Travis Perkins plc
Audited results for the financial year ended 31 December 2018
Stronger H2 profit performance; well positioned in uncertain market conditions

£m	*Note*	2018	2017	Δ
Revenue		**6,741**	6,433	*4.8%*
Like-for-like revenue growth[1]		**4.9%**	3.3%	*+1.6ppt*
Adjusted operating profit[1]	*6a*	**375**	380	*(1.3)%*
Adjusted operating profit excluding property profits[1]	*6a*	**348**	351	*(0.9)%*
Adjusted profit before taxation[1]	*6a*	**347**	343	*1.2%*
Adjusted earnings per share[1]	*12b*	**114.5p**	110.4p	*3.7%*
Net debt[1]	*15*	**(354)**	(342)	*£(12)m*
Dividend per share (pence)	*13*	**47.0p**	46.0p	*2.2%*
Lease adjusted ROCE[2]	*16b*	**10.5%**	10.7%	*(0.2)ppt*
Adjusting items	*7*	**(387)**	(41)	
Operating (loss) / profit		**(22)**	327	
(Loss) / profit before taxation		**(49)**	290	
Basic (loss) / earnings per share (pence)	*12a*	**(34.4)p**	93.1p	

[1]Alternative performance measures are used to provide a guide to underlying performance and details of the calculations can be found in the notes listed

[2]2017 LAROCE has been restated to reflect goodwill impairment for comparability purposes

- Strong Group revenue growth of 4.8%, and 4.9% on a like-for-like basis
- Continued market outperformance in Contracts division and Toolstation
- Adjusted operating profit declined by 1.3% while adjusted EPS grew by 3.7%
- H2 adjusted operating profit, excluding property profits, grew by 10.7% underpinned by successful cost reduction activities
- Adjusting items includes a non-cash impairment of £246m against the goodwill in Wickes in H1 and restructuring costs across the Group
- Full-year total dividend increased by 2.2% to 47.0p per share
- Good progress has been made on the strategic actions set out in December 2018, including simplification through the removal of the divisional structure above the Merchant businesses
- 2019 adjusted operating profit expected to be similar to 2018

John Carter, Chief Executive Officer, commented:

"The Group delivered a solid performance overall in 2018 despite a challenging market backdrop. We took concerted self-help actions during the year, and the benefits of this cost reduction, together with improved trading, drove an improved profit performance in the second half of the year.

In December 2018, we set out our intention to focus on delivering best-in-class service to trade customers and to simplify the Group. To that end, removing the divisional structure within Merchanting will enable an increased focus on customers at a business unit level, speed up decision making and, at the same time, reduce costs.

In the longer term, the Group remains focused on generating sustainable profitable growth for shareholders and we will achieve this by allocating capital and resources to our most advantaged businesses. We are making good progress on the preparation for the disposal of the Plumbing & Heating division, and are seeing an encouraging improvement in trading and good momentum in Wickes.

Whilst we remain positive about the long-term outlook for our end markets, we are planning for uncertain market conditions to continue in the near term. The Group remains focused on self-help actions to underpin performance in the near term, whilst continuing to invest for the future."

Enquiries:

Travis Perkins	**Tulchan Communications**
Graeme Barnes	David Allchurch
+44 (0) 7469 401819	+44 (0) 207 353 4200
graeme.barnes@travisperkins.co.uk	
Zak Newmark	
+44 (0) 7384 432560	
zak.newmark@travisperkins.co.uk	

The Travis Perkins plc management team will be hosting an analyst briefing at 8.30am. The briefing will be webcast live using the details below.

Webcast URL:

https://www.investis-live.com/travis-perkins/5c485586cad1ac0c00c5e9b1/gdos

Conference call participant dial in details:

UK: 020 3936 2999

All other locations: +44 20 3936 2999

Access code: 678776

Cautionary Statement:

This announcement contains "forward-looking statements" with respect to Travis Perkins' financial condition, results of operations and business and details of plans and objectives in respect to these items. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "will", "should", "expects", "believes", "seeks", "intends", "plans", "potential", "reasonably possible", "targets", "goal" or "estimates", and words of similar meaning. By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, the Principal Risks and Uncertainties disclosed in the Group's Annual Report, changes in the economies and markets in which the Group operates; changes in the legislative, regulatory and competition frameworks in which the Group operates; changes in the capital markets from which the Group raises finance; the impact of legal or other proceedings against or which affect the Group; and changes in interest and exchange rates. All forward-looking statements, made in this announcement or made subsequently, which are attributable to Travis Perkins or any other member of the Group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurances can be given that the forward-looking statements in this document will be realised. Subject to compliance with applicable law and regulations, Travis Perkins does not intend to update these forward-looking statements and does not undertake any obligation to do so. Nothing in this document should be regarded as a profits forecast.

Without prejudice to the above:

(a) neither Travis Perkins plc nor any other member of the Group, nor persons acting on their behalf shall otherwise have any liability whatsoever for loss howsoever arising, directly or indirectly, from use of the information contained within this announcement; and

(b) neither Travis Perkins plc nor any other member of the Group, nor persons acting on their behalf makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained within this announcement.

This announcement is current as of 26 February 2019, the date on which it is given. This announcement has not been and will not be updated to reflect any changes since that date.

Past performance of the shares of Travis Perkins plc cannot be relied upon as a guide to the future performance of the shares of Travis Perkins plc.

Summary

The Group produced a solid performance in 2018 against a market backdrop of considerable uncertainty. Sales growth was strong, with overall growth of 4.8% to £6,741m, and growth of 4.9% on a like-for-like basis. Both the Contracts businesses and Toolstation delivered exceptional growth, outperforming their end markets. The successful transformation in Plumbing & Heating delivered significant sales growth, winning market share through the branch network, the wholesale business and through the specialist online businesses. Sales and operating profit improved in the General Merchanting division in H2, and whilst the UK DIY market was particularly challenging due to both macro and competitive pressures, the Wickes business' performance also improved in H2.

Group adjusted operating profit, excluding property profits, declined by 1.3% in the year, with an 11.5% decline in the first half of the year followed by growth of 10.7% in the second half. Operating profit progression in the second half of the year was driven by the improved trading performance and the successful cost reduction actions carried out, primarily in the General Merchanting division and Wickes, which reduced the overhead cost to sales ratio below recent years and helped to mitigate overhead inflationary pressure in the year.

The Group demonstrated good cash generation in 2018, with free cash flow of £340m. Net debt increased modestly by £12m to £354m, primarily due to working capital investment in the year.

The Board recommends a full year dividend of 47.0 pence (2017: 46.0p), reflecting the Board's confidence in the future cash generation and prospects of the Group.

Strategic progress

At a Capital Markets event in December 2018, the Group set out its strategy for the years ahead with two main pillars. The core purpose of the Group will be to deliver best-in-class service to trade customers. Supplying trade customers is the Group's traditional heartland, with the trade markets typically being more resilient and generating higher margins and returns. The second pillar is to focus on simplifying the Group to reduce business complexity, reduce the above-branch cost base and speed up decision making.

Changes to Group structure

Through simplification, the Group expects to achieve cost reduction of £20m-£30m from the above-branch cost base by mid-2020. A number of actions were initiated towards this target in Q4 2018 which will deliver c.£5m of annualised benefits in 2019.

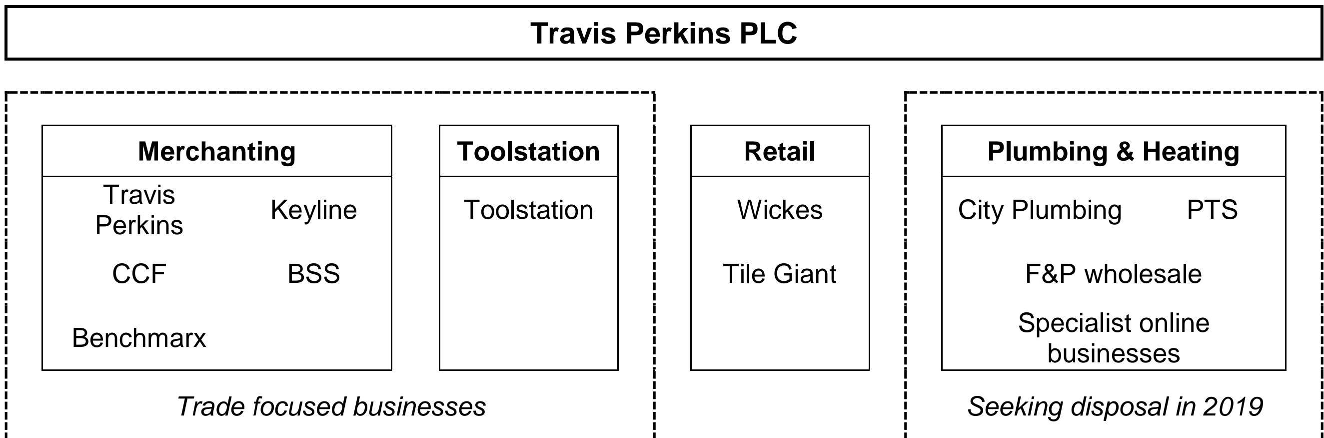
A key component of the simplification of the Group is the removal of the existing divisional structure above the Merchanting businesses which will reduce costs and speed up decision making. Central functions will be streamlined to support businesses directly, enabling branch managers and their teams to provide the best possible service to customers.

The revised structure will alter how the businesses are managed and reported. From 2019, the Group will report under the following segments: Merchanting, Toolstation, Retail and Plumbing & Heating.

