18 March 2020

Restore plc
Full Year 2019 Audited Results
Strong Momentum and Cash Generation

Restore plc (AIM: RST), the UK market leader in document management and business relocation, is pleased to announce its audited results for the year ended 31 December 2019.

SUMMARY OF RESULTS

	Revised reporting basis	Consistent reporting basis		
	2019	**2019**	**2018**	**Change**
Revenue	£215.6m	£215.6m	£195.5m	+10%
Statutory Profit Before Tax	£24.8m	£27.8m	£21.0m	+32%
Adjusted Profit Before Tax*	£35.6m	£42.4m	£37.5m	+13%
Adjusted EBITDA**	£70.0m	£54.0m	£48.2m	+12%
Net Debt	£88.5m	£88.5m	£111.3m	-20%
Adjusted Earnings Per Share	23.2p	27.6p	25.2p	+9.5%
Dividend per share	7.2p	7.2p	6.0p	+20%

RECONCILIATION OF STATUTORY TO ADJUSTED PROFIT

	Revised reporting basis	Consistent reporting basis		
	2019	**2019**	**2018**	**Change**
Statutory Profit Before Tax before IFRS16	£27.8m	£27.8m	£21.0m	+32%
IFRS16 impact	(£3.0m)	-	-	n/a
Statutory Profit Before Tax	£24.8m	£27.8m	£21.0m	+32%
Amortisation of intangible assets	£8.1m	£8.1m	£7.0m	+16%
Exceptional items	£2.7m	£2.7m	£8.5m	-68%
Share-based payments charge	-	£3.8m	£1.0m	+280%
Adjusted profit before tax *	£35.6m	£42.4m	£37.5m	+13%

* Adjusted Profit Before Tax on a consistent reporting basis is stated before amortisation, exceptional items, share based payments and IFRS16
Adjusted Profit Before Tax on a revised reporting basis is stated before amortisation and exceptional items and after adoption of IFRS 16
** Adjusted EBITDA is stated before amortisation, exceptional items and share based payments and is shown before the adoption of IFRS16 on a consistent reporting basis and after IFRS16 on a revised reporting basis

FINANCIAL HIGHLIGHTS

- Double digit growth in revenue and profit before tax, in line with expectations
- Operating margin up 40 bps to 21.5%
- Strong free cash flow generation of £42.9m, exceeding expectations
- Significant net debt reduction of 20% and decrease in pro forma adjusted EBITDA leverage from 2.1x to 1.6x
- Dividend up 20% to 7.2p

OPERATIONAL HIGHLIGHTS

- Positive net box growth of +1.5% in Records Management and completion of TNT integration
- Strong performance in Restore Harrow Green, the UK's number 1 office moving business
- Continued growth in capability and scale of Restore Technology with acquisition of SITD in June 2019
- Expansion of large recurring contract work and new business wins in Restore Digital
- Stable performance in Restore Datashred with strong operational progress largely offsetting the lower recycled paper price

CHARLES BLIGH, CEO, commenting on the results and the outlook said:

"I am delighted Restore has delivered double digit growth in revenue and profit for 2019 and during a year of reduced acquisition activity, the Company has shown inherent cash generation capability reducing debt by £22.8 million during the year.

Whilst the macro-environment remains uncertain, in particular the effects of COVID-19, Restore's high proportion of contracted and recurring revenues together with its strong financial base means the business is both well prepared and well placed for the headwinds ahead.

Looking ahead, the business has a clear strategy to grow both organically and through acquisition and to leverage our scale to the benefit of our customers and our shareholders. We have a high quality business model, an experienced team and a solid financial base from which we have the opportunity to expand our market share.

The Company has strong positions in all of its markets and has significant growth opportunities and trading since the start of the year has been in line with the Board's expectation."

