Buy
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Melrose

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Melrose Industries PLC

Full Year Results

Year ended 31 December 2018

7 March 2019

Contents

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Highlights

Highlights

- The results for 2018 are ahead of the Board's previous expectations
- This outperformance has been achieved before including a £63 million positive impact from the required IFRS accounting treatment for loss-making contracts. Resolution of these loss-making positions offers significant potential for further performance improvement
- Adjusted[1] diluted earnings per share were up 36% on last year, with a proposed final dividend of 3.05 pence per share which is 9% up on last year, giving a full year dividend of 4.6 pence per share, up 10%
- Total free cash flow from trading was £196 million. This was after all costs including restructuring, special pension contributions and tax
- The net debt to EBITDA[1] leverage ratio has reduced to 2.3x, ahead of the previous guidance of 2.5x
- North America Aerostructures is approaching operational break-even, on a run rate basis, and relationships with key aerospace customers have been much improved
- In Automotive, present indications are consistent with a slowdown, but this is not currently expected to cause a major impact on 2019 profitability. Improvement actions are underway to ensure the successful long-term development of the business
- Nortek Group adjusted[1] operating margins have increased from 8.7% at acquisition to 14.7% in 2018 with the potential for further improvement
- The GKN UK defined benefit pension accounting deficit has reduced from £691 million to £588 million since December 2017, and an independent Chairman of the trustees has been appointed
- An investor event for Aerospace and Automotive will be held on 3 April 2019 in London

Justin Dowley, Chairman of Melrose Industries PLC, today said:

"This has been a transformational year for Melrose and we are delighted to announce, on an annualised adjusted basis, an operating profit of over one billion pounds. The former GKN businesses are proving their potential to offer the outstanding opportunities we expected and much has already been achieved in the short period of ownership. Despite the current economically uncertain environment, we have every confidence that we will be able to continue to unlock the substantial shareholder value from the former GKN businesses and further improve Nortek."

1. Described in the glossary to the 2018 Preliminary Announcement, released on 7 March 2019

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The results

Income Statement

The results

£m	Statutory results	Adjusted[1] results
Revenue	8,605	9,102
Operating (loss)/profit	(392)	847
(Loss)/profit before tax	(550)	703
Diluted earnings per share	(12.0)p	13.3p

- The statutory and adjusted[1] results include GKN for the eight months since acquisition on 19 April 2018
- The 2018 adjusted[1] operating profit was £847 million; excluding the positive impact from the required IFRS accounting for loss-making contracts in GKN it would have been £784 million
- The statutory loss before tax of £550 million arose primarily due to significant acquisition related items, most of which arise from GKN

1. Described in the glossary to the 2018 Preliminary Announcement, released on 7 March 2019

Reconciliation between statutory, adjusted and annualised adjusted results

	£m
Statutory operating loss (including 8 months of GKN)	**(392)**
Amortisation of intangible assets acquired in business combinations	401
Restructuring costs	240
Acquisition and disposal costs including associated transaction taxes	153
Impairment of assets	152
Exchange movements not currently hedge accounted	143
Reversal of IFRS 3 mandatory uplift of inventory to closer to selling price	121
Other	29
Adjusted operating profit (including 8 months of GKN)	**847**
Operating profit of GKN (1 January 2018 to 18 April 2018)	248
Annualised adjusted operating profit (including 12 months of GKN)	**1,095**

Statutory results - audited

- The IFRS measure of results

Adjusted results - audited

- The Melrose Board considers the adjusted results to be an important measure to monitor how the businesses are performing because they achieve consistency and comparability when all businesses are held for the complete reporting periods

Annualised adjusted results - unaudited

- The annualised adjusted results give a meaningful measure of yearly performance to guide ongoing results when adjusted results include businesses owned only for part of a period

Restructuring costs £m	Income Statement charge	Cash costs
Aerospace	56	53
Automotive	46	46
Powder Metallurgy	11	11
Nortek Air & Security	22	22
Other Industrial	73	62
Corporate	32	32
Total	**240**	**226**

Cash generation in the year

Free cash flow

Cash flow £m	Group 2018
Adjusted operating cash flow (pre capex)[1]	921
Net capital expenditure	(359)
Net interest and tax paid	(172)
Defined benefit pension contributions	(102)
Restructuring	(122)
Dividend income from equity accounted investments	66
Trading net other	(36)
Free cash flow (after all costs)	**196**

