EUROCELL PLC

2018 Full Year Results

AGENDA

Business Review
Mark Kelly
Chief Executive Officer

Financial Review
Michael Scott
Chief Financial Officer

Summary and Outlook
Mark Kelly

Manufacturer

Distributor

Recycler

OVERVIEW

Mark Kelly – Chief Executive

Good progress with strategic priorities

Continuing to gain market share

Expanding branch network – now 202 sites

Increasing use of recycled material

Financial and operational highlights

Strong sales growth and significant mix changes

EBITDA down as anticipated – impact of production constraints

Action taken to increase capacity and strengthen operational teams

Revenue
£253.7m
▲ 13% (2017: £224.9m)

Adjusted EBITDA
£30.3m
▼ 4% (2017: £31.7m)

Total Dividends
9.3p per share
▲ 3% (2017: 9.0p per share)

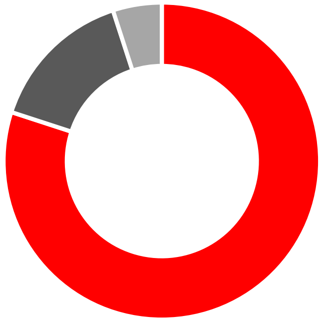
SALES OVERVIEW

Gaining Share in Flat RMI Market

- **CPA construction output forecasts – flat RMI market[2]**
- **Strong sales growth delivered across the whole business**
- **Improving trends vs 2017**

Sales Growth (%)	**FY 2017**	**H1 2018**	**H2 2018**	**FY 2018**
Group				
Organic	8%	10%	13%	12%
Like-for-like[1]	4%	5%	10%	8%
Profiles				
Organic / like-for-like[1]	6%	9%	15%	12%
Building Plastics				
Organic	9%	10%	12%	11%
Like-for-like[1]	3%	3%	6%	5%

Eurocell Revenue by Market (%)

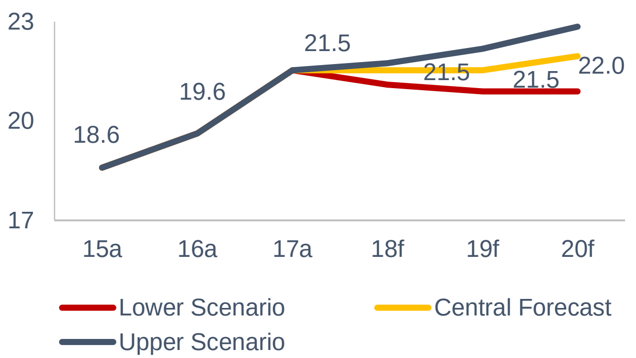


RMI > 80%

New Build > 10%

Public Sector (New Build and RMI) < 5%

Private Housing RMI Spend (£bn)[2]



(1) Like-for-like excludes acquisitions and branches opened in 2017 and 2018
(2) Source: CPA: Construction Industry Forecasts 2018-20 (published January 2019)

DIVISIONAL REVIEW

Profiles – Performance in 2018

- **Gaining share – 12% like-for-like growth**
  - Now largest supplier of rigid PVC profile to UK market
- **Growth in new build and trade fabricators, and Vista**
  - Specification and business development teams
- **Benefit of new account wins and competitor weakness**
  - 25 new accounts in 2017, followed by 17 in 2018
- **Sales growth and mix changes exceeded capacity plans**
  - Co-extruded (+20%) and foiled products (+30%)
  - Volumes above available capacity
- **Gross margin % and EBITDA down**
  - Impact of capacity constraint on manufacturing efficiency and customer service
    - Service levels now normalised – implementing price increases
- **Increased use of recycled PVC**
  - 9.5kt recycled material consumed in 2018 (2017: 8.3kt)

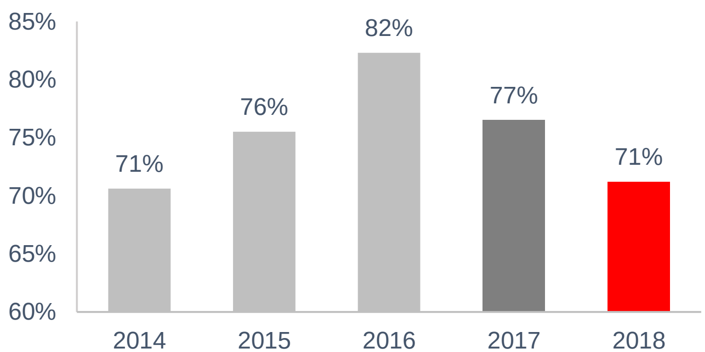
Profiles Division P&L

£m	2017	2018	Change
3rd Party Revenue	**94.2**	**107.7**	**▲14%**
Organic	94.2	105.5	▲12%
Ecoplas (1)	-	2.2	n/a
Inter-segmental Revenue (2)	45.4	51.8	▲14%
Total Revenue	**139.6**	**159.5**	**▲14%**
Adjusted EBITDA	**23.1**	**22.0**	**▼5%**

(1) Ecoplas acquired in August 2018

(2) Inter-segmental Revenue
- Full manufacturing margin recorded in Profiles
- Division therefore benefits from pull through demand generated by branch expansion

Overall Equipment Effectiveness (OEE)(3)



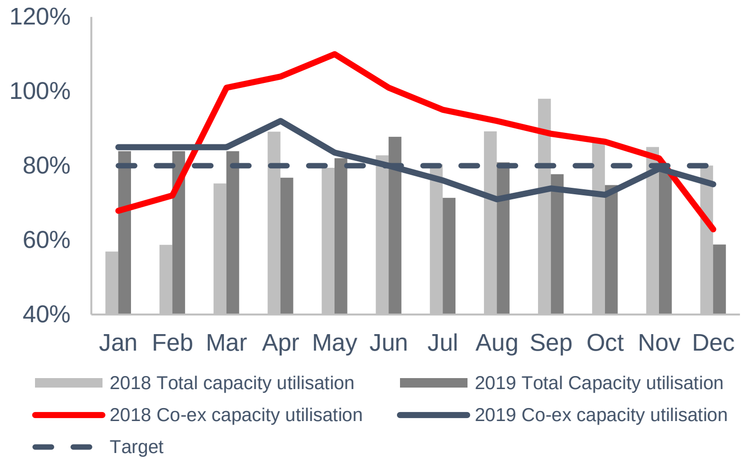
(3) OEE is a measure which takes into account machine availability, performance and yield

DIVISIONAL REVIEW

Profiles – Manufacturing Capacity

- **Strong growth and significant mix changes**
  - Shortage of co-extrusion capacity
  - Shortage of skilled labour in foiling plant
  - Depletion of safety stocks
  - High backlog of unfulfilled sales orders
- **Increased manufacturing costs and overheads**
- **Action taken to expand capacity**
  - 4 new co-extrusion lines operational in H2 2018 (+25%)
  - Additional trained labour in foiling plant recruited in Q4 2018
    - Q1 2019: 17 teams vs Q1 2018: 10 teams
  - Orders being placed for more capacity in 2019
    - Tooling for key products – delivery Q2
    - 5 additional co-extrusion lines (+30%)
    - 3 new foam lines (+15%) – operational in Q2 - Q3
- **Strengthened operational teams**