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Chairman's Intro

Introduction

Restore plc has grown consistently through acquisition and organic expansion to become one of the UK's leading business service providers. The Company has reached a position of significant market share and scale and is well placed to develop from further acquisition, developing synergy and through continued organic momentum.

I am pleased to report that as we transitioned into the next stage of the Company's continued development, the new executive team have delivered a successful year of strong profit progression and cash generation and set out a clear vision for future expansion.

We are either number one or two in all of the markets in which we operate and we remain focused on services which are mission-critical to customers, providing cost advantage through our scale. With a greater emphasis on organic growth and operational efficiency, we are investing in technology for productivity and differentiation which generate good operating margins and strong visibility of earnings.

Results

For the year to 31 December 2019, adjusted profit before tax on a consistent accounting policy basis was £42.4 million on revenue of £215.6 million, with profit and revenue up 13% and 10% respectively. Adjusted earnings per share increased by 9.5% to 27.6 pence.

Strategy

An insightful and well attended Capital Markets Day, held in November 2019, confirmed not only the strong position the Company has achieved, but also the significant growth opportunities that lie ahead in the markets we serve.

Restore's core strategy is to generate strong organic growth from existing and new customers, grow through acquisition in most of the markets we operate in and through increasing scale, drive cost efficiencies to enhance margins further.

The records management activities, which generate the majority of the Company's operating profit, have high levels of customer retention, reflecting many years of investment. Operating as a trusted partner to our customers within a stable market produces recurring revenues and reliable cash flows which underpin the consistent performance of the business.

In addition to our position as the second largest records management business in the UK, we are the market leader in office relocation, number two in the secure destruction of confidential documents and number two in digital/scanning services. Over the last few years we have patiently built a strong presence in the exciting, but fragmented and immature, IT recycling sector achieving a number two position with a significant opportunity to grow.

Health and Safety

Health and Safety is the number one priority in the Company. During 2019 we undertook a comprehensive review of all our sites and we continue to invest more in our facilities, equipment and training. Through the Risk Committee we monitor our progress and safety at work is a key focus item from the Board to Executive Committee and site operations, ensuring we have a culture of safety first for our employees, customers and suppliers.

Board Changes

We had a successful year with the transition to a new CEO and CFO in 2019. I am delighted with the smooth handover and continued momentum in the Company with Charles Bligh, CEO, who started in March 2019 and Neil Ritchie, CFO, in October 2019. We also welcomed Jamie Hopkins, who will chair the Remuneration Committee, as Non-Executive Director in January 2020, also, after 6 years of service, James Wilde will be stepping down from the Board at the AGM in May 2020. I would like to thank James for his significant contribution to the Company over the last 6 years.

People

Restore's business philosophy is based around maintaining a small head office and encouraging a one Restore approach whilst ensuring each business unit is empowered and resourced to deliver relevant and specialist performance. This is intrinsic to delivering best in-class service for customers and financial discipline.

We are a customer focused business that is served by a service driven and solution orientated team.

We continue to invest in our processes and our skills to outperform customer expectations and set the standard for the sectors in which we operate. Since the end of the financial year we have created a new position of Chief People Officer and recruited Angie Wiseman to this post with a broad remit to further advance our people strategy.

I would like to thank all the team for their commitment over the last year and look forward to them continuing to share in the success of the Company.

Dividends

Your Board is recommending a final dividend of 4.8 pence, payable on 3 July 2020 reflecting the Board's confidence in the Company's future prospects following a year of transition and strong momentum with cash generation in 2019. Given the exceptional circumstances in relation to the COVID-19, we will continue to review our dividend policy, including the proposed final dividend referred to above, as the situation develops.

Summary and Outlook

2019 was a busy year for the company with a number of board and senior management changes. Built upon a solid financial platform, the Company is well positioned for the next stage of growth despite the current uncertainties brought about by COVID-19.

CEO's Statement

Introduction

Following my appointment in March 2019 I have been delighted with the continued business momentum. We go into 2020 with a clear strategy for growth, a strong management team to deliver our plans and the financial strength to invest as opportunities arise with a disciplined and cash generative growth focus.

