

GOVERNANCE

As a Board, we are committed to promoting the highest standards of corporate governance and ensuring effective communication with shareholders.

During the year the Board has led the transition of the executive leadership and has recruited two Executive Directors with the skills and enthusiasm to build upon our solid foundation and market position.

Mark Kelly joined the business as CEO in March, following Patrick Bateman's retirement. Matthew Edwards left the Group in June and was replaced by Michael Scott as CFO, who joined us in September. I would like to thank Patrick and Matthew for their contribution over many years of service. Since joining, I have been delighted with the leadership and progress that Mark and Michael have brought to the Company.

I am confident that we now have an effective Board with the requisite and complementary skills, knowledge and experience to secure the future success of the business.

DIVIDENDS

We paid an interim dividend of 2.8 pence per share. The Board proposes a final dividend of 5.7 pence per share, resulting in total dividends for the year of 8.5 pence, representing growth of 8%. This is a small improvement on the policy set out at our IPO to target a dividend of approximately 40% of adjusted earnings, demonstrating the Board's confidence in the future of our business.

PEOPLE

During the year, I have met many of our people and have been most impressed by their professionalism and commitment. Our good financial results and strong operational performance is a direct result of the hard work and dedication of our teams in every part of our business. On your behalf and on behalf of the Board, I offer our sincere thanks.

Bob Lawson
Chairman

SUMMARY

- **Good financial and strong operating performance.**
- **Experienced and settled management team now in place.**
- **Strategy confirmed – well set to make further progress in the year ahead.**
- **Full year dividend of 8.5p per share.**

OPPORTUNITIES FOR GROWTH

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.

MARKET DRIVERS

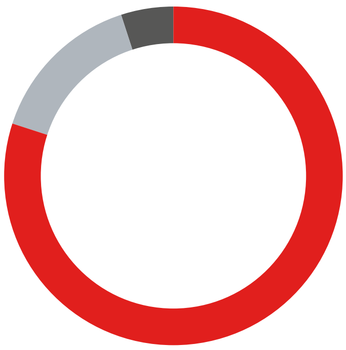
Driver	Description	Potential impact on Eurocell
GDP	UK GDP is currently forecast to grow by 2.0% in 2017 (2016: 2.2%).	▶
Consumer confidence	Consumer confidence dropped sharply in the aftermath of the vote to leave the EU, but has quickly recovered to pre-vote levels.	▶
Interest rates	UK interest rates not forecast to increase until 2018.	▶
Construction	Housing construction activity remains below pre-recession peak, but is forecast to rise by 1% in 2017 and 2% in 2018.	▲
	Private housing starts are forecast to increase by 2% in 2017 and 3% in 2018.	▲
Housing market	Private housing RMI(1) market CAGR(2) forecast 2016-2019 is broadly flat.	▶

(1) RMI is Repair, Maintenance and Improvement market.
(2) CAGR is compound annual growth rate.

Key to potential impact on demand for Eurocell products:
▲ Positive
▶ Neutral
▼ Negative

Sources: CPA: Construction Industry Forecasts 2016-19 (published February 2017)
Bank of England Inflation Report (published February 2017)

Eurocell revenue by market (%)



● RMI	> 80%
● New Build	10-15%
● Public Sector (RMI & New Build)	< 5%

Further commentary on these markets is set out opposite. 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.

PRIVATE HOME IMPROVEMENT (RMI)

The RMI market is broadly flat at the moment, caused by uncertainty over house prices and relatively weak growth in real wages.

Private home owners typically invest in PVC products to improve the appearance and energy efficiency of their property. Spend is often significant, so the state of the economy and the resulting impact on the housing market and consumer confidence influences demand.

Home sellers and buyers often look to improve their property just before or just after a transaction. Alternatively, when housing markets are weak, homeowners might choose to improve or extend their existing property, rather than move house. In addition, 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.

PRIVATE NEW BUILD HOUSING

New build growth has been strong in recent years and the large house builders continue to report good performance. Small improvements in housing construction and starts are currently forecast for 2017 and 2018. However, uncertainty over the macro-economic environment suggests affordability will likely remain a key issue.

There is still a significant gap between the government's target for new dwellings per annum and the current level of private new build homes. The Help to Buy scheme supports demand. With the housing shortage continuing to be an important political topic, on-going positive government intervention remains a possibility.

SOCIAL HOUSING IMPROVEMENT

2017 will see the end of the Decent Homes Programme and the Energy Company Obligation (ECO) scheme. The Decent Homes Programme requires properties owned and managed by councils and housing associations to meet the Decent Homes standard, thereby improving the energy efficiency of social housing. The ECO scheme requires energy companies to provide support for the introduction of energy efficient measures into houses occupied by vulnerable or low-income people.

Under both schemes, support typically comes in the form of heating packages, insulation and energy efficient windows.

PUBLIC NEW BUILD HOUSING

With government policy targeted towards increasing private sector affordable housing rather than public sector social housing, this sector represents a very small proportion of the UK housing market.

The Right to Buy scheme helps eligible council and housing association tenants buy their homes at a discount. As such, the scheme is expected to result in reduced public sector housing stock.

Housing associations have relied on market sales to raise capital to fund rental property development. Weaker house price growth and fewer transactions will likely hamper this. In addition, rent caps may reduce the financing available for new developments.

MARKETS FOR EUROCELL PRODUCTS

On average, markets for the product groups specific to Eurocell are also currently expected to be flat over the next two years.

Roofline (Tonnes 000s)

2018	**78**
2017	**75**
2016	76
2015	68
2014	64

Window Profile (Tonnes 000s)

2018	**228**
2017	**230**
2016	232
2015	230
2014	225

Source: D&G Consulting

SUMMARY

Whilst external market signals are difficult to read at the moment, we are confident that our strategic initiatives (described in Our Strategy on page 10), including increasing market share and continued expansion of the branch network, will deliver good growth for Eurocell in the markets in which we operate.

HOW WE CREATE VALUE

OUR BUSINESS MODEL

WHAT WE DO

WE SOURCE
The principal raw material used in our manufacturing process is PVC resin, a derivative of ethylene, which in turn is a derivative of crude oil.

See also We Recycle below.

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.

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.

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.

See Our Route to Market on page 03

HOW WE CREATE VALUE

VERTICALLY INTEGRATED MODEL
Coordination of 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 production stability.

SCALE
We operate well-invested and modern extrusion facilities, with spare manufacturing capacity that can be exploited with little incremental cost.

We are the UK's largest window recycling operator.

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, such as the Modus, Equinox, Skypod and Roomline ranges.

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

BRAND
Our marketing activities seek to maximise brand awareness.

Our brand image is strong. Research in 2016 shows that 96% of trade and specifiers with previous experience of Eurocell would use our products again.

PEOPLE AND CULTURE
We have an experienced management team, with a proven track record of achieving profitable 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.

See Corporate Social Responsibility on page 24

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.

PROFIT GROWTH
Utilisation of our spare manufacturing capacity can drive profit growth.

Expanding the branch network, whilst dilutive until new branches become established, should deliver strong medium-term returns.

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

STRONG CASH GENERATION
Our operating cash flow conversion is strong, particularly in the Building Plastics division, where a high proportion of customers pay at point of sale or shortly thereafter.

GOOD RETURN ON SALES
Our strong brand, well-invested facilities and capital-light branch expansion programme ensure a good return on sales.

See Group Financial Review on page 32

KEY BENEFICIARIES

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

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

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

HOME BUILDERS
Home 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.

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

See Our Route to Market on page 03

CLEAR AND FOCUSED OBJECTIVES

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 intend to leverage the Eurocell brand, and the advantages that our vertically integrated business model with local distribution offers over our competitors, in order to grow our market share. We have five key strategic priorities to help us achieve our overall objective.

STRATEGIC PRIORITIES	DEFINITION
TARGET GROWTH IN MARKET SHARE	Increase market share of PVC rigid and foam profiles to utilise spare manufacturing capacity.
EXPAND OUR BRANCH NETWORK	Investment in new branches to drive sales and medium-term profit growth.
DEVELOP INNOVATIVE NEW PRODUCTS	Maintain market leadership by offering the latest in product innovation.
INCREASE THE USE OF RECYCLED MATERIALS	More use of recycled material helps to mitigate raw material price increases, enhances product stability and lowers the carbon footprint of our manufactured goods.
EXPLORE POTENTIAL BOLT-ON ACQUISITION OPPORTUNITIES	Consider acquisition opportunities when they arise.

We have discussed growth in market share and the development of new products in detail in previous reports and some additional information on these initiatives is set out in the Chief Executive's Review. For the other initiatives (expanding the branch network, increasing the use of recycled materials and bolt-on acquisitions), a more comprehensive analysis is set out on pages 12 to 17.

Strategic Report
Corporate Governance
Financial Statements

PROGRESS IN 2016	FOCUS IN 2017
• Specifications team successful in generating demand for Eurocell products	• Target new build, commercial and public sector work • Expanding the branch network should generate pull-through demand
• 18 new branches opened • First trials of reduced start-up cost branches • Introduced 500 new third party product lines to branches	• Open a further 30 new branches • Target growth in window sales through branches • Focus on other high-value products
• Innovation in new Modus, Equinox, Skypod and Roomline ranges	• Expansion of Modus range • Further development of complementary product offerings • Shorten time to market for new products
• Increased use of recycled material to 14% (2015: 9%) • Capital investment of £1.1 million to increase recycling capacity for 2016/17	• Complete expansion project and utilise fully increased recycling capability • Increase waste collection from fabricators and branch network
• Acquisition of Vista Panels in March 2016, with integration going to plan	• Integration of Security Hardware (acquired in February 2017) to develop the spares proposition for our branches • Develop our acquisition pipeline and consider acquisition opportunities that arise

See Strategy in Action on page 12

See Divisional Reviews on page 28

EXPAND OUR BRANCH NETWORK

Expanding the branch network secures sales growth and delivers good returns in the medium term, as the new branches begin to mature, but does create downward pressure on profitability in the near term. In order to demonstrate this growth potential, the table shows the performance of our existing branch estate by age.

We opened 18 new branches in 2016 and have plans to open a further 30 in 2017. We are also in the midst of trials to reduce the start-up costs associated with new branches. This is being achieved largely by sharing resources with neighbouring branches until the new sites become more established. As the network expands, we anticipate more opportunities will arise to leverage the existing infrastructure and support new branches reaching profitability sooner.

Taking the historic maturity profile into account, along with our initiatives to reduce start-up costs, we concluded that the proposed branch network expansion pace should drive good medium-term growth.

Other initiatives to drive sales growth in the branches include the addition of 500 new third party product lines in 2016 and continued focus on innovative products such as Equinox and Skypod, as well as the sale of windows through branches.

In addition, the acquisition of Vista Panels has driven growth in the sales of doors in the branches. The recent acquisition of Security Hardware will allow us to develop the spares proposition for our branches.

Branches in the estate

159

New branches in 2016

18

Overall, our aim is to provide a one-stop shop for builders and installers which, together with excellent customer service, should drive increased customer spend and expand our market share.

By way of example, our Rhyl branch opened in July 2016 under the reduced start-up costs regime. We began operating with just two employees, but also sharing staff and a delivery vehicle with a neighbouring branch 12 miles away. The branch has performed well and we expect it to reach an EBITDA break-even run rate during the third quarter of 2017.

	Branch Open		
	< 2 years	2-4 years	> 4 years
Number of branches	33	12	114
Average annual sales per branch (£000)(1)	200	500	800
EBITDA margin(2)	Break-even	>10%	Mid-teen%

(1) Rounded.
(2) Indicative. Represents EBITDA as a percentage of sales, before regional infrastructure and central costs.

Luke Parsons
National Branch Development Manager


TOOLS & ACCESSORIES
TOOLS & ACCESSORIES
AMAZING VALUE
TRIPLE PACKS

STRATEGY IN ACTION continued

INCREASE THE USE OF RECYCLED MATERIALS

We recycle both old windows ('post-consumer' waste) and customer factory offcuts ('post-industrial' waste) at our recycling and extrusion facility in Ilkeston.

Post-consumer and post-industrial waste is collected from a variety of our customers and other providers. In general, around two-thirds of the input feedstock for recycling is post-consumer and one-third is post-industrial waste.

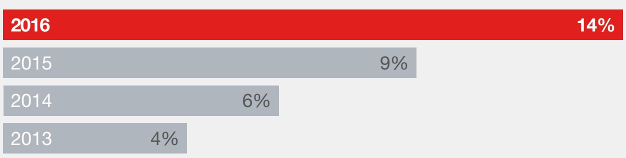
The Ilkeston plant produces recycled PVC compound in pellet form for use in our other manufacturing processes. This provides a substantial saving in cost compared to virgin resin compound.

In 2016 we produced approximately 11.6k tonnes of recycled PVC compound for use in our extrusion processes.

Of the recycled compound produced, 6.0k tonnes (being almost exclusively derived from post-consumer waste) was used alongside virgin resin in the manufacture of many of our rigid PVC products in our primary extrusion processes. This represents 14% of material consumption, up from 9% in 2015.

Most of the remaining 5.6k tonnes of recycled PVC compound produced (being almost exclusively derived from post-industrial waste) was used in products which are manufactured at the Ilkeston plant from 100% recycled material, including thermal inserts and cavity closer systems. Note that these products are not included in the % usage data illustrated below.

Recycled material usage as a % of consumption



During the second half of 2016, we invested £1.1 million in a project to increase our recycling production capacity to 14k tonnes of recycled PVC compound per annum, up from 10.5k tonnes. This includes investment in the Ilkeston plant, as well as the tooling required to make the rigid profile. A further £0.9 million will be invested in the first half of 2017 to complete the project. We expect recycled material usage to increase in 2017.

When we develop new products, we look to include as much recycled content as possible. For example, the Modus and Eurologik systems now comprise 45% recycled materials. In addition, the continued expansion in the use of recycled PVC windows remains attractive to the new build market.

As such, we will also evaluate in 2017 whether to progress with investment to further increase our recycling capacity. In doing so, we will assess the extent to which we can expand our waste collection service to provide the necessary feedstock for the recycling plant.

Simon Readman
General Manager, Merritt

STRATEGY IN ACTION continued

Vista Panel doors sold[1]

62,500 (2015: 63,500)

Vista Composite doors sold[1]

26,500 (2015: 25,500)

Average number of Vista employees

109

Keith Sadler
Managing Director,
Vista Panels

EXPLORE POTENTIAL BOLT-ON ACQUISITION OPPORTUNITIES

We have a successful track record of acquiring and integrating businesses, with seven acquisitions completed over the past 10 years.

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

VISTA PANELS

In March 2016 we acquired Vista Panels. Vista was established in 1995 and is a leading manufacturer of composite and PVC entrance doors. The Company operates from a 50,000 sq. ft. production facility in Merseyside. It has a strong presence in the social housing and private RMI sectors and has been a leader in the growth of the composite door market in the UK.

Vista's core products are composite doors, PVC door panels and fire doors. Composite doors feature a high-density foam core, glass reinforced plastic (GRP) skin and PVC edge banding for increased thermal efficiencies. PVC door panels are thermally efficient and can be reinforced to provide a higher level of security. Fire doors provide 30 minutes of fire protection. All Vista's products are available in a range of colours and styles to meet customer requirements.

Vista is a historical trading partner for the Group. Our Profiles division supplies PVC profiles to Vista for use in the door manufacturing process. Vista sells both direct to third parties and via the Building Plastics branch network. Annual third party sales are approximately £9 million.

The acquisition has allowed the Group to extend our customer base and also provides further cross-selling opportunities for the extended product range. The integration is proceeding to plan and the business is performing in line with our expectations.

SECURITY HARDWARE

In February 2017, we completed the acquisition of Security Hardware, a supplier of locks and hardware primarily to the RMI market. Security Hardware has been established for 10 years and operates from a 15,000 sq. ft. facility in the West Midlands. Annual sales are approximately £3 million.

Security Hardware stocks around 3,000 products, covering the major hardware brands and an own label offering (Schlosser Technik). This extensive product range enables Security Hardware to supply a significant proportion of the replacement parts routinely required by the RMI market.

The acquisition means we can offer this extensive product range through our branches, allowing us to better engage with facilities management companies and other large maintenance contractors. This forms part of our objective to become a one-stop shop for anything window related for our customers.

We also plan to develop a range of hardware to complement our window profile. This will enable our fabricator customers to offer a fully certified common specification of window (including hardware), enabling us to target a greater share of the new build market and grow sales of windows through the branches.

Schlosser Technik | Security Hardware

Unique products	Brands stocked
3,000	16

(1) 2016 and comparative data represents a full 12 months.

MEET THE NEW BOARD MEMBERS

CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER Q&A

> "We have a strong single brand, good customer service and a leading recycling capability, all of which are attractive to our customers."

Mark Kelly
Chief Executive Officer

Michael Scott
Chief Financial Officer

MARK – WHAT ARE YOUR THOUGHTS AFTER NEARLY 12 MONTHS WITH THE BUSINESS?

MK: We have a good business, but there are opportunities for incremental improvement. The Company has been through several changes in ownership in a short period of time, so this understandably was management's focus. With the IPO now well behind us, we can concentrate on tightening things up, operationally, commercially and financially. Not in an aggressive way – just making sure relationships with suppliers and customers are equitable, so that we gradually get more control of our marketplace.

HOW DO YOU FEEL ABOUT YOUR MANAGEMENT TEAM?

MK: We have a great team. Historically most decisions went via the CEO or CFO. This delivered strong control, but it meant the business was not as joined-up or as fleet of foot as it could be. So we have created an executive board (the Steering Group), and empowered our leaders to get on with driving strategic initiatives, within an agreed framework of authority limits. This has helped eliminate silos and get everyone on the same page. The team has bought into this and it's working well.

HOW WOULD YOU DESCRIBE THE BUSINESS OF EUROCELL?

MK: We are a specialist manufacturer, distributor and recycler of innovative window, door and roofline PVC building products. Our vertically integrated business model gives full access to the value chain and associated good margins. Our well-invested manufacturing facilities, extensive branch network and recycling capability differentiate Eurocell clearly from our competitors.

HOW IMPORTANT IS THE RMI MARKET TO YOUR PERFORMANCE?

MK: It is a key external driver, but our market share is around 12% (in Profiles). So with the right initiatives in place, we hope to gain share. We also now have more exposure to new build, which is growing strongly, and with government support it's hard to see it slowing over the next few years.

SO HOW ARE YOU GROWING YOUR NEW BUILD BUSINESS?

MK: Our specifications team has been in place for two years and is now having real success in getting our product specified, for example with local planning authorities, thereby creating demand for our products. In fact, today we are now probably the largest supplier of window profile to the new build market. Our coloured profile can look almost identical to aluminium or wood. But PVC is normally substantially cheaper than aluminium and virtually maintenance-free compared to wood.

TELL US ABOUT THE FABRICATOR FORUMS

MK: New build companies like our product, but they can struggle with the consistency of quality and service from the fabricator network, who compete with each other to win business. The forums have brought fabricators together with Eurocell and new build representatives, in order to outline the potential if we get this right. The objective is for Eurocell to coordinate the product specification, quality and prices of the fabricator network. This allows the new build buyers to source consistent product from a wide supplier base, mitigating their delivery risk. The fabricators have responded well – they believe that there really is enough business to keep them all busy.

WHAT ABOUT CLUB FORE?

MK: That's a great initiative. Our fabricators and installers are now involved in the design of new products and improvement of existing ones.

HOW ELSE ARE YOU GROWING YOUR PROFILES BUSINESS?

MK: We want to grow our share by adding fabricators, but always ensuring that we don't become overly exposed to any one customer. In order to do that, 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 our customers. We do not own any fabricators or glass plants, so don't compete with our customers.

IF YOU'RE TARGETING NEW BUILD AND NEW FABRICATORS, WILL THAT BE DILUTIVE TO GROSS MARGIN?

MS: There can be pressure on gross margin, but remember that we are driving up our use of recycled material. We can also introduce more value-added products into the mix. So far as new build is concerned, remember that the fabricator sells to the end customer and so shares some of the pricing risk.

WHAT ABOUT THE IMPACT ON NET MARGIN?

MS: That's where this gets really interesting. We have significant spare manufacturing capacity in our main extrusion facilities. So, even if incremental sales of our manufactured product are dilutive to gross margin, we are confident that new business can be managed with a drop through to the bottom-line sufficiently strong to at least maintain our overall net margin.

YOU HAVE A HIGH GROSS MARGIN ANYWAY – WHY DOES THIS BENCHMARK SO WELL VS. YOUR COMPETITORS?

MK: Margin differentiation is driven by our vertically integrated business model, with access to the full value chain and by our recycling capability. We have a quality product for which customers are prepared to pay. We don't lead on price because our proposition is compelling.

> "We have created an executive board (the Steering Group), and empowered our leaders to get on with driving strategic initiatives."

CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER Q&A continued

> "We have a great new format for the branches, with more product on display, including high-value items."

THE BRANCH EXPANSION SEEMS TO BE GOING WELL?

MK: We are very pleased with the progression, with 2016 delivering strong sales growth and increased profits, despite the cost of investment in new branches. We are pressing ahead with the accelerated roll out of more sites. We have a great new format for the branches, with more products on display. We have also added product lines to the range, to help meet our objective of becoming a one-stop shop for customers. By doing that, we can improve the returns from existing branches and reduce the time to break-even for new sites.

HOW FAR CAN YOU TAKE THE BRANCH NETWORK?

MK: Our target is to add 30 new branches in 2017 and I can envisage a similar rate of expansion for the next two years after that. This would result in an estate size of around 250 sites. Beyond that, we will have to see how the current expansion plan develops, consider the sites available, potential branch maturity and sales saturation rates. When I look at the builders and plumbing merchants, some with well over 500 branches, it suggests that an estate of 350 branches is not an unrealistic long-term goal for Eurocell.