2018 (Actual) and 2019 (Plan) Capacity Utilisation Levels



2017 - 2019 Extrusion Capacity Development

Number of lines at 31 December	2017	2018[(1)]	2019 Planned[(2)]
Co-extrusion	12	17	22
Rigid PVC	15	12	12
Foam PVC	21	23	26
Total	**48**	**52**	**60**

(1) 2018: 4 new co-extrusion lines, plus conversion of 3 existing rigid PVC lines (1 to co-ex, 2 to foam)

(2) 2019: 5 new co-extrusion lines, 3 new foam lines

DIVISIONAL REVIEW

Building Plastics – Performance in 2018

- **Gaining share – 11% organic growth**
- **Like-for-like[1] sales up 5%**
  - Maturing of branches opened pre 2017
  - One-stop shop – traded goods up 9%
- **Continued investment in network expansion – now 202 branches**
  - 8 new sites opened in 2018 (2017: 31)
  - 2017/18 branches:
    - Added c.£9m to organic sales
    - Resulted in 2018 EBITDA drag of £1.5m (similar to 2017)
  - 4 branches added via acquisition of Kent Building Plastics
- **Gross margin % and EBITDA down**
  - Manufacturing conditions impacted on customer service
    - Cost inflation only partially mitigated with selling price increases
    - Service levels now normalised – implementing price increases

Building Plastics Division P&L

£m	2017	2018	Change
3rd Party Revenue	**130.7**	**146.0**	**▲12%**
Organic	128.2	142.6	**▲11%**
Acquisitions [2]	2.5	3.4	**▲32%**
Inter-segmental Revenue	1.1	1.3	**▲15%**
Total Revenue	**131.8**	**147.3**	**▲12%**
Adjusted EBITDA	**8.6**	**8.4**	**▼2%**

(1) Like-for-like excludes branches opened in 2017 and 2018
(2) Security Hardware acquired February 2017 and Kent Building Plastics acquired December 2018

Acquisition – Kent Building Plastics

Timing	Business and Transaction Summary
December 2018	✓ 4 branches in the South-west ✓ Annual sales c.£4m ✓ Consideration £2.8m
Expect financial returns in excess of organic alternative for region	

DIVISIONAL REVIEW

Building Plastics – Continued Investment

- **Strategic objective – world-class operations from up to 350 sites**
  - Two key pillars to strategy

1. **Improve existing branch profitability**
   - More rigid pricing architecture
   - Better stock availability
   - Trials of new front-of-house and product displays
   - Revised field sales and account management structures
   - More consistent offering through training
   - Improvement plan for lowest performing branches

2. **Grow market share profitably**
   - Data-driven decision making
     - Organic branch openings selected using location analysis tools
     - M&A identified by superior financial returns vs organic alternative

- **New management team driving operating standards**

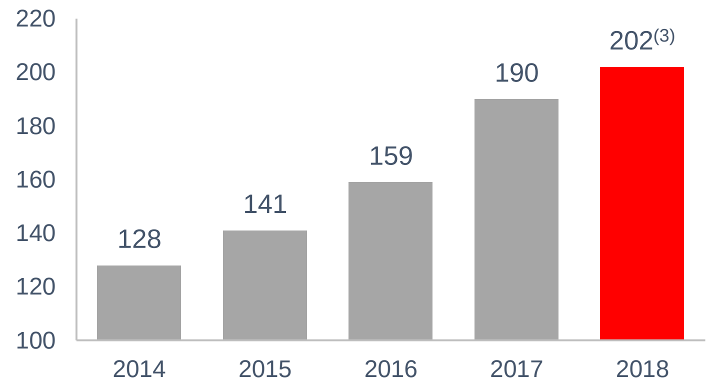
- **2019 focus to improve profitability**
  - 39 branches < 2 years old – good improvement in performance when new branches mature
  - Expect 2019 organic openings to be low

Indicative Branch Economics (Rounded)

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

(1) Excluding Kent Building Plastics
(2) EBITDA as % of sales, before regional infrastructure and central costs

Number of branches



(3) Incudes acquisition of 4 branches (Kent Building Plastics)

FINANCIAL HIGHLIGHTS

Michael Scott – Chief Financial Officer

Revenue
£253.7m
▲13% (2017: £224.9m)

Gross Margin
49.5%
▼ 1.5% (2017: 51.0%)

Adjusted(2) EBITDA
£30.3m
▼ 4% (2017: £31.7m)

Adjusted(2) Basic EPS
19.1p
▼ 6% (2017: 20.4p)

Total Dividends
9.3p per share
▲ 3% (2017: 9.0p per share)

Net Debt
£23.5m
▲ £9.0m (December 2017: £14.5m)

- **Strong sales growth – like-for-like(1)** ▲ 8%
- **Gross margin lower**
  - Impact of capacity constraint on manufacturing efficiency
  - Delay in recovering rising input costs via selling prices
- **Overheads**
  - Impact of acquisitions and investment in new branches
  - Like-for-like(1) opex increase ▲ 8% includes costs to clear order backlog

- **Adjusted(2) EBITDA down as anticipated**
  - Action taken to increase capacity
- **Final dividend of 6.2p per share** ▲ **3%**
- **Net debt £9.0m higher than December 2017**
  - After acquisitions and capex of £17.0m
  - Net cash generated from operating activities £17.7m (2017: £23.7m) includes investment in working capital

(1) Like-for-like sales and operating costs exclude acquisitions and branches opened in 2017 and 2018
(2) Non-underlying expenses (pre tax) of £0.4m (2017: £0.8m)

