

MARKET OVERVIEW

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

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

EXTERNAL MARKET DRIVERS

GDP



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

Consumer confidence



Dropped recently due to increasing uncertainty over Brexit.

Interest rates



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

Construction



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



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

Housing market



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



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



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

¹ RMI is Repair, Maintenance and Improvement market.

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

Key to potential impact on demand for Eurocell products:

↑ Positive − Neutral ↓ Negative

EUROCELL MARKETS AND DRIVERS

Private Home Improvement ('RMI')

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

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

Public New Build Housing

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

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

Private New Build Housing

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

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

Social Housing Improvement

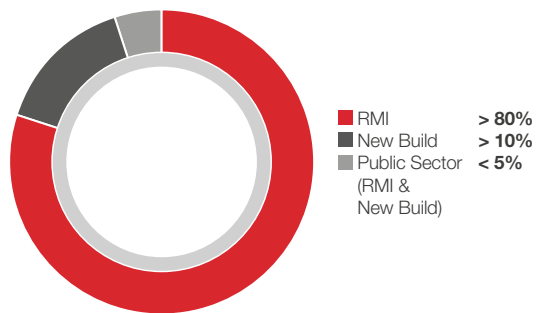
- **Decent Homes Programme and the Energy Company Obligation ('ECO') scheme both ended in 2017**
– under these schemes the support typically came in the form of heating packages, insulation and energy efficient windows.

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



Eurocell Revenue by Market (%)

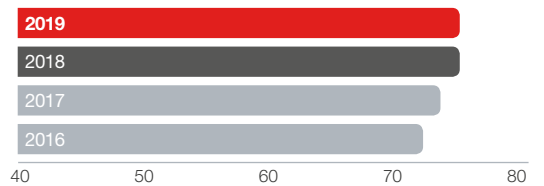
Whilst private home improvement and, increasingly, new build housing are the most important market segments for Eurocell, social housing improvement and public new build are also covered.



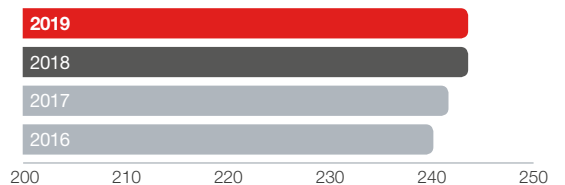
Markets for Eurocell Products

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

Roofline (Tonnes 000s)



Window Profile (Tonnes 000s)



Source: D&G Consulting