Results

We achieved good results, maintaining strong momentum throughout the year. For the year to 31 December 2019, the business delivered a 10% increase in revenue to £215.6 million and 13% increase in adjusted profit before tax to £42.4 million with the operating margin increasing 40 bps to 21.5%. Earnings per share on an adjusted basis were up 9.5% at 27.6 pence (2018: 25.2 pence). A clear focus for the year was cash generation and I am pleased with the result which saw net debt leverage of the Company falling during the year from 2.1x to 1.6x which exceeded expectations.

Organic growth was achieved through continued expansion of the customer portfolio, selective price increases and further productivity improvement from our growing scale. Acquisition activity in the year was relatively low as we looked to consolidate the prior year acquisition of TNT BS, acquired in May 2018, and focus on the cash generation capability of the business. During the year, four small businesses were acquired.

Document Management Division

Our Document Management division comprises Restore Records Management, Restore Datashred and Restore Digital increasing revenue by £11.9 million to £159.5 million with operating profit increasing £4.4 million to £42.9 million.

Restore Records Management continued to grow steadily with organic revenue growth of 2.0%. Revenue in the year, including an additional four month contribution from TNT BS, increased to £95.9 million from £86.5 million. Operating margins also increased. We now store approximately 20 million boxes or box equivalents and 2.7 million data tapes and this stream of recurring revenues forms the foundation of profitability for the Group.

A key indicator of growth is annual net box growth, which bounced back to be 1.5% for the year. After the introduction of GDPR in 2018 and resulting increase in destruction rates we have seen, as expected, a glide path to a more normalised destruction level which is a positive trend. Supplementing the organic performance, we acquired two small storage businesses holding approximately 58k boxes in the second half of the year.

Occupancy rates closed the year within target range, ending 2019 at 95% which we consider to be the optimal level.

The extension in Rainham is on track for new box intake from Q1 2020. This will give us over 750k box slots to enable the closing of less efficient sites and provide for growth from existing customers.

We also continued to expand capacity through developing additional hardened aircraft shelters at Upper Heyford in Oxfordshire and further filled out our mine at Monkton Farleigh with increased racking. In line with our synergy realisation plans, we exited from two of the former TNT BS sites at Beckton and Nottingham.

Following on from this consolidation activity, we conducted a strategic review of the property estate across Records Management. Over the next ten years we see substantial opportunity to reduce the number of leases and buildings whilst preparing for business growth, improved operating efficiency and provision of regional presence our customers require.

Our decision at the end of 2018, to have two distinct sales teams focusing on corporate and public sector is helped us strengthen our pipeline in both sectors. In addition to our focus on central government through the Pan Government Contract, we are building on our experience and expertise in the transformation of NHS patient records from physical to digital, as well as operating new customer contracts in a live medical records environment. This is a key growth area, we are using our existing track record and accessing customers through our strong position within all the key public sector procurement frameworks to generate even more opportunities.

We are now able to deliver services beyond those that have traditionally been outsourced, and through deploying these in a structured process and using our sector insight, we are able to help overcome many of the barriers that NHS Trusts have faced in relation to physical to digital transition. We have existing relationships with over 80% of NHS hospitals, and our unique service offering in this area provides an excellent growth opportunity for Restore, whilst helping the NHS to operate more efficiently.

We have good growth opportunities in Records Management and our strategy has three focus areas. Firstly, to continue to grow organically, both with existing customers and through winning new contracts, to achieve this we intend to invest in the service proposition which will improve the digital experience of our customers. Secondly, there is margin expansion opportunity, primarily in property management and rationalisation. Thirdly, we will seek selective bolt-on acquisitions to further consolidate our position as one of the two major service providers in the UK.