- Net debt of £3,482 million is in line with expectations at closing exchange rates of US $1.27 and €1.11, including an exchange hit of £140 million in the year
- Net leverage of 2.3x EBITDA[1] is better than the 2.5x which was previously guided due to the higher profitability
- Net leverage is likely, for seasonal reasons, to rise at the half year before reducing again
- Free cash generation from trading after all costs (which includes restructuring, special pension contributions and tax) was £196 million, including only eight months of GKN
- Cash generation and capital allocation is a key focus for continued improvement in GKN

Reconciliation of opening debt to closing debt

Reconciliation of net debt £m	Group 2018
Net debt brought forward	(572)
Net debt acquired with GKN	(1,159)
Acquisition of GKN (81p per share)	(1,398)
Acquisition costs and related transaction taxes	(177)
Payment of GKN 2017 final dividend	(107)
Acquisition of IntelliVision	(26)
Free cash inflow in the period	196
Dividend paid to shareholders	(129)
Foreign exchange and other	(110)
Net debt[1] at 31 December 2018	**(3,482)**

Net capital expenditure £m	Net capital expenditure	Capex: depreciation ratio
Aerospace	91	1.0x
Automotive	163	1.4x
Powder Metallurgy	52	1.4x
Nortek Air & Security	34	1.4x
Other Industrial	18	1.1x
Corporate	1	-
Total	**359**	**1.3x**

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Annualised adjusted results

Income Statement

The unaudited annualised adjusted[1] results – including 12 months of GKN

£m	Annualised adjusted[1] results including 12 months of GKN
Revenue	12,247
Operating profit	1,095
Profit before tax	886
Diluted earnings per share	13.8p

- The annualised adjusted[1] results include a full 12 months of GKN assuming it was acquired on 1 January 2018, and give a meaningful measure of annualised performance to guide ongoing results
- The annualised adjusted[1] operating profit was £1,095 million; excluding the positive impact from the required IFRS accounting for loss-making contracts in GKN it would have been £1,002 million
- The annualised adjusted[1] diluted earnings per share were 13.8 pence, up 41% on Melrose adjusted[1] diluted earnings per share last year

1. Described in the glossary to the 2018 Preliminary Announcement, released on 7 March 2019

2018 annualised adjusted Income Statement

£m	Annualised adjusted[1] Income Statement: Pre-positive impact of loss-making contracts	Positive impact of loss-making contracts	Annualised results
Revenue	12,247	-	12,247
Operating profit	1,002	93	1,095
Finance costs	(195)	(14)	(209)
Profit before tax	807	79	886
Diluted EPS	12.5p	1.3p	13.8p

- Annualised adjusted[1] diluted EPS were 13.8 pence; excluding the positive impact from the required IFRS accounting for loss-making contracts in GKN it would have been 12.5 pence
- The disposals of Walterscheid Powertrain and SABCA, announced on 6 March 2019, are dilutive to the above EPS by approximately 0.7 pence
- The positive impact from the required IFRS accounting for loss-making contracts of 1.3 pence is expected to reduce in size in 2019
- Effective tax rate of 23%
- Total diluted number of shares in issue at 31 December 2018 - 4,858 million

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1. Described in the glossary to the 2018 Preliminary Announcement, released on 7 March 2019

Segmental performance

Annualised adjusted[1] results – assumes ownership of GKN from 1 January 2018

£m	Revenue	Operating profit/(loss) pre-positive impact of loss-making contracts	Positive impact of loss-making contracts	Operating profit/(loss) post-positive impact of loss-making contracts	Operating margin		Annualised sales growth[2] versus prior year
					Pre-positive impact of loss-making contracts	Post-positive impact of loss-making contracts	
Aerospace	3,534	290	51	341	8.2%	9.6%	2%
Automotive	4,949	334	27	361	6.7%	7.3%	3%
Powder Metallurgy	1,212	131	12	143	10.8%	11.8%	6%
Nortek Air & Security	1,458	198	-	198	13.6%	13.6%	(4%)
Other Industrial	1,094	113	3	116	10.3%	10.6%	1%
Central	-	(64)	-	(64)	-	-	-
Total	**12,247**	**1,002**	**93**	**1,095**	**8.2%**	**8.9%**	**2%**