WHAT ARE THE ECONOMICS OF A NEW BRANCH?

MS: The branches have a low cost to set up. Fit-out is around £60,000, with each site holding stock of around £50,000. Historically it's taken around two years for a new branch to reach a break-even run rate. Over the last few months, we have been running trials to reduce start-up costs and shorten the time to break-even, with initiatives based around sharing resources with established sites in the same region. The trials have gone well and there has been some good learnings. We're confident that, in future, new branches should reach a break-even run rate well before their two-year anniversary.

CAN YOU AFFORD TO OPEN 30 BRANCHES AND STILL DELIVER AN ACCEPTABLE RETURN TO YOUR SHAREHOLDERS?

MS: New branches do put some downward pressure on near-term profitability, so being satisfied that the medium-term returns justify the investment, and getting the pace of expansion right, are critical questions. We looked at how our existing estate has matured. After reaching break-even, branches between two and four years old make average EBITDA % margins above 10%, whilst those over four years old average mid teens (before central charges and infrastructure costs). Taking this into account, along with our initiatives to reduce start-up costs, we concluded that the proposed roll out pace should drive good medium-term growth.

WHAT ARE YOUR FAVOURED LOCATIONS FOR NEW BRANCHES?

MK: It's good to be on or around trading estates which house outlets for products which are complementary for customers. We've found that branches in these locations usually reach break-even faster. We are also interested in increasing our presence around London and the South East. Both of these strategies tend to result in sites with relatively high rental charges, so we look carefully at the expected return to ensure that we can meet our target profitability.

WHAT ARE THE INNOVATIVE, HIGH-VALUE PRODUCTS THAT HAVE BEEN SUPPORTING YOUR SALES GROWTH?

MS: Selling windows through the branches, Skypods and Equinox all fall into that category. Overall revenue for these products was £13 million in 2016, up 58%. Selling these high-value items in our branches creates pull-through for our manufactured products.

WHAT ARE THE PROCESS FLOWS OF SELLING WINDOWS THROUGH YOUR BRANCHES?

MK: This is window sales to typical branch customers, such as the jobbing builder. These customers are often too small to have a credit relationship with a trade window frame fabricator, so importantly, this is all incremental business for our fabricators and not direct competition with them. We sell the profile to our local fabricators and buy back the finished window. So it creates pull-through demand for our manufactured product and helps lock in the fabricators. This is a relatively new initiative and sales so far have been good. We hope volumes will increase when pricing software is available to all our branches later in 2017.

RECYCLING IS A KEY DIFFERENTIATOR FOR YOU – HOW FAR CAN YOU TAKE IT?

MK: Our use of recycled material was up to 14% in 2016 (9% in 2015), representing around 6,000 tonnes of recycled PVC compound. We are well-advanced with capital investment to enhance our recycling capability, which I expect to drive a further increase in 2017. Expansion beyond that requires further capital investment, which we are evaluating at the moment.

HOW IS THE AVAILABILITY OF RECYCLING FEEDSTOCK?

MS: Availability is good. We recycle over 30,000 windows per week. However, the cost saving compared to using virgin PVC compound for extrusion is substantial, so we are looking at ways to get more product into the recycling plant, including backhauling from fabricator deliveries and using our branch network.

HOW DO YOU MITIGATE YOUR EXPOSURE TO INCREASING PVC RESIN PRICES?

MS: PVC resin is a derivative of ethylene, itself an output from the oil refining process, so it behaves somewhat like a commodity and is also subject to currency influences. We protect ourselves using price variation clauses in our supply contracts. Last year we tested resin from alternative suppliers, to increase our options and drive more competitive pricing. In addition, wherever possible, we pass through a proportion of resin price increases to our customers. The selling price increase implemented in the second half of 2016 went a long way towards mitigating the impact of weaker sterling following the EU Referendum.

HOW ARE YOUR RECENT ACQUISITIONS PERFORMING?

MK: Both Vista and S&S are performing well and in line with expectations. Vista also has spare capacity, so we're looking at how best to use that. For example, we don't sell many panel doors in our branches at the moment.

HOW IS THE BALANCE SHEET – WHAT DO YOU THINK IS THE RIGHT CAPITAL STRUCTURE FOR THE BUSINESS?

MS: We have a strong balance sheet. Our capital structure and good cash flow generation give us the flexibility to capture growth opportunities as our strategy and markets develop, but also provide protection from any unwanted macro-economic headwinds which may come along.

WHAT ABOUT DISTRIBUTION POLICY?

MS: At the time of our IPO we set out to pay dividends at approximately 40% of adjusted earnings and we have no current plans to change. The full year dividend for 2016 is slightly better, which signals the confidence we have in our business. The success of our initiatives, both organic and mergers and acquisitions, will be important considerations when assessing future capital structure and distribution policy.

ARE THERE ANY OPPORTUNITIES TO IMPROVE WORKING CAPITAL?

MS: We had a good second half to 2016, with an inflow from working capital, driven largely by a planned reduction in our stocks of finished goods. Stock days last year averaged over 65 days, but we hope to move that below 60 during the course of 2017. Our receivable and payable balances are fairly well-optimised today.

ARE THERE ANY MORE ACQUISITIONS IN THE PIPELINE?

MK: We were delighted to complete the acquisition of Security Hardware very recently. We have a clear focus on improving and optimising our existing operations, where we see significant opportunity to drive value, but acquisitions do form an important part of our growth strategy and we will assess opportunities as they come our way. We would not comment on specifics – but we have a good track record of completing and integrating bolt-on acquisitions and our balance sheet is in good shape.

FINALLY, ARE THERE ANY ALL EMPLOYEE SHARE SCHEMES?

MK: I am delighted to say that we will be launching a Save As You Earn share scheme in March 2017. We would like to see as many of our colleagues as possible participate in the Company's success.

OUR PEOPLE

Our culture promotes openness, honesty, respect and hard work. We think it is a key factor in the recruitment and retention of great people and in the continuing success of our business.

We have included in the following paragraphs a series of short case studies to help illustrate what it is like to work for Eurocell. The case studies are titled: local employer of choice, staff development, staff retention, and new acquisitions. We have also added testimony from two business partners: a valued customer and a key supplier. These case studies illustrate how our culture helps us do business.

WHAT OUR PEOPLE SAY

LOCAL EMPLOYER OF CHOICE

Jake Robinson recently joined the Company.
Employee: Jake Robinson
Title: Design Draftsman
Length of time with the Company:
5 Months

Jake was attracted to Eurocell by the local reputation of the Company and by hearing a recommendation that it is a great place to work.

Jake says that in his first 5 months he has found everyone very friendly and approachable. He benefited from a full induction programme and established good working relationships within his department and around the Company very quickly.

Jake is enjoying his new role. He thinks the Company provides a good blend of the opportunities that come with scale and the close-knit feel of a family firm. He envisages a long career with Eurocell and views the chance of progression at some stage in the future as a real bonus.

"Eurocell is a fantastic place to work with a great team spirit. Everyone made a real effort to make me feel welcome and at home from day one."

STAFF DEVELOPMENT

Andy Hart has developed his career via four key roles at the Company.
Employee: Andy Hart
Title: Regional Manager – Surrey & Sussex
Length of time with the Company:
Nearly 14 years

Andy joined the Company as a Branch Manager in 2003. In nearly 14 years with Eurocell he has progressed through the positions of Operations Manager, National Support Manager and, most recently, was promoted to Regional Manager.

Andy says that the reward for his hard work has been the chance to grow his career and skill set successfully with Eurocell. This has been the key factor in his desire to stay with the Company.

"I have benefited from excellent opportunities for learning and progression, as well as a strong support network which has helped and encouraged me along the way."

STAFF RETENTION

Jane Booth has been with the Company for over 22 years.
Employee: Jane Booth
Title: Cashier/Payroll Manager
Length of time with the Company:
Over 22 years

We work hard to retain our staff – 45% of employees have more than 5 years' service and 26% have been with us for over 10 years.

Jane joined the Company in 1994, when there were only around 250 employees. Back in those days, employee hours worked were calculated using a manual system!

22 years later Jane is still enjoying her job. She now deals with payroll matters for more than 1,200 employees, dealing with ever changing shift patterns and payment terms.

Jane says the toughest challenges over the years have been keeping pace with legislative changes and developing reliable and robust systems to cope with the growth in staff. Recent developments, including Real Time Information and Auto Enrolment legislation, have been particularly difficult to implement. Jane says its hugely rewarding when changes are applied successfully, so that everyone gets paid correctly and on time.

"It's been great to see how the Company and our people have grown over the years. Like everyone else, there have been good times and more difficult periods. I'm particularly proud of how we've responded in adversity and I'm sure the learnings from those periods are what makes us such a strong business today."

Average number of employees in 2016

1,289

Staff promoted

9%

NEW ACQUISITIONS

Emma Gregory came into the Group when S&S Plastics was acquired in 2015.
Employee: Emma Gregory
Title: Accountant
Length of time with the Company:
2 years with S&S Plastics

Emma joined S&S Plastics because she wanted to work with a successful local manufacturing business. That was shortly before the acquisition by Eurocell.

Similar to Jake, Emma enjoys the family atmosphere that has made S&S such a success, but she's also excited by the opportunities that a larger group can provide.

Emma says her biggest challenge has been the SAP implementation at S&S. Like all system implementations, the project has had its difficulties, but she recognises the benefits of conforming all of the production and finance systems onto one platform across the Group. In fact, she's hoping that once SAP is fully embedded, she will have more time to work on finance projects at other Eurocell sites.

Emma says that she has developed her skills and learnt new ones along the way and feels as though she will continue to develop her skills as there are always new opportunities to challenge her.

"I joined a successful but relatively small private company, but quickly found myself part of a much larger public group. I think I've got the best of both worlds. On the one hand, a great local team that works well together keeping our day-to-day activities on track. On the other, we get great support from the Eurocell Group, which has the people and the funding we need to take the S&S business to the next level."

WHAT OUR CUSTOMERS AND SUPPLIERS SAY

A VALUED CUSTOMER

Company: Ford Windows
Association: Customer
Length of time worked with Eurocell:
11 years

We wanted to work with Eurocell because of their robust infrastructure and sizeable manufacturing facilities. We felt that combination, together with their central location and wide product range would be key factors in meeting our needs – and they haven't let us down.

Over the 11 years of our relationship, Eurocell has grown significantly and now has more resources available to support customers than most of their competitors. Service levels are excellent and product quality is superb. Issues are infrequent, but any which do arise are quickly resolved to our satisfaction.

One of Eurocell's key strengths is product innovation. That's great for us because it helps us grow our business too. For example, their bi-fold door offering was well ahead of the competition when launched. They listen to what their customers say and use the feedback to support product development. The 125mm cill designed for new build was a direct spin out of the Eurocell Fabricator Forum.

In summary – we're a very satisfied customer and recently signed a three-year sole supply agreement with Eurocell.

A KEY SUPPLIER

Company: Renolit
Association: Supplier
Length of time worked with Eurocell:
10 years

We have a long-standing and valued trading association with Eurocell. During the course of our commercial relationship, Eurocell has grown and developed its business model, which has become more complex over time. This has led quite naturally to the company having higher expectations of their suppliers, in terms of service, quality and innovation.

Whilst this has put some pressure on the 'Just-in-time' service model we operate, Eurocell's open and honest approach to dealing with Renolit has been a significant factor in resolving the issues we have faced together.

Like all of our best customers, Eurocell set us challenges. But the team are approachable, fair and always professional. They expect the same from their suppliers, and we hope that we have delivered too. As a result, a very high level of trust has developed between our businesses, which has allowed us to grow together and meet each other's needs, including a successful commercial outcome for both parties.

Vista Panels employees

109

S&S Plastics employees

81

Training hours per head

12.6

Apprentices in the Group

10

CORPORATE SOCIAL RESPONSIBILITY

As a leader in our field, we believe Eurocell has a responsibility to comply not only with all relevant legislation that governs our corporate surroundings, but to go beyond this and establish a moral and ethical framework within which to run our business. The health, safety, development and wellbeing of all our people are the building blocks at the heart of the environment we created to deliver on these obligations. In addition, we have recently introduced a customer-focused quality policy statement, which captures the way we aspire to work at Eurocell.

PROVIDING A SAFE ENVIRONMENT

The safety and well-being of our employees and contractors is our first operational priority. Our safety KPIs continue to be strong and we recorded no major injuries in 2016 under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR).

In our production facilities, monthly safety audits are led by the Site Safety Coordinator and members of the safety team. These ensure we are compliant with our internal safety systems and standards, which form part of our OHSAS 18001 accreditation. Each area of the business has specific task-based risk assessments and machine risk assessments, which are reviewed periodically and updated whenever necessary. In addition, the safety team leads monthly cross-functional safety meetings, where learnings and best practice are shared.

In the branches, risk assessments, safe systems of work and control of substances hazardous for health (COSHH) assessments are all reviewed annually. On the job training is provided at least annually and health and safety training is provided at regional meetings when requested.

All branches participate in a 'Plan, Do, Audit, Review' procedure and are audited for health and safety compliance purposes, both by internal and external bodies.

	2016	2015
Injury frequency rate(1)	**5.15**	4.81
Lost time injury frequency rate(2)	**1.05**	1.27
Severity rate(3)	**13.3**	13.4

(1) Injuries per 100,000 hours worked.
(2) Lost time accidents per 100,000 hours worked.
(3) Days lost due to accidents at work per 100,000 hours worked.

Our safety statistics continue to benchmark well with industry standards. We did see an increase in the injury frequency rate in 2016, driven partly by a higher use of agency employees. We are working to bring standards within our agency workforce up to those of our permanent employees. The lost time injury frequency rate has improved in 2016 and the severity rate was flat. We have also improved our data collection and near-miss reporting.

DEVELOPMENT OF OUR PEOPLE

Continued investment in learning and development for our staff is a cornerstone of our strategy for the recruitment and retention of talented people.

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

We also operate a management development programme. The programme has three levels, reflecting the relative seniority of participants (with level three being the course for our most senior managers). During 2016, participants in levels one and two completed the programme and we envisage a second wave beginning in 2017. The first participants in level three will also complete their programme in 2017.

During the year we developed our e-learning offering for all employees. This enables us to offer wide-reaching training more easily to our geographically disparate workforce.

In 2016, the average number of training hours per head was 12.6.

NOMINATED CHARITIES

This year, our employees nominated two charities which have become Eurocell's charities of choice. These are the East Midlands Air Ambulance Service (a local charity) and Starlight (a national charity). We will continue to support these charities with our fundraising efforts, with the Company matching pound for pound the donations raised by our teams.

EQUALITY AND DIVERSITY

Equality and diversity are fundamental values supported by Eurocell. We take our responsibilities under our equal opportunities policy seriously and we give full and fair consideration to applications for employment by disabled people. In the event of a colleague becoming disabled, every effort is made to ensure that their employment with us continues and that appropriate training is arranged. We respect individuals and their rights in the workplace and, with this in mind, specific policies are in place to prevent or, where issues are raised, address harassment and bullying and to ensure equal opportunities. Our whistleblowing policy continues to operate to give visibility to issues that might not have been resolved through normal business channels.

Our colleagues are from wide and diverse backgrounds, nationalities and ethnic and religious groups. With continued expansion, diversity amongst our colleagues will increase. We respect cultural differences, and learn about and embrace these 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 are committed to increasing the participation of women at the Board, Executive Committee and senior management level, as they are currently under represented as the table opposite illustrates.

GENDER DIVERSITY

	Male no.	%	Female no.	%	Total no.
Directors	6	100%	0	0%	6
Executive Committee (Steering Group)	5	83%	1	17%	6
Senior managers	11	85%	2	15%	13
Other employees	1,113	88%	151	12%	1,264
	1,135	**88%**	**154**	**12%**	**1,289**

NEW APPRENTICESHIP PROGRAMME

During the year we implemented an apprenticeship scheme, under which we have so far introduced 10 staff into the Group. The programme enables participants to quickly learn relevant skills and provides a good head-start to building a career. All of the apprentices have made a really positive contribution to the business. We are committed to growing the scheme and anticipate another intake in 2017.

QUALITY POLICY STATEMENT

We recently introduced the following customer-focused quality policy statement, which captures the way we aspire to work at Eurocell.

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 KPI's reflecting the business objectives.

Everyone's responsibility

All departments 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.

CARBON FOOTPRINT

We have now calculated GHG emissions for 2015, which were 17,356 tonnes of CO_2. The Group is in the process of calculating GHG emissions for 2016. We will also put in place new systems to facilitate more timely reporting of this data in the future.

CAPITALISING ON OUR STRATEGY

CHIEF EXECUTIVE'S REVIEW

"I believe we have an excellent opportunity to take control of our own destiny."

MARKET CONTEXT

The RMI market was broadly flat through 2016. In June, the result of the EU Referendum added uncertainty into the mix.

However, aside from the six weeks or so immediately following the Referendum, we have experienced stable market conditions. There has been some pressure on our raw material prices, but generally our customers have remained optimistic, reporting healthy end-user demand.

As a result, we have found ourselves well-placed to progress our strategic priorities and grow our business. In doing so, we have produced good financial results and a strong operating performance across the business.

FINANCIAL PERFORMANCE

We delivered good financial results for 2016. Revenue was slightly better than expected, up 11% excluding acquisitions. This strong growth was driven by the continued expansion of our branch network, continued focus on sales of innovative products (such as Skypod, Equinox and windows through our branch network) and by our specifications teams, which have been increasingly successful in generating demand for our products.

I am pleased that we improved our gross margin to 52.0% (2015: 51.7%), implementing several initiatives to offset raw material price increases arising principally as a result of the depreciation in sterling.

Overheads were a little higher than we anticipated at the beginning of the year. We have not realised the savings anticipated when we outsourced our logistics operation to DHL. This is discussed in Warehouse Logistics opposite.

Taken together, these factors resulted in adjusted basic earnings of 20.0 pence per share for the year, compared to 18.6 pence per share in 2015.

The trends and initiatives that have driven our financial results are described in the Divisional and Group Financial Reviews.

HEALTH AND SAFETY

The safety and well-being of our employees and contractors is our first operational priority. Our safety KPIs continue to be strong and we recorded no major injuries in 2016 under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 ('RIDDOR'). Further details of our safety performance are included in Corporate and Social Responsibility.

OPERATIONAL PERFORMANCE

We delivered a strong operating performance in 2016, with judicious capital investment and the introduction of lean manufacturing techniques and a Kaizen continuous improvement team helping to capture manufacturing efficiency gains across the business.

This included an increase in the use of recycled material to 14% of consumption (2015: 9%) and the successful consolidation of certain primary extrusion operations with secondary processes such as foiling (i.e. the application of coloured foil to white profile). The introduction of a new foiling machine has helped deliver process improvements, such as shorter machine setup and changeover times, thereby reducing lead times for customers with bespoke orders.

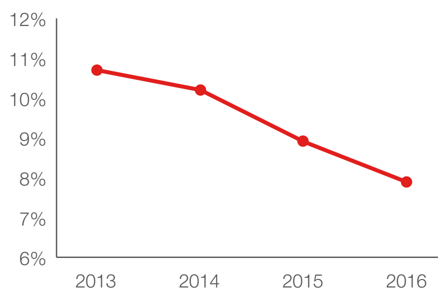
Across our various sites we have worked hard to standardise processes and share best practice wherever possible. As a result, key measures such as our Overall Equipment Effectiveness (OEE) have improved, with waste and scrap levels falling during the year.

WAREHOUSE LOGISTICS

On the downside, as noted above, we have not been able to realise the savings anticipated when we outsourced our logistics operation to DHL towards the end of 2014 under a five-year contract. These savings were estimated to be approximately £1.3 million per annum.

With 2015 being a transitional year, this shortfall emerged during 2016 and was confirmed in the second half of the year. We now believe that it has arisen primarily as a result of assumptions made at the inception of the contract over the ability to reduce historic warehouse labour costs, which were too optimistic.

Scrap Levels[1]



Overall Equipment Effectiveness (OEE)[2]

(1) Scrap = 100% – (good product produced/consumption)
(2) OEE is a measure which takes into account machine availability, performance and yield

Mark Kelly
Chief Executive Officer

DHL remains an important supplier to the Group and we have worked closely with them to understand how the arrangements could be better structured to deliver more efficient services in the future. In particular, we want to improve our end-to-end customer focus and supply chain support.

As a result, we agreed in January 2017 that DHL would continue to provide transportation services to the Group, but that, with effect from February, the operation of our main warehouse facility would be brought back in-house.

The new operating model has been in place since mid-February and is working well for DHL, Eurocell and, most importantly, our customers. In fact, it is important to note that throughout this period, both before and after the changes, good customer service levels have been maintained.

It is too early to say whether, under the new arrangements, any potential savings over the current cost run rate can be realised. However, to the extent that they can be, it is likely we would reinvest any such gains to enhance our overall customer service levels.

STRATEGIC PRIORITIES

As described in the previous section, our overall objective is to deliver sustainable growth in shareholder value by increasing sales and profits at above market level growth rates. In order to do so, our five key strategic priorities are as follows:

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

We are making good progress with all of our strategic priorities. Expanding the branch network, increasing the use of recycled materials and bolt-on acquisitions are all described in some detail in the pages immediately preceding this review.

In terms of market share, our aim is to increase our share of the PVC profiles market to utilise the spare manufacturing capacity in our extrusion facilities. Recent production volumes have averaged a little over 40,000 tonnes per annum. We believe that production of at least 50,000 tonnes per annum can be achieved with little additional capital investment or incremental labour costs. As such, whilst new volume could be dilutive to gross margin, the net margin on such sales should be attractive.