New Group reporting structure

The Group's Merchant businesses, which focus on close trade customer relationships and offering customer-specific pricing and product sourcing tailored to local customer demands, will be grouped for reporting purposes, but will be managed as individual businesses, placing decision making as close as possible to the customer.

Toolstation will remain as an autonomous business within the Group. It will be reported separately from the Retail segment to reflect that it is predominantly a fixed price, trade customer business.



Wickes and Tile Giant will be reported as a Retail segment, with a different operating model from the merchant businesses, with fixed ranges, and a fixed, national price framework. The retail businesses primarily target retail consumers, both through traditional methods and increasingly by providing end-to-end Do-It-For-Me services from design to installation, particularly in Kitchens and Bathrooms.

In December 2018, the Group announced its intention to divest the P&H division during the course of 2019, and significant work has been undertaken to separate the P&H businesses from the remainder of the Group. These actions include separation of commercial agreements, creating designated back office support functions and creating a P&H specific version of the existing IT platform. This work should be completed during Q2 2019.

Outlook

The long-term drivers of market growth remain favourable, supported by the on-going requirement for more homes in the UK, and the underinvestment in the repair, maintenance and improvement (RMI) of existing dwellings and infrastructure. In the near-term, however, considerable economic uncertainty remains, which is driving the current mixed backdrop of market lead indicators. Levels of mortgage approvals and housing transactions remain subdued, house price growth is inconsistent across the UK and depressed consumer confidence continues to put pressure on wider retail sales figures across many UK consumer facing markets.

Investments made in the business in recent years have created a market-leading customer proposition which will drive outperformance of the market. In the short-term, the Group is focusing on self-help initiatives which will underpin performance, and position the Group strongly for the future.

At this early stage in the year, and given current market uncertainty, the Group expects adjusted operating profit in 2019 to be similar to 2018. The Group will continue to prioritise investment in

future growth opportunities such as Toolstation, with progress on cost reduction activities mitigating inflationary pressures on rent, rates and wages.

Technical guidance

The Group's technical guidance for 2019 is as follows:

- Effective tax rate of 19%
- Finance charges similar to 2018
- Capital expenditure, excluding freehold property investments, of around £110m to £130m
- Property profits of around £20m
- Progressive dividend underpinned by strong cash generation
- H1 / H2 EBITA split more normalised in 2019

This guidance has been given before the impact of the new lease accounting rules, IFRS 16. For details of the impact of IFRS 16, please refer to note 21.

Divisional performance

General Merchanting

	FY 2018	FY 2017	Change
Total revenue	**£2,137m**	£2,109m	*1.3%*
Like-for-like growth	**1.4%**	1.2%	
Adjusted operating profit*	**£179m**	£183m	*(2.2)%*
Adjusted operating margin*	**8.4%**	8.7%	*(30)bps*
LAROCE**	**12%**	12%	-
Branch network	**837**	849	*(12)*

*Divisional adjusted operating profit figures are presented excluding property profits

** LAROCE calculations exclude property profits from the EBITA figure (2017 figure restated on this basis)

Financial performance

Total revenue grew by 1.3% in the year, and by 1.4% on a like-for-like basis. Growth was driven by pass through of cost price inflation of 2.8%, offset by a modest decline in volume. Regionally, the South East was most heavily impacted by the challenging macro environment, with declining house prices and significantly lower secondary housing transactions. Volume trends were stronger in the second half of the year following significant weather impacts on volume in the first half.

Adjusted operating profit declined by 2.2% in the year, but with differing performance half-on-half. In H1, the business was impacted by an increase in the cost base, driven by inflation on wages, rent, rates and utilities, and also by investments in the business, including the additional cost to offer the Heavyside Range Centre service throughout the TP branch network in England and Wales. In the second half, there was a concerted focus on controlling and reducing costs, with savings made through greater efficiency in the distribution network, streamlining central functions and some branch consolidation. These cost savings, together with the stronger volume trends, drove year on year profit growth in H2 of 8.1%.

Gross margins were stable across the year, despite stronger growth in sales to large, lower margin customers, and with the selective price investments in dedicated categories in 2017 showing a positive impact on volumes. Adjusted operating margin reduced by 30 basis points in the year as a whole, driven by the higher cost base and the impact of sustained poor weather in H1, offset by a 50bp H2 on H2 improvement in operating margin.

For Benchmarx the market environment was particularly challenging in the first half of the year, with a tougher macro backdrop and competitor pricing pressure. This pressure eased in H2, with volumes returning to growth and the strongest ever Big Bang promotional event in October.

Operational performance

Four new Travis Perkins branches were opened in the year, plus one added through acquisition, and an additional three Managed Services sites. This was offset by 19 closures, including eight Managed Services sites at the end of fixed term contracts. The remaining branch closures focused on consolidation of the network as part of on-going estate management, with smaller branches closed and resources and customer relationships moved to larger local branches with a very encouraging transfer of sales. Three branches were refitted to the modern format, with a further four relocated to more optimal trading sites within their catchments.

The process to devolve more power to branch managers is underway, with initial communications being well received and work being undertaken to streamline central support services enabling branch colleagues to spend more time with customers. In addition, improvements are being made to branch stock ranges, with more products specified for local customers in the right quantities, particularly for heavy building materials.

Planned changes to the delivery of the extended heavyside range proposition in the South East are underway, in response to the operational issues at the Tilbury HRC. A combination of local stock investment and management, together with regional transport planning will ensure customers retain access to the proposition, and will reduce the cost burden to the business in the medium term.

Contracts

	FY 2018	**FY 2017**	**Change**
Total revenue	**£1,472m**	£1,369m	7.5%
Like-for-like growth	**7.0%**	8.4%	
Adjusted operating profit*	**£94m**	£86m	9.3%
Adjusted operating margin*	**6.4%**	6.3%	10bps
LAROCE**	**15%**	14%	1ppt
Branch network	**164**	169	(5)

*Divisional adjusted operating profit figures are presented excluding property profits

** LAROCE calculations exclude property profits from the EBITA figure (2017 figure restated on this basis)

Financial performance

Strong revenue growth continued in the Contracts division, growing 7.5% in total, and by 7.0% on a like-for-like basis. Sales growth was strong in all three businesses, with price growth of 4.5% to mitigate input cost inflation and 2.5% volume growth reflecting continued market share gains. After a difficult start to the year in Q1, with markets suffering uncertainty following the collapse of Carillion, the division maintained a strong like-for-like growth rate throughout the remainder of the year.

Adjusted operating profit grew by 9.3% to £94m. Gross margin declined modestly in the year, reflecting a shift in customer mix, with stronger sales growth to larger customers. This was more than offset by tight control of costs, continued success from on-going activities to improve efficiency, and operating leverage which improved overall adjusted operating margin to 6.4%.

At this early stage in the year, whilst the order book for 2019 remains robust, the Group remains cautious on the outlook for commercial construction, and continues to look out for any changing dynamics in the market.

LAROCE increased to 15%, driven by higher profitability on a similar capital base.

Operational performance

The Tool Hire business delivered a strong performance in the year as it continues to mature, with 17% growth in revenue.

Network developments continue in Keyline as the business aims to relocate and consolidate branches into lower cost sites, and providing fit-for-purpose branches for customers and colleagues. In 2018, eight branches were closed (including one transferred to the Travis Perkins brand), with two new, low cost branches opened.

The acquisition of TF Solutions in 2017 added air conditioning systems to the product range. The business generated outstanding growth of over 30%. A fourth TF Solutions branch was opened in 2018, and another branch was extended.

The focus on outstanding customer service continued, with a trial in two branches to give customers transparency of their delivery fulfilment. Feedback was excellent, and further work will be completed to develop the offering in 2019. A Work Winning initiative is also in place to make sure we deliver the right service to the right customer, differentiating customer needs and providing a tailored service that is valued by customers.

A unique, efficient driver bonus scheme was implemented, which has led to a 1% reduction in diesel usage across the Contracts delivery fleet. This is a significant saving for businesses where the vast majority of sales are delivered, and sharing the benefits with drivers has driven a change in culture across the division.

Consumer

	FY 2018	**FY 2017**	**Change**
Total revenue	**£1,604m**	£1,589m	0.9%
Like-for-like growth	**(1.3)%**	3.0%	(4.3)ppt
Adjusted operating profit*	**£69m**	£82m	(15.9)%
Adjusted operating margin*	**4.3%**	5.2%	(90)bps
LAROCE**	**7%**	8%	(1)ppt
Branch network***	**712**	666	46

*Divisional adjusted operating profit figures are presented excluding property profits

**LAROCE calculations exclude property profits from the EBITA figure (2017 figure restated on this basis)

***Branch network includes 40 stores relating to Toolstation Europe (2017: 23 stores), an associate of the Group

Wickes

Financial performance

Wickes revenues declined by 2.5% in 2018, and by 4.4% on a like-for-like basis. The UK DIY market environment has been extremely challenging, driven by the wider macro environment, with declining consumer confidence, and through competitive pricing pressure. The first half was particularly difficult, with poor weather conditions in March and April impacting the Easter trading period.

The negative sales impact was felt across the business, but with Kitchen & Bathroom (K&B) showroom sales being hard hit in H1, partially in response to the poor promotional period in Q4 2017 and also reflecting a challenging retail environment. Delivered K&B sales reduced by 10% in the first half of the year.

In the second half of the year, K&B “leads activity” strengthened in response to improved promotional activity in Wickes, and through competitor decisions to exit the design & install service for end-consumers. This activity began to develop into improved sales in Q4, and sets the business up well heading into 2019. Selective price investments in specific core DIY categories, combined with early signs of the competitive price pressure easing, helped to drive positive sales growth in H2, with an encouraging trend throughout Q4.