FINANCIAL PERFORMANCE

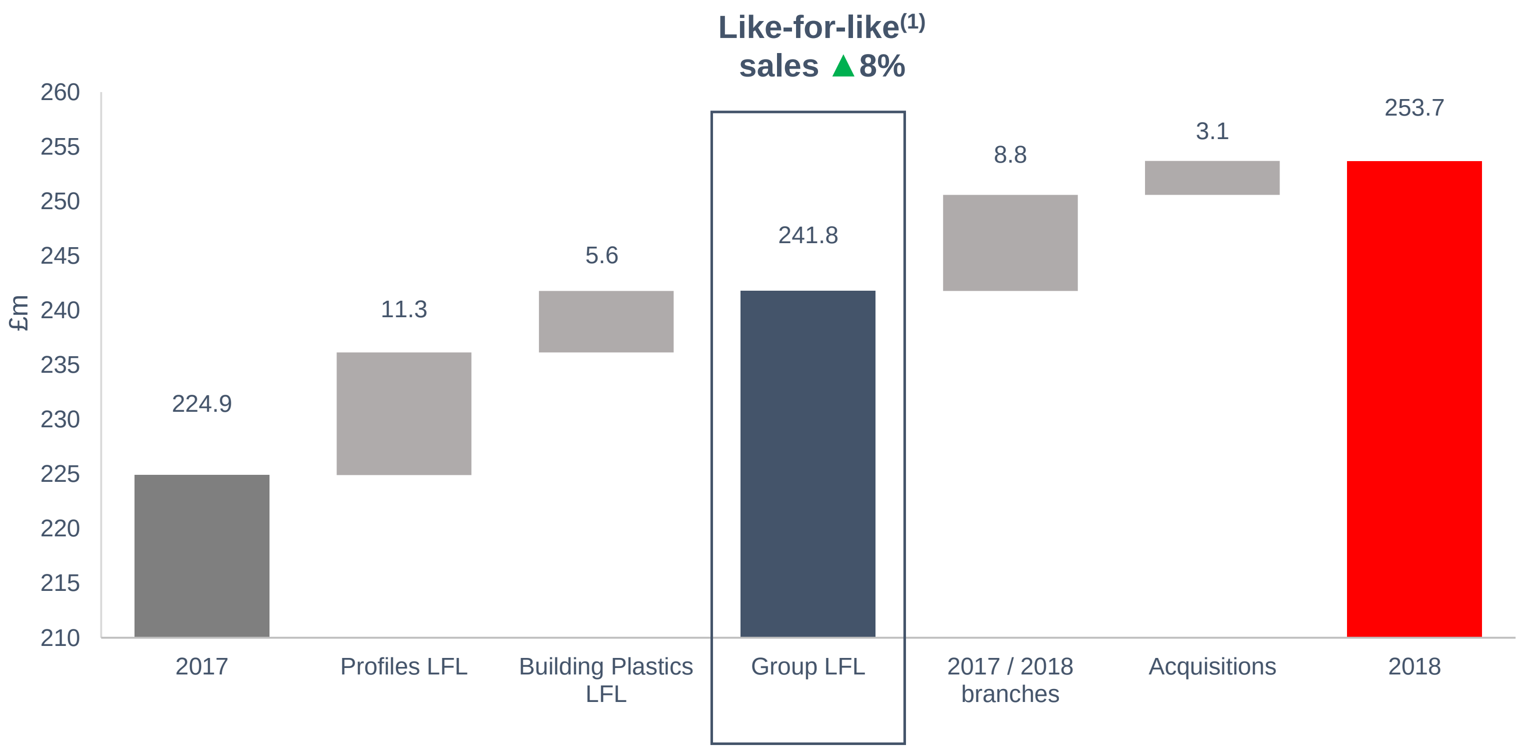
Group Income Statement

£m	2017	2018	Change
Revenue	**224.9**	**253.7**	▲ 13%
Gross Profit	114.6	125.6	
Gross Margin %	*51.0%*	*49.5%*	
Overheads	(82.9)	(95.3)	
Adjusted EBITDA[(1)]	**31.7**	**30.3**	▼ 4%
Depreciation and Amortisation	(6.7)	(7.1)	
Finance Costs	(0.6)	(0.7)	
Adjusted Profit Before Tax[(2)]	**24.5**	**22.5**	
Tax on Adjusted Profit	(4.1)	(3.3)	
Adjusted Profit After Tax	**20.4**	**19.2**	
Adjusted Basic EPS (pence)[(3)]	**20.4**	**19.1**	▼ 6%
Dividends per Share (pence)	**9.0**	**9.3**	▲ 3%
Reported Basic EPS (pence)[(4)]	19.6	19.6	-%

(1) Adjusted EBITDA represents profit before interest, tax, depreciation, amortisation and non-underlying expenses
(2) Adjusted PBT represents profit before tax and non-underlying expenses
(3) Adjusted EPS excludes non-underlying expenses and the related tax effect, and other non-underlying tax items
(4) Reported EPS includes non-underlying expenses and the related tax effect, and other non-underlying tax items

SALES PERFORMANCE

Strong Sales Growth

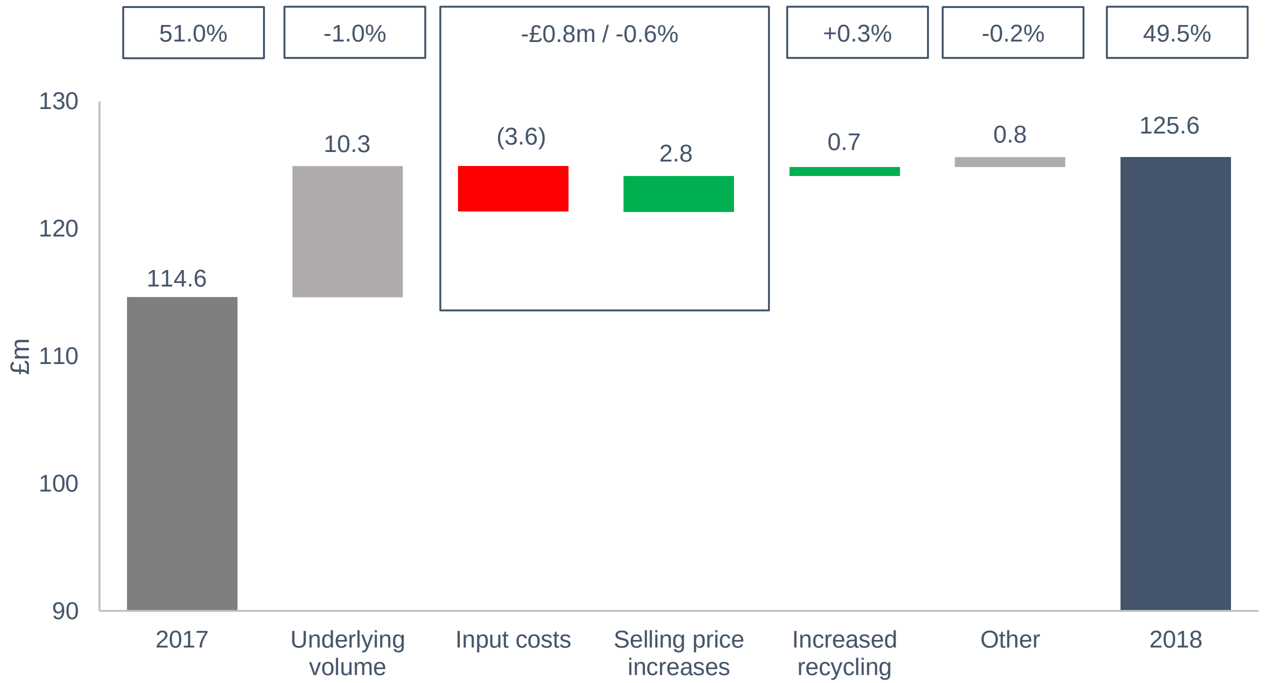


- Sales ▲ 13% (or 12% excluding acquisitions)
  - Group like-for-like[1] sales ▲ 8%
  - Profiles like-for-like[1] ▲ 12%
  - Building Plastics like-for-like[1] ▲ 5%
- Building Plastics: ▲ 7% from 39 new branches opened in 2017/18
- Acquisitions of Security Hardware (Feb 2017), Ecoplas (Aug 2018) and Kent Building Plastics (Dec 2018)