- The annualised adjusted[1] operating profit was £1,095 million; excluding the positive impact from the required IFRS accounting for loss-making contracts in GKN it would have been £1,002 million
- The full year's annualised sales growth[2] in 2018 was 2% year over year
- Aerospace and Nortek Air & Security showed stronger year on year sales trends in the second half versus the first half. Automotive, Powder Metallurgy and Other Industrial saw a slow down primarily due to the automotive end market
- The Nortek Air & Security sales reduction was caused by the maturing of a customer sales contract; flat excluding this
- The weighting of revenue was 51:49 for the first half versus second half. This included a 53:47 weighting in Automotive, which was a better second half sales performance than guided at the half year of 55:45

1. Described in the glossary to the 2018 Preliminary Announcement, released on 7 March 2019
2. Growth is calculated at constant currency against 2017 results (adjusted for certain items as announced in the 2018 Half Year Results presentation)

GKN acquisition – loss-making contracts

Loss-making contracts

£m	Percentage of annual sales that are loss-making	Total provision recognised on acquisition	2018 annualised utilisation of the provision in operating profit
Aerospace	9%	316	51
Automotive	13%	200	27
Powder Metallurgy	6%	106	12
Other Industrial	1%	7	3
Positive impact on operating profit	**10%**	**629**	**93**
Finance costs - unwind of discount			(14)
Total positive impact on profit before tax			**79**

- Approximately 10% of GKN sales are currently loss-making, this offers significant potential for performance uplift
- A total provision of £629 million for loss-making sales has been booked to cover these losses, these contracts unwind over many years
- The annualised positive impact on operating profit from the utilisation of the provision for loss-making contracts was £93 million in 2018
- The largest provision for loss-making contracts is within the Aerospace business, but all businesses are focused on the potential to resolve these

Foreign exchange → forward looking

Exchange rates	2018 USD	2018 EUR	2017 USD	2017 EUR
12 month average rates	1.33	1.13	1.29	1.14
8 month average rates for GKN (19 April – 31 December)	1.31	1.13	n/a	n/a
Closing rates (December)	1.27	1.11	1.35	1.13

Income Statement volatility – Translational impact Impact on adjusted[1] operating profit of a 10% strengthening[2] of: £m	USD	EUR	CNY	Other[3]
Movement in adjusted[1] operating profit	72	24	11	17
% impact on adjusted[1] operating profit	6%	2%	1%	2%

Balance Sheet volatility Impact on net debt of a 10% strengthening[2] of: £m	USD	EUR
Increase in debt	176	59

- Transactional FX hedges updated quarterly, providing appropriate short and medium term cover:
  - Next 12 months: c.90% coverage
  - 12 to 24 months: c.65% coverage
- Debt drawn in USD, EUR and Sterling to protect leverage
- If average exchange rates in the year had been equal to the closing rates at 31 December 2018, annualised adjusted operating profit would have been 3% higher due to the effect of re-translating non-sterling profits

1. Described in the glossary to the 2018 Preliminary Announcement, released on 7 March 2019
2. 10% strengthening against all currencies
3. Other reflects a basket of 18 currencies, assuming all strengthen against Sterling by 10% at the same time

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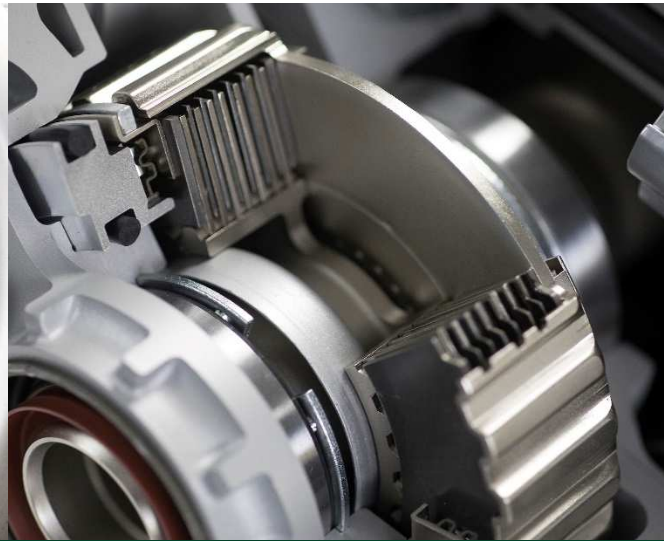
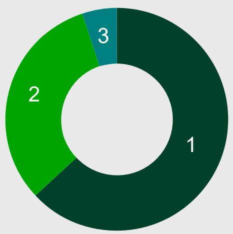
Businesses – investment & improvement