To deliver the incremental volume, we intend to target new build, commercial and public sector work. In particular, demand for our brands in the new build market continues to increase. Our ability to supply excellent products through the fabricator network is supporting growth in this area. Our close working relationships with a number of the major house builders continues to develop, nurtured through good technical support plus market-specific innovation, leading to tight specifications and driving demand for our products. As such, we believe we are now the largest supplier of window profile to the new build market. In addition, expanding the branch network should create pull-through demand for both rigid and foam products.

With innovation, we are committed to maintaining market leadership by offering the very latest in product improvement, both through the development of existing products and the introduction of new ones. We are also working hard on processes to shorten the lead time to market for new products.

Recent examples of our product innovation include expansion of the Modus window suite and the introduction of a wider range of Roomline products (internal architraves and skirting boards). The Roomline range now includes more colours and designs, but the product retains its essential characteristics of being easy to fit and keep clean, with no need for painting.

OUTLOOK

To date we have experienced few ill effects from the EU Referendum, other than a short-lived dip in enquiry and activity levels last summer. As such, whilst uncertainty remains over the long-term impact of the decision to leave the EU, the majority of our fabricators enjoyed strong order books going into 2017 and trading in our expanding branch network continues to be robust.

Financially, we have made a positive start to the new year, with trading in line with expectations.

I am also delighted to welcome Security Hardware to the Group. I look forward to working with them to develop the spares proposition for our branches, with a longer-term goal to make Eurocell the national destination store of choice for all window repairs.

After almost twelve months with Eurocell, I believe that we have an excellent opportunity to take control of our own destiny. The markets in which we operate are going to be challenging, particularly if economic uncertainty undermines confidence, but we are in a position where we can drive our strategic priorities and initiatives harder, with a view to continuing to take market share.

Our proven strategy and capabilities will enable Eurocell to deliver value to our customers and shareholders throughout 2017 and beyond.

Mark Kelly
Chief Executive Officer

HOW WE PERFORMED

DIVISIONAL REVIEWS

PROFILES

The Profiles division manufactures extruded rigid and foam PVC profiles. 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 S&S Plastics and Vista; businesses acquired in 2015 and 2016 respectively.

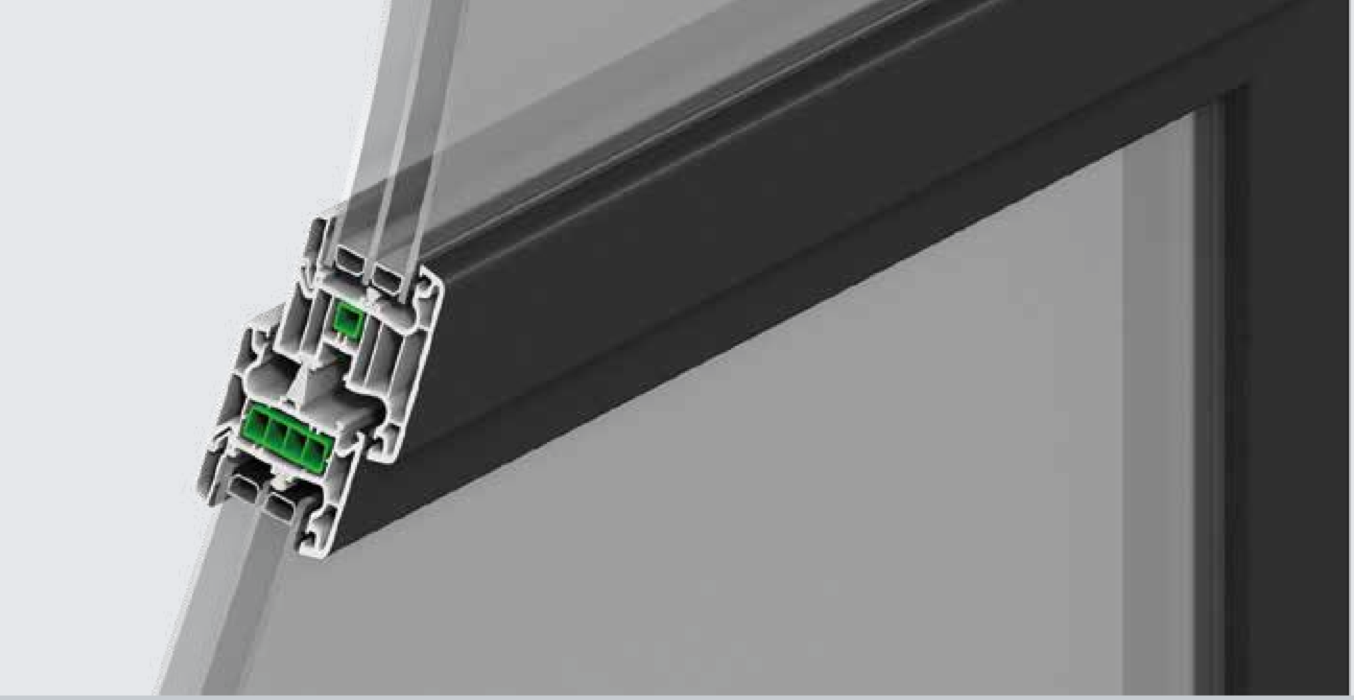
Profiles	**2016 £m**	2015 £m	Change %
3rd Party Revenue	**87.4**	73.9	18
Organic	**75.2**	72.0	4
S&S Plastics[1]	**4.8**	1.9	n/a
Vista Panels[2]	**7.4**	–	n/a
Inter-segmental Revenue	**39.8**	32.1	24
Total Revenue	**127.2**	106.0	20
Adjusted EBITDA	**22.7**	21.6	5

(1) Acquired S&S Plastics July 2015
(2) Acquired Vista Panels March 2016

REVENUE

The RMI market, which as previously described is the most significant external driver of our performance, remained broadly flat during 2016. Against this backdrop, we made good progress with our strategic priorities and other self-help initiatives.

We are very pleased to report that total Profiles third party revenue was up 18% to £87.4 million (2015: £73.9 million), which includes an organic sales increase of 4%, with the remaining growth driven by our two recent bolt-on acquisitions: S&S Plastics and Vista Panels.



Looking at our customer base, there are positive trends across the spectrum. The last twelve months have seen larger fabricators increase capacity by extending or adding factory units and progress with continued investment in plant and machinery. As such, our larger trade fabricators are benefiting from economies of scale and automation, which is allowing them to grow share by supplying smaller retail fabricators.

Winning two additional major fabricators at the end of 2015 has helped drive our performance in 2016, with a further two large wins towards the end of the year expected to support our future growth plans.

We are still seeing some growth from our smaller fabricators, who are using the Eurocell brand to good effect and also assisting with the supply of windows through to our branch network.

We have also delivered good growth in the private new build sector, where our specifications teams have been increasingly successful in generating demand, well-supported by our ability to supply excellent products through the fabricator network.

In terms of mix, we are seeing a greater emphasis on thermal efficiency from our new build and public sector customers and, more generally, an increase in demand for coloured windows.

Turning to the acquisitions, S&S Plastics joined the Group in July 2015 and Vista Panels in March 2016. Integration is proceeding to plan and it is pleasing to report that both businesses delivered good performances in 2016.

ADJUSTED EBITDA

Adjusted EBITDA was £22.7 million (2015: £21.6 million), an increase of 5%.

In general, the increase in adjusted EBITDA is a function of sales growth.

Gross margin in the Profiles division has been stable. Raw material prices and the impact of a degree of consolidation in our customer base (reflected in the growth at larger fabricators at the expense of smaller customers described above), have together resulted in some downward pressure on gross margin. This has been offset by price increases implemented in the second half and assisted by continuing manufacturing efficiency gains.

A lower return on sales in 2016 is primarily a function of higher overheads. This includes the impact of a reassessment of provisions in 2015. In addition, as described in the Chief Executive’s Review, we have not realised the savings anticipated when we outsourced our logistics operation to DHL towards the end of 2014.

However, we have also invested in business expansion in the Profiles division. In line with our strategic priorities, we have increased resources in our Business Development teams which operate in the new build and commercial markets (e.g. education and student accommodation). We have made good progress to date securing specifications in these sectors, particularly new build, and expect to see increasing returns from our investment in the future.

Ian Kemp
Profiles Sales Director

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 159 branches to installers, small and independent builders, house builders and nationwide maintenance companies. The branches also sell roofline products to independent wholesalers.

REVENUE

Revenue was up 15% to £117.5 million (2015: £102.1 million), which includes an increase in like for like sales of 10%. Like for like sales includes branches that have been open for the full year of 2015 and 2016.

The strong like for like sales growth includes the impact of growth from branches opened in 2014 and prior, as the more recent sites from that vintage begin to mature. Growth has been bolstered by increased sales of windows, Skypod and Equinox through the branch network, where sales were £13.3 million in 2016, compared to £8.4 million last year.

Building Plastics	**2016 £m**	2015 £m	Change %
3rd Party Revenue	**117.5**	102.1	15
Inter-segmental Revenue	**0.7**	0.6	18
Total Revenue	**118.2**	102.7	15
Adjusted EBITDA	**8.8**	8.4	5

Like for like growth also includes some benefit from an initiative to improve our proposition as a one-stop shop for customers, via the roll out of an additional 500 product lines in 2016. The acquisition of Vista Panels has supported growth in the sales of doors through the branches.

In terms of new branches, we opened 18 in 2016, which is 3 more than we envisaged at the beginning of the year and compares to 13 opened in 2015. We now have a total of 159 branches providing national coverage across the UK, which we believe offers a significant competitive advantage. In line with our strategic priorities, we will continue to accelerate the pace of expansion, with a further 30 new branches planned for 2017.

ADJUSTED EBITDA

Adjusted EBITDA was £8.8 million (2015: £8.4 million), an increase of 5%.

The increase in adjusted EBITDA is a function of sales growth.

Gross margin in Building Plastics was slightly down year on year, reflecting the impact of a branch incentive scheme in place during the first half, which promoted sales to the detriment of margin. The scheme was restructured in May to better align with Group profit targets.

Overall, a lower return on sales in 2016 is primarily a function of higher overheads. This includes important investment to accelerate the pace of expansion of our branch network described above.

As described in Our Strategy, 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 central infrastructure and in our teams at new sites.

However, we are in the midst of trials to reduce the start-up costs associated with new branches in order to support them reaching profitability sooner.

Building Plastics overheads also include higher than expected expenditure on the branch incentive scheme described previously.

Looking to the future, we have recently commenced Peer Pricing trials within the branch network. This is a mechanism which displays to branch staff at point of sale the average historic selling prices for products sold by their branch, region and nationally across the Eurocell Group. When implemented fully, we expect Peer Pricing to support margin in the branches.

Tony Smith
Building Plastics
Commercial Director

No. of branches (at the year end)

2016	159
2015	141
2014	128
2013	123

Average revenue per branch (£000)

2016	722
2015	681
2014	711
2013	647

MEETING MARKET EXPECTATIONS

GROUP FINANCIAL REVIEW

We have made good progress with our strategic priorities and other self-help initiatives and delivered good financial results in the process.

Group	2016 £000	2015 £000
Revenue	**204,816**	175,947
Gross Profit	**106,565**	91,002
Gross Margin %	***52.0%***	*51.7%*
Overheads	**(75,236)**	(61,271)
Adjusted EBITDA	**31,329**	29,731
Depreciation and amortisation	**(6,377)**	(5,437)
Adjusted Operating Profit	**24,952**	24,294
Finance Costs	**(677)**	(1,275)
Adjusted Profit Before Tax	**24,275**	23,019
Tax	**(4,299)**	(4,454)
Adjusted Profit After Tax	**19,976**	18,565
Adjusted Basic EPS (pence per share)	**20.0**	18.6
Reported Profit Before Tax	**23,820**	19,696
Reported Basic EPS (pence per share)	**19.6**	15.5

REVENUE

Revenue for the year was slightly better than expected at £204.8 million (2015: £175.9 million), which represents growth of 16%, or 11% excluding acquisitions.

As described in the Divisional Reviews, this has been driven by strong like for like growth in the Building Plastics branch network (£10.4 million, or 10% for the division) and the positive impact from branches opened in 2015/16 (£5.0 million, or 5% for the division). We have also delivered good organic growth in Profiles (£3.2 million, or 4% for the division). Together, the acquisitions of S&S Plastics and Vista Panels added £10.3 million to sales in 2016.

GROSS MARGIN

Gross Margin for 2016 was slightly improved at 52.0% (2015: 51.7%).

We did benefit from lower average resin prices in the first half, but prices began to rise in April and increased further following the EU Referendum, principally as a result of the depreciation in sterling. However, we were able to mitigate this pressure through a combination of selling price increases implemented in the second half, enhanced procurement measures, production efficiencies and by increasing the use of recycled materials in our manufacturing processes.

By way of example, efficiencies achieved in manufacturing helped improve overall equipment effectiveness by 6% and reduce waste levels by 1%. The use of recycled materials in our primary extrusion manufacturing processes increased to 14% compared to 9% in 2015.

Michael Scott
Chief Financial Officer

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES (OVERHEADS)

Overheads for the year were £75.2 million (2015: £61.3 million). The year-on-year increase includes £1.4 million following the reassessment of provisions in 2015, £1.9 million as a result of new branches opened in 2015/16 and £5.2 million from the two acquisitions. The balance of £5.4 million relates to an increase of 9% in the underlying organic business, where sales growth was good.

The increase in underlying overheads is a little higher than we anticipated at the beginning of the year. As described in the Chief Executive's Review, we have not realised savings of approximately £1.3 million per annum anticipated when we outsourced our logistics operation to DHL towards the end of 2014. In addition, as described in the Divisional Reviews, underlying overheads include higher than expected expenditure on a branch incentive scheme, which has now been restructured to better align with Group profit targets, and investment in the Profiles Business Development team.

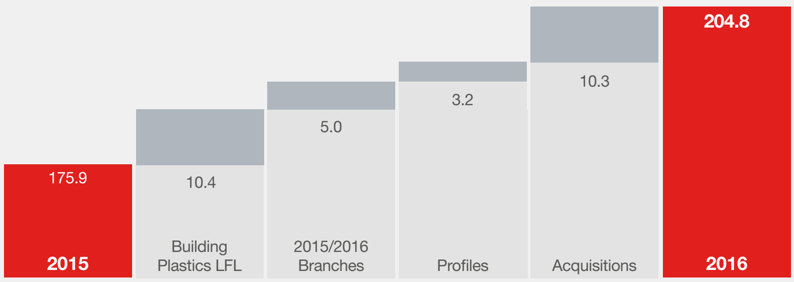
DEPRECIATION AND AMORTISATION

Depreciation and amortisation for 2016 was £6.4 million (2015: £5.4 million), with the year-on-year increase a function of recent capital investment.

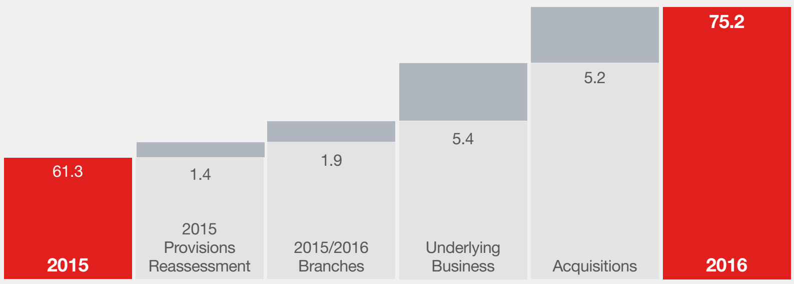
FINANCE COSTS

Finance costs for the year were £0.7 million (2015: £1.3 million). The Group has benefited from significantly reduced finance costs following a restructuring of our financing arrangements at the time of the IPO in March 2015.

Revenue (£m)

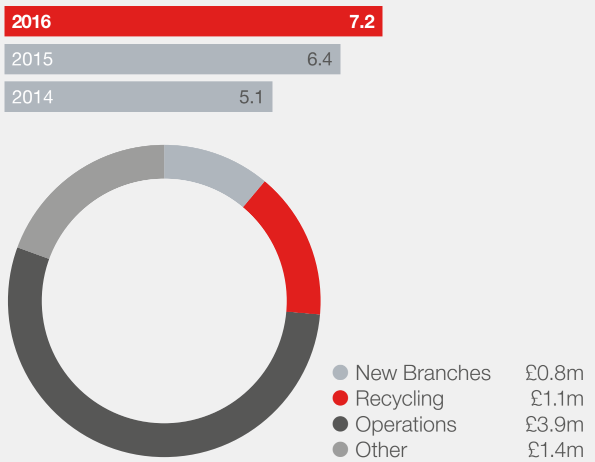


Distribution Costs and Administrative Expenses (Overheads) (£m)

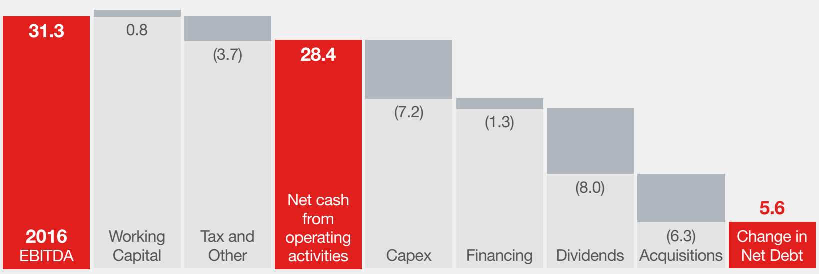


GROUP FINANCIAL REVIEW continued

Capital Expenditure (£m)



Cash Flow (£m)



Net Debt (£m)

	2016	2015	Change
Cash	**5,559**	1,176	4,383
Borrowings	**(25,827)**	(27,047)	1,220
Net Debt	**(20,268)**	(25,871)	5,603

ADJUSTED PROFIT MEASURES

Adjusted EBITDA, adjusted operating profit and adjusted profit before tax all exclude non-recurring costs (see below). Adjusted profit after tax and adjusted earnings per share exclude non-recurring costs and the related tax effect.

NON-RECURRING COSTS

We identified non-recurring costs of £455,000 in 2016 (2015: £3,323,000). Non-recurring costs for 2016 comprise duplicated costs relating to the handover period during which the Company employed two Chief Executive Officers, as well as professional fees related to the acquisition of Vista Panels. All non-recurring costs for 2016 were incurred in the first half. Non-recurring costs for 2015 comprised professional fees incurred in connection with the Company's IPO in March 2015.

TAX

The effective tax rate on adjusted profit before tax for 2016 was 17.7% (2015: 19.3%), with both years lower than the mainstream corporation tax rate, primarily due to the beneficial impact on deferred tax of future reductions in the corporation tax rate now substantively enacted as well as adjustments to prior year taxes.

The effective tax rate on reported profit before tax was also 17.7% (2015: 21.4%). The higher underlying rate for 2015 reflects costs incurred in connection with the IPO disallowed for tax purposes.

EARNINGS PER SHARE

Taking into account all of the factors described previously, adjusted basic earnings per share for 2016 was 20.0 pence per share (2015: 18.6 pence per share).

Reported basic earnings per share for 2016 was 19.6 pence per share (2015: 15.5 pence per share).

	2016 pence	2015 pence
Basic earnings per share	**19.6**	15.5
Adjusted basic earnings per share	**20.0**	18.6
Diluted earnings per share	**19.6**	15.5
Adjusted diluted earnings per share	**19.9**	18.6

ACQUISITIONS

As previously described, we acquired Vista Panels in March 2016 for consideration (net of cash acquired) of £6.3 million (see also Cash Flow opposite). Whilst Vista has had a strong second half of the year, its impact on group earnings was not material in 2016.

DIVIDENDS

We paid an interim dividend of 2.8 pence per share in October 2016. The Board proposes a final dividend of 5.7 pence per share, resulting in total dividends for the year of 8.5 pence (2015: 7.9 pence). This represents growth of 8% and is slightly better than the policy set out at our IPO, to target a dividend of approximately 40% of adjusted earnings, demonstrating the Board's confidence in the future of our business.

CAPITAL EXPENDITURE

The Group is continuing to invest in its future with capital expenditure for the year of £7.2million (2015: £6.4 million).

As described earlier, capital expenditure includes investment to increase our recycling capacity (£1.1 million) and in new branches opened in 2016 (£0.8 million). Investment of £3.9 million in operations includes a new foiling machine (£0.7 million, which reduces the lead times for coloured products), new tooling costs (£0.9 million) and general maintenance capex. Other capital expenditure of £1.4 million includes the branch refurbishments and relocations, along with various IT related costs.

CASH FLOW

Net cash generated from operating activities was strong at £28.4 million, compared to £19.4 million in 2015.

This includes a net inflow from working capital for 2016 of £0.8 million comprised of a decrease in stock (£1.6 million), an increase in trade and other receivables (£0.6 million) and a decrease in trade and other payables (£0.2 million). This compares to a net outflow from working capital of £0.7 million in 2015. It also includes tax paid of £3.5 million (2015: £5.7 million).

Financing costs paid of £1.3 million include £0.5 million related to the acquisition of Vista, where the Group agreed to settle on completion £485,000 owed by Vista to its former ultimate parent undertaking, CorpAcq Limited.

Dividends paid represent the final dividend for 2015 of 5.2 pence per share (or £5.2 million) and the interim dividend for 2016 of 2.8 pence per share (or £2.8 million).

Taking all of these factors into account, net debt reduced by £5.6 million during the year to £20.3 million at 31 December 2016 (31 December 2015: £25.9 million).