(1) Like-for-like sales exclude acquisitions and branches opened in 2017 and 2018

GROSS MARGIN

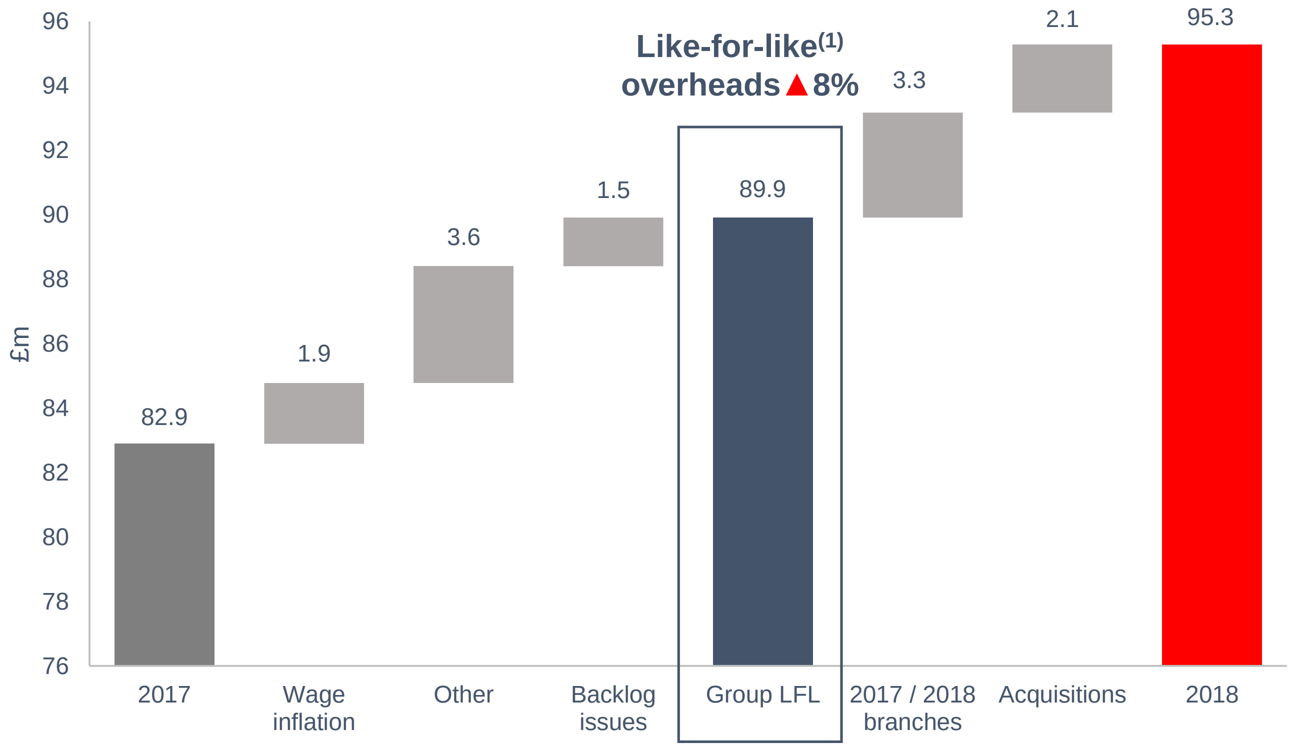
Increased Manufacturing Costs



- Underlying volume (-100 bps)
  - Impact of capacity constraint on manufacturing efficiency
    - Running at high levels of utilisation – lower OEE
    - Making products with 100% virgin resin
    - Outages and tool changes
- Increased recycling (+30 bps)
  - Benefit of additional 1.2kt recycled usage
- Raw material cost inflation and selling prices (-60 bps)
  - Resin ▲ £0.8m
  - Other raw materials, electricity and traded goods ▲ £2.8m
  - Q4 2017 and 2018 selling price increases ▲ £2.8m
- Other (-20 bps) includes product and customer mix

OVERHEADS

Investment in Business Expansion



- Like-for-like[1] cost increase ▲ 8%
  - Minimum wage, auto-enrolment and pay award
  - Other – mainly volume related labour and distribution costs
  - Costs to clear order backlog – overtime, weekend working, warehouse and distribution costs
  - Like-for-like[1] sales ▲ 8%
- Impact of 39 new branches opened in 2017/18
  - EBITDA drag of c.£1.5m (similar to 2017)

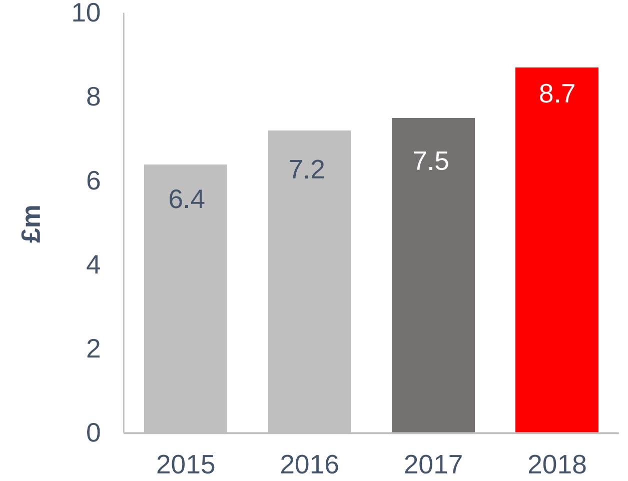
(1) Like-for-like overheads exclude acquisitions and branches opened in 2017 and 2018

CAPEX

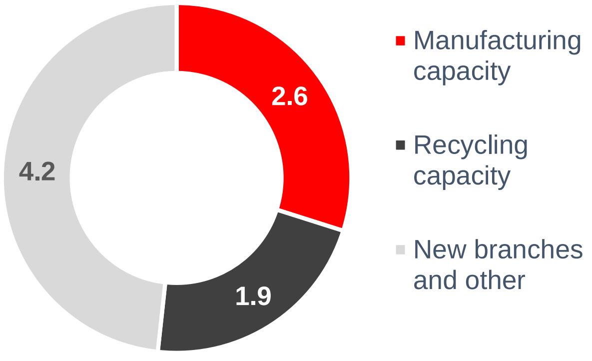
Investment in Manufacturing Capacity

- **2018 capex £8.7m (2017: £7.5m)**
  - Increase manufacturing capacity £2.6m
    - Expand production capacity and improve manufacturing efficiency
    - Includes 4 new co-extrusion lines
  - Increase recycling capacity £1.9m
    - Primarily Ilkeston plant and tooling
    - Delivered incremental 1.2kt of recycled material consumption
  - New branches and other £4.2m
    - Maintenance capex, new branches, branch refurbishments, new product showroom and IT
- **2019 capex guidance c.£15m**
  - Increase manufacturing capacity £5m
    - Includes 8 new extrusion lines
  - Increase recycling capacity £4m
    - Ilkeston and Ecoplas plants, and tooling
    - Target incremental c.3kt of recycled material consumption
  - New branches and other £6m
    - Maintenance capex, new branches, branch refurbishments and IT