GKN Aerospace, Automotive & Powder Metallurgy

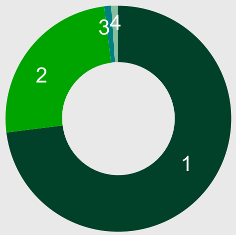
79% of Melrose[1]

Aerospace
Revenue by product type



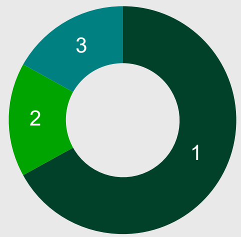
- **1** Aerostructures (63%)
- **2** Engine Systems (32%)
- **3** Special Technologies (5%)

Automotive
Revenue by product type



- **1** Driveline (73%)
- **2** All Wheel Drive (25%)
- **3** eDrive (1%)
- **4** Cylinder Liners (1%)

Powder Metallurgy
Revenue by product type



- **1** Automotive (67%)
- **2** Industrial (16%)
- **3** Hoeganaes Metal Powder (17%)

1. Based on annualised adjusted 2018 revenue for all businesses

Aerospace – trading

Annualised adjusted[1] results			
£m	Revenue	Operating profit/(loss)	Operating margin
US Aerostructures	617	(6)	(1.0%)
Aerospace other	2,917	296	10.1%
Positive impact of loss-making contracts	-	51	-
Total	**3,534**	**341**	**9.6%**

Growth / Markets

- Global aerospace market remains strong and GKN Aerospace is well positioned. GKN Aerospace has a heavier mix of wide body (c.35% of sales) rather than narrow body (c.20% of sales) components. Military sales are c.30% and other commercial (including business and regional aircraft and helicopters) are c.15% of sales

Investment and restructuring

- North America Aerostructures businesses close to operational break-even
- Loss-making contract resolution is an important focus
- Targeted reductions in fixed costs
- Supply chain and procurement improvements
- Operational excellence – many initiatives commenced. Investment into historically underinvested parts of the business
- Focus on delivery and quality performance is improving customer relationships
- Investment to develop additive manufacturing technologies
- Investment in new facilities:
  - Global Technology Centre in Bristol, UK
  - State of the art advanced composites manufacturing facility in Florida, USA
  - Wiring facility in India
  - Fan blade repair centre in Malaysia

1. Described in the glossary to the 2018 Preliminary Announcement, released on 7 March 2019

Automotive – trading

Annualised adjusted[1] results			
£m	Revenue	Operating profit/(loss)	Operating margin
Driveline	3,015	242	8.0%
China	650	84	12.9%
All Wheel Drive	1,219	89	7.3%
eDrive	65	(54)	-
Total	**4,949**	**361**	**7.3%**

Growth / Markets

- Current uncertainties in the automotive market but the GKN improvement plan is not reliant on revenue growth

Investment and restructuring

- New management team in place
- Targeted reductions in fixed costs
- Moving towards a more flexible cost structure
- Loss-making contracts resolution is an important focus
- Direct and indirect procurement improvements
- Significant investment into eDrive capabilities for programme launches and R&D facility for China joint venture
- New advanced All Wheel Drive & eDrive production facility in Japan

1. Described in the glossary to the 2018 Preliminary Announcement, released on 7 March 2019

Powder Metallurgy – trading

	Annualised adjusted[1] results	Growth[2]
Revenue	1,212	6%
EBITDA[1]	197	5%
EBITDA[1] margin %	16.3%	-0.2 ppts
Operating profit	143	3%
Operating margin %	11.8%	-0.3 ppts

Growth / Markets

- Some market uncertainty due to automotive but has consistently outperformed peers' sales growth in recent years
- Opportunity to improve this business

Investment and restructuring

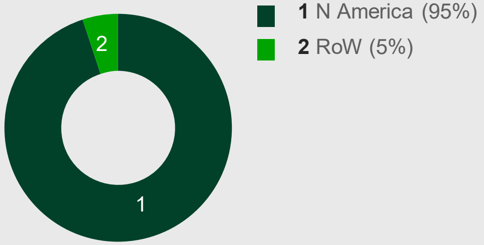
- Additive manufacturing partnership with Hewlett Packard and Volkswagen
- Additive manufacturing partnership with EOS for industrial 3D printing technology
- New plant in Mexico opening in 2019
- Footprint optimisation – operations of several US plants consolidated
- Margin improvement plan built on market leading positions
- Investment in research and development to differentiate the business from competitors
- New advanced engineering laboratory in Michigan, USA
- Looking at add-on acquisitions