Adjusted operating profit declined by 19% in the year, but this was split between a 39% decline in H1, followed by 15% growth in H2. This recovery can be attributed mainly to the level of cost reduction that was achieved in the year, with significant reductions in central support services, reduction in shrinkage and efficiency gains in the distribution network, as well as the improved trading in Q4.

Gross margins declined in the year, driven by sales mix, as K&B sales declined more than core sales in H1, and due to the competitive pricing environment. This was more than offset in H2 by the cost reduction actions that were undertaken.

Operational performance

The Wickes TradePro scheme was launched 18 months ago, and has been well received by customers. Giving a 10% discount on all purchases, it is a simple mechanism for customers to understand, and is improving customer loyalty, helping to support core sales through 2018. In 2019 the digital experience for trade customers will be enhanced, giving access to the discount for online transactions to drive higher participation.

A further 24 store refits were completed in 2018, bringing the total number of stores in the modern format to 121. The proportion of Kitchens sold with a full installation service increased to 54% (up from 44% in 2017), reflecting the high-quality turnkey service provided to end consumers.

Toolstation UK

Financial performance

Toolstation revenue grew by 18% in 2018, and by 11.4% on a LFL basis. Sales growth was driven by the continued expansion of the store network, existing stores continuing to mature, and through the extended ranges available to customers on a next-day basis.

Adjusted operating profit was broadly flat year on year, as anticipated, as additional volume growth was offset by investment in the higher operating costs associated with the 40 additional stores and a new distribution centre which will support further network expansion.

Gross margin was unchanged, despite maintaining Toolstation's value leadership position.

Operational performance

An additional 4,000 products were added to the range, with a key focus on trade relevant ranges, with an extra 58 trade brands added, contributing over £25m of additional sales. The product range available for next-day delivery or dropship was also extended, with categories including bathrooms, garden sheds and radiators. A trade credit card was launched in 2018 providing small trade customers with access to up to 116 days of credit on purchases in Toolstation and other Travis Perkins brands.

Development of IT systems continued, with a new EPOS system implemented in store, and a new website launched in December 2018, alongside providing 6-day deliveries to customers. Multichannel transactions increased by over 30%, with strong growth in click and collect, and the new website has improved conversion rates by >1%.

A third distribution centre was opened, increasing capacity to over 500 stores. 40 new stores were opened in 2018, including the successful trials of smaller format and high street concepts, with branch performance in line with expectations.

Toolstation Europe

The expansion of Toolstation Europe continued, with 12 stores opened in the Netherlands taking the total to 32, and supported by a new distribution centre. Growth characteristics for both stores and online are extremely encouraging, and mirroring the experience of the UK business.

A further five stores were added to the network around Lyon in France, bringing the trial up to 8 in total and developing brand recognition with local trade customers. The Belgian website continues to develop well, and some trial stores will be added in 2019, to be serviced from the Dutch distribution centre.

Plumbing & Heating

	FY 2018	FY 2017	*Change*
Total revenue	**£1,528m**	£1,366m	*11.9%*
Like-for-like growth	**16.1%**	2.1%	
Adjusted operating profit*	**£39m**	£31m	*25.8%*
Adjusted operating margin*	**2.6%**	2.3%	*30bps*
LAROCE**	**11%**	9%	*2ppt*
Branch network	**377**	391	*(14)*

*Divisional adjusted operating profit figures are presented excluding property profits

** LAROCE calculations exclude property profits from the EBITA figure (2017 figure restated on this basis)

Financial performance

The transformation programme in the Plumbing & Heating division was highly successful in 2018, generating total revenue growth of 11.9%, and growth of 16.1% on a like-for-like basis. Growth was strong across the division: through the branch network, wholesale business and the specialist online businesses.

Adjusted operating profits increased by 25.8% to £39m, reflecting both the improved trading performance and tight control of the cost base, which benefited from the branch closures carried out in late 2017 and from combining and simplifying management and support team structures. This improved cost performance offset a modest reduction in gross margins, primarily driven by change in business mix, with strong wholesale revenues, and increased promotional activity to underpin the proposition in branches.

LAROCE increased by 2ppt, to 11% reflecting the higher profits on a stable capital base.

Operational performance

Improvements to branch stock range and depth, and increasing product availability through the supply chain to 98% has improved credibility with customers. A catalogue with 12,000 SKUs was launched, broadening customer awareness of the ranges available, and providing visible, competitive pricing. A trial to introduce a greater range of electrical products across 13 branches, reflecting the increasing role of electrical work required within domestic plumbing projects, was successful, and further implants are planned for 2019.

Bathroom showroom ranges have been modernised and updated across the 240-branch showroom network, combined with a more focused drive to interact with end customers

The specialist online businesses continued to grow strongly, particularly the Underfloor Heating Store, Direct Heating Spares and National Shower Spares businesses. The City Plumbing online transactional website continues to grow after its launch in July 2017.

Significant work has been undertaken to separate the P&H businesses from the remainder of the Group. These actions include separation of commercial agreements, creating designated back office support functions and creating a P&H specific instance of the existing IT platform. This work should be completed during Q2 2019.

Central costs

Unallocated central costs remained broadly unchanged in 2018, at £33m (2017: £31m). Investment continues in developing the Group's IT capabilities and digital platforms, in particular the new ERP system for the Merchant businesses.

Property transactions

The Group continues to recycle its freehold property portfolio to provide the best trading locations for its businesses, whilst managing the level of capital allocated to owning and developing freehold sites.

Ten new freehold sites were purchased in 2018 at an investment of £38m (2017: £41m), with a further £10m of construction costs to develop sites ready for trading (2017: £20m). These investments were fully funded in the year by property disposals of £98m, which also generated property profits of £27m.

Financial Performance

Revenue

Group revenue grew by 4.8% in 2018, and by 4.9% on a like-for-like basis, primarily driven by the strong growth in the Plumbing & Heating and Contracts divisions and the Toolstation business, partially offset by the challenges faced by the Wickes business in the first nine months of the year.

Volume, price and mix analysis

Total revenue	General Merchanting	Plumbing & Heating	Contracts	Consumer	Group
Volume	(1.4)%	13.3%	2.5%	(2.0)%	**2.2%**
Price and mix	2.8%	2.8%	4.5%	0.7%	**2.7%**
Like-for-like revenue growth	1.4%	16.1%	7.0%	(1.3)%	**4.9%**
Network expansion and acquisitions	(0.1)%	(4.2)%	0.5%	2.2%	**(0.1)%**
Total revenue growth	**1.3%**	**11.9%**	**7.5%**	**0.9%**	**4.8%**

The continued expansion of the Toolstation network was offset by branch closures in P&H in 2017. There was no difference in the number of trading days in 2018 compared to 2017. The Group maintained its stance to recover input cost inflation across the trade-focused businesses in 2018, with overall price inflation across the Group of 2.7%. The highest inflation was experienced in the Contracts division where commodity price inflation had the most concentrated impact, but this tempered over the course of the year.

Pricing in the UK DIY market was extremely competitive through the year, with Wickes making targeted investments in price in certain categories to drive volume. This was successful, particularly in core categories in the fourth quarter of the year, but had a detrimental impact on gross margins. The competitive pressures began to ease towards the end of 2018 and market pricing became more rational.

Quarterly like-for-like revenue analysis

Like-for-like revenue growth	General Merchanting	Plumbing & Heating	Contracts	Consumer	Group
Q1 2018	(1.3)%	19.7%	0.9%	(4.6)%	**3.0%**
Q2 2018	3.0%	20.1%	9.5%	(3.1)%	**5.9%**
Q3 2018	1.3%	14.8%	8.9%	(4.2)%	**4.1%**
Q4 2018	2.8%	12.0%	8.8%	5.6%	**6.9%**
H1 2018	0.6%	19.8%	5.1%	(4.2)%	**4.2%**
H2 2018	2.0%	12.9%	8.9%	1.0%	**5.5%**
FY 2018	**1.4%**	**16.1%**	**7.0%**	**(1.3)%**	**4.9%**

The quarterly like-for-like sales trend across the Group shows the impact of the severe weather in the first quarter, which negatively impacted General Merchanting, Contracts, Wickes and Toolstation, but supplied a modest boost to P&H.

Operating profit and margin

£m	2018	2017	Δ
General Merchanting	179	183	*(2.2)%*
Plumbing & Heating	39	31	*25.8%*
Contracts	94	86	*9.3%*
Consumer	69	82	*(15.9)%*
Property	27	29	*(6.9)%*
Unallocated costs	(33)	(31)	*6.5%*
Adjusted operating profit	**375**	**380**	***(1.3)%***
Amortisation of acquired intangibles	*(10)*	*(12)*	
Adjusting items	*(387)*	*(41)*	
Operating profit / (loss)	**(22)**	**327**	

Adjusting Items

Adjusting items in 2018 were £387m, including £252m of goodwill impairment in Wickes and Tile Giant. A full breakdown of adjusting items is included in note 7.

Finance charge

Net finance charges, shown in note 10, were £24m (2017: £35m). While interest costs on borrowings were broadly unchanged from 2017 at £24m, interest received was higher in the year at £2.4m, reflecting higher rates earned on higher average cash balances, and interest received on the investment made in Toolstation Europe.

The impact of marking-to-market currency forward contracts outstanding at 31 December 2018 was a gain of £1.8m (2017: charge of £2.9m). These contracts are used to hedge commercial currency transactions.