Total Capital Expenditure



2018 Capital Expenditure Allocation (£m)



WORKING CAPITAL

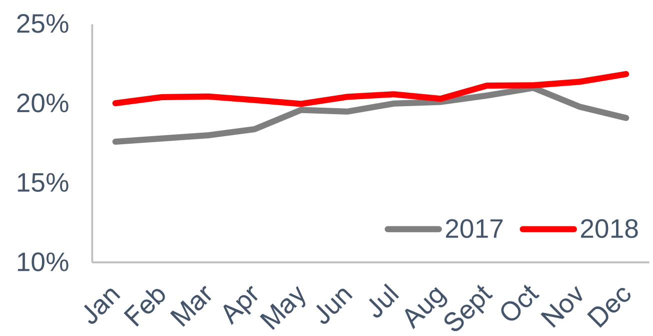
Investment in Working Capital

- **Net outflow from working capital £8.3m**
  - Includes Ecoplas supply chain support c.£1m
  - 2017 outflow £2.3m
- **Stock days at 62 vs 55 at December 2017**
  - Stocks ▲ £6.8m
    - Raw materials – not run down at Dec 2018 year end (£2m)
    - New branches and acquisitions (£1m)
    - Traded goods – growth and range extension (£1m)
    - Manufactured finished goods - growth and pre Brexit stock build (£3m)
- **Debtor days at 38 vs 37 at December 2017**
  - Receivables ▲ £7.0m
  - December 2017 / January 2018 timing difference c.£2m
  - Growth, including increased sales to larger / new build fabricators
- **Creditors ▲ £5.5m**
  - Stock increase
  - Growth

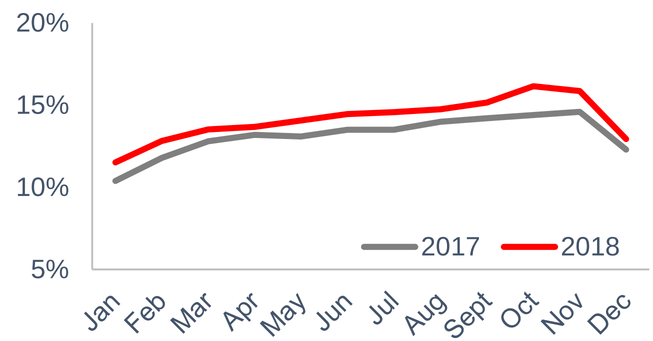
Key Working Capital Metrics[1]

	Stock Days	Debtor Days
December 2018	62	38
December 2017	55	37

Inventory as a % of LTM Cost of Sales[1]



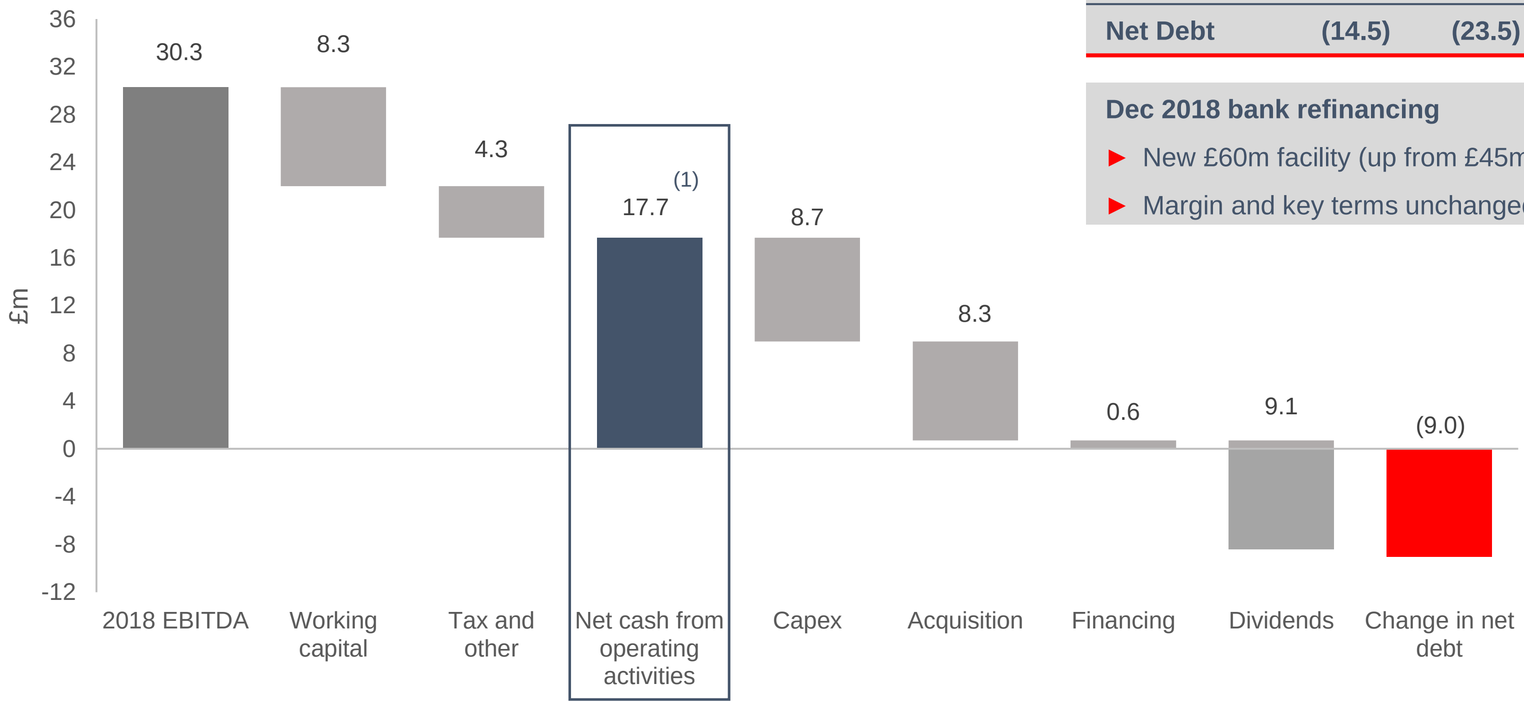
Trade Receivables as a % of LTM Sales[1]



(1) Excludes all acquisitions

CASH FLOW

Cash Flow Generation



Reconciliation of Net Debt

£m	Dec 2017	Dec 2018	Change
Cash	11.4	5.9	(5.5)
Borrowing	(25.9)	(29.4)	(3.5)
Net Debt	**(14.5)**	**(23.5)**	**(9.0)**

Dec 2018 bank refinancing

- New £60m facility (up from £45m)
- Margin and key terms unchanged

- Outflow from working capital £8.3m
  - ▲ Stocks £6.8m
  - ▲ Receivables £7.0m
  - ▲ Payables / provisions £5.5m
- Tax paid £4.0m
- Dividends
  - Final 2017 £6.0m (6.0p per share)
  - Interim 2018 £3.1m (3.1p per share)
- Acquisitions of Ecoplas £5.1m and Kent Building Plastics £2.8m (including net debt acquired £0.4m)