1. Described in the glossary to the 2018 Preliminary Announcement, released on 7 March 2019
2. Growth is calculated at constant currency against 2017 results (adjusted for certain items as announced in the 2018 Half Year Results presentation) and excludes the positive impact of the required IFRS accounting for loss-making contracts

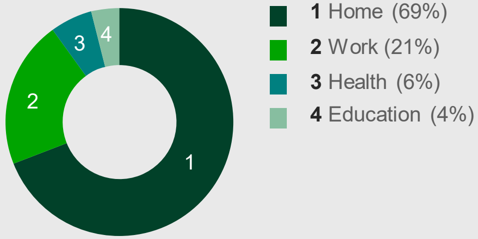
Nortek Air & Security

12% of Melrose[1]

Revenue by geographical destination



Revenue by end market



1. Based on annualised adjusted 2018 revenue for all businesses

Nortek Air & Security

£m	2018 adjusted[1] results	Growth[2]
Revenue	1,458	(4%)
EBITDA[1]	222	(3%)
EBITDA[1] margin %	15.2%	+0.2 ppts
Operating profit	198	(4%)
Operating margin %	13.6%	flat

Growth / Markets

- A good market backdrop in Air Management with a significant growth opportunity in StatePoint Liquid Cooling, a new and more efficient technology for cooling data centres. Security market is more challenging
- The sales reduction was caused by the maturing of a customer sales contract in the Security business; flat excluding this
- Margin affected by significant losses due to initial StatePoint investment

Investment and restructuring

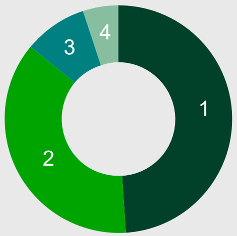
- Significant investment in StatePoint Liquid Cooling technology and accompanying factory footprint expansion
- Footprint consolidation within the Air Management business including the closure of the Belgium facility
- Canadian operations restructured to exit the Air Management Mississauga facility and transfer production to other locations
- Security back office functions consolidated and moved to a new office in Carlsbad, complete with a new research and development laboratory
- Acquisition of IntelliVision, enabling the application of data analytics across the security product range

1. Described in the glossary to the 2018 Preliminary Announcement, released on 7 March 2019
2. Growth is calculated at constant currency against 2017 results. Revenue growth is adjusted for exited sales channels

Other Industrial

9% of Melrose[1]

Revenue by geographical destination



- **1** Europe (49%)
- **2** N America (37%)
- **3** Asia (9%)
- **4** RoW (5%)

Revenue by business

- **1** Ergotron (22%)
- **2** Brush (17%)
- **3** Walterscheid Powertrain (38%)
- **4** Wheels & Structures (23%)

1. Based on annualised adjusted 2018 revenue for all businesses

Other Industrial

£m	Annualised adjusted[1] results	Growth[2]
Revenue	1,094	1%
EBITDA[1]	136	(8%)
EBITDA[1] margin %	12.4%	-1.2 ppts
Operating profit	116	(3%)
Operating margin %	10.6%	-0.4 ppts

- Ergotron is operating in a challenging market influenced by tariffs
  - Brand new management team
  - New products being launched
  - Significant cost reduction this year
- Impairments recognised in the Brush business following a negative downturn in the generator services market during 2018. Restructuring substantially completed in line with expectations

1. Described in the glossary to the 2018 Preliminary Announcement, released on 7 March 2019
2. Growth is calculated at constant currency against 2017 results (adjusted for certain items as announced in the 2018 Half Year Results presentation) and excludes the positive impact of the required IFRS accounting for loss-making contracts