Restore Datashred, our secure shredding and recycling business, continued to develop following the introduction of a new management team, strong development of operating KPIs and financial discipline and investment in the processing sites and fleet. Recycled Paper pricing, which represents 29% of revenues, was a headwind during the year resulting in a slight decline in revenues from £41.8 million to £41.0 million. Despite this headwind, the gross profit level of the business increased slightly year-on-year through strong cost controls and operating efficiency which is a good result and creates an efficient organisation from which to build.

The business continues to be focussed on customer experience and has invested in digital automation and portals. The excellent trust pilot rating of 4.5/5 in 2019 is a reflection of the strong customer feedback we receive on Datashred's trusted supplier status and service orientated team. With a new Managing Director in role from October 2019, I expect further improvements across the business during 2020.

We see good opportunities to grow Datashred in a very fragmented market place where we are a secure number two today. Our strategy is to organically grow our market share and further invest in new portals and tools to ensure we are not only the lowest cost provider, but the easiest to do business with. This will allow us to take additional market share over time.

Additionally there is substantial opportunity to drive strategic progress through acquisition over the medium term. The current headwinds in the recycled paper market may provide an early catalyst for this consolidation as some of our competitors struggle to make their business models work given they are heavily reliant on recycled paper revenues. Importantly, we can absorb acquisitions into our existing UK footprint and capacity without any significant investment in additional infrastructure.

Restore Digital, our scanning business, saw revenues increase from £19.3 million to £22.6 million. Operating margins were broadly unchanged as a result of planned ramp up costs associated with key contracts which will normalise into 2020.

The focus in the year was driving organic growth, specifically in key focus accounts, and as a result we saw significant new business from these relationships. We saw significant growth from regulated industries, which reinforces our strategic direction to focus on regulated sectors.

We continued to execute effectively our major long-term contracts with customers, such as RM Education for whom we scan exam papers, and the Nuclear Decommissioning Authority.

Key significant sales wins were achieved in both NHS GP records scanning and in our consultancy business where we are configuring and building specialist image capture and data processing capabilities for a Government customer. We expect these growth areas to continue into 2020 and beyond. With a future focus on organic growth, we invested heavily during the year in extending capability and experience within our Sales Team.

Our strategy to grow is primarily focussed on expanding market share through winning new customers and importantly selling into existing Group customers where there is a scale element and stringent security/service level requirements. We have a strong product capability that we deliver to customers today and we will invest further to gradually improve the product and technology range that we offer and over time develop our margin. We also see opportunity for acquisitions where we can see value from driving significant synergy benefits leveraging our national footprint.

Relocation Division

Our Relocation division comprises Restore Harrow Green and Restore Technology. It increased revenue significantly by £8.2 million to £56.1 million with operating profit increasing by £1.4 million to £7.2 million.

Restore Harrow Green continued to grow both revenues and profits. Revenues increased by £3.9 million to £41.5 million and double-digit operating margins were achieved. It was a very good year with London performing well, and a solid overall performance in the other regional centres throughout the UK

We continue to develop our sales and product strategy as the market evolves. We are attracting more direct customers from our competition and we are working increasingly with the co-working companies in the UK and larger facilities management organisations. These new channels value the price certainty and commitment to delivery we bring.

We secured a number of high profile relocations during the year throughout the UK and across multiple sectors including Debenhams, HMRC, Financial Ombudsman, Ford Motor Company, Marsh & McLennan, McKinsey & Company, Johnson & Johnson, Bath Spa University, North Lanarkshire Council, Illumina. We have built trusted relationships with our customers and delivered project and cost certainty in the process.

We were delighted to be the winner of the Partner in Relocation award with PFM for our work with Jaguar Land Rover. This is the sixth time we have won this award and delighted with the work we have delivered to JLR to earn this recognition.

Our strategy in Restore Harrow Green is to grow organically and expand into new customer segments that value certainty of delivery and at the same time be a conduit for further opportunity to the rest of the Group.