(1) Cash generated from operations of £21.7m less tax paid

2019 FINANCIAL GUIDANCE

Including IFRS 16 – Leases

- **IFRS 16 applied from January 2019**
  - Requires operating leases to be capitalised on balance sheet
  - Asset and liability initially recognised at present value of future lease payments
  - Lease rentals replaced by depreciation and interest costs on leased assets
- **Cash flows: no change**
- **P&L: c.£1m reduction in PBT for 2019**
  - Front loading of interest – charged on outstanding lease liability
  - Reverses over remaining life of leases
- **Balance sheet: fixed assets / lease liability c.£35m**

Estimated Impact of IFRS 16

£m	2019 IFRS 16 Adjustment
Income statement	
Reduction in overheads	£9m
Increase in depreciation	(£9m)
Increase in finance costs	(£1m)
Reduction in PBT	**(£1m)**
Balance sheet	
Increase in fixed assets / lease liability	£35m

Other 2019 Financial Guidance

£m	2019
Income statement	
Depreciation & amortisation	£8.3m - £8.5m
Finance costs (pre IFRS 16)	£0.8m - £1.0m
Effective tax rate	17.5%
Balance sheet	
Working capital outflow	£5m
Capex	£15m

STRATEGIC PRIORITIES

Mark Kelly – Chief Executive

Clear strategy to create long term value → 2019 focus on self-help initiatives to support delivery of near-term profit targets

STRATEGIC PRIORITIES	PROGRESS IN 2018	FOCUS IN 2019
INCREASE USE OF RECYCLED MATERIALS	✓ Increased use to 9.5kt (2017: 8.3kt) via investment in Ilkeston site ✓ Acquisition of Ecoplas	▪ Investment in Ilkeston, Ecoplas and tooling (total c.£4m) to increase usage by further c.3kt
TARGET GROWTH IN MARKET SHARE	✓ Profiles organic increase of 12% in 2018 ✓ Growth from existing trade and new build fabricators and new account wins ✓ Now largest supplier of rigid profile to UK market	▪ 2018 volumes above production capacity – execute capacity expansion investment in 2019
EXPAND BRANCH NETWORK	✓ 8 branches opened and 4 added through M&A ✓ Now 202 branches, with 61 new sites 2016-2018 ✓ New management team introduced in H2 2018	▪ Initiatives to improve profitability of existing estate ▪ Medium-term target remains up to 350 sites, but fewer openings expected in 2019
DEVELOP INNOVATIVE NEW PRODUCTS	✓ Coastline – weatherproof composite cladding ✓ Skypod – range extension	▪ Eurologik – flush sash launch ▪ Further development of complementary products
EXPLORE POTENTIAL BOLT-ON ACQUISITIONS	✓ Acquisitions of Ecoplas (Aug 2018) and Kent Building Plastics (Dec 2018) ✓ Several bolt-on opportunities reviewed	▪ Integration of 2018 acquisitions ▪ Continue to develop acquisition pipeline and consider opportunities that arise

STRATEGIC PRIORITIES

Investing in Sustainability

- **Strategy to increase use of recycled material**
  - Widening gap in price of recycled vs virgin compound
  - Enhances product and business sustainability
- **Investment in Ilkeston site 2016-18 of c.£3m**
  - Recyclate usage from 4.1kt (9%) in 2015 to 9.5kt (17%) in 2018
- **Projections indicated demand for recycled material > in-house capacity in 1-2 years**
  - Also keen to establish larger presence, with increased competition for waste material
- **Acquisition of Ecoplas**
  - Consolidates position as leading UK recycler of PVC windows
- **Further investment in both sites planned for 2019**
  - c.£4m to expand capacity and improve operating environment
- **Use of recycled material expected to increase by c.3kt in 2019**
  - 2kt Ecoplas, 1kt Ilkeston

Acquisition – Ecoplas

Timing	Business and Transaction Summary
August 2018	✓ Recycler of PVC windows ✓ Current output of c.7kt recycled compound, sold into broad mix of trade extruders ✓ Initial consideration of c.£5m, plus debt assumed c.£1m and working capital injection c.£1m ✓ Capex of c.£3m required 2018-2020 to improve operating environment and expand capacity

Return materially > cost of capital

Expect to be earnings accretive in first full year

SUMMARY

And Outlook

Good progress with strategic priorities

Continuing to gain market share

Expanding branch network – now 202 sites

Increasing use of recycled material

Financial and operational highlights

Strong sales growth and significant mix changes

EBITDA down as anticipated – impact of production constraints

Action taken to increase capacity and strengthen operational teams

Good start to 2019

Sales and margins in line with expectations

Appendices

All together better

PRODUCT RANGE

Ranges of window and door profile

Skypod pitched skylights

Aspect bi-folding doors

Conservatories and Equinox tiled roofs

Fascias, soffits and guttering

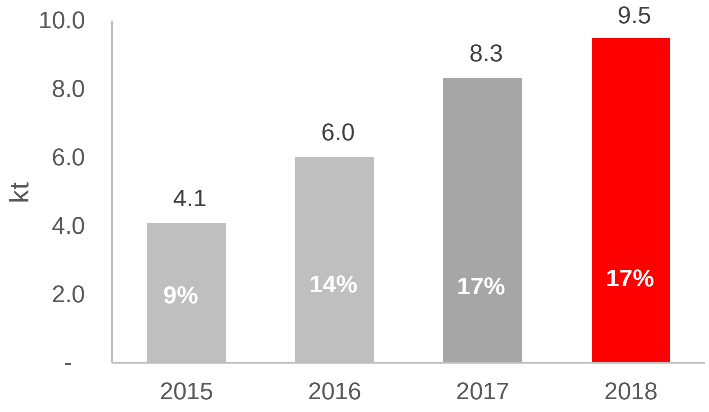
Traded goods

Products sold through two major trading divisions: Profiles and Building Plastics (branches)

PROFILES DIVISION

- **Manufactures:**
  - Extruded rigid and foam PVC profiles using virgin PVC compound
  - Rigid products also include recycled compound
  - Full manufacturing margin recorded in Profiles – benefits from branch expansion
- **Recycles:**
  - Factory offcuts (post-industrial) and old windows (post-consumer) waste
- **Sells:**
  - Rigid PVC profiles to a network of > 370 third party fabricators
    - Principally trade fabricators, but with new build becoming increasingly important
    - 270 produce windows, trims cavity closer systems for customers
    - 100 make patio doors and conservatories
- **Acquisitions since IPO**
  - S&S Plastics (injection moulding, acquired in 2015)
  - Vista Panels (composite and panel doors, acquired in 2016)
  - Ecoplas (PVC window recycler acquired in August 2018)

Use of Recycled PVC in Manufacturing (%)