Net interest on the pension deficit decreased by £2.3m due to a lower valuation of the pension liability.

Taxation

The tax charge for the year ended 31 December 2018 including the effect of adjusting items is £34.1m (2017: £55.7m). This represents an effective tax rate (ETR) of negative 69.2% (2017: positive 19.2%).

The tax charge for the year before adjusting items is £58.2m (2017: £63.5m) giving an adjusted ETR of 17.3% (standard rate 19%, 2017 actual: 19.2%). The adjusted ETR rate is lower than the standard rate due to the release during the year of tax provisions held for uncertain tax positions that have now been agreed with HMRC, partially offset by a reduced deferred tax asset related to employee share schemes following a decline in the share price in 2018.

The impairment of goodwill of £252.1m included in the financial statements as an adjusting item does not attract a tax deduction and so does not affect the tax charge for the period.

Earnings per share

The Group reported a loss after taxation of £84m (2017: profit after tax of £234m) resulting in a basic loss per share of 34.4 pence (2017: earnings per share of 93.1 pence). The reduction is primarily due to the impairment of goodwill and intangible assets in the Wickes business by £246m in 2018. There is no significant difference between basic and diluted basic earnings per share.

Adjusted profit after tax increased by 3.3% to £285m (2017: £276m) resulting in adjusted earnings per share (note 12b) increasing by 3.7% to 114.5 pence (2016: 110.4 pence). There is no significant difference between adjusted basic and adjusted diluted earnings per share.

Reconciliation of reported to adjusted earnings

£m	2018 Earnings	2017 Earnings
Basic earnings and EPS attributable to shareholders	**(86)**	**233**
Plumbing & Heating division transformation	*45*	*41*
Restructuring costs	*59*	-
IT-related impairment charge	*16*	-
Pension related items	*5*	-
Loss on disposal of BPT	*10*	
Impairment of Wickes and Tile Giant goodwill	*252*	-
Adjusting Items	387	41
Amortisation of acquired intangibles	10	12
Tax on amortisation of acquired intangibles	(1)	(2)
Tax on adjusting items	(24)	(8)
Effect of reduction in corporation tax on deferred tax	-	-
Adjusted earnings and EPS attributable to shareholders	**286**	**276**

Cash flow and balance sheet

Free cash flow

The Group generated good free cash flow of £340m, at a cash conversion rate of 91%.

(£m)	**2018**	**2017**
EBITA	**375**	380
Depreciation of PPE and other non-cash movements	**138**	130
Disposal proceeds in excess of property profits	**72**	83
Change in working capital	**(107)**	(54)
Maintenance capital expenditure	**(57)**	(48)
Net interest	**(26)**	(27)
Tax paid	**(55)**	(57)
Free cash flow	**340**	407
Underlying cash conversion rate	**91%**	107%

The primary driver of the year-on-year change in cash generation is the increase in net working capital. Around two-thirds of this difference can be attributed to trade-related net working capital, with growth in the customer debtor book moving in line with the growth in sales in the trade-focused merchant businesses, and higher inventory resulting from stock build activities ahead of the UK leaving the EU at the end of March 2019.

An increase in non-trade related net working capital was primarily driven by higher rebate receivables, impacted by both higher sales and the phasing of payments over the year end.

The Group has not seen an appreciable change in its bad debt rate year-on-year, which remains at 0.4% of trade credit sales. There has been some disruption in the construction industry through the course of 2018, and the Group continues to support customers with tailored payment plans as required, and remains vigilant for any signs of payment practices changing over time.

Maintenance capex increased modestly to £57m, reflecting the timing of vehicle replacements across the Group.

Capital investments

(£m)	2018	2017
Maintenance	(57)	(48)
IT	(42)	(49)
Growth capex	(44)	(69)
Base capital expenditure	**(143)**	**(166)**
Freehold property	(48)	(61)
Gross capital expenditure	**(191)**	**(227)**
Property disposals	98	114
Net capital expenditure	**(93)**	**(113)**

The Group continues to make investments to deliver a new ERP system to support the Group's merchanting businesses. The initial launch of the new platform into the BSS business has been delayed in order for the scope of the programme to be extended to include a number of the applications used by the Group's businesses which need to link into the new system. Reducing the total number of linked applications requires more work in the near-term, and will extend the overall programme by around one year, but will mitigate significant risk in the implementation phase of the project.

Growth capex spend of £44m was lower than in 2017 (£69m), as expected, and reflects a tighter approach to investing new capital during a period where market volume growth is weak. Growth capex was focused behind the Group's main investment priorities, in particular the continued expansion of the Toolstation network in the UK, with a further 40 stores opened. A small number of new Travis Perkins branches were opened, but mainly focused on relocation or consolidation of existing branches. The refitting of Travis Perkins branches and Wickes stores continued, albeit at a slower rate.

New property purchases were lower in 2018, with purchases focused on sites that will be strategically important in the long term. Property disposals continued, with £98m received in the year. The Group has now disposed of the vast majority of its retail sites as the risk of significant rent inflation in a challenging UK retail environment is low.

Net debt and funding

Net debt of £354m at 31 December 2018 was a modest increase of £12m from the end of December 2017, reflecting the good cash generation and tighter control on capital investment. As at 31 December 2018, the Group's committed funding of £1,100m comprised:

- £250m guaranteed notes due September 2021, listed on the London Stock Exchange
- £300m guaranteed notes due September 2023, listed on the London Stock Exchange
- A revolving credit facility of £550m, refinanced in December 2015, which runs until December 2020, advanced by a syndicate of 8 banks.

As at 31 December 2018, the Group had undrawn committed facilities of £550m (2017: £550m) and cash on deposit of £190m (2017: £215m).

In January 2019, the Group agreed a new revolving credit facility, replacing the previous £550m facility. The new agreement provides committed funding of £400m until January 2024 from a syndicate of eight banks, with options in place to extend funding to £550m if required, and two one-year extension options to be exercised in Q1 2020 and Q1 2021. This refinancing process was completed early in order to remove the potential refinancing risk surrounding the UK's exit from the EU.

The Group's credit rating, issued by Standard and Poors, was maintained at BB+ stable following its review in April 2018.

The Group has a policy of funding through floating interest rate facilities owing to the significant implicit fixed interest charges within its leases. However, owing to the uncertainty surrounding the UK's decision to leave the EU and historically low fixed interest rates achieved on its bonds, it took a decision in 2016 to fix all of its interest rate costs other than the rates it receives through drawings on its revolving credit facility, which were nil as at 31 December 2018.

The Group's lease debt reduced modestly, down £46m from the end of 2017. Overall branch numbers increased modestly in the year from 2,076 to 2,091; while the Group reduced the overall number of merchanting branches, the number of Toolstation units grew. These units are typically smaller with shorter lease terms.

Lease adjusted net debt modestly reduced compared with 31 December 2017 as the lower lease obligations offset the modestly higher net debt position.

	Medium Term Guidance	**2018**	**2017**	**Δ**
Net debt		**£354m**	£342m	£12m
Lease debt		**£1,479m**	£1,525m	£(46)m
Lease adjusted net debt		**£1,833m**	£1,867m	£(34)m
Lease adjusted gearing		**43.7%**	42.6%	*1.1ppt*
Fixed charge cover	3.5x	**3.2x**	3.1x	0.1x
LA net debt : EBITDAR	2.5x	**2.7x**	2.7x	-

Lease adjusted gearing (note 15c) increased by 1.1ppts in 2018 to 43.7%, primarily due to the write off of goodwill in the Wickes business, which has reduced the lease adjusted equity through the course of the year.

The Group's fixed charge cover ratio (note 17c) rose to 3.2x, with broadly stable earnings on a lower interest charge, with broadly stable rent charge. The LA net debt/EBITDAR ratio (note 17b) was stable year on year, at 2.7x.

Dividend

At the Capital Markets event in December 2018, the Group reiterated its commitment to a progressive dividend policy which is supported by the Board's confidence in the Group's expected future cash flow generation. The proposed dividend for the full year 2018 of 47.0 pence (2017: 46.0 pence) results in a 2.2% increase (2017: 2.2% increase).

An interim dividend of 15.5 pence was paid to shareholders in November 2018 at a cost of £38m. If approved, the proposed final dividend of 31.5 pence per share will be paid on 17 May 2019, to

shareholders on the register at the close of business on 5 April 2019, the cash cost of which will be approximately £78m.

Pensions

The Group made £7m (2017: £11m) of additional cash contributions to its defined benefit schemes in 2018. At 31 December 2018, the combined gross accounting surplus for the Group's final salary pension schemes was £81m (31 December 2017: deficit of £28m), which equated to a net surplus after tax of £66m (31 December 2017: net deficit of £23m). During the year, the Group closed its two principal UK Defined Benefit Schemes to future accrual resulting in a curtailment gain of £4.7m as described in the adjusting items note (note 7). The Group also agreed the triennial actuarial reviews as at 30 September 2017 with the trustees of both schemes resulting in a modest reduction in funding contributions required over the period to September 2020.