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Appendix

Some helpful data for 2018

Item	Income Statement		Cash Flow	
	2018 adjusted results	annualised results	2018 adjusted results	annualised results
Adjusted operating profit	£847 million	£1,095 million	£847 million	£1,095 million
Positive impact of loss-making contracts included above	(£63 million)	(£93 million)	(£63 million)	(£93 million)
Central costs		£64 million (includes a GKN LTIP charge of £20 million)		
Working capital			8% of revenue	
Finance costs: - Bank and loan related - Pension interest - Other - IFRS 16 (refer to slide 30)	£109 million £24 million £11 million	£158 million £36 million £15 million £20 million[1]	(£109 million) (bank loan related)	(£158 million) (bank loan related)
Tax	23% (of adjusted profit before tax)		(£66 million) (9% of adjusted profit before tax)	(£119 million) (13% of adjusted profit before tax)
Depreciation	£282 million	£430 million	£282 million	£430 million
Capital expenditure			(£359 million) 1.3x depreciation	(£547 million) (at same depreciation ratio)
Defined benefit pension payments – ongoing contributions (global)[2]				(£98 million) (£62 million UK, £36 million overseas)
Defined benefit pension payments – special contributions				(£56 million) in 2018, (£94 million) in 2019
Restructuring costs			(£122 million)	(£160 million) (at same monthly run rate)
Annual dividend	4.6 pence per share		(£129 million)	(£223 million)
Non-controlling interest	£13 million[3]	£10 million		
Number of shares in issue	3,959 million (average number of shares)	4,858 million (closing number of shares)		

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1. Effective 1 January 2019
2. 2018 adjusted operating profit includes £22 million of charges in respect of defined benefit pension schemes
3. Non-controlling interest in the 2018 adjusted results includes an amount relating to the remaining 15% of GKN acquired between 19 April 2018 and 30 June 2018

Segmental performance

Adjusted[1] results

£m	Revenue	Operating profit/(loss) pre-positive impact of loss-making contracts	Positive impact of loss-making contracts	Operating profit/(loss) post-positive impact of loss-making contracts	Operating margin: Pre-positive impact of loss-making contracts	Operating margin: Post-positive impact of loss-making contracts
Aerospace	2,521	215	35	250	8.5%	9.9%
Automotive	3,382	213	18	231	6.3%	6.8%
Powder Metallurgy	851	90	8	98	10.6%	11.5%
Nortek Air & Security	1,458	198	-	198	13.6%	13.6%
Other Industrial	890	96	2	98	10.8%	11.0%
Central	-	(28)	-	(28)	-	-
Total	**9,102**	**784**	**63**	**847**	**8.6%**	**9.3%**

- The adjusted[1] operating profit was £847 million; excluding the positive impact from the required IFRS accounting for loss-making contracts in GKN it would have been £784 million

1. Described in the glossary to the 2018 Preliminary Announcement, released on 7 March 2019

Acquisition of GKN – assets and liabilities

Impact of fair value adjustments

Acquisition at 19 April 2018 £m	Acquired Balance Sheet	Fair value and other adjustments	Fair value Balance Sheet
Goodwill	466	2,056	2,522
Intangible assets	488	5,243	5,731
Tangible assets (including computer software and development costs)	3,043	44	3,087
Equity accounted investments	272	240	512
Net working capital	886	(131)	755
Retirement benefit obligations	(1,369)	-	(1,369)
Provisions	(144)	(1,036)	(1,180)
Deferred and current tax	58	(908)	(850)
Net debt	(1,159)	-	(1,159)
Net other	(28)	(73)	(101)
Net assets	**2,513**	**5,435**	**7,948**

- Provisions of £1,180 million have been recognised on acquisition including:
  - £629 million of loss-making contract provisions;
  - £123 million of environmental, litigation and insurance provisions, equal to 0.4% of the last 3 years' sales;
  - £295 million of warranty provisions, equal to 1.0% of the last 3 years' sales
- Net working capital adjustment of £131 million recognised, comprising:
  - £121 million IFRS 3 required uplift to inventory
  - Provision policy alignment and required write downs; £137 million inventory (c.11% reduction), £63 million receivables (c.2% reduction)
  - Reclassification of long-life tooling from inventory to tangible fixed assets, £52 million

Pensions – Group defined benefit schemes

Group

Accounting deficit – 31 December 2018 £m	Assets	Liabilities	Deficit	2019 annual cash contributions	2019 special cash contributions	2018 annualised interest charge
UK	2,791	(3,378)	(587)	62	94	18
USA	412	(565)	(153)	10	-	5
Europe	29	(690)	(661)	23	-	13
Rest of World	41	(53)	(12)	3	-	-
Total defined benefit schemes	**3,273**	**(4,686)**	**(1,413)**	**98**	**94**	**36**