Restore Technology saw revenues increase by £4.3 million to £14.6 million. This was a mixture of strong organic growth and the benefit of acquisitions made in both the prior year and during 2019. In 2019 we made two acquisitions for a total net consideration of £2.1 million.

With the new facility in Bedford now fully operational and taking even more capacity we saw the margins in the second half of the year improve year-on-year as we expected.

We are currently the second largest independent ITAD business in the UK and see significant opportunities to grow in a large and fragmented market. Although the ITAD industry is largely un-regulated the obligations on businesses are very high, particularly in the areas of data security, environmental and social responsibility and cyber risk management. Increasingly, businesses will seek to work with larger and more credible organisations such as Restore Technology, one of the UK’s most accredited and trusted suppliers in this market. We see this as a positive long run trend coupled with the advantages that scale delivers in our cost base meaning the consolidation of the market is attractive.

Our strategy is to grow organically with an increased focus on channel partners to access the market, and to a service based business model that builds scale and has scope through the acquisition of smaller ITAD businesses across the UK.

Outlook
Looking ahead, the business has a clear strategy to grow both organically and through acquisition and to leverage our scale to the benefit of our customers and our shareholders. We have a high quality business model, an experienced team and a solid financial base from which we have the opportunity to expand our market share and grow earnings over the medium to long term. We will execute this strategy with a focus on return on capital and long term total shareholder value creation.

While the wider environment remains uncertain, in particular the effects of COVID-19, Restore's high proportion of contracted and recurring revenues together with its strong financial base means the business is both well prepared and well placed for the headwinds ahead.

I want to pay tribute to the previous CEO Charles Skinner and CFO Adam Councell whose leadership with the wider team created the company in its current form. I look forward to taking this very strong foundation forward and with the entire team continue the disciplined focus to deliver for customers and build an even better company for all stakeholders.

The Company has strong positions in all of its markets and has significant growth opportunities and trading since the start of the year has been in line with the Board's expectation.

CFO Statement

Introduction

Restore has delivered another year of strong growth in revenues and profit and through strong cash generation, the Company has delivered a significant reduction in net debt.

The results show underlying organic growth together with an additional four months contribution from effect of TNT BS, which was acquired in May 2018. With relatively few acquisitions in the year, exceptional costs were lower and this is reflected in strong statutory profit for the year.

The financial results also reflect a year of transition in accounting policies with the adoption of IFRS 16, Leases, having a material effect on the consolidated income statement and balance sheet. As such, the results are shown under IFRS 16 and additionally on a consistent basis without IFRS 16, to enable like for like comparison with 2018 and prepare for 2020 reporting.

Looking ahead, the Company has a strong financial platform from which to build and significant financial capacity to fund further expansion.

		Using consistent accounting policies	
Financial Highlights – continuing operations	**2019 £m**	**2019 £m**	2018 £m
Revenue	215.6	215.6	195.5
Adjusted profit before tax*	35.6	42.4	37.5
Statutory profit before tax	24.8	27.8	21.0
Adjusted EBITDA**	70.0	54.0	48.2
Net debt	88.5	88.5	111.3

* Adjusted Profit Before Tax under consistent accounting policies is stated before amortisation, exceptional items, share based payments and IFRS16
Adjusted Profit Before Tax for 2019 on a revised reporting basis is stated before amortisation and exceptional items and after adoption of IFRS16

** Adjusted EBITDA is stated before amortisation, exceptional items and share based payments and is shown before the adoption of IFRS16 on a consistent accounting basis and after IFRS16 on a revised reporting basis.

Income Statement

The Company's revenue for the year ended 31 December 2019 grew 10% to £215.6m (2018: £195.5M) with adjusted profit before tax increasing by 13% to £42.4m. (2019: £37.5m).

Organic business development provided 5% annual growth in revenue with acquisition related growth, primarily relating to the full year benefit of TNT BS acquired in May 2018, contributing a further 5%.