In the first half we drew down £8 million as a loan under our existing facility in order to settle the acquisition costs of Vista. This loan was repaid out of cash in the second half.

BANK FACILITIES

We have an unsecured, multi-currency, revolving credit facility of £45 million, provided by Barclays and Santander. The Group operates comfortably within the terms of the facility and related financial covenants. The facility matures in 2020.

Michael Scott
Chief Financial Officer

PRINCIPAL RISKS AND UNCERTAINTIES

APPROACH TO RISK MANAGEMENT

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

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

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

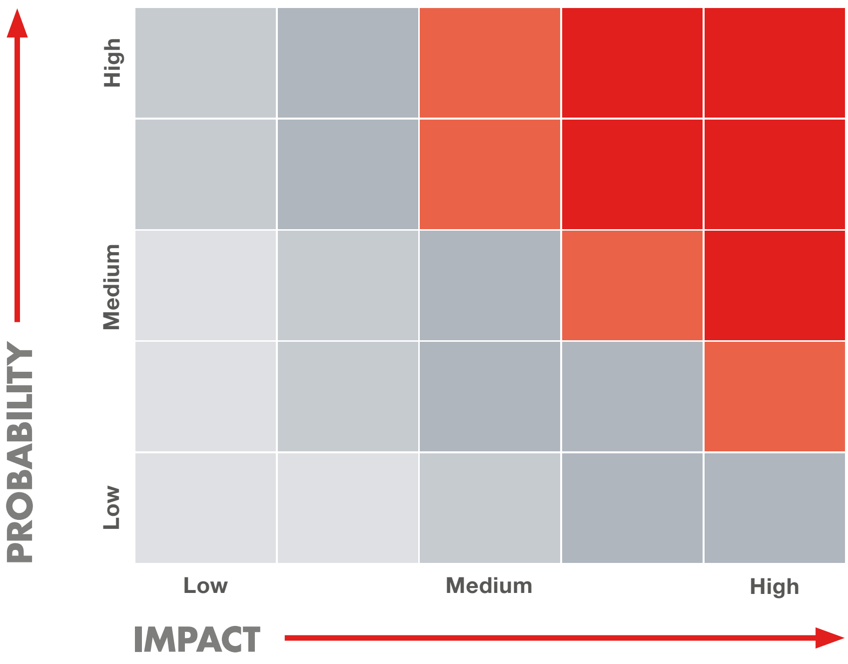
RISK MANAGEMENT PROCESS

The risk management process sits alongside our strong governance culture and effective internal controls to give the Board assurance 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 basic 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.



Risks are then logged with reference to impact and probability as follows:

- The Executive Directors 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 reviews the risk register to ensure net risk and proposed further actions are together consistent with the risk appetite set by the Board.

In order to further enhance the risk management process, the Group has recently established an executive Risk Management Committee, chaired by Michael Scott. It is intended that this committee will meet on a regular basis (generally monthly). The most significant risks will be reviewed at each meeting, with other risks reviewed on a cyclical basis.

INTERNAL CONTROL

In addition, Eurocell has a well-defined internal control system.

The Group has a process of 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. Operational management makes frequent reports on performance to the Executive Directors.

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

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

In order to further enhance the internal control and risk management processes, the Group intends to implement an outsourced internal audit function. An appointment to fulfil this role will be made in March 2017.

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.

RISK PROFILE

The principal risks monitored by the Board are as follows:

PRINCIPAL RISKS AND UNCERTAINTIES continued

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
MACRO-ECONOMIC CONDITIONS The Group's products are used in the residential and commercial building and construction markets, both within the RMI sector, for new residential housing developments, and for new construction projects. The Group's private RMI business is most strongly correlated to the level of household disposable incomes. The Group's new build business is particularly influenced by the level of activity in the house building industry. As such, the Group's business and ability to fund ongoing operations is dependent on the level of activity and market demand in these sectors, itself often a function of general economic conditions (including interest rates and inflation) in the UK.		• Notwithstanding macro conditions, we expect our strategic priorities and self-help initiatives to support sales and market share growth. • Initiatives include: expanding the branch network, investment in our specifications team, and targeting new build, commercial and public sector work. • We currently operate comfortably within the terms of our existing bank facility and related financial covenants.	• The general RMI market is currently broadly flat. • Specific markets for our products are also forecast to be flat. • Our self-help initiatives are progressing well.	
EU REFERENDUM We saw no significant impact on our markets or business from the EU Referendum in 2016. However, there remains significant uncertainty over how the economic landscape will be affected by the result in 2017 and beyond. This is turn could impact on the ability to grow our business.		• Strategic priorities and self-help initiatives noted above. • Constant review and monitoring of the economic landscape. • Flexible plans with the ability to adapt if circumstances change significantly (e.g. curtail investment to protect the business).	• New risk for 2017.	
RAW MATERIAL PRICES The Group's manufacturing operations depend on the supply of PVC resin, a material derivative of ethylene which in turn is a derivative of crude oil. The price of PVC resin can therefore be subject to fluctuations based on the markets for crude oil and ethylene. In addition, although we pay for PVC in sterling, crude oil and ethylene are priced in US dollars and euros respectively. As such, the price of PVC resin in sterling is also impacted by international currency markets. Our ability to pass on PVC price increases will depend on market conditions at the time.		• Resin supply contracts contain mechanisms to help deal with significant variations in price. • Where possible we pass through resin price increases (and decreases) to our customers. • Increased use of recycled material in our manufacturing. • Use of more than one supplier to provide competitive pricing.	• Resin prices increased in 2016, primarily due to weakness in sterling. • We mitigated in 2016 with selling price uplift, increased recycling and manufacturing efficiencies. • Further raw material pricing pressure potential in 2017.	
RAW MATERIAL SUPPLY There are only a limited number of PVC resin and certain other raw material suppliers and we operate with only limited material storage. Failure to receive raw materials on a timely basis could impact on our ability to manufacture product and meet customer demand.		• Raw material tests to identify potential alternative suppliers completed in 2016. • Competitive resin sourcing introduced for 2017. • Spot market for resin available to access. • Regular reviews to test financial stability of our suppliers.	• Material tests and competitive sourcing are new for 2017.	
UNPLANNED PLANT DOWNTIME The business is dependent on the continued and uninterrupted performance of its production facilities, including the operation of the recycling plant. Each of the facilities is subject to operating risks, such as shortages in raw materials, industrial accidents (including fire), extended power outages, withdrawal of permits and licences (particularly in the context of the regulated operation of the recycling facility), breakdowns in machinery, equipment or information systems, prolonged maintenance activity, strikes, natural disasters and other unforeseen events.		• The Group currently has spare manufacturing capacity. • Regular planned maintenance to reduce the risk of plant failure. • Extrusion facilities spread over 3 manufacturing sites. • Capital investment in the recycling plant to increase capacity and eliminate bottlenecks.	• Capital investment in the recycling plant and increased sources of supply are new for 2017, but we are also driving to increase our use of recycled material.	

Strategic Priorities key:

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

Movement key:

- ▲ Increase
- ◀▶ No change
- ▼ Decrease

Principal Risk and Impact	Strategic Priorities	Mitigation	Risk Change in Reporting Period	Movement
CORPORATE AND REGULATORY RISKS We may be adversely affected by unexpected corporate or regulatory risks. This could include health and safety, reputational and environmental events, or other legal matters. For example, significant increases in the penalty regime have increased the potential financial, reputational and operating impact of health and safety incidents.		• We employ procedures, policies and audits to ensure regulatory compliance. • Senior managers are responsible for health and safety matters in each division • Health, Safety and Environment policies are widely communicated and regular training is provided. • Site audits and monitoring procedures are in place, including near miss and potential hazard reporting.	• Health and safety and the potential impact of the Bribery Act continue to be high-profile risk areas.	◀▶
UNSUCCESSFUL BRANCH OPENINGS New branches may fail to reach the required scale and therefore deliver the required sales and profitability within an acceptable timeframe.		• Large portfolio of potential new sites, prioritised based on detailed research into areas most likely to be successful. • Trials of reduced start-up costs in new branches progressing to plan.	• Increasing risk as a result of accelerating the new branch roll out programme.	▲
CUSTOMER CREDIT RISK We do not insure our receivables, so there is an inherent risk that default by a large customer could result in a material bad debt.		• In-depth credit review for new and ongoing customer accounts. • Experienced Credit Manager (15 years with the Group) and strong credit control team.	• No significant bad debts in 2016, but inherent risk remains.	◀▶
FAILURE TO DEVELOP NEW PRODUCTS Failure to innovate could reduce our growth potential, render existing products obsolete and cause a reduction in market share. The launch of new products and new variants of existing products is an inherently uncertain process. We cannot guarantee that we will continuously develop successful new products or new variants of existing products. Nor can we predict how customers and end-users will react to such new products or how successful our competitors will be in developing products which are more attractive than ours.		• We invest continuously in Research and Development through our in-house team of 10 staff. • The team is highly focused on new ways to develop existing products and to be innovative with new ones. • Recent successes include multi-chamber Eurologik profiles, Modus S, PAS24 Patio Door System, 125mm and 225mm cill and Roomline range extension.	• We have a strong product pipeline with more than 25 projects in development.	◀▶
ABILITY TO ATTRACT AND RETAIN KEY PERSONNEL AND HIGHLY SKILLED INDIVIDUALS The Group's success depends substantially on the efforts and abilities of key personnel and its ability to attract and retain such personnel. The Executive Directors and senior managers have significant experience in the relevant sectors and capital markets and are expected to make an important contribution to the Group's growth and success.		• Market rate compensation for all personnel, including leadership team. • Recent IPO and clear strategic direction provide attractive backdrop to working at Eurocell.	• Recent introduction for senior team of long-term incentive plans and adjustments to fixed/variable compensation to support high retention rate.	▼
CYBER SECURITY A breach of IT security (externally or internally) could result in inability to operate systems effectively (e.g. viruses) or the release of inappropriate information (e.g. hackers).		• Password and safe use policies. • Internet usage monitored. • Anti-malware regularly used. • Physical security of servers.	• No change.	◀▶
FAILURE TO IDENTIFY, COMPLETE AND INTEGRATE BOLT-ON ACQUISITIONS We may not be able to identify appropriate bolt-on acquisitions. Any future acquisition we do make poses integration and other risks which may significantly affect our results or operations. The acquisition and integration of companies is a complex, costly and time-consuming process involving a number of possible risks, e.g. diversion of management attention, failure to retain personnel, failure to maintain customer service levels, disruption to relationships with customers and other third parties, unanticipated liabilities and difficulties in the assimilation of the operations, technologies, systems, services and products of the acquired companies.		• Public communication of bolt-on acquisitions being a strategic priority. • Good knowledge of companies operating in our sector and related sectors. • We have a tried and tested procedure for the integration of new acquisitions and a good track record of recent success.	• Integration of Vista proceeding to plan with performance in line with expectations.	◀▶

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 three years has been adopted as this is the timeframe used by the Board as its strategic and planning horizon. The assessment of viability has been made with reference to the Group's current position and future prospects, its strategy, its 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 three-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, the Group adopts a prudent forecast in respect of like for like sales growth, but assumes other initiatives, such as expansion of the branch network, in line with the published strategy. The plan is stress tested by applying the following scenarios:

SCENARIO 1
Macro-economic 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 the size of the Group and the markets it operates 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.

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 their bank facilities for the foreseeable future and that the likelihood of breaching the related covenants in this period is remote.

The Directors confirm that we have a reasonable expectation that the Company and the Group will continue in operation and meet their liabilities as they fall due in the next three years. Accordingly the Directors continue to adopt the going concern basis in preparing the annual financial statements.

THE BOARD

MARK KELLY

CHIEF EXECUTIVE OFFICER

N

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 experience of the PVC windows and doors industry from earlier in his career with Duraflex and Celuform.

BOB LAWSON

CHAIRMAN

N/R

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. Bob was Managing Director for the Vitec Group for four years. He was Chief Executive Officer of Electrocomponents plc for eleven years and subsequently Chairman for a further six years. Bob is Chairman of the Nomination Committee.

MICHAEL SCOTT

CHIEF FINANCIAL OFFICER

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.

PATRICK KALVERBOER

NON-EXECUTIVE DIRECTOR

N

Patrick Kalverboer is a managing partner of H2 Equity Partners. He has fulfilled his role with the Company as part of the investment made by H2. 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.

FRANK NELSON

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

A/N/R

Frank Nelson was Finance Director of Galliford Try plc from 2000 to 2012. He is the Senior Independent Non-executive Director at each of McCarthy & Stone plc, HICL Infrastructure Company Limited and Telford Homes plc. 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.

MARTYN COFFEY

INDEPENDENT NON-EXECUTIVE DIRECTOR

A/N/R

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.

Key:
A = Member of the Audit and Risk Committee
R = Member of the Remuneration Committee
N = Member of the Nomination Committee

LETTER FROM THE CHAIRMAN

Chairman's introduction

DEAR SHAREHOLDER,

I am pleased to report that, in our second year as a listed business, Eurocell has delivered another year of encouraging progress and continued to develop and improve its systems of governance and internal control.

This Corporate Governance Statement, together with the Reports of the Audit and Risk, Nomination and Remuneration Committees on pages 45 to 63, 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 constructive dialogue and challenge, engagement with shareholders and other stakeholders, and with a strong focus on the strategic agenda. 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 September 2014 (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 10 to 17 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 66 and Auditors' Report pages 68 to 72.

I would like to thank my Board and management colleagues for their contributions to the corporate governance of the Company. I look forward to working with them in 2017 to continue to build on the governance foundations that we have established in support of our long-term objectives.

Bob Lawson
Chairman
7 March 2017

CORPORATE GOVERNANCE STATEMENT

ROLE OF THE BOARD

The Board comprises a Non-executive Chairman, three Non-executive Directors and two Executive Directors, who are equally 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 that are below 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 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 the introduction of share and incentive schemes.

The Board has delegated specific responsibilities to the Audit and Risk, Remuneration and Nomination 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 and 50 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 51 to 63 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 Group's reporting structure below Board level is designed so that all decisions are made by the most appropriate people in a timely manner.

During 2016, an Executive Committee was established (the 'Steering Group'), comprising seven senior managers, including the two Executive Directors. Management teams report to members of the Steering Group. The Board receives regular updates from the Steering Group in relation to business issues and developments.

These policies and procedures collectively enable 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.

CORPORATE GOVERNANCE STATEMENT continued

The current Board commitments of all Directors are shown on pages 42 and 43. Their terms of appointment are reported on page 56. Directors' length of service on the Board is set out in the table below.

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

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 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

It is the Group's intention that a performance evaluation of the Board and its committees is undertaken, generally on an annual basis. The review considers the following:

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

The first internal evaluation was undertaken in 2015 as part of the Group's IPO process. In the light of recent changes to the Board, with a new Chief Executive Officer and Chief Financial Officer joining the Group in 2016, the Board considers it appropriate for the next internal evaluation to take place towards the end of 2017.

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. The Senior Independent Director will separately review the Chairman's performance with the other Non-executive Directors. The results of the evaluation will be considered by the Chairman and discussed by the Board.

The Board believes that the evaluation process described above is thorough, robust and will work well. All Directors are expected to 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.

In accordance with the Code, an external evaluation of the Board will be carried out every three years by an independent third party facilitator. The first external evaluation will be performed in 2018.

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 7 regular Board meetings scheduled during 2016, 4 meetings of the Audit and Risk Committee, 4 meetings of the Remuneration Committee and 5 meetings of the Nomination Committee. Additional meetings were also held during the year for other specific purposes. 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	Board	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Bob Lawson	7/7		4/4	5/5
Frank Nelson	7/7	4/4	4/4	5/5
Martyn Coffey	7/7	4/4	4/4	5/5
Patrick Kalverboer	6/7			5/5
Mark Kelly(1)	4/4			3/3
Michael Scott(2)	1/1			
Patrick Bateman(3)	4/4			0/2
Matthew Edwards(3)	4/4			

(1) Appointed 29 March 2016
(2) Appointed 1 September 2016
(3) Resigned 30 June 2016

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 2016, there were Board briefings relating to changes to financial reporting and corporate governance. 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. Now in our second year as a listed business, we are developing a much more 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, there is a regular reporting and announcement schedule to ensure that matters of importance affecting the Group are communicated to investors. In addition, the Group has recently launched a much improved investor website: investors.eurocell.co.uk

During 2016, a total of approximately 65 investor meetings were held, at which at least 35 institutions were represented. Reports of 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 controls systems, including financial, operational and compliance controls, for the period covered by this Annual Report.

The Strategic Report comments in detail (pages 36 to 39) on the nature of the principal risks 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.

The Audit and Risk Committee Report on pages 49 to 50 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.

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 2016.

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 64 and 65.

ANNUAL GENERAL MEETING

Our AGM will be held at Fairbrook House on 19 May 2017.

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 despatched at least 20 working days before the meeting. The notice will be available to view at investors.eurocell.co.uk

All Directors normally 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 at the meeting.

For each 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. 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 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

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; and
- 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 2016. I chair Nomination Committee meetings, but would not do so where the Committee was dealing with my own reappointment or replacement as Chairman.

During the year the Nomination Committee held 5 scheduled meetings. Additional meetings and discussions in connection with succession planning and recruitment were held by telephone. Attendance at meetings is shown on page 46.

ACTIVITIES DURING THE YEAR

- Appointment of Mark Kelly as Chief Executive Officer on 29 March 2016.
- Appointment of Michael Scott as Chief Financial Officer on 1 September 2016.

The process for both positions included the appointment of an external search agency, Spencer Stuart, towards the end of 2015. Beginning with the Chief Executive, Spencer Stuart conducted a rigorous assessment of internal and external candidates against the Committee's specifications.

The Committee unanimously chose and recommended to the Board the appointments of Mark Kelly and Michael Scott.

Mark and Michael received comprehensive induction programmes, which included handover processes with their predecessors, Patrick Bateman and Matthew Edwards.

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 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
7 March 2017

AUDIT AND RISK COMMITTEE

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

MEMBERS:
FRANK NELSON (CHAIRMAN)
MARTYN COFFEY

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 Company's business and performance over the relevant period;
- review the Group's financial systems and financial reporting 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 external auditor;
- review external auditor 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;
- review the Group's procedures to ensure compliance with the provisions of the Bribery Act 2010 and the Group's whistleblowing policy; and
- monitor and review the effectiveness of the internal audit function (when established – see Internal Audit below). 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.

DEAR SHAREHOLDER,

I am pleased to report to you on the Audit and Risk Committee's objectives and activities during 2016. This report, which is part of the Directors' Report, explains how the Audit and Risk Committee has discharged its responsibilities during 2016, 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 and to review the ongoing effectiveness of the Group's internal controls. The Committee provides assurance on the Group's risk management processes and assesses information received by the external audit function.

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. Additional meetings were also held during the year for other specific purposes. 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 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 also 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 2016, and up to the date of this Annual Report, were as follows:

- reviewed the 2015 and 2016 Annual Reports, as well as the 2016 half year report;
- considered information presented by management on significant accounting estimates and judgements adopted in respect of the Group's 2016 financial statements;
- reviewed reports from PwC setting out their findings as a result of their audits for the years ended 31 December 2015 and 2016, as well as their review of the 2016 half year report;
- reviewed PwC's plan for their audit for the year ended 31 December 2016;
- reviewed documentation prepared to support the viability statement and going concern assumption set out on page 40;
- considered the impact of new accounting standards and financial reporting requirements;
- 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; and
- reviewed and updated the Committee's Terms of Reference in the light of recent developments and best practice with respect to auditor rotation and non-audit fees.

AUDIT AND RISK COMMITTEE continued

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 Chief Financial Officer and the Company Secretary.

KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

As described above, the Committee reviewed the key estimates and judgements used in the preparation of the Group's 2016 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 2016. 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 was now considerable management focus on both the reduction in finished goods inventory 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 2016. The review took into account the specific nature and characteristics of customers in the Group's two 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 159 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.

RISK MANAGEMENT

The Group's risk management processes are set out in detail on pages 36 to 39.

The Group maintains a written 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 risk, the controls that exist to manage and, where possible, minimise or eliminate those risks are also listed. 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 Committee reviews the risk register to ensure the timely identification and robust management of inherent and emerging risks. 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 regularly reported by the Committee to the Board.

In order to further enhance the Group's risk management process, the Company has recently established an executive Risk Management Committee, chaired by Michael Scott. It is intended that this committee will meet on a regular basis (generally monthly). The most significant risks will be reviewed at each meeting, with other risks reviewed on a cyclical basis.

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 was updated in December 2016, to reflect the development of the business since its IPO, and approved by the Board.

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.

EXTERNAL AUDIT AND AUDITOR 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 auditor. It keeps under review the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor. There are no contractual obligations restricting our choice of external auditors.

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

The Committee has adopted policies to safeguard the independence of its external auditor. Any work awarded to the external auditor 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 auditor could be compromised, the work will not be awarded to it. Details of amounts paid to PwC for audit services in 2016 are set out on page 84. No amounts were paid to PwC for non-audit work.

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

INTERNAL AUDIT

In order to further enhance the internal control and risk management processes, the Group intends to implement an outsourced internal audit function. An appointment to fulfil this role will be made in March 2017.

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 2016.

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

Frank Nelson
Chair of the Audit and Risk Committee
7 March 2017

DIRECTORS' REMUNERATION REPORT

Remuneration Committee Chairman's Letter

DEAR SHAREHOLDER,

I am pleased to present the Directors' Remuneration Report for 2016.