Principal risks and uncertainties

The risk environment in which the Group operates does not remain static. During the year, the Directors have reviewed the Group's principal risks and have concluded that as the nature of the business and the environment in which it operates remain broadly the same, the principal risks it faces are largely unchanged from those listed on pages 33 to 39 of the 2017 Annual Report and Accounts. However, following the announcement in December 2017 that the Group strategy is being refined to achieve greater simplification and a focus on serving trade customers through advantaged businesses, activities are underway to reshape the portfolio with the proposed divestment of the Plumbing & Heating businesses. As a result, the Directors have concluded that M&A activity, previously combined with risks associated with business transformation projects, is a key area of focus and heightened risk for the Group and is described separately. The Directors have also extended the description of health and safety risk to consider in more detail the transport-related risk faced by the Group, due to the scale of the fleet it operates and the associated regulatory and compliance requirements. Finally, the reduction in the deficit for the Group's two defined benefit schemes, supported by the closure of the schemes to future accrual in 2018 and a continued focus on liability management, means that the Board no longer believes that this area represents a principal risk.

Accordingly the 2018 annual report and accounts will report risks under the following captions: the changing customer and competitor landscape, colleague recruitment, retention and succession, supplier dependency and disintermediation, unsafe practices that lead to stakeholders being harmed, the efficient allocation of capital, business transformation projects, execution of planned M&A and disposals, market conditions, Brexit, data security and the changing regulatory framework.

Consolidated income statement

For the year ended 31 December 2018

£m	Note	2018	2017
Revenue		**6,740.5**	6,433.1
Adjusted operating profit		**374.5**	380.1
Amortisation of acquired intangible assets		**(9.5)**	(12.3)
Adjusting items	7	**(386.7)**	(40.9)
Operating (loss) / profit		**(21.7)**	326.9
Share of associates' results		**(4.0)**	(2.2)
Finance income	10	**4.2**	0.7
Finance costs	10	**(27.9)**	(35.7)
(Loss) / profit before tax		**(49.4)**	289.7
Tax	11	**(34.1)**	(55.7)
(Loss) / profit for the year		**(83.5)**	234.0
Attributable to:			
Owners of the Company		**(85.6)**	232.8
Non-controlling interests		**2.1**	1.2
		(83.5)	234.0
(Loss) / profit per ordinary share			
Basic	12a	**(34.4)p**	93.1p
Diluted	12a	**(34.4)p**	92.2p
Total dividend declared per ordinary share	13	**47.0p**	46.0p

All results relate to continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December 2018

£m	**2018**	2017
(Loss) / profit for the year	**(83.5)**	234.0
Items that will not be reclassified subsequently to profit and loss:		
Actuarial gains on defined benefit pension schemes	**102.0**	90.8
Income tax relating to other comprehensive income	**(19.3)**	(17.1)
Other comprehensive income for the year net of tax	**82.7**	73.7
Total comprehensive (loss) / income for the year	**(0.8)**	307.7

All other comprehensive income is attributable to the owners of the company.

Consolidated balance sheet

As at 31 December 2018

£m	**2018**	2017
Assets		
Non-current assets		
Goodwill	**1,289.2**	1,539.2
Other intangible assets	**385.4**	387.1
Property, plant and equipment	**913.2**	932.0
Interest in associates	**34.2**	20.3
Investments	**6.6**	9.5
Retirement benefit asset	**81.2**	-
Other receivables	**43.3**	30.4
Total non-current assets	**2,753.1**	2,918.5
Current assets		
Inventories	**855.3**	816.3
Trade and other receivables	**1,253.8**	1,130.2
Cash and cash equivalents	**255.4**	276.8
Total current assets	**2,364.5**	2,223.3
Total assets	**5,117.6**	5,141.8
Equity and Liabilities		
Capital and reserves		
Issued share capital	**25.2**	25.2
Share premium account	**545.4**	543.4
Merger reserve	**326.5**	326.5
Revaluation reserve	**14.7**	15.7
Own shares	**(47.8)**	(15.3)
Other reserve	**(5.6)**	(4.9)
Retained earnings	**1,847.5**	1,958.0
Equity attributable to owners of the Company	**2,705.9**	2,848.6
Non-controlling interests	**11.8**	11.7
Total equity	**2,717.7**	2,860.3
Non-current liabilities		
Interest bearing loans and borrowings	**605.2**	612.1
Derivative financial instruments	**0.9**	4.9
Retirement benefit obligations	**-**	28.3
Deferred tax liabilities	**77.8**	61.0
Long-term provisions	**18.4**	17.0
Total non-current liabilities	**702.3**	723.4
Current liabilities		
Interest bearing loans and borrowings	**3.8**	6.2
Derivative financial instruments	**4.7**	1.2
Trade and other payables	**1,603.2**	1,453.6
Tax liabilities	**25.9**	44.5
Short-term provisions	**60.0**	52.6
Total current liabilities	**1,697.6**	1,558.1
Total liabilities	**2,399.9**	2,281.5
Total equity and liabilities	**5,117.6**	5,141.8

Consolidated statement of changes in equity

For the year ended 31 December 2017

£m	Share capital	Share premium	Merge reserve	Revaluation reserve	Own shares	Other	Retained earnings	Total equity before non-controlling interest	Non controlling interest	Total equity
At 1 January 2017	25.1	528.5	326.5	16.8	(8.7)	-	1,760.1	2,648.3	7.3	2,655.6
Profit for the year	-	-	-	-	-	-	232.8	232.8	1.2	234.0
Other comprehensive income for the period net of tax	-	-	-	-	-	-	73.7	73.7	-	73.7
Total comprehensive income for the year	-	-	-	-	-	-	306.5	306.5	1.2	307.7
Dividends	-	-	-	-	-	-	(113.0)	(113.0)	-	(113.0)
Issue of share capital	0.1	14.9	-	-	-	-	-	15.0	-	15.0
Purchase of own shares	-	-	-	-	(19.2)	-	-	(19.2)	-	(19.2)
Adjustments in respect of revalued fixed assets	-	-	-	(1.1)	-	-	1.1	-	-	-
Equity-settled share-based payments, net of tax	-	-	-	-	-	-	15.7	15.7	-	15.7
Options on non-controlling interest	-	-	-	-	-	(4.9)	-	(4.9)	-	(4.9)
Arising on acquisition	-	-	-	-	-	-	-	-	3.2	3.2
Foreign exchange	-	-	-	-	-	-	0.2	0.2	-	0.2
Own shares movement	-	-	-	-	12.6	-	(12.6)	-	-	-
At 31 December 2017	25.2	543.4	326.5	15.7	(15.3)	(4.9)	1,958.0	2,848.6	11.7	2,860.3
IFRS 9 adoption	-	-	-	-	-	-	(2.4)	(2.4)	-	(2.4)
At 31 December 2017 (restated)	25.2	543.4	326.5	15.7	(15.3)	(4.9)	1,955.6	2,846.2	11.7	2,857.9

Consolidated statement of changes in equity (continued)

For the year ended 31 December 2018

£m	Share capital	Share premium	Merger reserve	Revaluation reserve	Own shares	Other	Retained earnings	Total equity before non-controlling interest	Non controlling interest	Total equity
At 31 December 2017 (restated)	25.2	543.4	326.5	15.7	(15.3)	(4.9)	1,955.6	2,846.2	11.7	2,857.9
Loss for the year	-	-	-	-	-	-	(85.6)	(85.6)	2.1	(83.5)
Other comprehensive income for the period net of tax	-	-	-	-	-	-	82.7	82.7	-	82.7
Total Comprehensive (loss) / income for the year	-	-	-	-	-	-	(2.9)	(2.9)	2.1	(0.8)
Dividends	-	-	-	-	-	-	(114.1)	(114.1)	(2.0)	(116.1)
Dividend equivalent payments	-	-	-	-	-	-	(0.8)	(0.8)	-	(0.8)
Issue of share capital	-	2.0	-	-	-	-	-	2.0	-	2.0
Purchase of own shares	-	-	-	-	(43.4)	-	-	(43.4)	-	(43.4)
Adjustments in respect of revalued fixed assets	-	-	-	(1.0)	-	-	1.0	-	-	-
Equity-settled share-based payments, net of tax	-	-	-	-	-	-	19.7	19.7	-	19.7
Option on non-controlling interest	-	-	-	-	-	(0.7)	-	(0.7)	-	(0.7)
Foreign exchange	-	-	-	-	-	-	(0.1)	(0.1)	-	(0.1)
Own shares movement	-	-	-	-	10.9	-	(10.9)	-	-	-
At 31 December 2018	25.2	545.4	326.5	14.7	(47.8)	(5.6)	1,847.5	2,705.9	11.8	2,717.7

Consolidated cash flow statement

For the year ended 31 December 2018

£m	**2018**	2017
Cash flows from operating activities		
Adjusted operating profit	**374.5**	380.1
Adjustments for:		
Depreciation of property, plant and equipment	**101.0**	102.0
Amortisation of internally-generated intangibles	**15.5**	12.6
Share-based payments	**19.6**	15.6
Other non-cash movements	**2.1**	0.2
Gain on disposal of property, plant and equipment	**(26.8)**	(30.6)
Adjusted operating cash flows	**485.9**	479.9
Increase in inventories	**(49.5)**	(47.0)
Increase in receivables	**(141.4)**	(106.3)
Increase in payables	**83.8**	76.8
Payments in respect of adjusting items	**(40.6)**	(20.2)
Pension payments in excess of the income statement charge	**(7.2)**	(11.3)
Cash generated from operations	**331.0**	371.9
Interest paid	**(26.2)**	(27.6)
Current income taxes paid	**(55.1)**	(57.2)
Net cash from operating activities	**249.7**	287.1
Cash flows from investing activities		
Interest received	**0.7**	0.5
Proceeds on disposal of property, plant and equipment	**98.4**	113.9
Development of computer software	**(44.4)**	(48.1)
Purchases of property, plant and equipment	**(146.9)**	(179.0)
Interest in associates	**(17.6)**	(11.3)
Dividends received	**-**	0.3
Acquisition of businesses	**(3.0)**	(9.7)
Disposal of business	**9.0**	-
Net cash used in investing activities	**(103.8)**	(133.4)
Cash flows from financing activities		
Proceeds from the issue of share capital	**2.0**	15.0
Purchase of own shares	**(43.4)**	(19.2)
Repayment of finance lease liabilities	**(6.5)**	(7.0)
Payments to pension scheme	**(3.3)**	(3.2)
Dividends paid	**(116.1)**	(113.0)
Net cash from financing activities	**(167.3)**	(127.4)
Net (decrease) / increase in cash and cash equivalents	**(21.4)**	26.3
Cash and cash equivalents at the beginning of the year	**276.8**	250.5
Cash and cash equivalents at the end of year	**255.4**	276.8

Notes

1. The Group's principal accounting policies are set out in the 2018 Annual Report & Accounts, which will be made available on the Company's website (www.travisperkinsplc.co.uk) on 26 February 2019.