- The accounting deficit of £1.4 billion, has reduced by c.8% since the last year end and comprises:
  - 47% European schemes (non UK)
  - 41% UK schemes, whose accounting deficit has reduced by 16% from last year
  - 11% US schemes
  - 1% Other
- The UK plans mainly consist of the acquired GKN 2012 and 2016 schemes
- The European plans predominantly relate to German unfunded pension schemes which were closed to new entrants in 1998
- GKN previously excluded the annual pensions interest charge from adjusted results, but this is now included in both the statutory and adjusted result

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Pensions – UK defined benefit schemes

UK

31 December 2018 £m	Assets	Liabilities	Surplus /(deficit)	2019 annual cash contributions	2019 special cash contributions
GKN 2016	522	(495)	27	-	-
GKN 2012	2,007	(2,613)	(606)	60	94
GKN post retirement medical	-	(9)	(9)	1	-
Nortek Air & Security	18	(30)	(12)	1	-
Brush	244	(231)	13	-	-
Total UK defined benefit schemes	**2,791**	**(3,378)**	**(587)**	**62**	**94**

Agreement with the GKN UK pension trustees

- Agreement was reached with GKN Pension Scheme Trustees on acquisition to considerably improve the position of GKN UK schemes
- The first independent chairman of the GKN trustees has been appointed together with a second independent trustee
- Agreed funding target:
  - 2016 scheme funded to gilts +25 basis points
  - 2012 scheme funded to gilts +75 basis points
- Phasing of contributions to achieve the new funding target:
  - Initial contribution: £150 million (£56 million paid in July 2018 and £94 million to be paid in April 2019)
  - Further annual contributions: £60 million per annum
  - Disposal contributions: £270 million upon the disposal of Powder Metallurgy, 5% of proceeds on Melrose disposals and 10% of proceeds on other GKN disposals (ceasing when funding target achieved)

Interest and tax

Interest

£m	Facility size	At 31 December 2018	Income Statement rate	Cash rate
Bonds				
2019 6.75% unsecured bond	350	350	1.8%	6.8%
2022 5.375% unsecured bond	450	450	2.9%	5.4%
2032 4.625%[1] unsecured bond	300	300	4.4%	4.6%
Cross-currency swaps (2019 & 2022 bonds)		199		
	1,100	1,299		
Bank debt[2]				
3.5 year term loan	853	853	3.7%	3.7%
5 year revolving credit facility	3,119	1,726	4.2%	4.2%
	3,972	2,579		
Other facilities	19	19		
Total facilities / Gross debt	**5,091**	**3,897**	**3.8%**	**3.8%**
Cash		(415)		
Net debt[3]		**3,482**		

Interest

- Approximately 50% of interest exposure fixed on projected gross debt, will move towards 70%
- Significant committed facility headroom
- Effective average Income Statement interest rate of 3.8% on gross debt and cash rate of 3.8%

Tax

- The full year effective Income Statement tax rate is 23%

1. The coupon rate on the bond is currently 3.375% and is expected to increase to 4.625% from May 2019
2. Bank debt is presented net of £41 million of unamortised arrangement fees. Headroom on the Group's committed bank facility at 31 December 2018 was £1,352 million, which includes an amount available to replace the 2019 bond
3. Described in the glossary to the 2018 Preliminary Announcement, released on 7 March 2019

Impact of IFRS 16: Leases

£m		Current lease accounting	After application of IFRS 16	Net impact
Income Statement	Revenue	-	-	-
	Depreciation	-	(75)	(75)
	Other operating costs	(85)	-	85
	Adjusted operating profit	**(85)**	**(75)**	**10**
	Finance costs	-	(20)	(20)
	Adjusted profit before tax	**(85)**	**(95)**	**(10)**
Cash flow	Adjusted operating profit	(85)	(75)	10
	Depreciation	-	75	75
	Adjusted operating cash flow	**(85)**	**-**	**85**
	Net interest	-	(20)	(20)
	Repayment of lease liabilities	-	(65)	(65)
	Free cash flow	**(85)**	**(85)**	**-**

- The implementation of IFRS 16 results in lease arrangements, previously considered ‘operating’ in nature, coming onto the Balance Sheet through recognition of a lease liability offset by an equal and opposite ‘right-of-use’ asset
- The ‘right-of-use’ asset is subsequently depreciated and interest is accrued on the lease liability, which replaces the previous operating lease charge
- The ‘right-of-use’ asset and corresponding liability to be recognised upon transition is expected to be in the range of £550 million to £600 million
- Lease liabilities are excluded from the definition of net debt for bank covenant purposes