Over the course of 2016, Eurocell underwent a change in leadership with the departure of Patrick Bateman and Matthew Edwards as CEO and CFO respectively and with the appointment of Mark Kelly and Michael Scott. We have included details of Mark and Michael's remuneration packages in the implementation section of this report, together with details relating to Patrick Bateman and Matthew Edwards' leaving (which reflect the terms of their service contracts, incentive plan rules and our policy).

As described in earlier sections of this Annual Report, our senior management team delivered a good financial and strong operating performance in 2016.

Financial highlights include an increase in revenues of 16%, or 11% excluding acquisitions. Adjusted earnings per share for the year of 20.0 pence represent an increase of 7% over 2015. The business met market earnings expectations, despite having to absorb significant incremental overhead costs arising out of not realising the savings anticipated when we outsourced our logistics operation to DHL towards the end of 2014.

Operational highlights include further expansion of the branch network, with 18 new sites opened during the year. The business also successfully maintained its gross margin, with raw material pricing pressure mitigated by price increases implemented in the second half and assisted by continuing manufacturing efficiency gains.

The new management team has settled in very well. In doing so, they have increased the heartbeat of the business and better prioritised our strategic initiatives. They have been supported well by our staff as a whole, who have continued to resolutely pursue the Company's strategy.

This strong performance has been reflected in the payments made to the Executive Directors under the annual bonus plan, amounting to 80% of salary. Further details of these bonus pay-outs (including information regarding performance against the relevant targets and the operation of the deferred share element of the plan) can be found on page 59 of this Report.

Other Committee activities during the year (full details of which are set out in the relevant sections of this report) included:

- overseeing the departure terms of Patrick Bateman (details of which were set out in last year's report);
- agreeing and overseeing the departure terms of Matthew Edwards;
- determining what adjustments (if any) should be made to existing PSP (Performance Share Plan) awards to take account of the S&S and Vista acquisitions;
- agreeing award levels and performance targets for the 2016 annual bonus and PSP awards; and
- agreeing all recruitment terms for Mark Kelly and Michael Scott.

DIRECTORS' REMUNERATION REPORT continued

SUMMARY OF OUR DIRECTORS' REMUNERATION POLICY

At the Annual General Meeting (AGM) on 19 May 2016, we put our Remuneration Policy to shareholders for a binding vote. We were very pleased to receive unanimous approval for the policy and, given this support, we do not propose making any further changes to the policy this year. Therefore, the main elements of the Executive Directors' packages will remain as follows:

- **Base salaries**
  Salary levels (as well as overall remuneration opportunity) will be positioned to reflect experience and responsibility. On appointment, Mark Kelly's salary was set at £360,000 and Michael Scott's salary was set at £230,000. In line with other Eurocell employees, with effect from 1 April 2017, these salaries will be increased by 2%.
- **Pensions/benefits**
  A defined contribution/salary supplement of 15% will continue to be offered, together with a standard suite of other benefits.
- **Annual bonus**
  The maximum annual bonus remains at 100% of salary. 50% of any bonus earned is normally deferred into shares for three years. A blend of tailored targets (typically weighted in favour of financial metrics) will determine pay-outs. For 2016, reflecting Eurocell's underlying strategy, 50% of the bonus was based on adjusted profit before tax, 20% was based on cash flow, with the remaining 30% based on strategic targets for Mark Kelly and Michael Scott, set on their appointment (the Committee believing it appropriate, following Mark and Michael's recruitment, to allocate a minority portion of their 2016 bonus to key strategic targets, an approach that was not trailed in last year's report due to the timing of their appointment). All targets are subject to a Health and Safety underpin. As explained on page 59, reflecting a good year of underlying financial and personal performance, bonuses of 80% of salary were payable to Messrs Kelly and Scott (pro-rata to reflect their time in office). The operation of the annual bonus plan for 2017 is explained on page 63.
- **Long-term incentives**
  The PSP is the vehicle through which share based, long-term incentives are offered. As described in last year's report, an initial PSP award was made to Mark Kelly over shares worth 150% of salary which will vest subject to three year earnings per share growth (two-thirds of the award) and cash flow (one-third) targets. An award under the PSP was also made to Michael Scott in 2016 over shares worth 100% of salary with the same performance conditions. The operation of the PSP for 2017 is explained on page 63.

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.

FORMAT OF THIS REPORT AND MATTERS TO BE APPROVED AT OUR AGM

Notwithstanding the fact that: (i) we will not be seeking shareholder approval for any changes to our Remuneration Policy at the 2017 AGM; and (ii) the relevant Regulations do not require us to reproduce our Remuneration Policy in this report, for ease of reference we have decided to include a summary of our policy in addition to the implementation section of the report (in respect of which we will be holding an advisory vote at the forthcoming AGM). The full Directors' Remuneration Policy was disclosed in last year's Annual Report.

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
7 March 2017

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, which amended Parts 3 and 4 of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'DRR regulations'). Our Directors' Remuneration policy was approved at the 2016 AGM. We are not proposing to make any changes to this policy, which will continue to apply for the forthcoming year. For ease of reference, we have set out in Part A below the key features of our policy. The full, formal policy is as disclosed in last year's Annual Report.

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

PART A: DIRECTORS' REMUNERATION POLICY

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

Executive Directors

Element and Purpose	Policy and Operation	Maximum	Performance Measures
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.	Base salaries will be reviewed each year by the Committee. 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. Base salary is paid monthly in cash.	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.	n/a
BENEFITS To provide benefits valued by recipients.	The Executive Directors can receive a car allowance or company car, private family medical cover, permanent health insurance and life assurance. 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. Where appropriate, the Company will meet certain costs relating to Executive Director relocations.	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). 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.	n/a
PENSION To provide retirement benefits.	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.	The maximum employer's contribution is limited to up to 15% of base salary.	n/a

DIRECTORS' REMUNERATION REPORT continued

Element and Purpose	Policy and Operation	Maximum	Performance Measures
ANNUAL BONUS PLAN To motivate executives and incentivise delivery of performance over a one-year operating cycle, focusing on the short- to medium-term elements of our strategic aims.	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. 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. Annual Bonus Plan outcomes can be paid in a mix of cash and deferred shares granted under the Company's Deferred Share Plan (DSP), following the determination of achievement against performance measures and targets. Awards under the DSP are deferred for such period as the Committee selects at grant, which will not normally be less than (but may be longer than) three years and are subject to continued employment. Where an element of bonus is payable as deferred shares under the DSP, individuals may be able to receive a dividend equivalent in cash or shares equal to the value of dividends which would have been paid during the vesting period. Clawback and malus provisions apply to the Annual Bonus Plan and DSP, as explained in more detail in the notes to the policy table, as disclosed in last year's report.	The maximum level of Annual Bonus Plan outcomes is 100% of base salary per annum for the duration of this policy.	The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate. 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, with a sliding scale to full pay-out for maximum performance. 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.
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).	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 three years. Under the PSP plan rules, vested awards may also be settled in cash. The PSP rules allow that 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 any vesting period. Malus and clawback provisions apply to PSP awards and are explained in more detail in the notes to the policy table, as disclosed in last year's report.	The PSP allows for awards over shares with a maximum value of 150% of base salary per financial year. The Committee expressly reserves discretion to make such awards as it considers appropriate within these limits.	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). 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) three years. No more than 25% of awards vest for attaining the threshold level of performance conditions.
SHARE OWNERSHIP GUIDELINES To further align the interests of Executive Directors with those of shareholders	Executive Directors are expected to build up a prescribed level of shareholding within five years of commencement of employment (or such longer period as the Committee may determine).	100% of base salary for all Executive Directors. The Committee reserves the power to amend (but not reduce) these levels in future years.	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.	The Company intends to launch a Sharesave scheme in March 2017. 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. The Chairman and Non-executive Directors will not participate in any new cash or share incentive arrangements from admission. The Company reserves the right to provide benefits (including travel and office support) to the Chairman and Non-executive Directors.	Fees are paid monthly in cash. Any increases actually made will be appropriately disclosed. 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 for such fees (currently £325,000 per annum in aggregate). 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

Other elements of our policy include:

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 all 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 two years) reducing over time.

The date of each Executive Director's contract is:

Mark Kelly	29 March 2016
Michael Scott	1 September 2016

Chairman/Non-executive Directors

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

For the Chairman and each Non-executive Director, the effective date of their latest letter of appointment is:

Name	Date of Appointment	Term
Bob Lawson	4 February 2015	3 years
Patrick Kalverboer	4 February 2015	3 years
Frank Nelson	4 February 2015	3 years
Martyn Coffey	4 February 2015	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 PLAN	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.
DEFERRED SHARE PLAN	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.
PERFORMANCE SHARE PLAN	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, 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.

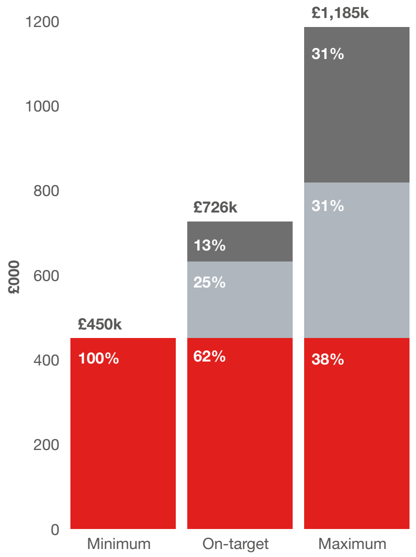
Other Policy Matters

Last year's report also set out formal details of our approach to:

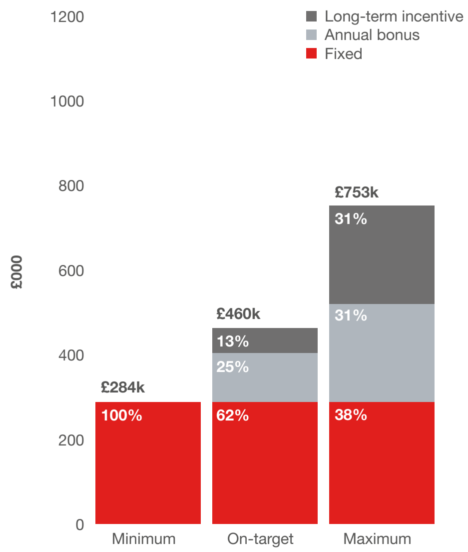
- travel and hospitality
- differences between the policy on remuneration for Directors from the policy on remuneration for other employees
- committee discretions
- external appointments
- considerations of employment conditions elsewhere in the Group
- the operation of malus and clawback in relation to the PSP and annual bonus
- how the views of shareholders are taken into account

The Committee is mindful of ongoing debate regarding the publication of ratios comparing CEO to employee pay. The Committee does not at present consider it appropriate to publish such data in this report as it is concerned that no common methodology has yet been established amongst UK companies and their investors for these comparisons. The Company's expectation is that it will publish ratios showing comparisons in future years when, as can be expected, UK regulations or guidance develop a common methodology.

Illustrations of Application of Remuneration Policy



Chief Executive Officer – Mark Kelly



Chief Financial Officer – Michael Scott

The charts above aim to show how the Remuneration Policy for Executive Directors will be applied in 2017 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 2017
- 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	£367,200	£27,974	£55,080	£450,254
Michael Scott	£234,600	£14,270	£35,190	£284,060

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

PART B: IMPLEMENTATION REPORT

The Committee (Unaudited Information)

The members of the Remuneration Committee are:
Martyn Coffey (Chairman)
Bob Lawson
Frank Nelson

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 4 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, were 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 2016 were £19,100 (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 year is detailed below. The Chairman and Non-executive Directors received no remuneration other than their annual fee.

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

For the year ended 31 December 2016:

Director	Salary/fees	Taxable benefits[5]	Bonus	Long-term incentives	Pension	Other	Total remuneration
Mark Kelly[1]	**£274,154**	**£25,958**	**£219,323**	**–**	**£41,123**	**–**	**£560,558**
Michael Scott [2]	**£76,667**	**£4,649**	**£61,333**	**–**	**£11,500**	**–**	**£154,149**
Patrick Bateman [3]	**£188,638**	**£8,575**	**£59,499**	**–**	**£27,745**	**–**	**£284,457**
Matthew Edwards [4]	**£116,500**	**£8,135**	**£38,509**	**–**	**£17,475**	**£1,000**	**£181,619**
Robert Lawson	**£120,000**	**–**	**–**	**–**	**–**	**–**	**£120,000**
Patrick Kalverboer	**£40,000**	**–**	**–**	**–**	**–**	**–**	**£40,000**
Frank Nelson	**£48,000**	**–**	**–**	**–**	**–**	**–**	**£48,000**
Martyn Coffey	**£45,000**	**–**	**–**	**–**	**–**	**–**	**£45,000**

Notes:
(1) Mark Kelly was appointed to the Board with effect from 29 March 2016 and was appointed Chief Executive Officer with effect from 1 May 2016.
(2) Michael Scott was appointed Chief Financial Officer with effect from 1 September 2016.
(3) Patrick Bateman resigned with effect from 30 June 2016.
(4) Matthew Edwards left the Company with effect from 30 June 2016. Other includes payments for legal fees and other expenses made to Mr Edwards in connection with his settlement agreement.
(5) Taxable benefits comprise car allowance, private family medical cover, permanent health insurance and life assurance.

For the year ended 31 December 2015

Director	Salary/fees	Taxable benefits	Bonus	Long-term incentives	Pension	Total remuneration
Patrick Bateman	£299,218	£17,155	£269,700	–	£51,025	£637,098
Matthew Edwards	£193,494	£15,791	£174,000	–	£29,024	£412,309
Robert Lawson(1)	£120,000	–	–	–	–	£120,000
Patrick Kalverboer	£40,000	–	–	–	–	£40,000
Frank Nelson(1)	£48,000	–	–	–	–	£48,000
Martyn Coffey(1)	£45,000	–	–	–	–	£45,000

Note:
(1) Appointed with effect from 4 February 2015.

The aggregate emoluments (being salary/fees, bonuses, benefits and pension allowances) of all Directors for 2016 was £1,433,783 (2015: £1,302,407).

Further Information on the 2016 Annual Bonus (Audited)

In 2016, the annual bonus metrics were a blend of targets relating to adjusted profit before tax (50% of the bonus opportunity), cash flow (20% of the bonus opportunity) and strategic targets for Mark Kelly and Michael Scott, set on their appointment (30% of the bonus opportunity). In addition, a Health and Safety adjustment underpin applied which, if not achieved, can reduce the bonus pay-out.

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	22.8	24.0	25.8	24.3	60
Cash flow	28.5	30.0	32.2	32.2	100

Performance against the adjusted profit before tax element of the bonus resulted in a bonus of 60% of that element (i.e. approx. 30% of salary).

Performance against the cash flow element of the bonus resulted in a bonus of 100% of that element (i.e. approx. 20% of salary).

Strategic targets were introduced for Mark Kelly and Michael Scott to reflect specific objectives set on their appointment during 2016 (an approach that was not trailed in last year's report due to the timing of their appointment). The objectives were: to determine and commence implementation of strategies related to growth of the Building Plastics division and potential expansion of the recycling plant, and to resolve contractual issues related to the Group's outsourced logistics arrangements. As described in this Annual Report, all of these targets were achieved successfully. Therefore, performance against the individual target element of the bonus resulted in a bonus of 100% of that element (i.e. approx. 30% of salary).

In total, this results in a total bonus pay-out of 80% of salary. The Health and Safety underpin was also considered satisfied.

50% of the annual bonus paid to Mark Kelly and Michael Scott will be deferred into shares under the DSP.

Mark Kelly Recruitment Awards

As described in last year's report, the following awards were made to Mark Kelly in connection with his recruitment to provide compensation for awards granted by his former employer ('Prior Awards') that were forfeited by Mr Kelly on leaving his previous employer (which is compliant with our policy which was approved by shareholders at the 2016 AGM):

- £200,000 cash award, subject to repayment if not remaining employed for 12 months (with standard 'good leaver' provisions)
- an award over £200,000 worth of shares, (measured as at the date of grant of the award), which will vest upon the expiry of a twelve month deferral period subject to continued employment (again with standard 'good leaver' provisions)

However, to avoid any duplication of payments, and to again reflect the Company's ongoing policy, if, and to the extent this Prior Award were not forfeited, it was agreed that any value Mr Kelly received in relation to these prior awards would reduce the value of the above buy-out awards.

The cash award of £200,000 described above was not ultimately forfeited by Mr Kelly and therefore the value of this Prior Award was reduced to zero.

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 2016:

Director	No. of Shares
Mark Kelly	43,939
Michael Scott	Nil
Patrick Kalverboer[1]	20,159,094
Robert Lawson	58,596
Frank Nelson	28,571
Martyn Coffey	5,714
Patrick Bateman[2]	2,820,070
Matthew Edwards[3]	Nil

Note:
(1) The interests of H2 Equity Partners are noted as interests of Patrick Kalverboer. Mr Kalverboer is a managing partner of H2 Equity Partners.
(2) Number of shares held at retirement on 30 June 2016.
(3) Number of shares held at departure on 30 June 2016.

The shareholdings set out above include those held by Directors and their respective connected persons.

Under share ownership guidelines implemented by the Remuneration Committee, Executive Directors are required to build and then maintain a shareholding equivalent to at least 100% of base salary within five years of commencement of employment. As described above, Mark Kelly and Michael Scott were appointed in March and September 2016 respectively. As such, whilst it is their intention to do so, neither has to date built a shareholding which complies with this guideline.

Performance Share Plan

The following awards were made under the PSP in 2016:

	Date of grant	Basis of award (% salary)	Share price[1]	Number of shares	Face value of award at grant	Lapsed	Exercise period
Mark Kelly	28 June 2016	150%	197.5p	273,417	£540,000	–	June 2019 to June 2020
Michael Scott	19 December 2016	100%	182.5p	126,006	£230,000	–	December 2019 to December 2020

Note:
(1) Rounded to one decimal place for the purposes of presentation in this report.

The performance conditions applying to the awards made in December 2016 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 three financial years falling in the performance period.

More specifically:

Adjusted EPS growth target to 31 December 2018	Portion of award vesting
Above 13% p.a.	100%
Between 7% p.a. and 13% p.a.	Pro rata on straight-line between 25% and 100%
7% p.a.	25%
Below 7% p.a.	0%

Operating cash flow to 31 December 2018	Portion of award vesting
Above £103.7 million	100%
Between £84.9 million and £103.7 million	Pro rata on straight-line between 25% and 100%
£84.9 million	25%
Below £84.9 million	0%

The Committee is mindful of the fact that these targets are lower than the targets applied to PSP awards made in 2015 (set out in more detail below). However, the Committee believes that the 2016 targets are no less challenging in relative terms and have been set in light of external and internal forecasts.

However, those targets are specific to a three year performance period to 31 December 2017 which, on reflection, the Committee did not believe was in Shareholders' interests given Mark's recruitment was in 2016. Therefore, the targets in Mr Kelly's award have been amended to align with the PSP awards made in December 2016, which relate to the three year performance period to 31 December 2018.

Details of all outstanding awards made under the PSP are set out below, (all of which were granted as nil cost options):

Executive	Grant date	Interest at 1 January 2016	Awards granted in the year	Awards lapsed in the year	Awards vested in the year	**Interest at 31 December 2016**	Exercise period
Mark Kelly	28 June 2016	–	273,417	–	–	**273,417**	June 2019 – June 2020
Michael Scott	19 December 2016	–	126,006	–	–	**126,006**	December 2019 – December 2020
Patrick Bateman	9 March 2015	177,142	–	(59,048)	–	**118,094**	March 2018 – March 2019
Matthew Edwards	9 March 2015	114,285	–	(57,143)	–	**57,142**	March 2018 – March 2019

The awards made to Messrs Bateman and Edwards in 2015 are subject to the following performance conditions:

Adjusted EPS Growth target to 31 December 2017 (two thirds of award)	Portion of award vesting
Above RPI + 21% p.a.	100%
Between RPI + 13% p.a. and RPI + 21% p.a.	Pro rata on straight-line between 25% and 100%
RPI + 13% p.a.	25%
Below RPI + 13% p.a.	0%

Cash flow to 31 December 2017 (one third of award)	Portion of award vesting
Above £106.1 million	100%
Between £86.8 million and £106.1 million	Pro rata on straight-line between 25% and 100%
£86.8 million	25%
Below £86.8 million	0%

The above cash flow targets have been adjusted upwards from the targets originally set (i.e. £83.8 million to £102.4 million) to reflect the impact of the S&S and Vista acquisitions.

Pursuant to the PSP rules and the Company's remuneration policy, these PSP awards were subject to a pro rata reduction upon the cessation of employment of Messrs Bateman and Edwards and shall vest on the normal vesting dates (subject to performance against the above targets).

During the year ended 31 December 2016, the highest mid-market price of the Company's shares was 199.5p and the lowest mid-market price was 134.0p. At 31 December 2016 the share price was 179.0p. The aggregate gains by all Directors during 2016 was £nil (2015: £nil).

Payments to Past Directors (Audited)

No payments were made to past Directors during the year.

Payments for Loss of Office (Audited)

As set out in last year's report, and as contained in the Single Total Figure Table on page 58, the following approach was adopted in relation to Patrick Bateman's retirement:

- Mr Bateman continued to receive salary, pension and benefits up to his departure date of 30 June 2016, at which point all such payments ceased.
- He was entitled to receive a cash bonus for 2016, which was paid following publication of the half year results.
- As described above, the 2015 PSP award held by Mr Bateman will vest on a pro rata basis (as to two-thirds of the Award) on the normal vesting date (i.e. in 2018) based on performance against the earnings per share and operating cash flow targets.
- Mr Bateman was entitled to receive payment of his reasonable legal fees for the advice he received in connection with the relevant Settlement Agreement.