With increased business scale and improvements in operational efficiency, the Group's adjusted operating profit margin improved to 21.5% compared with 21.1% in 2018. This improvement in margin was largely achieved through synergy related to the prior year TNT BS acquisition and increased yield from the property estate and fleet, with both costs showing only modest increases year on year despite the strong increase in revenues.

The statutory profit before tax for 2019 was £24.8m (2018: £21.0m) and is stated after the adoption of a new accounting standard, IFRS 16 Leases, which had the effect of increasing charges to the Income Statement by £3m in the year.

Despite this additional non-cash cost, the statutory profit before tax increased year on year by 18%, and by 32% when restating the statutory result for the impact of IFRS 16. This growth is due to increased profits arising from higher revenues together with lower levels of exceptional costs in the year.

Adjusted profit items

Due to the one-off nature of exceptional costs and the non-cash element of certain charges, the Directors believe that an adjusted measure of profit before tax and earnings per share provides shareholders with a useful representation of the underlying earnings from the Group's business. The adjusting items in arriving at the underlying adjusted profit before tax are as follows:

Continuing operations	**2019 £'m**	**Using consistent accounting policies** **2019 £'m**	2018 £'m
Statutory profit before tax	24.8	24.8	21.0
IFRS 16 impact	-	3.0	-
Statutory profit before tax	24.8	27.8	21.0
Amortisation of intangible assets	8.1	8.1	7.0
Exceptional items	2.7	2.7	8.5
Share-based payments charge*	-	3.8	1.0
Adjusted profit before tax	35.6	42.4	37.5

* Share Based Payments will no longer considered an adjusting item in the adjusted profit before tax measure. The table above illustrates the adjusted profit before tax for the year to 2019 before and after the effect of the share based payment charge.

Exceptional Costs

Restore's strategy is to grow organically, through acquisition and from unlocking margin expansion opportunities, particularly the development of synergies across the Group. To deliver these goals, costs of a one-off or unusual nature may occur and in order to give a suitable representation of the underlying earnings of the Group, these costs are shown separately.

In 2019, exceptional costs have reduced significantly due to lower levels of acquisition activity. During 2019, exceptional costs incurred as a result of acquisitions were £2.3m with expense relating to prior year acquisitions, but incurred in the year, totalling £2.2m.

	2019 £'m	**Using consistent accounting policies** **2019 £'m**	2018 £'m
Acquisition transaction costs	0.1	0.1	2.4
Acquisition restructuring costs	2.3	2.3	4.6
Other exceptional	0.3	0.3	1.5
Total	2.7	2.7	8.5

Earnings Per Share (EPS)

Basic adjusted earnings per share are calculated by reference of the adjusted profit for the year, less a standard tax charge, to the weighted average number of shares in issue during the year. The year on year improvement in adjusted EPS reflects increased profitability in 2019.

	2019	**Using consistent accounting policies** **2019**	2018
Basic adjusted earnings per share from continuing operations (pence)	23.2p	27.6p	25.2p
Basic earnings per share from continuing operations (pence)	13.4p	15.3p	13.0p

Basic earnings per share reflect the statutory profit after tax divided by the weighted average number of shares in issue during the year. Whilst improving year on year, the adoption of IFRS 16 dilutes the basic earnings per share by 1.9p.

Interest Cost
The total interest cost for 2019 increased substantially as a result of the adoption of IFRS 16.

The interest costs relating to bank loans and overdrafts was £3.9m for 2019 which is relatively flat with the prior year (2018: £3.8m). Whilst net debt has decreased from £111.3m to £88.5m during 2019, the average debt for the year is consistent across 2019 and 2018 with a profile of increasing debt during 2018 contrasting with a profile of decreasing debt during 2019.

Interest costs associated with the adoption of IFRS 16 were £5.7m (2018: £0.0m).