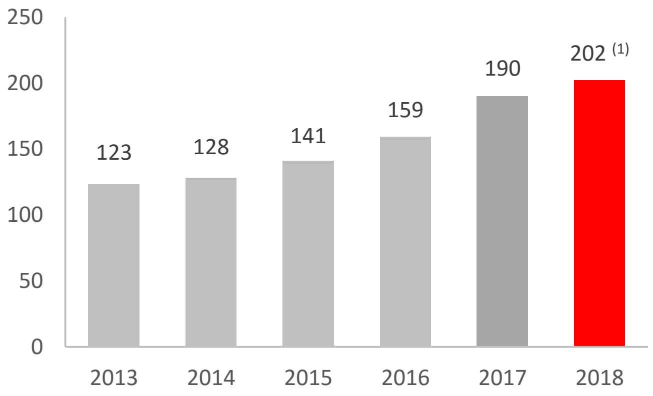
- > 1.5m old windows recycled in 2018
- Produced > 9k tonnes of compound for use alongside virgin resin in primary extrusion

BUILDING PLASTICS DIVISION

- **Sells:**
  - Range of Eurocell manufactured and branded PVC foam roofline and window fitting / maintenance products
  - Third party manufactured ancillary products: sealants, tools and rainwater products
  - Vista doors
  - Windows fabricated by third parties using products manufactured by the Profiles Division
- **Distribution**
  - Through our nationwide network of 202 branches
- **Main customers**
  - Roofline and window installers
  - Small and independent builders, house builders
  - Nationwide maintenance companies
- **Acquisitions since IPO**
  - Security Hardware (hardware supplier to RMI market, acquired in 2017)
  - Kent Building Plastics (building plastics distributor, acquired in December 2018)

Typical Branch Format

Number of Branches



(1) Includes the acquisition of Kent Building Plastics (4 branches)

LOCATIONS

Centrally located
HQ, Manufacturing, Warehousing, Injection Moulding and Recycling

Extrusion centre
140,000 sq ft
52 extruders

Secondary operations (foiling)
120,000 sq ft
10 foiling machines

Recycling operations (Eurocell Recycle and Ecoplas)
280,000 sq ft

Warehousing & Conservatory Roofs
260,000 sq ft

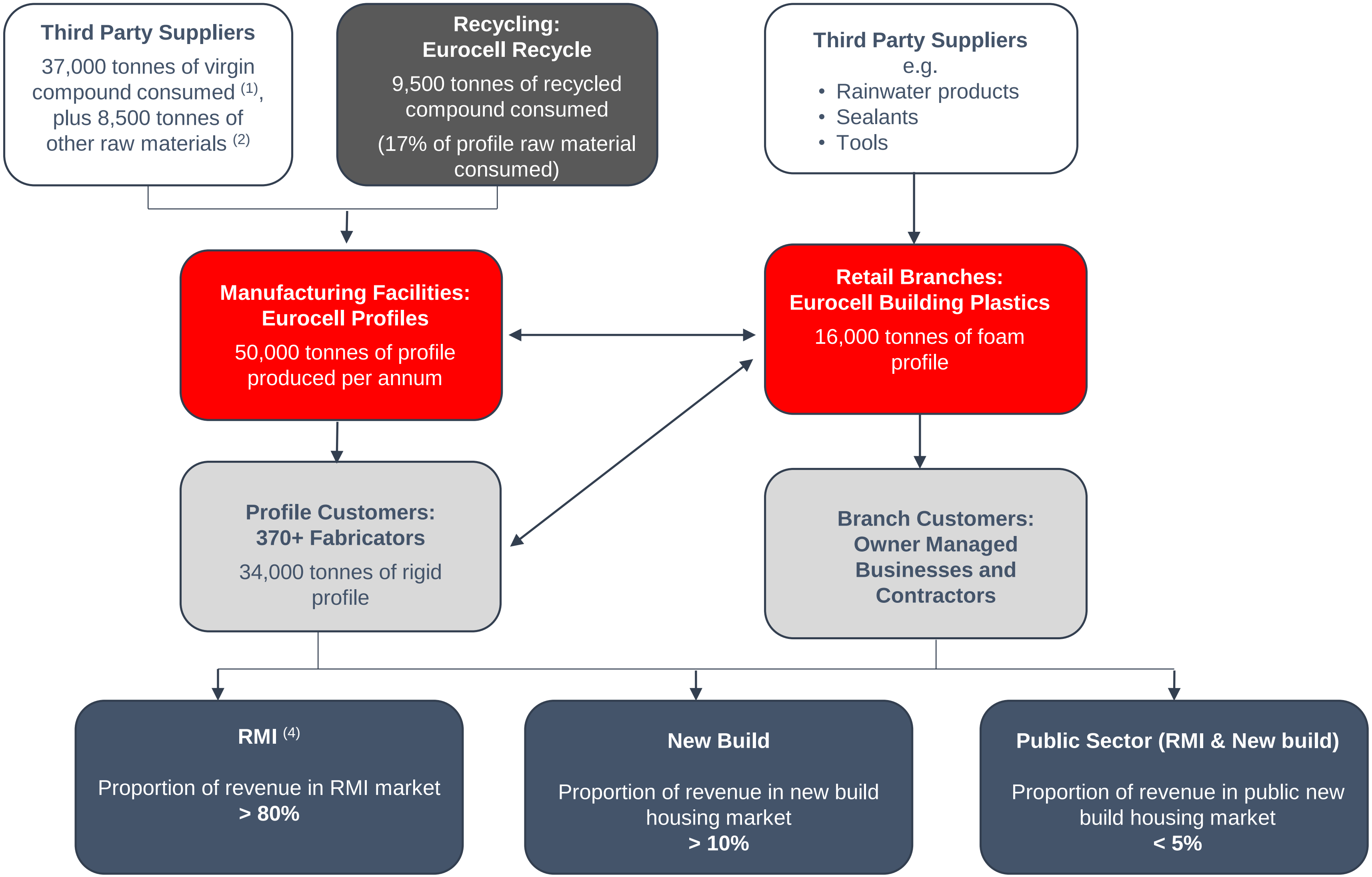
Injection Moulding
21,000 sq ft
22 Machines

Composite Door Manufacture
50,000 sq ft
The Wirral

Security Hardware

Locks and hardware supplier
15,000 sq ft
West Midlands

ROUTE TO MARKET



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

RECYCLING AT EUROCELL RECYCLE (ILKESTON)

Post-consumer

16,500 tonnes collected and recycled by Eurocell Recycle

Post-industrial

7,200 tonnes collected and recycled by Eurocell Recycle

Recycled compound stock

9,500 tonnes recycled compound used in production of rigid profile

5,600 tonnes recycled compound used to manufacture products made from 100% recycled material