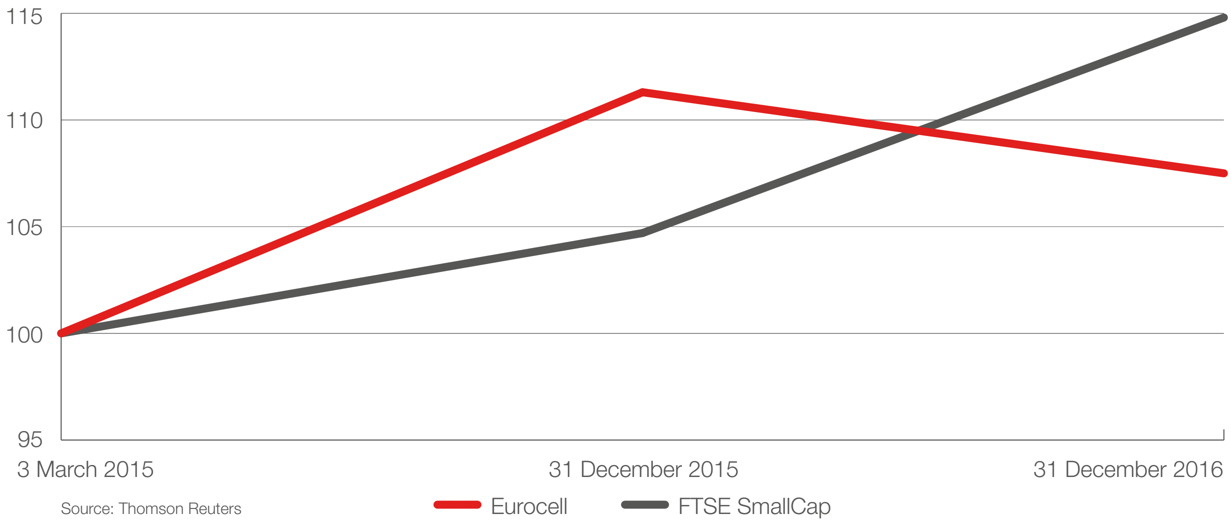
The following approach was adopted in connection with Matthew Edwards' departure:

- Mr Edwards continued to receive salary, pension and benefits up to his departure date of 30 June 2016, at which point all such payments ceased.
- He was entitled to receive a cash bonus for 2016, which was paid following publication of the half year results.
- As described above, the 2015 PSP award held by Mr Edwards will vest on a pro rata basis (as to 50% of the Award) on the normal vesting date (i.e. in 2018) based on performance against the earnings per share and operating cash flow targets.
- Mr Edwards was entitled to receive payment of his reasonable legal fees for the advice he received in connection with the relevant settlement agreement.

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 which the Company is a constituent.

TSR Index



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

	Single figure of total remuneration	Annual Bonus pay-out against maximum %	Long-term incentive vesting rates against maximum opportunity %
2016	Patrick Bateman: £284,457 Mark Kelly: £560,558	Patrick Bateman: 33% Mark Kelly: 80%	Patrick Bateman: n/a Mark Kelly: n/a
2015	Patrick Bateman: £637,098	Patrick Bateman: 87%	Patrick Bateman: 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 Regulations require us to show the year-on-year percentage change in remuneration received by the Chief Executive Officer, compared with the change in remuneration received by all UK employees. As Mark Kelly replaced Patrick Bateman in July 2016, there is no appropriate base against which to measure the percentage change in remuneration received by the Chief Executive Officer. The table below presents the year-on-year percentage change in remuneration received by all UK employees:

	Percentage increase in remuneration between 2015 and 2016
	All staff
Salary and fees	1.5%
Short-term incentives	–
All taxable benefits	–

Mark Kelly was appointed on a base salary of £360,000, an increase of 0.6% on the salary of Patrick Bateman (£358,000). Mr Kelly receives a market standard benefits package, in line with that previously received by Mr Bateman.

Mark Kelly joined the Company on 29 March 2016 and his total remuneration for 2016 was £560,558. Patrick Bateman's total remuneration for 2015 was £637,098.

Relative Importance of Spend on Pay (Unaudited)

The table below details the change in total employee pay between 2015 and 2016 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. These figures have been calculated in line with those in the audited financial statements.

	% change	**2016 £m**	2015 £m
Total gross employee pay	23%	**42.7**	34.7
Dividends/share buybacks	8%	**8.5**	7.9

The average number of employees during the year was 1,289 (2015: 1,084).

Statement of Voting at General Meeting

The following table shows the results of the advisory and binding votes at the Annual General Meeting held on 19 May 2016. Both resolutions were passed with unanimous support.

	Approval for Part A of the Directors' Remuneration Report (Directors' Remuneration Policy)		Approval for Part B of the Directors' Remuneration Report (Implementation Report)	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	85,931,870	100%	85,931,870	100%
Against	–	–	–	–
Votes withheld	–	–	–	–

Implementation of Policy for 2017 (Unaudited Information)

Base Salary

- Base salaries from appointment were as follows: £360,000 for Mark Kelly, and £230,000 for Michael Scott. In line with other Eurocell employees, with effect from 1 April 2017, these salaries will be increased by 2% to £367,200 and £234,600 respectively.

Pension

- Contribution rates for Executive Directors will be 15% of salary in 2017.

Benefits

- Details of the benefits received by Executive Directors are set out in Note 5 to the Single Total Figure Table on page 58. There is no intention to introduce additional benefits in 2017.

Annual Bonus

- The Annual Bonus opportunity for 2017 will be structured in a similar manner to 2016. 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).
- 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.
- 50% of any bonus earned will be deferred into shares for three years.
- Given the competitive nature of the Company's sector, the specific performance targets are considered to be commercially sensitive and, accordingly, are not disclosed at this time, although strong levels of disclosure will be made in next year's report in relation to the 2017 bonus outturn.

Long-term incentives

- Awards will be made under the PSP in 2017 to the Executive Directors structured in a similar manner to the awards made in 2016, 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 2016 PSP awards.

Chairman and Non-executive Directors' fees

- The fees of the Chairman and Non-executive Directors will remain unchanged from 2016 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.

We are UK domiciled and the majority of our activity is within the UK.

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 01 to 41. Specifically, this relates to information on the Group's strategy, business model, likely future developments and risk management.

UK CORPORATE FINANCIAL 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 2016 are set out on pages 68 to 107. 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 5.7 pence (2015: 5.2 pence) per share which, together with the interim dividend of 2.8 pence (2015: 2.7 pence) per share, makes a combined dividend of 8.5 pence (2015: 7.9 pence) per share.

Payment of the final dividend, if approved at the Annual General Meeting, will be made on 24 May 2017 to shareholders registered at the close of business on 28 April 2017. The ex-dividend date will be 27 April 2017.

Dividends paid in the year to 31 December 2016 and disclosed in the cash flow statement of £8.0 million (2015: £2.7 million), is comprised of the 2015 final dividend of 5.2 pence per share and the 2016 interim dividend of 2.8 pence per share, which were paid in May and October 2016 respectively.

APPROACH TO TAX

Our approach to tax matters is to comply with all relevant tax laws and regulations, whilst effectively managing the overall tax burden. We will pay the correct and fair amount of tax in accordance with the letter and spirit of the law. We understand that taxes we pay are an important source of revenue for the government and support their provision of a stable infrastructure and environment in which to operate.

We look to manage our tax affairs in a manner to support business operations, with the aim of ensuring that tax consequences match the economic and commercial consequences of those operations. We seek to ensure that transactions between subsidiary companies are conducted on an arm's length basis and in line with our transfer pricing agreements.

Where a tax rule, regulation or incentive exists that may convey a tax advantage to us, for example, using losses incurred in prior years, we will use that rule, regulation or incentive to support the businesses as permitted by local law.

We use the service of external, expert tax advisers to provide input into our tax affairs, such as the management of tax compliance and the impact of changes in tax legislation.

TAX GOVERNANCE

Our tax strategy is determined by the Board as a subset of our overall business strategy and is overseen by the Audit and Risk Committee. Operational responsibility for the execution of the Group's tax strategy rests with the Chief Financial Officer, who reports the Group's tax position to the Audit and Risk Committee on a regular basis.

The Audit and Risk Committee considers tax risks that may arise as a result of business operations through the Group's risk management framework. The consideration of such tax risks include actions to mitigate the risks or to prevent their occurrence or reoccurrence.

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 2016, we had 100,000,000 ordinary shares of 0.1 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 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

We have one type of share scheme: a Long Term Incentive Plan (or Performance Share Plan) (LTIP or PSP). We will be launching a Save As You Earn scheme (SAYE or Sharesave scheme) in March 2017.

All shares allotted under the PSP scheme have the same rights as those already issued.

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 51 to 63, 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 January 2017, 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
H2 Equity Partners	20,129,094	20%
Aberforth	11,521,074	12%
JO Hambro	10,745,011	11%
Ruffer	7,894,214	8%
AXA	7,550,000	8%
BlackRock	6,736,623	7%
Hargreave Hale	6,729,142	7%
Schroder	3,983,766	4%
Henderson Global	3,758,214	4%
SEB Asset Management	2,669,967	3%

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 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 will retire and offer themselves for re-election at the 2017 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 51 to 63. No change in the interests of the Directors has been notified between 31 December 2016 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 2016 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.

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

- **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 it objectives. Further details of our research and development activities can be found in the Strategic Report on pages 01 to 41.
- **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 2016.
- **Greenhouse gas emissions**
  See Corporate Social Responsibility.
- **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
7 March 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company Financial Statements for each financial year. Under that law, the Directors are required to prepare the Group Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and have elected to prepare the Company Financial Statements in accordance with applicable law and UK Generally Accepted Accounting Practice (UK Accounting Standards, comprising FRS101 'Reduced Disclosure Framework').

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 the Company and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether IFRS as adopted by the European Union and applicable UK Accounting Standards comprising FRS101 have been followed, subject to any material departures disclosed and explained in the Group and Company Financial Statements respectively;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group Financial Statements, IAS 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that its 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. They are also responsible for safeguarding the assets of the Company and the Group 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 corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT OF THE DIRECTORS OF THE ANNUAL FINANCIAL REPORT

The Directors who held office at the date of approval of this Directors' Report confirm that, to the best of their knowledge:

- the Company Financial Statements, which have been prepared in accordance with UK Generally Accepted Account Practice (UK Accounting Standards, comprising FRS101 'Reduced Disclosure Framework', and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group Financial Statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' Responsibility Statement was approved by the Board on 7 March 2017.

Mark Kelly
Chief Executive Officer

Michael Scott
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Members of Eurocell Plc

REPORT ON THE GROUP FINANCIAL STATEMENTS

Our opinion

In our opinion, Eurocell Plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report 2016 (the "Annual Report"), comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview

- Overall Group materiality: £1.2 million which represents 5% of underlying profit before tax.

- Following our assessment of the risks of material misstatement of the financial statements we identified two statutory entities: Eurocell Building Plastics Limited and Eurocell Profiles Limited, which, in our view, required an audit of their complete financial information both due to their size and risk characteristics.
- In addition, we also conducted the statutory audits of four non-significant statutory entities, such that the audit work was complete prior to the finalisation of the Group financial statements.
- Work was performed on the Company and certain centralised functions, including management's reassessment of the fair values attributed to the assets and liabilities acquired in relation to the Vista Panels Limited business combination.

- Assessment of the valuation of inventory.
- Trade receivables and dilapidations provisions.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing 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. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Assessment of the valuation of inventory Refer to pages 36 to 39 (Risk management / Principal risks and uncertainties), pages 49 to 50 (Audit & Risk Committee report), Note 1 (Accounting policies), Note 2 (Critical accounting estimates and judgements) and Note 17 (Inventories). Inventory provisions totalled £1.8 million as at 31 December 2016 (31 December 2015: £2.6 million). 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 159 branches 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 significantly driven by 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 each labour and overhead cost 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 individual absorptions that made up the total. We also assessed the reasonableness of the Directors' estimates in this area for bias. 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. 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.
Trade receivables and dilapidations provisions Refer to pages 36 to 39 (Risk management/ Principal risks and uncertainties), pages 49 to 50 (Audit & Risk Committee report), Note 1 (Accounting policies), Note 2 (Critical accounting estimates and judgements), Note 18 (Trade and other receivables) and Note 21 (Provisions). The Group held provisions against accounts receivable of £0.7 million at 31 December 2016 (2015: £0.7 million). In addition, the Group held provisions in respect of dilapidations of £1.5 million (2015: £1.4 million). We focused on these areas because the Directors' assessment of the provisions required in respect of trade receivables and dilapidations involved subjective judgements. In addition, we also focused on these areas because the incentive schemes of the Directors and senior management are significantly driven by financial measures including profit, which we concluded gave a greater risk of manipulation of judgements, including those around trade receivables and dilapidations provisions, to ensure that bonus targets are achieved.	We understood the Directors' methodology for calculating trade receivables and dilapidations provisions across the Group and consider that these are in compliance with relevant IFRSs. In respect of trade receivables provisions, 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. In respect of dilapidation provisions for Eurocell Profiles, we tested management's assessment to the most recent third party estimate of the expected costs. For Eurocell Building Plastics, we tested management's estimated average branch dilapidations cost to actual costs incurred in respect of leases exited during the year. 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 calculated in a reasonable manner and were consistent with the requirements of relevant IFRSs.

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 geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Eurocell operates in the market of the extrusion of UPVC (unplasticised polyvinyl chloride) window and building products to the new and replacement window market and the sale of building plastics materials. This is predominantly through the function of the two primary divisions:
– Eurocell Building Plastics, focusing on sales and distribution across 159 branches within the UK to smaller scale customers; and
– Eurocell Profiles, focusing on manufacture and distribution to large scale customers.

The audit work performed over six statutory entities, together with additional procedures performed, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

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

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 on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£1.2 million (2015: £1.1 million).
How we determined it	5% of underlying profit before tax.
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-recurring items related to the Vista Panels acquisition and dual CEO costs, provides a consistent year on year basis for determining materiality by eliminating the non-recurring and/or disproportionate impact of these items.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £60,980 (2015: £55,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 40, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

OTHER REQUIRED REPORTING

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Corporate Governance Statement with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- the information given in the Corporate Governance Statement with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies complies with rules 7.2.2, 7.2.3 and 7.2.7 of the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the information referred to above in the Corporate Governance Statement. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion: • information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 44, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on pages 49 to 50, as required by provision C.3.8 of the Code, describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.	We have no exceptions to report.

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

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the Directors' confirmation on page 47 of the Annual Report, in accordance with provision C.2.1 of the Code, 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.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 40 of the Annual Report, in accordance with provision C.2.2 of the Code, 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 material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' 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 Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

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. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

INDEPENDENT AUDITORS' REPORT continued

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 66, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Company financial statements of Eurocell Plc for the year ended 31 December 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.

Mark Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
7 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 Recurring £000	Year ended 31 December 2016 (Note 7) Non-recurring £000	Year ended 31 December 2016 Total £000	Year ended 31 December 2015 Recurring £000	Year ended 31 December 2015 (Note 7) Non-recurring £000	Year ended 31 December 2015 Total £000
Revenue	4	**204,816**	**–**	**204,816**	175,947	–	175,947
Cost of sales		**(98,251)**	**–**	**(98,251)**	(84,945)	–	(84,945)
Gross profit		**106,565**	**–**	**106,565**	91,002	–	91,002
Distribution costs		**(15,517)**	**–**	**(15,517)**	(12,310)	–	(12,310)
Administrative expenses		**(66,096)**	**(455)**	**(66,551)**	(54,398)	(3,323)	(57,721)
Operating profit	6	**24,952**	**(455)**	**24,497**	24,294	(3,323)	20,971
Finance expense	10	**(677)**	**–**	**(677)**	(1,275)	–	(1,275)
Profit before tax	9	**24,275**	**(455)**	**23,820**	23,019	(3,323)	19,696
Taxation	11	**(4,299)**	**81**	**(4,218)**	(4,454)	241	(4,213)
Profit for the year and total comprehensive income		**19,976**	**(374)**	**19,602**	18,565	(3,082)	15,483
Basic earnings per share	12	**19.98**		**19.60**	18.60		15.51

The Notes on pages 77 to 97 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 £000	2015 £000
Assets			
Property, plant and equipment	14	**29,294**	27,635
Intangible assets	15	**19,713**	14,517
Total non-current assets		**49,007**	42,152
Current assets			
Inventories	17	**17,404**	18,054
Trade and other receivables	18	**28,123**	24,944
Cash and cash equivalents		**5,559**	1,176
Total current assets		**51,086**	44,174
Total assets		**100,093**	86,326
Liabilities			
Current liabilities			
Loans and borrowings	19	**(42)**	(1,327)
Trade and other payables	20	**(29,042)**	(27,092)
Provisions	21	**(48)**	(76)
Corporation tax		**(2,873)**	(1,196)
Total current liabilities		**(32,005)**	(29,691)
Non-current liabilities			
Loans and borrowings	19	**(25,785)**	(25,720)
Trade and other payables	20	**(520)**	(500)
Provisions	21	**(1,463)**	(1,366)
Deferred tax	22	**(2,194)**	(2,493)
Total non-current liabilities		**(29,962)**	(30,079)
Total liabilities		**(61,967)**	(59,770)
Net assets		**38,126**	26,556
Equity attributable to equity holders of the parent			
Share capital	23	**100**	100
Share premium account	23	**1,926**	1,926
Other reserves	24	**348**	380
Retained earnings		**35,752**	24,150
Total equity		**38,126**	26,556

The financial statements on pages 73 to 97 were approved and authorised for issue by the Board of Directors on 7 March 2017 and were signed on its behalf by:

Mark Kelly
Director

Michael Scott
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Cash generated from operations	31	**31,782**	26,268
Non-recurring costs	7	**455**	3,323
Cash generated from underlying operations		**32,237**	29,591
Income taxes paid		**(3,537)**	(5,729)
Non-recurring costs paid		**(273)**	(4,453)
Net cash generated from operating activities		**28,427**	19,409
Investing activities			
Acquisition of subsidiary, net of cash acquired	29	**(6,332)**	(1,662)
Purchase of property, plant and equipment	14	**(6,342)**	(6,267)
Sale of property, plant and equipment		**–**	75
Purchase of intangible assets	15	**(877)**	(85)
Net cash used in investing activities		**(13,551)**	(7,939)
Financing activities			
Redemption of preference shares	23	**–**	(50)
Proceeds from bank borrowings	19	**8,000**	41,000
Repayment of bank and other borrowings	19	**(8,523)**	(48,599)
Finance expense	10	**(643)**	(4,023)
Dividends paid to equity shareholders	13	**(8,000)**	(2,700)
Net cash used in financing activities		**(9,166)**	(14,372)
Net increase/(decrease) in cash and cash equivalents		**5,710**	(2,902)
Cash and cash equivalents at beginning of year		**(151)**	2,751
Cash and cash equivalents at end of year		**5,559**	(151)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital (Note 23) £000	Share premium account (Note 23) £000	Retained earnings £000	Other reserves (Note 24) £000	Total equity £000
Balance at 1 January 2016	**100**	**1,926**	**24,150**	**380**	**26,556**
Comprehensive income for the year					
Profit for the year	**–**	**–**	**19, 602**	**–**	**19,602**
Total comprehensive income for the year	**–**	**–**	**19,602**	**–**	**19,602**
Contributions by and distributions to owners					
Share based payments	**–**	**–**	**–**	**239**	**239**
Release of share based payments	**–**	**–**	**–**	**(221)**	**(221)**
Deferred tax on share based payments	**–**	**–**	**–**	**(50)**	**(50)**
Dividends paid	**–**	**–**	**(8,000)**	**–**	**(8,000)**
Total contributions by and distributions to owners	**–**	**–**	**(8,000)**	**(32)**	**(8,032)**
Balance at 31 December 2016	**100**	**1,926**	**35,752**	**348**	**38,126**

	Share capital (Note 23) £000	Share premium account (Note 23) £000	Retained earnings £000	Other reserves (Note 24) £000	Total equity £000
Balance at 1 January 2015	52	99	11,367	–	11,518
Comprehensive income for the year					
Profit for the year	–	–	15,483	–	15,483
Total comprehensive income for the year	–	–	15,483	–	15,483
Contributions by and distributions to owners					
Preference shares redeemed in the year	(50)	–	–	–	(50)
Shares issued during the year	98	1,827	–	–	1,925
Share based payments	–	–	–	322	322
Deferred tax on share based payments				58	58
Dividends paid	–	–	(2,700)	–	(2,700)
Total contributions by and distributions to owners	48	1,827	(2,700)	380	(445)
Balance at 31 December 2015	100	1,926	24,150	380	26,556

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 UPVC 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 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 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 2016. 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.

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. The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions, 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.

A separate profit and loss for the Company is not presented, in accordance with Section 408 of the Companies Act 2006. The profit for the year for the Company was £29,992,000 (2015: £6,531,000).

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

There were no standards or interpretations which took effect in the year and which materially affect the financial statements.

The standard and interpretations that are issued but not yet effective up to the date of issue of the Group's financial statements are disclosed below. These new standards, interpretations and amendments, which have not been applied in these financial statements will or may have an affect on the Group's future financial statements.

