

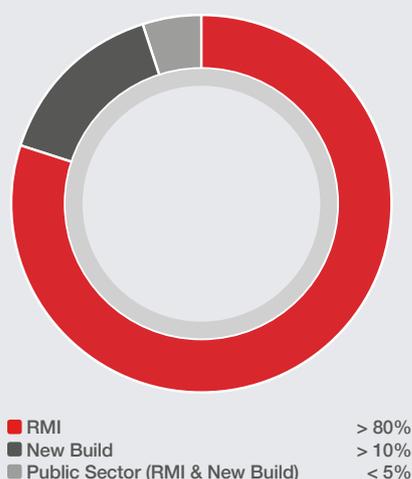
STRATEGIC REPORT

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.

Eurocell Revenue by Market (%)

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.



Markets For Eurocell Products

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

Roofline (Tonnes 000s)

2019	77.3
2018	75.3
2017	73.8
2016	72.4
2015	74.6

Window Profile (Tonnes 000s)

2019	247
2018	245
2017	243
2016	241
2015	229

Source: D&G Consulting September 2017

External Market Drivers

Driver	Description	Potential Impact on Eurocell
GDP	UK GDP has slowed and is currently forecast to grow by 1.5% in 2018 (2017: 1.8%).	▶
Consumer confidence	Negative sentiment, with a backdrop of rising inflation and economic uncertainty.	▶
Interest rates	First increase to UK interest rates in 10 years in November 2017, with further increases expected in 2018.	▼
Construction	Housing construction activity remains below pre-recession peak, but is forecast to rise by 3% in 2018 and 2% in 2019. Private housing starts are forecast to increase by 2% in 2018 and 2% in 2019.	▲ ▼
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.

Sources: CPA: Construction Industry Forecasts 2016-19 (published Autumn 2017)
Oxford Economic Data (via FactSet) (published in February 2018)

Key to potential impact on demand for Eurocell products:

- ▲ Positive
- ▶ Neutral
- ▼ Negative

Despite a subdued RMI market and the prevailing economic uncertainty, we are confident that our strategic initiatives (described in Our Strategy on pages 20 and 21), including increasing market share, continued expansion of the branch network and further expanding our use of recycled material, will deliver above our market level growth rates for Eurocell.

Eurocell Markets and Drivers

Private Home Improvement ('RMI')

The RMI market is subdued, reflecting (inter alia): political uncertainty, the unknown impact of Brexit, the potential for further increases in interest rates and the relatively weak growth in real wages.

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

Private New Build Housing

New build growth has been strong in recent years and the large house builders continue to report good performance.

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

Public New Build Housing

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

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

Social Housing Improvement

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