Significant saving vs virgin compound

E.g. Cavity closers

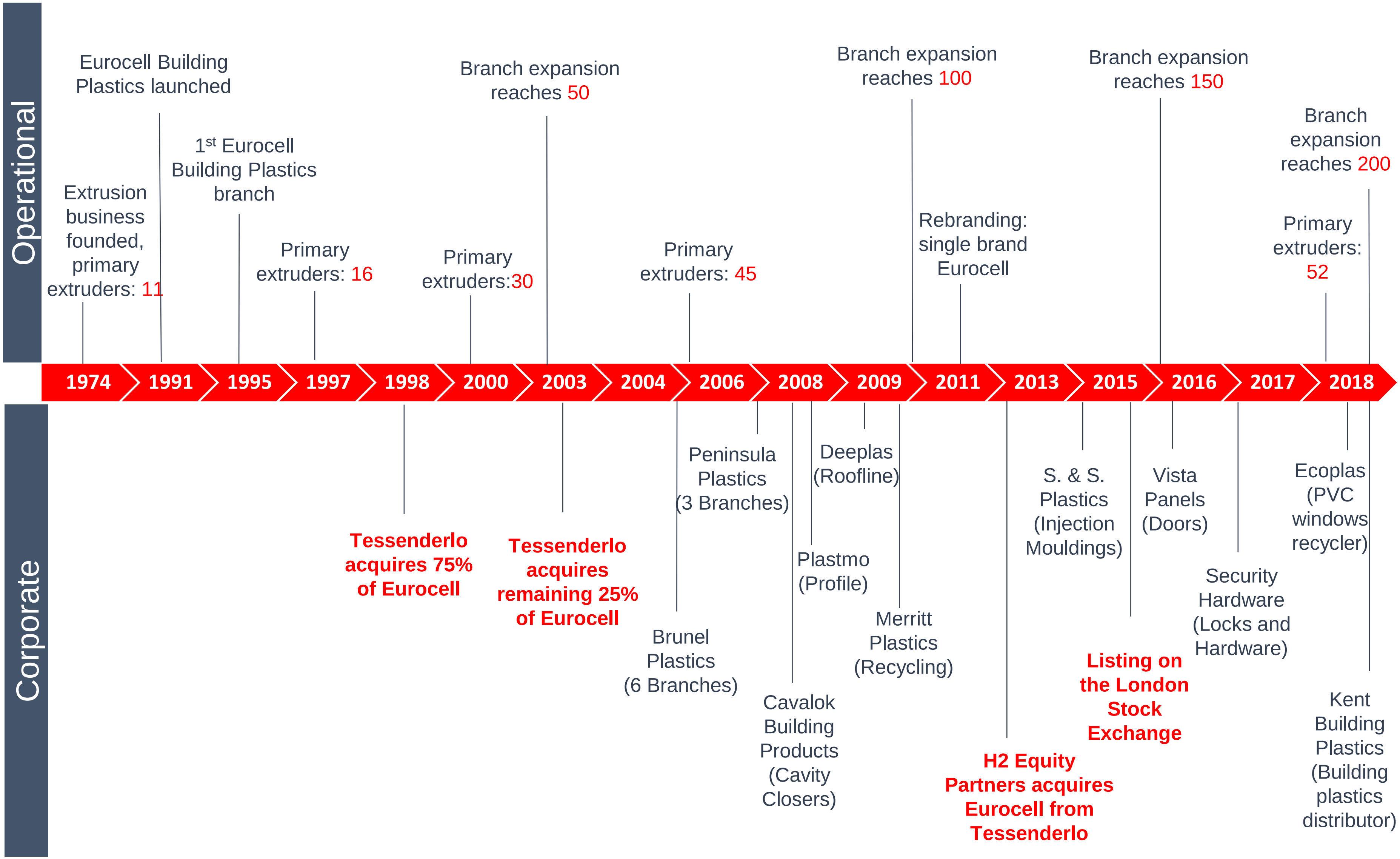
E.g. Thermal inserts

E.g. Fencing panels and posts

- Investment of c.£3 million 2016 - 2018
- Increased recycled material usage in primary extrusion from 4.1k tonnes in 2015 to 9.5k tonnes in 2018

(1) Tonnages shown are approximate based on 2018 volumes

CORPORATE AND OPERATIONAL HISTORY



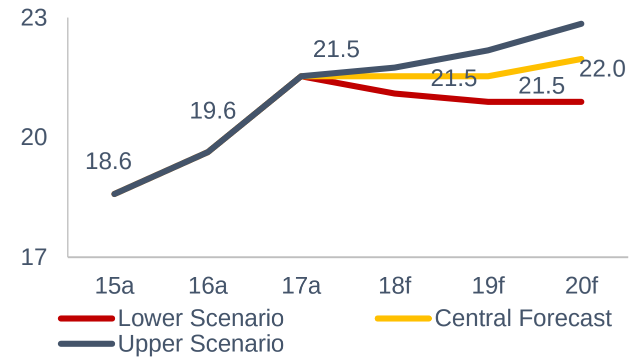
MARKET BACKDROP – MIXED INDICATORS

Driver	Description
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 RMI[(1)] market was flat in 2018 and is forecast to be flat in 2019 and rise by 2% in 2020

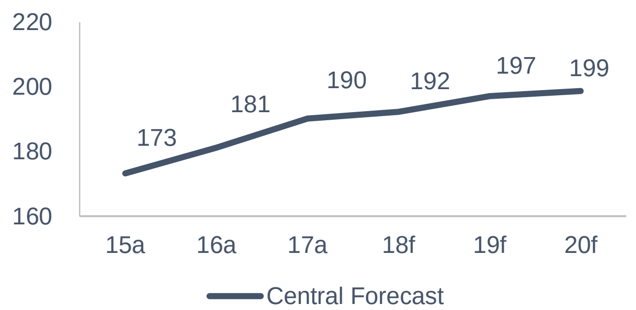
(1) RMI is Repair, Maintenance and Improvement

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).

Private Housing RMI Spend (£bn)



Total Number of Housing Starts (thousands)



Source: CPA: Construction Industry Forecasts 2018-20 (published January 2019)

IFRS16 – LEASES (APPLICABLE FROM JANUARY 2019)

- **No economic impact on the Group**
  - No effect on cash flows
- **Impact on presentation of assets, liabilities and P&L**
  - Aligns presentation of leased assets more closely with owned assets
  - Right-of-use asset and lease liability for operating leases on balance sheet
    - Assets initially recognised at present value of future lease payments
    - Value differs through life of the lease
- **Operating lease rentals replaced by depreciation and interest on leased assets**
  - Reduction in overheads
  - Increase in depreciation – charged on a straight line basis
  - Increase in finance costs – charged on outstanding lease liability; higher in earlier years and decreasing over time
  - Net impact dependent on average maturity of lease portfolio
- **P&L: c.£1m reduction in 2019 PBT**
  - Depreciation and interest higher than the rent they replace
  - Represents relative immaturity of portfolio, with leases being around 1/3 expired on average
  - Reverses over remaining life of leases
- **Balance sheet: c.£35m fixed assets / lease liability**

Estimated Impact of IFRS 16

£m	2019 IFRS 16 Adjustment
Income statement	
Reduction in overheads	£9m
Increase in depreciation	(£9m)
Increase in finance costs	(£1m)
Reduction in PBT	**(£1m)**
Balance sheet	
Increase in fixed assets / lease liability	£35m

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