The Group does not intend to adopt any standard, revision or amendment before the required implementation date. At the date of authorisation of these financial statements, the following standards which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 Financial Instruments (effective from 1 January 2018);
  The impact of IFRS 9 is being assessed by management. The main impact is likely to arise from the implementation of the expected loss model although full quantification of this impact is not yet complete.
- IFRS 15 Revenue from Contracts with Customers (effective from 1 January 2018);
  The impact of IFRS 15 is being assessed by management.
- IFRS 16 Leases (effective from 1 January 2019);
  The full impact of IFRS 16 has not yet been assessed, although management notes that the majority of operating leases will be brought onto the balance sheet.
- IFRS 2 Share Based Payments Classification and Measurement (effective from 1 January 2018);
- IAS 7 Statement of Cash flows (effective from 1 January 2017, subject to EU endorsement); and
- IAS 12 Income taxes on recognition of deferred tax for unrealised losses (effective from 1 January 2017).

The impact of IFRS 2, IAS 7 and IAS 12 is not expected to be significant.

1 ACCOUNTING POLICIES (GROUP) continued

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (when the goods are delivered). The amounts are recognised net of any discounts or rebates payable, which are accrued at the point at which the goods are delivered.

Administrative expenses – non-recurring

The Group presents some material items of income and expense as non-recurring costs. 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 shareholders 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.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value, and the amount of any non-controlling interest in 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 total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired. 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	Five years	Cost to acquire
Technology based	Ten to seventeen years	Cost to acquire
Marketing related	Ten to fifteen years	Cost to acquire
Customer related	Four to twelve 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

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 tests on goodwill 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.

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:

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

Investments in subsidiary undertakings

Investments in subsidiaries are stated at cost less provision for impairment.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of 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.

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.

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 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, 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.

From time to time, the Group 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 Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

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.

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 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.

1 ACCOUNTING POLICIES (GROUP) continued

Deferred taxation continued

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 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 reflecting current market assessments of the time value of money and risks specific to the liability.

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 declared by the Directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

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

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease'), 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 UK 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 rates ruling 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 enters into equity settled share based payment transactions with its employees. The fair value of options is recognised as an employee expense with a corresponding increase in equity. The fair value of options granted is measured using the Black-Scholes option valuation model. The amount recognised as an expense is adjusted to reflect the actual number of awards which are expected to be made.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes certain estimates and assumptions 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 assumptions. The estimates and assumptions 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.

Estimates and assumptions

a) 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. 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.

b) Recoverability of trade receivables

Management makes allowance for doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyse historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the provision for doubtful debts. Where the expectation is different from the original estimate, such difference will impact on the carrying value of trade receivables and the charge in the statement of comprehensive income. Further disclosures relating to trade receivables are provided in Note 18.

c) Dilapidation provisions

The Group recognises dilapidation provisions on the leasehold properties it occupies. Management assess the level of provision required on a property by property basis based on past experience within the property portfolio. These provisions are reviewed 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.

3 FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

- credit risk
- market risk
- foreign exchange risk
- 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
- floating-rate bank loans
- credit facilities

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

Financial assets	2016 £000	2015 £000
Cash and cash equivalents	**5,559**	**1,176**
Trade and other receivables	**28,123**	**24,944**
Total financial assets	**33,682**	**26,120**

Financial liabilities	2016 £000	2015 £000
Trade and other payables	**29,562**	27,592
Loans and borrowings	**25,827**	27,047
Total financial liabilities	**55,389**	54,639

Impairment of financial assets

Impairments to trade receivables are outlined in Note 18. No further impairments to financial assets are considered necessary. Factors which were considered when assessing the need for impairment include the liquidity of the asset, its maturity profile and other commercial considerations.

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.

3 FINANCIAL INSTRUMENTS – RISK MANAGEMENT continued

General objectives, policies and processes continued

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 monthly 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 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 2016 and 2015 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 affect on the profit or loss 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, annual cash flow models are prepared and updated on a weekly basis to ensure that the Group has adequate headroom in its facilities.

The Board receives monthly updates on the liquidity position and any issues are reported by exception. At the end of the financial year, these projections indicated that the Company expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

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

At 31 December 2016	**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**
Trade and other payables	**(29,562)**	**(29,042)**	**–**	**–**	**(520)**	**–**
Bank overdraft, loans and borrowings	**(26,042)**	**(42)**	**–**	**–**	**(26,000)**	**–**
Total	**(55,604)**	**(29,084)**	**–**	**–**	**(26,520)**	**–**

At 31 December 2015	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
Trade and other payables	(27,592)	(27,092)	–	–	(500)	–
Bank overdraft, loans and borrowings	(27,327)	(1,327)	–	–	(26,000)	–
Total	(54,919)	(28,419)	–	–	(26,500)	–

Capital disclosures

The Group's objective when managing capital, which is deemed to be total equity plus total debt and which totalled £63,953,000 (2015: £53,603,000) at the balance sheet date, is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, through the optimisation of the debt and equity balance, and to maintain a strong credit rating and headroom on financial covenants. The Group manages its capital structure and makes appropriate decisions in light of the current economic conditions and strategic objectives of the Group.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and sustain 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 compliance with the covenants set out in the existing facility agreements and to maintain a comfortable headroom over and above these requirements.

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 that 3.0:1.
- Interest cover: the ratio of EBITDA to net interest payable in respect of any relevant period of not less than 4.0:1.

Covenants are measured semi-annually on a rolling twelve month basis. As at 31 December 2016 they were 0.6:1 and 46.3:1 respectively (2015: 0.9:1 and 38.1:1).

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

	As at 31 December 2016		
	Euro £000	**GBP £000**	**Total £000**
Trade and other receivables	**38**	**28,085**	**28,123**
Cash and cash equivalents	**327**	**5,232**	**5,559**
Other interest bearing loans and borrowings	**–**	**(25,827)**	**(25,827)**
Trade and other payables	**(241)**	**(29,321)**	**(29,562)**
	124	**(21,831)**	**(21,707)**

	As at 31 December 2015		
	Euro £000	GBP £000	Total £000
Trade and other receivables	–	24,944	24,944
Cash and cash equivalents	1,106	70	1,176
Other interest bearing loans and borrowings	–	(27,047)	(27,047)
Trade and other payables	–	(27,592)	(27,592)
	1,106	(29,625)	(28,519)

4 REVENUE

Revenue arises from:

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Sale of goods	**204,816**	175,947

External revenue by location of customers

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
United Kingdom	**202,055**	173,442
Rest of European Union	**2,761**	2,503
Other	**–**	2
	204,816	175,947

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2016

5 AUDITORS' REMUNERATION

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Audit of these financial statements	**16**	16
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**118**	89
Audit-related assurance services	**25**	20
	159	125

6 OPERATING PROFIT

Amounts included within operating profit are as follows:

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Depreciation of property, plant and equipment	**5,005**	4,302
Impairment of property, plant and equipment	**–**	234
Amortisation of intangible assets	**1,372**	1,135
Loss on disposal of property plant and equipment	**86**	–
Rentals under operating leases	**5,325**	4,483

7 NON-RECURRING COSTS

Amounts included in the consolidated statement of comprehensive income are as follows:

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Professional fees and other costs relating to the Company's IPO	**–**	3,323
Duplicated costs related to CEO handover period	**343**	–
Acquisition costs	**112**	–
	455	3,323

8 EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Staff costs (including Directors) comprise:		
Wages and salaries	**38,152**	30,534
Share based payments	**18**	322
Social security contributions and similar taxes	**3,575**	2,866
Pension costs – defined contribution plans	**983**	978
	42,728	34,700

	2016 No.	2015 No.
The average monthly number of employees, including Directors, during the year were as follows:		
Production	**434**	338
Office and administration	**236**	188
Distribution	**619**	558
	1,289	1,084

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.

	2016 £000	2015 £000
Emoluments	**1,865**	1,454
Share based payment	**234**	322
Pension and other post-employment benefit costs	**132**	114
	2,231	1,890

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 (2015: 2).

The highest paid Director received remuneration of £560,558 (2015: £637,098).

No share options were exercised during the year (2015: none).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £41,123 (2015: £51,025).

The Group's policy for consulting with, sharing information with, and encouraging the involvement employees is discussed on pages 24 and 25.

9 SEGMENTAL INFORMATION

For management purposes the Group is organised into divisions based on their products and services and has two reportable segments as follows:
- Profiles – extrusion and sale of UPVC window and building products to the new and replacement window market across the UK.
- Building Plastics – sale of building plastic materials across the UK.

No operating segments have been aggregated to form the above reportable operating segments.

Factors that management used to identify the Group's reportable segments

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the management team including the Chief Executive Officer and the Chief Financial Officer.

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

	Profiles 2016 £000	Building Plastics 2016 £000	Corporate 2016 £000	Total 2016 £000
Revenue				
Total revenue	**127,171**	**118,148**	**–**	**245,319**
Inter-segmental revenue	**(39,817)**	**(686)**	**–**	**(40,503)**
Total revenue from external customers	**87,354**	**117,462**	**–**	**204,816**
Adjusted EBITDA	**22,657**	**8,832**	**(160)**	**31,329**
Amortisation	**(158)**	**(123)**	**(1,091)**	**(1,372)**
Depreciation	**(3,969)**	**(609)**	**(427)**	**(5,005)**
Operating profit before non-recurring costs	**18,530**	**8,100**	**(1,678)**	**24,952**
Non-recurring costs				**(455)**
Finance expense				**(677)**
Profit before tax				**23,820**

9 SEGMENTAL INFORMATION continued

	Profiles 2015 £000	Building Plastics 2015 £000	Corporate 2015 £000	Total 2015 £000
Revenue				
Total revenue	105,957	102,661	–	208,618
Inter-segmental revenue	(32,088)	(583)	–	(32,671)
Total revenue from external customers	73,869	102,078	–	175,947
Adjusted EBITDA	21,608	8,384	(261)	29,731
Amortisation	(234)	(240)	(661)	(1,135)
Depreciation	(3,473)	(457)	(372)	(4,302)
Operating profit before non-recurring costs	17,901	7,687	(1,294)	24,294
Non-recurring costs				(3,323)
Finance expense				(1,275)
Profit before tax				19,696

	Profiles 2016 £000	**Building Plastics 2016 £000**	**Corporate 2016 £000**	**Total 2016 £000**
Purchase of plant, property, equipment and intangible assets	**5,498**	**1,105**	**616**	**7,219**
Reportable segment assets	**53,524**	**27,575**	**18,994**	**100,093**
Reportable segment liabilities	**(17,391)**	**(12,402)**	**(1,280)**	**(31,073)**
Borrowings				**(25,827)**
Corporation tax payable				**(2,873)**
Deferred tax liability				**(2,194)**
Total liabilities				**(61,967)**
Total net assets				**38,126**

	Profiles 2015 £000	Building Plastics 2015 £000	Corporate 2015 £000	Total 2015 £000
Purchase of plant, property, equipment and intangible assets	4,722	1,157	473	6,352
Reportable segment assets	40,594	29,472	16,260	86,326
Reportable segment liabilities	(15,670)	(11,992)	(1,372)	(29,034)
Borrowings				(27,047)
Corporation tax payable				(1,196)
Deferred tax liability				(2,493)
Total liabilities				(59,770)
Total net assets				26,556

10 FINANCE EXPENSE

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Finance expense		
Exchange movements on foreign cash balances	**29**	29
Bank and other loans	**648**	869
Related party loan notes	**–**	377
	677	1,275

11 TAXATION

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Current tax expense		
Current tax on profits for the year	**5,025**	3,331
Adjustment in respect of prior years	**75**	(192)
Total current tax	**5,100**	3,139
Deferred tax expense		
Origination and reversal of temporary differences	**(174)**	1,129
Adjustment in respect of change in rates	**(385)**	–
Adjustment in respect of prior years	**(323)**	(55)
Total deferred tax	**(882)**	1,074
Total tax expense	**4,218**	4,213

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:

	2016 £000	2015 £000
Profit before tax	**23,820**	19,696
Expected tax charge based on the standard rate of corporation tax in the UK of 20% (2015: 20.25%)	**4,764**	3,988
Taxation effect of:		
Expenses not deductible for tax purposes	**87**	472
Adjustments to tax charge in respect of prior years	**(248)**	(247)
Adjustment in respect of change in rates	**(385)**	–
Total tax expense	**4,218**	4,213

Changes in tax rates and factors affecting the future tax charge

A reduction in the mainstream rate of UK corporation tax from 21% to 20% took effect from April 2015. Further reductions to 19% from 1 April 2017 and 17% from 1 April 2020 have been substantively enacted. Deferred taxes at the year end date have been measured using these enacted tax rates and reflected in the financial statements.

Tax on non-recurring items

The tax credit arising on non-recurring items within the comprehensive income statement is £81,000 (2015: £241,000).

Tax included in other comprehensive income

The tax charge arising on share based payments within other comprehensive income is £50,000 (2015: credit £58,000).

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.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2016

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 non-recurring costs from the calculations.

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Profit attributable to ordinary shareholders	**19,602**	15,483
Profit attributable to ordinary shareholders excluding non-recurring costs	**19,976**	18,565
	Number	Number
Weighted average number of shares – basic	**100,000,000**	99,816,141
Weighted average number of shares – diluted	**100,227,068**	99,816,141
	Pence	Pence
Basic earnings per share	**19.60**	15.51
Adjusted basic earnings per share	**19.98**	18.60
Diluted earnings per share	**19.56**	15.51
Adjusted diluted earnings per share	**19.93**	18.60

13 DIVIDENDS

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Dividends paid during the year		
Interim dividend for 2016 of 2.8p per share (2015: 2.7p per share)	**2,800**	2,700
Final dividend for 2015 of 5.2p per share	**5,200**	–
	8,000	2,700
Dividends proposed		
Final dividend for 2016 of 5.7p per share (2015: 5.2p per share)	**5,700**	5,200

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 2015	8,581	86	20,956	85	69	109	29,886
Additions	23	–	2,107	–	–	4,137	6,267
On acquisition	–	–	307	–	–	–	307
Disposals	–	(16)	(155)	–	(1)	–	(172)
Transfer	–	–	1,452	–	–	(1,452)	–
Balance at 1 January 2016	**8,604**	**70**	**24,667**	**85**	**68**	**2,794**	**36,288**
Additions	**40**	**–**	**2,428**	**61**	**1**	**3,812**	**6,342**
On acquisition	**–**	**–**	**339**	**51**	**18**	**–**	**408**
Disposals	**–**	**(7)**	**(333)**	**–**	**(3)**	**–**	**(343)**
Transfer	**–**	**–**	**4,305**	**–**	**–**	**(4,305)**	**–**
Balance at 31 December 2016	**8,644**	**63**	**31,406**	**197**	**84**	**2,301**	**42,695**
Accumulated depreciation							
Balance at 1 January 2015	223	49	3,908	3	31	–	4,214
Charge for the year	227	10	4,029	11	25	–	4,302
Disposals	–	(16)	(80)	–	(1)	–	(97)
Impairment	–	–	234	–	–	–	234
Balance at 1 January 2016	**450**	**43**	**8,091**	**14**	**55**	–	**8,653**
Charge for the year	**229**	**6**	**4,695**	**43**	**32**	–	**5,005**
Disposals	**–**	**(6)**	**(248)**	**–**	**(3)**	–	**(257)**
Balance at 31 December 2016	**679**	**43**	**12,538**	**57**	**84**	–	**13,401**
Net book value							
At 31 December 2016	**7,965**	**20**	**18,868**	**140**	**–**	**2,301**	**29,294**
At 31 December 2015	8,154	27	16,576	71	13	2,794	27,635

Included within freehold property is non-depreciable land of £2,320,000 (31 December 2015: £2,320,000).

15 INTANGIBLE ASSETS

	Software £000	Technology based £000	Customer related £000	Marketing related £000	Goodwill £000	Total £000
Cost						
Balance at 1 January 2015	344	1,612	2,200	4,807	5,934	14,897
Additions	85	–	–	–	–	85
On acquisition	–	–	1,249	–	151	1,400
Disposals	(1)	–	–	–	–	(1)
Balance at 1 January 2016	**428**	**1,612**	**3,449**	**4,807**	**6,085**	**16,381**
Additions	**317**	**–**	**560**	**–**	**–**	**877**
On acquisition	**–**	**–**	**1,917**	**1,531**	**2,243**	**5,691**
Balance at 31 December 2016	**745**	**1,612**	**5,926**	**6,338**	**8,328**	**22,949**
Accumulated amortisation						
Balance at 1 January 2015	168	32	347	183	–	730
Charge for the year	45	190	283	617	–	1,135
Disposals	(1)	–	–	–	–	(1)
Balance at 1 January 2016	**212**	**222**	**630**	**800**	**–**	**1,864**
Charge for the year	**117**	**95**	**713**	**447**	**–**	**1,372**
Balance at 31 December 2016	**329**	**317**	**1,343**	**1,247**	**–**	**3,236**
Net book value						
At 31 December 2016	**416**	**1,295**	**4,583**	**5,091**	**8,328**	**19,713**
At 31 December 2015	216	1,390	2,819	4,007	6,085	14,517

16 IMPAIRMENT

For the purpose of impairment testing, goodwill is allocated at an operating segment level as follows:

	As at 31 December 2016 £000	As at 31 December 2015 £000
Building Plastics	**2,584**	2,584
Profiles	**5,744**	3,501
	8,328	6,085

The recoverable amounts of the CGUs have been determined from 'value-in-use' calculations which have been predicated on discounted cash flow projections from formally approved budgets covering a three year period. 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.

	As at 31 December 2016	As at 31 December 2015
Period on which management approved forecasts are based (years)	**3**	3
Discount rate (pre-tax)	**11%**	11%

The goodwill is considered to have an indefinite useful life and the recoverable amount is determined based on 'value-in-use' calculations. These calculations use 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 discount rate was estimated based on past experience and an estimated industry average weighted average cost of capital.

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

	2016 £000	2015 £000
Raw materials	**2,184**	1,864
Work in progress	**1,495**	1,850
Finished goods and goods for resale	**13,725**	14,340
	17,404	18,054

All inventories are carried at cost less a provision to take account of slow moving and obsolete items.

At 31 December 2016 the inventory provision amounted to £1,800,000 (2015: £2,591,000).

The costs of inventories recognised as an expense and included within cost of sales is £92,078,000 (2015: £79,608,000).

18 TRADE AND OTHER RECEIVABLES

	2016 £000	2015 £000
Trade receivables	**26,500**	22,581
Less: provision for impairment of trade receivables	**(738)**	(715)
Less: provision for rebates	**(481)**	(400)
Trade receivables – net	**25,281**	21,466
Total financial assets other than cash and cash equivalents classified as loans and receivables	**25,281**	21,466
Prepayments	**2,836**	3,444
Other receivables	**6**	34
Total trade and other receivables	**28,123**	24,944

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. As at 31 December 2016 trade receivables of £1,113,000 (2015: £1,473,000) were past due but not impaired. They relate to the customers with no default history. The ageing analysis of these receivables is as follows:

	2016 £000	2015 £000
Up to 3 months overdue	**1,113**	1,465
3 to 6 months	**–**	8
	1,113	1,473

Movements on the Group provision for impairment of trade receivables are as follows:

	2016 £000	2015 £000
At 1 January	**715**	2,098
Charged during the year	**2,533**	1,848
Released and utilised during the year	**(2,053)**	(2,670)
Receivables written off during the year as uncollectible	**(457)**	(561)
At 31 December	**738**	715

Other classes of financial assets included within trade and other receivables do not contain impaired assets.

19 LOANS AND BORROWINGS

The book value and fair value of loans and borrowings are as follows:

	Book Value 2016 £000	Fair Value 2016 £000	Book Value 2015 £000	Fair Value 2015 £000
Non-current				
Bank loans unsecured	**25,785**	**25,785**	25,720	25,720
	25,785	**25,785**	25,720	25,720
Current				
Bank overdraft	**–**	**–**	1,327	1,327
Other	**42**	**42**	–	–
Total loans and borrowings	**25,827**	**25, 827**	27,047	27,047

The bank loans outstanding at 31 December 2016 are rolled over on a short-term basis. The book value and fair value are therefore not considered to be materially different.

Borrowings

On 9 March 2015, as part of the listing process, the Company refinanced its borrowings. As a result of this, from 9 March 2015, the Company has a £45,000,000 committed multi-currency revolving unsecured credit facility with Barclays Bank plc and Santander UK plc which expires in 2020.

Borrowings of £26,000,000 were drawn down at 31 December 2016 (2015: £26,000,000) less unamortised issue costs of £215,000 (2015: £280,500).

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 stable during the next reporting period to 31 December 2017, and any changes, when applied to the Group's current bank borrowings of £25,785,000, would not be significant.

The currency profile of the Group's external loans and borrowings is as follows:

	2016 £000	2015 £000
Loan – sterling	**25,785**	25,720
Overdraft – sterling	**–**	1,327
Other loan	**42**	–
	25,827	27,047

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2016

19 LOANS AND BORROWINGS continued

Borrowings continued

The analysis of repayments on the combined loans is as follows:

	As at 31 December 2016 £000	As at 31 December 2015 £000
Within one year or repayable on demand	**42**	1,327
Between one and two years	**–**	–
Between two and five years	**25,785**	25,720
	25,827	27,047

20 TRADE AND OTHER PAYABLES

	2016 £000	2015 £000
Current liabilities		
Trade payables	**18,398**	19,393
Other tax and social security	**3,837**	2,178
Other payables	**393**	297
Accruals	**6,414**	5,224
Total non-current trade and other payables	**29,042**	27,092
Non-current liabilities		
Other payables	**520**	500

Book values approximate to fair value at 31 December 2016 and 2015.

21 PROVISIONS

	Dilapidations provision £000
At 1 January 2016	**1,442**
Utilised	**(31)**
On acquisition (Note 29)	**100**
At 31 December 2016	**1,511**
Current	**48**
Non-current	**1,463**
At 31 December 2016	**1,511**

Dilapidations provision

Under property operating lease agreements, Eurocell Building Plastics Limited and Eurocell Profiles Limited, being Group subsidiaries, have 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 dependant on the lease expiry dates of the properties concerned, which vary between 1 and 10 years.