2. The proposed final dividend of 31.50 pence (2017: 30.50 pence) is payable on 17 May 2019. The record date is 5 April 2019.

3. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2018 or 31 December 2017, but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their reports and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The audit of the statutory accounts for the year ended 31 December 2018 is now complete. Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRS") this announcement does not itself contain sufficient information to comply with IFRS. This announcement was approved by the Board of Directors on 25 February 2019.

4. The 2018 Annual Report & Accounts will be made available on 26 February 2019 on the Group's website. It is intended to post the Annual Report & Accounts to shareholders on Wednesday 20 March 2019 and to hold the Annual General Meeting on 8 May 2019. Copies of the Annual Report & Accounts prepared in accordance with IFRS will be available from the Company Secretary, Travis Perkins plc, Lodge Way House, Harlestone Road, Northampton NN5 7UG from Wednesday 20 March 2019.

6. Profit

(a) Operating profit

£m	**2018**	2017
Revenue	**6,740.5**	6,433.1
Cost of sales	**(4,812.7)**	(4,527.5)
Gross profit	**1,927.8**	1,905.6
Selling and distribution costs	**(1,607.4)**	(1,239.7)
Administrative expenses	**(375.0)**	(374.0)
Profit on disposal of properties	**26.8**	29.4
Other operating income	**6.1**	5.6
Operating (loss) / profit	**(21.7)**	326.9
Adjusting items	**386.7**	40.9
Amortisation of acquired intangible assets	**9.5**	12.3
Adjusted operating profit	**374.5**	380.1
Profit on disposal of properties	**(26.8)**	(29.4)
Adjusted operating profit before property disposals	**347.7**	350.7

(b) Adjusted profit

£m	**2018**	2017
(Loss) / profit before tax	**(49.4)**	289.7
Adjusting items	**386.7**	40.9
Amortisation of acquired intangible assets	**9.5**	12.3
Adjusted profit before tax	**346.8**	342.9
Tax	**(34.1)**	(55.7)
Tax on adjusting items	**(24.2)**	(7.8)
Tax on amortisation of acquired intangible assets	**(1.6)**	(2.1)
Adjusted profit after tax	**286.9**	277.3

7. Adjusting items

£m	2018	2017
Plumbing & Heating transformation and disposal preparation	**45.3**	40.9
Impairment of Wickes and Tile Giant goodwill	**252.1**	-
IT-related impairment costs	**15.7**	-
Restructuring costs	**58.4**	-
Pension-related items	**4.9**	-
Loss on disposal of BPT (note 20)	**10.3**	-
	386.7	40.9

P&H transformation and disposal preparation

In August 2017 the Group announced that, following a comprehensive strategic review of the Plumbing & Heating division, it would reduce capacity, integrate the CPS and PTS businesses, overhaul the division's customer proposition and create a dedicated Plumbing & Heating supply chain. In accordance with the Group's accounting policy the total cost of £36.4m (2017: £40.9m) has been treated as an adjusting item.

The adjusting item consisted of the following:

- £1.2m of property, redundancy and other costs (2017: £12.0m) associated with the closure of six branches
- £22.8m of costs (2017: £19.1m) arising from the separation and rationalisation of the Plumbing & Heating supply chain and the integration of the CPS and PTS businesses. The costs comprised property-related costs, redundancy and reorganisation costs and inventory write-downs and provision adjustments
- £12.4m of central and divisional costs (2017: £9.8m) including people-related, consultancy and other restructuring costs

Further to this, in December 2018 the Group announced its intention to explore the opportunity to dispose of the Plumbing & Heating division and has incurred £8.9m of related costs, which are included in this adjusting item. An assessment has been made as to whether the Plumbing & Heating division meets the criteria in IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations for classification as held for sale. The Directors concluded that as at 31 December 2018 the division was not available for immediate sale in its present condition and accordingly it has not been classified as held for sale.

Impairment of goodwill

During 2018 the Group has recognised an impairment charge in respect of goodwill in Wickes and Tile Giant, due to lower forecasts than previously expected.

IT-related impairment costs

The intangible fixed asset impairment charge arises from the termination of certain IT projects in the Wickes business (£6.5m) and in the central IT function (£2.5m) and the change arising from two specific components of the Group's ERP project where the development activities no longer meet the criteria in IAS 38 – Intangible Assets for capitalisation as development costs (£6.7m).

7. Adjusting items (continued)

Restructuring costs

The restructuring charge relates to the cost-reduction programme announced for the Wickes business in May 2018 and for the wider Group in July 2018.

- £16.0m relating to rationalisation of the merchanting supply chain, which includes the costs of consolidating the Gowerton Road and Mercury Drive distribution hubs, consolidating the Cardiff Range Centre and Cardiff Timber Centre and closing the Tilbury Range Centre. The Group has made a claim against the developer in respect of the closure of the Tilbury Range Centre.
- £16.3m of costs relating to the closure of twenty seven branches and a reduction in support centre headcount in the merchanting businesses. The costs comprised property-related costs, redundancy costs and inventory write-downs.
- £12.8m of redundancy and reorganisation costs in the Wickes business
- £13.3m of Group costs, including people-related costs and consultancy

Pension-related items

The £4.9m pension-related charge consists of a £4.7m curtailment gain recognised as a result of the closure of the Group's two main defined benefit pension schemes to future accrual and a £9.6m charge for the equalisation of guaranteed minimum pension ("GMP") benefits between men and women.

8. Operating segments

£m	General Merchanting	Contracts	Consumer	Plumbing & Heating	Unallocated	**Consolidated**
	2018					
Revenue	2,137.3	1,471.5	1,604.0	1,527.7	-	**6,740.5**
Segment result	152.0	85.7	(187.8)	(5.4)	(66.2)	**(21.7)**
Amortisation of acquired intangible assets	-	6.3	2.4	0.8	-	**9.5**
Adjusting items	28.9	5.5	272.3	46.3	33.7	**386.7**
Adjusted segment result	180.9	97.5	86.9	41.7	(32.5)	**374.5**
Less property profits	(2.4)	(3.9)	(17.7)	(2.8)	-	**(26.8)**
Adjusted segment result excluding property profits	178.5	93.6	69.2	38.9	(32.5)	**347.7**
Adjusted operating margin	8.5%	6.6%	5.4%	2.7%	-	**5.6%**
Adjusted segment margin excluding property profits	8.4%	6.4%	4.3%	2.6%	-	**5.2%**
Lease adjusted capital employed	1,601.5	680.4	1,824.4	436.3	(74.4)	**4,468.2**
Lease adjusted operating profit excluding property profits	193.4	100.6	128.1	49.7	(31.0)	**440.8**
Segment assets	1,848.0	910.3	1,333.9	645.2	380.2	**5,117.6**
Segment liabilities	(490.8)	(318.9)	(458.2)	(392.2)	(739.8)	**(2,399.9)**
Consolidated net assets	1,357.2	591.4	875.7	253.0	(359.6)	**2,717.7**
Capital expenditure	131.0	12.8	47.1	4.7	1.9	**197.5**
Amortisation of acquired intangible assets	-	6.3	2.4	0.8	-	**9.5**
Depreciation and amortisation of software	63.9	14.5	29.1	8.8	0.2	**116.5**

8. Operating segments (continued)

£m	2017 General Merchanting	Contracts	Consumer	Plumbing & Heating	Unallocated	**Consolidated**
Revenue	2,109.5	1,369.0	1,589.1	1,365.5	-	**6,433.1**
Segment result	200.6	81.3	79.4	(3.5)	(30.9)	**326.9**
Amortisation of acquired intangible assets	-	6.3	5.0	1.0	-	**12.3**
Adjusting items	-	-	-	40.9	-	**40.9**
Adjusted segment result	200.6	87.6	84.4	38.4	(30.9)	**380.1**
Less property profits	(18.0)	(1.9)	(1.9)	(7.6)	-	**(29.4)**
Adjusted segment result excluding property profits	182.6	85.7	82.5	30.8	(30.9)	**350.7**
Adjusted operating margin	9.5%	6.4%	5.3%	2.8%	-	**5.9%**
Adjusted segment margin excluding property profits	8.7%	6.3%	5.2%	2.3%	-	**5.5%**
Lease adjusted capital employed	1,624.5	671.6	1,827.6	436.7	(107.1)	**4,453.3**
Lease adjusted operating profit excluding property profits	202.0	93.0	142.4	41.0	(31.0)	**447.4**
Segment assets	1,811.0	867.2	1,544.6	592.3	326.7	**5,141.8**
Segment liabilities	(441.5)	(323.5)	(403.6)	(317.8)	(795.1)	**(2,281.5)**
Consolidated net assets	1,369.5	543.7	1,141.0	274.5	(468.4)	**2,860.3**
Capital expenditure	152.9	14.3	57.3	3.6	2.3	**230.4**
Amortisation of acquired intangible assets	-	6.3	5.0	1.0	-	**12.3**
Depreciation and amortisation of software	67.5	11.8	26.4	8.8	0.1	**114.6**