22 DEFERRED TAX

The movement on the deferred tax account is as shown below:

	2016 £000	2015 £000
At 1 January	**(2,493)**	(1,227)
Recognised in statement of comprehensive income	**882**	(1,074)
Recognised in equity	**(50)**	58
Recognised upon acquisition	**(533)**	(250)
At 31 December	**(2,194)**	(2,493)

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 income statement and amounts recognised in other comprehensive income are as follows:

	Asset 2016 £000	Liability 2016 £000	Net 2016 £000	Statement of comprehensive income 2016 £000	Equity 2016 £000
Accelerated capital allowances/intangible fixed assets	**–**	**(2,209)**	**(2,209)**	**929**	**–**
Other temporary differences	**15**	**–**	**15**	**(47)**	**(50)**
Net tax assets/(liabilities)	**15**	**(2,209)**	**(2,194)**	**882**	**(50)**
	2015 £000	2015 £000	2015 £000	2015 £000	2015 £000
Accelerated capital allowances/intangible fixed assets	–	(2,605)	(2,605)	(721)	–
Other temporary differences	112	–	112	(353)	58
Net tax assets/(liabilities)	112	(2,605)	(2,493)	(1,074)	58

23 SHARE CAPITAL

	Allotted, called up and fully paid 2016 Number	2015 Number
Ordinary shares of £0.001 each	**100,000,000**	100,000,000
	2016 £000	2015 £000
Ordinary shares of £0.001 each	**100**	100
Share premium account	**1,926**	1,926

In preparation for the IPO, the following share transactions took place in respect of shares in existence prior to the IPO:

- All of the 50,000 preference shares in issue were redeemed at par.
- The Company issued the following shares as a bonus issue; 8,056,936 A ordinary shares, 74,182 B ordinary shares, 44,506 C ordinary shares, 6,910 D ordinary shares, 6,910 E ordinary shares and 6,910 F ordinary shares.
- The nominal value of A-F ordinary shares were changed to £0.001. The number of A-F ordinary shares was changed to ensure that the total share capital and proportion of equity held by each class of share remained unchanged.
- All A-F ordinary shares were redesignated as ordinary shares.
- 1,100,140 ordinary shares were issued at £1.75 in consideration for the satisfaction of shareholder loan notes.

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.

24 SHARE BASED PAYMENTS

The Group has applied the requirements of IFRS 2 – Share Based Payments.

Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is 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. For the year ended 31 December 2016, the charge to the statement of comprehensive income was £18,000 (2015: £322,000) with a deferred tax credit of £50,000 (2015: charge of £58,000). The overall statement of financial position is unchanged as a result of this.

For details of the scheme see page 54 of the Directors' Remuneration report.

During the year the entitlement to share options under the Deferred Share Plan in respect of Patrick Bateman and Matthew Edwards was settled in cash. Further details can be found in the Directors' Remuneration report.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2016

25 OPERATING LEASES

The Group has entered into commercial leases on certain non-current assets. The majority of these leases have an average life of between two and five years. 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:

Land and buildings	2016 £000	2015 £000
Not later than one year	3,193	3,706
Later than one year and not later than five years	11,098	9,438
Later than five years	6,046	5,931
	20,337	19,075

Other	2016 £000	2015 £000
Not later than one year	2,425	2,392
Later than one year and not later than five years	3,933	3,939
Later than five years	1	48
	6,359	6,379

26 CONTINGENT ASSETS AND LIABILITIES

On 3 March 2015, as part of the refinancing exercise, the Group 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 2016 the bank borrowings were £25,785,000 (2015: £25,720,000).

The Group had no other material contingent assets or liabilities (31 December 2015: 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 £983,000 (2015: £978,000).

28 RELATED PARTY TRANSACTIONS

The remuneration of Executive and Non-executive Directors is disclosed on pages 51 to 63.

In March 2015, the Company floated on the London Stock Exchange and consequently there is no majority shareholder.

Transactions with key management personnel

H2 Equity Partners Limited is considered to be a related party by virtue of a mutual director.

Kalverboer Management UK LLP is controlled by P H L Kalverboer, a Director of Eurocell plc.

The following management charges have been made by the above companies:

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
H2 Equity Partners Limited	–	49
Kalverboer Management UK LLP	40	40

The following balances are outstanding at the balance sheet date:

	2016 £000	2015 £000
Kalverboer Management UK LLP	10	–

Prior to the IPO the shareholders held loan notes, with interest payable at 11%. During the period the amounts of interest charged in the consolidated statement of comprehensive income were as follows:

	2016 £000	2015 £000
Coöperatief H2 Equity Partners Fund IV Holding WA	–	368
P Bateman	–	4
M K Edwards	–	2
G Parkinson	–	1
A Smith	–	1
I Kemp	–	1

On 3 March 2015 at the IPO the loan notes and accrued interest were repaid in full as follows:

	2015 £000
Coöperatief H2 Equity Partners Fund IV Holding WA	20,462
P Bateman	176
M K Edwards	106
G Parkinson	35
A Smith	35
I Kemp	35

29 ACQUISITIONS OF SUBSIDIARIES

2016

On 8 March 2016, Eurocell Profiles Limited, an indirect wholly owned subsidiary undertaking of Eurocell plc acquired 100% of the ordinary share capital of Vista Panels Limited.

Vista Panels Limited is a manufacturer of composite and PVC panel doors, supplying the social housing and private RMI sectors. Vista Panels Limited is also the sole supplier of composite doors to Eurocell Building Plastics Limited, while Eurocell Profiles Limited supplies Vista Panels Limited with profiles for use in the manufacture of door frames.

The consideration paid was £6,687,000. As part of the acquisition, Eurocell Profiles also agreed to settle on completion £485,000 owed by Vista Panels Limited to its former ultimate parent undertaking CorpAcq Limited. The total cash outflow was therefore £7,172,000.

Goodwill represents the value of synergies arising from the economies of scale in the enlarged Group. The amount of goodwill deductible for tax purposes is £nil.

The goodwill arising on acquisition has been calculated as follows:

	Book value on acquisition £000	Fair value adjustments £000	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date:			
Property, plant and equipment	408	–	408
Intangible assets	–	3,448	3,448
Deferred tax	88	(621)	(533)
Inventories	947	38	985
Trade and other receivables	2,572	–	2,572
Cash and cash equivalents	355	–	355
Trade and other payables	(2,611)	(100)	(2,711)
Finance leases	(80)	–	(80)
Net assets and liabilities	1,679	2,765	4,444
Consideration paid:			
Cash paid			6,687
Goodwill on acquisition			2,243

Fair value adjustments

- The adjustment to intangible assets is to recognise previously unidentifiable intangible assets, and has been valued using discounted cash flows.
- The adjustment to deferred taxation is to recognise the associated deferred tax liability arising on the amortisation of the identifiable intangible assets.
- The adjustment to trade and other payables is to recognise a dilapidation provision in respect of the leased premises occupied by Vista.
- The adjustment in relation to inventories is to recognise the fair value of finished goods acquired on acquisition.

Acquisition related costs

The Group incurred acquisition related costs of £112,000 in relation to professional fees and transaction costs arising upon acquisition. All such costs have been expensed to the statement of comprehensive income within administrative expenses.

Overall impact on the Group

The contribution to profit before tax of the Group for the period since acquisition was £572,000. If the acquisition had been completed on 1 January 2016 the contribution to the Group's revenue and profit before tax for the year ended 31 December 2016 are estimated at £8,822,000 and £704,000 respectively.

29 ACQUISITIONS OF SUBSIDIARIES continued

2015

On 31 July 2015, Eurocell Profiles Limited, an indirect wholly owned subsidiary undertaking of Eurocell plc acquired 100% of the ordinary share capital of Ampco 113 Limited and its wholly owned subsidiary S&S Plastics Limited.

S&S Plastics Limited specialises in injection moulding, predominately in the windows market. The acquisition took place to allow the Group to expand its customer base and provide cross selling opportunities.

The consideration paid was £2,450,000, of which £350,000 is deferred and is outstanding at the balance sheet date. This amount is not contingent and will be settled once the Group accounts for the year ended 31 December 2018 have been approved.

Goodwill represents the value of synergies arising from the economies of scale in the enlarged group. The amount of goodwill deductible for tax purposes is £nil.

The goodwill arising on acquisition has been calculated as follows:

	Book value acquisition £000	Fair value adjustments £000	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date:			
Property, plant and equipment	307	–	307
Intangible assets	–	1,249	1,249
Deferred tax	–	(250)	(250)
Inventories	297	331	628
Trade and other receivables	898	–	898
Cash and cash equivalents	438	–	438
Trade and other payables	(971)	–	(971)
Net assets and liabilities	969	1,330	2,299
Consideration paid:			
Cash paid			2,100
Deferred consideration			350
Total consideration			2,450
Goodwill on acquisition			151

Fair value adjustments

- The adjustment to intangible assets is to recognise previously unidentifiable intangible assets, and has been valued using discounted cash flows.
- The adjustment in relation to inventories is to recognise the fair value of finished goods acquired on acquisition.
- The adjustment to deferred taxation is to recognise the associated deferred tax liability arising on the amortisation of the identifiable intangible assets.

Acquisition related costs

The Group incurred acquisition related costs of £43,000 for professional fees and transaction costs arising upon acquisition. All such costs have been expensed to the statement of comprehensive income within administrative expenses.

30 NOTES SUPPORTING STATEMENT OF CASH FLOWS

Cash and cash equivalents for purposes of the statement of cash flows comprises:

	2016 £000	2015 £000
Cash at banks and in hand	**5,559**	1,176
Bank overdraft	**–**	(1,327)
Cash and cash equivalents	**5,559**	(151)

31 RECONCILIATION OF PROFIT AFTER TAX TO CASH GENERATED FROM OPERATIONS

	2016 £000	2015 £000
Profit after tax	**19,602**	15,483
Add back taxation	**4,218**	4,213
Finance expense	**677**	1,275
Operating profit	**24,497**	20,971
Adjustments for:		
Depreciation of tangible fixed assets	**5,005**	4,302
Amortisation of intangible fixed assets	**1,372**	1,135
Loss on sale of property, plant and equipment	**86**	–
Impairment of property, plant and equipment	**–**	234
Share based payments	**18**	322
Decrease/(increase) in inventories	**1,635**	(2,696)
(Increase) in trade and other receivables	**(616)**	(3,884)
(Decrease)/increase in trade and other payables	**(184)**	5,741
(Decrease)/increase in provisions	**(31)**	143
Cash generated from operations	**31,782**	26,268

32 RECONCILIATION OF NET DEBT

	1 January 2016 £000	Cash flow £000	Non cash movements £000	31 December 2016 £000
Cash and cash equivalents	**(151)**	**5,710**	**–**	**5,559**
Borrowings	**(25,720)**	**38**	**(145)**	**(25,827)**
Total	**(25,871)**	**5,748**	**(145)**	**(20,268)**

	1 January 2015 £000	Cash flow £000	Non cash movements £000	31 December 2015 £000
Cash and cash equivalents	2,751	(2,902)	–	(151)
Borrowings	(17,798)	(8,202)	280	(25,720)
Loan notes	(20,475)	18,915	1,560	–
Total	(35,522)	7,811	1,840	(25,871)

31 December 2016	Current assets £000	Current liabilities £000	Non-current liabilities £000	Total £000
Cash and cash equivalents	**5,559**	**–**	**–**	**5,559**
Borrowings	**–**	**(42)**	**(25,785)**	**(25,827)**
Total	**5,559**	**(42)**	**(25,785)**	**(20,268)**

31 December 2015	Current assets £000	Current liabilities £000	Non–current liabilities £000	Total £000
Cash and cash equivalents	1,176	(1,327)	–	(151)
Borrowings	–	–	(25,720)	(25,720)
Total	1,176	(1,327)	(25,720)	(25,871)

33 EVENTS AFTER THE BALANCE SHEET DATE

On 24 February 2017, Eurocell Building Plastics Limited, a subsidiary of Eurocell plc, acquired 100% of the issued share capital of Security Hardware Systems Limited for an initial consideration of £1,250,000.

INDEPENDENT AUDITORS' REPORT

To the Members of Eurocell Plc

REPORT ON THE COMPANY FINANCIAL STATEMENTS

Our opinion

In our opinion, Eurocell Plc's Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report 2016 (the "Annual Report"), comprise:

- the Company statement of financial position as at 31 December 2016;
- the Company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

OTHER REQUIRED REPORTING

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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
- the 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.

Directors' remuneration

Directors' remuneration report - Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 66, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

OTHER MATTER

We have reported separately on the Group financial statements of Eurocell Plc for the year ended 31 December 2016.

Mark Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
7 March 2017

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 £000	Restated 2015 £000
Assets			
Non-current assets			
Investments	36	**17,839**	17,839
Total non-current assets		**17,839**	17,839
Current assets			
Trade and other receivables	37	**129**	389
Amount owed by Group undertakings	37	**48,012**	16,020
Deferred tax	38	**94**	58
Total current assets		**48,235**	16,467
Total assets		**66,074**	34,306
Liabilities			
Current liabilities			
Trade and other payables	39	**(117)**	(74)
Amounts owed to Group undertakings	39	**(12,775)**	(3,075)
Total current liabilities		**(12,892)**	(3,149)
Non-current liabilities			
Borrowings	40	**(25,785)**	(25,720)
Total non-current liabilities		**(25,785)**	(25,720)
Total liabilities		**(38,677)**	(28,869)
Net assets		**27,397**	5,437
Issued capital and reserves attributable to owners of the Parent			
Share capital	23	**100**	100
Share premium account	23	**1,926**	1,926
Other reserves	24	**348**	380
Retained earnings		**25,023**	3,031
Total equity		**27,397**	5,437

The financial statements on pages 98 to 106 were approved and authorised for issue by the Board of Directors on 7 March 2017 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 2016

	Share capital (Note 23) £000	Share premium account (Note 23) £000	Retained earnings £000	Other reserves (Note 24) £000	Total equity £000
Balance at 1 January 2016	**100**	**1,926**	**3,031**	**380**	**5,437**
Comprehensive income for the year					
Profit for the year	**–**	**–**	**29,992**	**–**	**29,992**
Total comprehensive income for the year	**–**	**–**	**29,992**	**–**	**29, 992**
Contributions by and distributions to owners					
Share based payments	**–**	**–**	**–**	**239**	**239**
Release of share based payments	**–**	**–**	**–**	**(221)**	**(221)**
Deferred tax on share based payments				**(50)**	**(50)**
Dividends paid	**–**	**–**	**(8,000)**	**–**	**(8,000)**
Total contributions by and distributions to owners	**–**	**–**	**(8,000)**	**(32)**	**(8,032)**
Balance at 31 December 2016	**100**	**1,926**	**25,023**	**348**	**27,397**

	Share capital (Note 23) £000	Share premium reserve (Note 23) £000	Retained earnings £000	Other reserves (Note 24) £000	Total equity £000
Balance at 1 January 2015	52	99	(800)	–	(649)
Comprehensive income for the year					
Profit for the year	–	–	6,531	–	6,531
Total comprehensive income for the year	–	–	6,531	–	6,531
Contributions by and distributions to owners					
Preference shares redeemed in the year	(50)	–	–	–	(50)
Shares issued during the year	98	1,827	–	–	1,925
Share based payments	–	–	–	322	322
Deferred tax on share based payments	–	–	–	58	58
Dividends paid	–	–	(2,700)	–	(2,700)
Total contributions by and distributions to owners	48	1,827	(2,700)	380	(445)
Balance at 31 December 2015	100	1,926	3,031	380	5,437

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2016

34 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 UPVC 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, modified by the revaluation of land and buildings and derivative financial assets and liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 1985.

As explained in Note 41, the Directors have become aware of a misclassification of £17,749,000 between amounts owed by subsidiary undertakings and investments in subsidiary undertakings. This misclassification has been corrected by way of an adjustment to the prior year balances.

A separate statement of comprehensive income for the Company is not presented, in accordance with Section 408 of the Companies Act 2006. The profit for the year for the Company was £29,992,000 (2015: £6,531,000).

Changes in accounting policies and disclosures applicable to the Company
There were no standards or interpretations which took affect in the year and which materially effect the financial statements.

Investments in subsidiary undertakings
Investments in subsidiaries are stated at cost less provision for impairment.

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.

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 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, 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.

From time to time, the Group 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 Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

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 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.
- 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 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 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 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.

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 declared by the Directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

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:
(i) paragraph 79(a)(iv) of IAS 1;
(ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
(iii) 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).

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued
For the year ended 31 December 2016

34 ACCOUNTING POLICIES (COMPANY) continued
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 IAS 24, Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

35 FINANCIAL INSTRUMENTS – RISK MANAGEMENT
A summary of the financial instruments held by category is provided below:

Financial assets	2016 £000	2015 £000
Investments	17,839	17,839
Trade and other receivables	129	389
Amounts owed by Group undertakings	48,012	16,020
Total financial assets	**65,980**	34,248

Financial liabilities	2016 £000	2015 £000
Trade and other payables	117	74
Amounts owed to Group undertakings	12,775	3,075
Loans and borrowings	25,785	25,720
Total financial liabilities	**38,677**	28,869

There were no financial instruments classified at fair value through profit or loss.

36 INVESTMENTS

	Investments in subsidiary undertakings £000
Cost	
At 31 December 2016 and at 31 December 2015 as restated	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 2016	Holding 2015
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 of building plastic materials	100%	100%
S&S Plastics Limited	Manufacture of injection moulded products	100%	100%
Vista Panels Limited	Manufacture of doors	100%	n/a
Fairbrook Group Limited	Dormant	100%	100%
Northampton Profiles Limited	Dormant	100%	100%
Peninsula Plastics Limited	Dormant	100%	100%
Sheet Plastic UK Limited	Dormant	100%	100%
Fairbrook Limited	Dormant	100%	100%
Fairbrook Holdings Limited	Dormant	100%	100%
Reversible Systems Limited	Dormant	100%	100%
Brunel Building Plastics 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%

All of the above have a registered address of Fairbrook House, Clover Nook Road, Alfreton, Derbyshire, DE55 4RF.

37 TRADE AND OTHER RECEIVABLES

	2016 £000	Restated 2015 £000
Prepayments and other debtors	**129**	389
Receivables from Group undertakings	**48,012**	16,020
Total trade and other receivables	**48,141**	16,409

38 DEFERRED TAX

	2016 £000	2015 £000
At 1 January	**58**	–
Recognised in equity	**(50)**	58
Recognised in income statement	**86**	–
At 31 December	**94**	58

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 income statement and amounts recognised in other comprehensive income are as follows:

	Asset 2016 £000	Liability 2016 £000	Net 2016 £000	Statement of comprehensive income 2016 £000	Equity 2016 £000
Other temporary differences	**94**	**–**	**94**	**86**	**(50)**
Net tax assets	**94**	**–**	**94**	**86**	**(50)**
	2015 £000	2015 £000	2015 £000	2015 £000	2015 £000
Other temporary differences	58	–	58	–	58
Net tax assets	58	–	58	–	58

39 TRADE AND OTHER PAYABLES

	2016 £000	2015 £000
Trade and other payables	**117**	74
Payables to Group undertakings	**12,775**	3,075
Total current liabilities	**12,892**	3,149

Book values approximate to fair value at 31 December 2016 and 2015.

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 2016

40 LOANS AND BORROWINGS

The book value and fair value of loans and borrowings are as follows:

	Book Value 2016 £000	Fair Value 2016 £000	Book Value 2015 £000	Fair Value 2015 £000
Non-current				
Bank loans unsecured	**25,785**	**25,785**	25,720	25,720
	25,785	**25,785**	25,720	25,720
Current				
Bank overdraft	**–**	**–**	–	–
Bank loans secured	**–**	**–**	–	–
Total loans and borrowings	**25,785**	**25,785**	25,720	25,720

Borrowings

On 9 March 2015, as part of the listing process, the Company refinanced its borrowings. As a result of this, from 9 March 2015, the Company has a £45,000,000 committed multi-currency revolving unsecured credit facility with Barclays Bank plc and Santander UK plc which expires in 2020.

Borrowings of £26,000,000 were drawn down at 31 December 2016 (2015: £26,000,000) less unamortised issue costs of £215,000 (2015: £280,500).

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 stable during the next reporting period to 31 December 2017, and any changes, when applied to the Group's current bank borrowings of £25,785,000, would not be significant.

41 COMPANY STATEMENT OF FINANCIAL POSITION

The Directors have become aware that, in the December 2015 Company Statement of Financial Position of Eurocell plc, there was a misclassification of £17,749,000 between amounts due from subsidiary undertakings and investments in subsidiary undertakings. Correcting this misclassification has no impact on total assets, net assets or retained earnings of the Company and the Group. The correction has been made by way of an adjustment to the comparative information in the Company financial statements for the year ended 31 December 2016.

COMPANY INFORMATION PAGE
For the year ended 31 December 2016

Directors	Bob Lawson Frank Nelson Martyn Coffey Patrick Kalverboer Mark Kelly (appointed 29 March 2016) Michael Scott (appointed 1 September 2016) Patrick Bateman (resigned 30 June 2016) Matthew Edwards (resigned 30 June 2016)
Registered Number	08654028
Registered Office	Fairbrook House Clover Nook Road Alfreton Derbyshire DE55 4RF
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditor Cornwall Court 19 Cornwall Street Birmingham B3 2DT
Bankers	Barclays Bank plc 1 Churchill Place London E14 5HP Santander UK plc 2 Triton Square Regent's Place London NW1 3AN

NOTES

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