9. Pension schemes

£m	**2018**	2017
At 1 January actuarial (deficit) / asset	**(19.1)**	(127.3)
Additional liability recognised for minimum funding requirements	**(9.2)**	-
	(28.3)	(127.3)
Current service costs and administrative expenses charged to the income statement	**(6.5)**	(9.6)
Past service costs	**(4.9)**	-
Net interest income / (expense)	**0.4**	(3.1)
Contributions from sponsoring companies	**18.5**	20.9
Return on plan assets (excluding amounts included in net interest)	**(25.8)**	80.9
Actuarial gain / (loss) arising from changes in demographic assumptions	**(4.0)**	26.8
Actuarial gain / (loss) arising from changes in financial assumptions	**99.5**	(1.1)
Actuarial gain / (loss) arising from experience adjustments	**23.1**	(6.6)
Reduction / (increase) in minimum funding requirement liability	**9.2**	(9.2)
Gross pension asset / (liability) at 31 December	**81.2**	(28.3)
Deferred tax (liability) / asset	**(15.4)**	5.4
Net pension asset / (liability) at 31 December	**65.8**	(22.9)

10. Net finance costs

(a) Finance costs and finance income

£m	**2018**	2017
Interest on bank loans and overdrafts*	**(2.7)**	(4.1)
Interest on sterling bonds	**(21.0)**	(21.0)
Interest on obligations under finance leases	**(0.4)**	(0.8)
Unwinding of discounts – property provisions	**(0.2)**	(0.7)
Unwinding of discounts – pension SPV loan	**(2.1)**	(2.4)
Other interest	**(0.7)**	(0.7)
Other finance costs – pension scheme	**(0.8)**	(3.1)
Net loss on remeasurement of derivatives at fair value	**-**	(2.9)
Finance costs	**(27.9)**	(35.7)
Net gain on remeasurement of derivatives at fair value	**1.8**	-
Net gain on remeasurement of foreign exchange	**0.7**	-
Interest receivable	**1.7**	0.7
Finance income	**4.2**	0.7
Net finance costs	**(23.7)**	(35.0)

10. Net finance costs (continued)

(b) Fixed charge cover interest

£m	**2018**	2017
Interest on bank loans and overdrafts*	**2.7**	4.1
Interest on sterling bonds	**21.0**	21.0
Interest on obligations under finance leases	**0.4**	0.8
Unwinding of discounts – pension SPV loan	**2.1**	2.4
Fixed charge cover interest charge	**26.2**	28.3

*Includes £1.5m (2017: £1.5m) of amortised finance charges.

11. Tax

£m	**2018**	2017
Current tax:		
- current year	**47.1**	57.5
- prior year	**(10.4)**	0.4
Total current tax	**36.7**	57.9
Deferred tax:		
- current year	**(2.7)**	(2.5)
- prior year	**0.1**	0.3
Total deferred tax	**(2.6)**	(2.2)
Total tax charge	**34.1**	55.7

12. Earnings per share

(a) Basic and diluted earnings per share

£m	**2018**	2017
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the Parent Company	**(85.6)**	232.8
Weighted average number of shares for the purposes of basic earnings per share	**248,681,183**	250,100,896
Dilutive effect of share options on potential ordinary shares	**345,820**	2,468,248
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**249,027,003**	252,569,144
(Loss) / earnings per share	**(34.4p)**	93.1p
Diluted (loss) / earnings per share	**(34.4p)**	92.2p

5,284,836 share options (2017: 978,010 share options) had an exercise price in excess of the average market value of the shares during the year. As a result, these share options were excluded from the calculation of diluted earnings per share.

12. Earnings per share (continued)

(b) Adjusted earnings per share

Adjusted earnings per share are calculated by excluding the effect of the adjusting items and amortisation of acquired intangible assets from earnings.

£m	**2018**	2017
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the Parent Company	**(85.6)**	232.8
Adjusting items	**386.7**	40.9
Amortisation of acquired intangible assets	**9.5**	12.3
Tax on adjusting items	**(24.2)**	(7.8)
Tax on amortisation of acquired intangible assets	**(1.6)**	(2.1)
Adjusted earnings	**284.8**	276.1
Adjusted earnings per share	**114.5p**	110.4p
Adjusted diluted earnings per share	**114.4p**	109.3p

13. Dividends

Amounts were recognised in the financial statements as distributions to equity shareholders as follows:

£m	**2018**	2017
Final dividend for the year ended 31 December 2017 of 30.50p (2016: 29.75p) per ordinary share	**75.6**	74.7
Interim dividend for the year ended 31 December 2018 of 15.50p (2017: 15.50p) per ordinary share	**38.5**	38.3
Total dividend recognised during the year	**114.1**	113.0

The dividends declared for 2018 and for 2017 were as follows:

Pence	**2018**	2017
Interim paid	**15.5**	15.5
Final proposed	**31.5**	30.5
Total dividend for the year	**47.0**	46.0

The proposed final dividend of 31.50p per ordinary share in respect of the year ended 31 December 2018 was approved by the Board on 25 February 2019. This final dividend of c.£79.4m (2017: £76.9m) will be paid on 17 May 2019 to shareholders whose names are on the Register of Members at the close of business on 5 April 2019.

A dividend reinvestment plan ("DRIP") is available to shareholders who would prefer to invest their dividends in the shares of the Company. Elections under the DRIP must be made by close of business on 24 April 2019.

14. Free cash flow

£m	**2018**	2017
Net debt before exchange and fair value adjustments at 1 January	**(341.5)**	(377.5)
Net debt before exchange and fair value adjustments at 31 December	**(353.6)**	(341.5)
Increase in net debt before exchange and fair value adjustments	**(12.1)**	36.0
Dividends paid	**116.1**	113.0
Net cash outflow for expansionary capital expenditure and related items*	**134.9**	201.5
Net cash outflow for acquisitions	**3.0**	9.7
Net cashflow for investments	**-**	(0.3)
Disposal of business	**(9.0)**	-
Amortisation of swap cancellation receipt	**(3.4)**	(3.4)
Discount unwind on liability to pension scheme	**2.3**	2.4
Cash impact of adjusting items	**40.6**	20.2
Interest in associates	**17.6**	11.3
Purchase of shares	**43.4**	19.2
Shares issued	**(2.0)**	(15.0)
Movement in finance charges netted off bank debt	**1.5**	1.5
Special pension contributions	**7.2**	11.3
Free cash flow	**340.1**	407.4

*Expansion capital expenditure includes £nil (2017: £22.1m) in relation to the development of cloud-based software classified as a non-current prepayment.

15. Net debt and lease-adjusted gearing

(a) Net debt

Balances at 31 December comprise:

£m	**2018**	2017
Cash and cash equivalents	**255.4**	276.8
Non-current interest bearing loans and borrowings	**(605.2)**	(612.1)
Current interest bearing loans and borrowings	**(3.8)**	(6.2)
Net debt	**(353.6)**	(341.5)
Finance leases arising from the implementation of IAS 17 - Leases	**8.0**	9.5
Liability to pension scheme	**32.8**	33.7
Finance charges netted off borrowings	**(4.0)**	(5.5)
Net debt under covenant calculations	**(316.8)**	(303.8)

15. Net debt and lease-adjusted gearing (continued)

(b) Movement in net debt

£m	The Group					
	Cash and cash equivalents	Finance leases	Term loan and revolving credit facility and loan notes	Sterling bonds	Liability to pension scheme	Total
At 1 January 2017	(250.5)	34.5	(3.0)	562.0	34.5	377.5
Cash flow	(26.3)	(7.0)	-	-	(3.2)	(36.5)
Finance charges movement	-	-	0.8	0.7	-	1.5
Amortisation of swap cancellation receipt	-	-	-	(3.4)	-	(3.4)
Discount unwind on liability to pension scheme	-	-	-	-	2.4	2.4
At 1 January 2018	**(276.8)**	**27.5**	**(2.2)**	**559.3**	**33.7**	**341.5**
Cash flow	**21.4**	**(6.5)**	**-**	**-**	**3.3**	**18.2**
Finance charges movement	**-**	**-**	**0.8**	**0.7**	**-**	**1.5**
Amortisation of swap cancellation receipt	**-**	**-**	**-**	**(3.4)**	**-**	**(3.4)**
Discount unwind on liability to pension scheme	**-**	**-**	**-**	**-**	**(4.2)**	**(4.2)**
31 December 2018	**(255.4)**	**21.0**	**(1.4)**	**556.6**	**32.8**	**353.6**

(c) Lease-adjusted gearing

£m	**2018**	2017
Net debt	**353.6**	341.5
Property operating lease rentals x8	**1,479.2**	1,524.8
Lease-adjusted net debt	**1,832.8**	1,866.3
Property operating lease rentals x8	**1,479.2**	1,524.8
Closing net assets	**2,717.7**	2,860.3
Lease-adjusted equity	**4,196.9**	4,385.1
Gearing	**43.7%**	42.6%

16. Return on capital ratios

(a) Return on capital employed

£m	**2018**	2017 *restated
Operating profit / (loss)	**(21.7)**	326.9
Amortisation of acquired intangible assets	**9.5**	12.3
Adjusting items	**386.7**	40.9
Adjusted operating profit	**374.5**	380.1
Opening net assets	**2,860.3**	2,655.6
Net pension deficit	**22.9**	103.2
Net debt before exchange and fair value adjustments	**341.5**	377.5
Exchange and fair value adjustment	**-**	-
Goodwill amortisation and impairment	**(252.1)**	(252.1)
Tax on impairment of goodwill and intangibles	**-**	-
Opening capital employed	**2,972.6**	2,884.2
Closing net assets	**2,717.7**	2,860.3
Net pension (surplus) / deficit	**(65.8)**	22.9
Net debt	**353.6**	341.5
Goodwill amortisation and impairment	**-**	(252.1)
Closing capital employed	**3,005.5**	2,972.6
Average capital employed	**2,989.0**	2,928.4

(b) Lease-adjusted return on capital employed

£m	**2018**	2017 *restated
Adjusted operating profit	**374.5**	380.1
50% of property operating lease rentals	**92.5**	95.3
Lease adjusted operating profit	**467.0**	475.4
Average capital employed	**2,989.0**	2,928.4
Property operating lease rentals x8	**1,479.2**	1,524.8
Lease adjusted capital employed	**4,468.2**	4,453.2
Lease adjusted return on capital employed	**10.5%**	10.7%

* Goodwill amortisation and impairment restated to include 2018 impairment for comparability purposes.

17. Leverage ratios

(a) Net debt to adjusted EBITDA

£m	**2018**	2017
(Loss) / profit before tax	**(49.4)**	289.7
Net finance costs	**23.7**	35.0
Depreciation and amortisation	**126.0**	126.9
EBITDA	**100.3**	451.6
Adjusting operating items	**386.7**	40.9
Adjusted EBITDA under covenant calculations	**487.0**	492.5
Net debt under covenant calculations	**316.8**	303.8
Adjusted net debt to EBITDA under covenant calculations	**0.65x**	0.62x

(b) Lease adjusted net debt to adjusted EBITDAR

£m	**2018**	2017
Adjusted EBITDA under covenant calculations	**487.0**	492.5
Share of associates' results	**4.0**	2.2
Property operating lease rentals net of rent receivable	**184.9**	190.6
Adjusted EBITDAR	**675.9**	685.3
Net debt	**353.6**	341.5
Property lease rentals x 8	**1,479.2**	1,524.8
Lease adjusted net debt	**1,832.8**	1,866.3
Lease adjusted net debt to EBITDAR	**2.7x**	2.7x

(c) Fixed charge cover

£m	**2018**	2017
Adjusted EBITDAR	**675.9**	685.3
Property operating lease rentals net of rent receivable	**184.9**	190.6
Interest for fixed charge cover calculation	**26.2**	28.3
	211.1	218.9
Fixed charge cover net of rent receivable	**3.2x**	3.1x

18. Revenue reconciliation and like-for-like sales

Like-for-like sales are a measure of underlying sales performance for two successive periods. Branches contribute to like-for-like sales once they have been trading for more than 12 months. Revenue included in like-for-like is for the equivalent times in both years being compared. When branches close revenue is excluded from the prior year figures for the months equivalent to the post closure period in the current year.

Network change includes the impact of the disposal of the BPT business of £6m.

£m	General Merchanting	Contracts	Consumer	Plumbing & Heating	Consolidated
2017 revenue	2,109.5	1,369.0	1,589.1	1,365.5	6,433.1
Like-for-like revenue	28.8	94.9	(20.7)	210.0	313.0
	2,138.3	1,463.9	1,568.4	1,575.5	6,746.1
Network change	(1.0)	7.2	36.0	(47.8)	(5.6)
2018 revenue	2,137.3	1,471.1	1,604.4	1,527.7	6,740.5

19. Acquisition of businesses

On 28 September 2018, the Group acquired 100% of the issued share capital of E. East & Son Limited for total consideration of £3.0m, all satisfied by cash. The net assets acquired totalled £0.9m and goodwill of £2.1m was recognised as a result of this transaction.

On 13 October 2017, the Group acquired 75% of the issued share capital of National Shower Spares Limited, a leading online retailer of shower spares, for total cash consideration of £2.7m. On 28 April 2017, the Group acquired 77.5% of the issued share capital of TFS Holdings Limited, an air conditioning and refrigeration distributor, for total cash consideration of £7.8m. All acquisitions were accounted for using the purchase method of accounting. The net assets acquired totalled £2.8m and £10.9m of goodwill and a non-controlling interest of £3.2m have been recognised. The goodwill represents the benefits from forecast growth and the assembled workforces. A non-current liability of £4.9m has been recognised in respect of put options on the non-controlling interests. For the period from acquisition, the combined revenue and operating profit for the above acquisitions total £12.6m and £1.4m respectively. If the acquisitions had been completed on the first day of 2017, group revenue would have been £6,443.5m and group operating profit for 2017 would have been £327.8m.

On 2 January 2019, the Group acquired the remaining 25% of the issued share capital of National Shower Spares Limited for the total cash consideration of £1.3m. This is a non-adjusting post balance sheet event.

20. Sale of business

On 30 September 2018 the Group sold the trade and assets of Birchwood Price Tools business for a total cash consideration of £9.0m, generating a loss on disposal of £10.3m, which has been disclosed as an adjusting item. Total net assets sold consist of £12.5m of working capital, £0.6m of other debtors and other creditors and £0.3m of fixed assets. As a result of the above disposal, £5.9m of intangible fixed assets were derecognised.

The disposal is not a discontinued operation under IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations as the sale of Birchwood Price Tools does not represent either a separate major line of the Group or a geographical area of operations.

21. Impact of IFRS 16 – Leases

In January 2016 the IASB issued IFRS 16 – Leases and this was endorsed by the European Union in October 2017. It will be effective from 1 January 2019. This Standard will have a material effect on the Group because the value of the operating leases it has entered into will be included in the balance sheet in future. The Group has a project team working to implement the processes and systems necessary to comply with its requirements.

The impact of adopting the standard on 1 January 2019 may change from current estimates because:

- the Group's lease portfolio is frequently changing
- the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application

IFRS 16 – Leases introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are elective recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard: lessors continue to classify leases as finance or operating leases.

IFRS 16 – Leases replaces existing leases guidance including IAS 17 – Leases and IFRIC 4 – Determining whether an Arrangement contains a Lease.

i. Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases of properties, vehicles and tool hire assets. The nature of the expenses recognised in respect of these leases will change because the Group will recognise a depreciation charge for right-of-use assets and an interest expense on lease liabilities.

Previously the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous as described in note 13 and will instead recognise an impairment of the right-of-use asset.

No significant impact is expected for the Group's finance leases.

ii. Leases in which the Group is a lessor

No significant impact is expected for leases in which the Group is a lessor.

iii. Transition

The Group plans to apply IFRS 16 – Leases initially on 1 January 2019 using the "modified retrospective" approach as described in paragraph C5(b) of the standard. Therefore the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. On transition the Group's intention is to measure the right-of-use on a retrospective basis for circa 300 of the Group's most material property leases and measure the right-of-use of the remaining leases on a fully prospective basis.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 – Leases to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 – Leases. The Group will elect to apply the practical expedient available for short-term leases and leases of low-value items and recognise the lease payments associated with these leases as an expense on a straight-line basis without recognising a right-of-use asset or a lease liability.

21. Impact of IFRS 16 – Leases (continued)

iv. Impact of the new standard

Given the complexity of the Standard and the number of leases held by the Group, the implementation project is not fully completed at the date of these financial statements. However, based on the information and modelling currently available, the Group has estimated the potential impact that initial application of IFRS 16 – Leases will have on key financial metrics including its return on capital employed. This modelling has assumed:

- IFRS 16 – Leases has been effective from 1 January 2018
- The transition options set out in this note
- Incremental borrowing rates calculated on the basis of market conditions on 1 January 2018

The modelling has not taken into account any interactions between IFRS 16 – Leases and the Group's existing onerous lease provisions nor has it considered the impact of the new standard on rent reviews.

Using lease data from 01 January 2018 rolled forward to the year end, the expected impact on the balance sheet position is the recognition of a right of use asset of c.£1.2bn and an additional lease liability of c.£1.35bn, with an expected tolerance of plus or minus £50m on these amounts.

Profits on the disposal of properties recognised as a result of sale and leaseback transactions will be lower under the new measurement rules of IFRS 16 – Leases.

This modelling indicates that the Group's return on capital employed would have been broadly in line with the currently disclosed lease adjusted return on capital employed.

IFRS 16 impact on return on capital employed

£m	Current basis	Indicative IFRS 16 - Leases basis
Adjusted operating profit	375	430
50% of property operating lease rentals	92	-
Lease-adjusted operating profit	467	430
Average capital employed	2,989	4,189
Property operating lease rentals x8	1,479	-
Lease-adjusted capital employed	4,468	4,189
Lease-adjusted return on capital employed	10.5%	10.3%

21. Impact of IFRS 16 – Leases (continued)

IFRS 16 impact on income statement

£m	Current basis	Remove rent	Add depreciation and interest	Indicative IFRS 16 - Leases basis
Revenue	6,741	-	-	6,741
Gross profit	1,917	-	-	1,917
Adjusted operating profit	375	210	(155)	430
Share of associates' results	(4)	-	-	(4)
Interest	(24)	-	(60)	(84)
Adjusted profit before tax	347	210	(215)	342