Taxation
UK Corporation Tax is calculated at 19% (2018: 19%) of the estimated assessable profit for the year. In relation to deferred tax, the UK Corporation Tax rate had been assumed at 17% for future periods but at the Budget presentation on 11 March 2020, the future tax rate was set at 19%. The adjustment, if the deferred tax balances were revised to this rate, would result in a cumulative deferred tax change of approximately £1.7m.

Deferred tax associated with intangible assets represents a material, non-cash element of the tax charge. During the year a review of deferred tax was undertaken which resulted in an additional expense of £1.9m charged to the Income Statement.

Cash generation and financing
Restore benefits from a high proportion of predictable, recurring revenues and robust margins which together with disciplined working capital management delivers strong operating cash flows.

In 2019, the Group generated £42.9m of cash from operating activities (2018: £25.6m). This improvement is the result of improved profits, lower exceptional costs and positive working capital management associated with greater management focus.

As a result of this cash generation, the Group's net debt decreased to £88.5m at 31 December 2019 (2018: £111.3m) with a corresponding reduction in pro forma adjusted EBITDA leverage from 2.1x to 1.6x.

The Group continues to have significant headroom within its borrowing facilities with the current Revolving Credit Facility (RCF), which runs to November 2022, providing borrowing capacity of up to £160m with a further accordion of £30m available subject to bank syndicate approval. This leaves the Group with flexibility to invest as opportunities arise.

Statement of Financial Position
IFRS 16 represents a significant change in the shape of the Group's balance sheet with an increase in right of use assets and corresponding increase in lease liabilities.

On a consistent accounting basis, excluding IFRS 16, the net assets of the Group have increased by £14.0m to £230.0m.

Following the application of IFRS 16, the Group's net assets increased by £2.5m to £218.5m. This difference when compared with a consistent accounting policy treatment, reflects the net impact of an increase in liabilities in excess of right of use asset valuation.

Capital investment in the sites and infrastructure to maintain and support growth was 4% of revenue (2018: 5%). The major investment in the year was £6m to build and fit out an extension to the Rainham site to increase capacity for the Records Management business.

The Group's working capital ratios remain healthy with a liquidity ratio of current assets to current liabilities, excluding cash, of 1.5 (2018: 1.6) on a pre IFRS 16 basis.

IFRS 16

IFRS 16 'Leases' was issued in January 2016. The Group has applied the standard from 1 January 2019 using the modified retrospective approach and as such prior year figures will not be adjusted.

The adoption of the standard has a material impact on Group's Financial Statements. The changes at 31 December 2019 can be summarised as follows:

- Right of use assets increase by £115.1m primarily reflecting the sizeable leasehold property portfolio of the Group.
- Liabilities increase by £134.3m reflecting the valuation of future lease payments
- Profit Before Tax is decreased by £3.0m reflecting the following adjustments
    - Credit to the P&L in relation to operating lease payments, primarily property rental, of £19.8m
    - Increase in depreciation charge relating to capitalisation of leases of £17.1m
    - Increase in non-cash interest charges relating to the notional finance costs of the assets in use of £5.7m

As a result of these changes, the Group has reported an adjusted statement of EBITDA in order to calculate an adjusted pro forma EBITDA debt leverage. This excludes the effects of IFRS 16 as the Directors believe this is a more useful measure to the readers of the accounts and more closely represents a cash based gearing assessment

The debt covenants on the Group's borrowing facilities will be unaffected by the application of IFRS 16 as the covenant calculation are based on the accounting principles in place at the date the agreement was entered into and exclude IFRS 16.

The cash flows of the Group remain unaltered as a result of adoption of this new standard.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Note	**Year ended 31 December 2019 £'m**	**Using consistent accounting policies** Year ended 31 December 2019 £'m	Year ended 31 December 2018 £'m
Revenue – continuing operations	2	215.6	215.6	195.5
Cost of sales		(120.3)	(123.0)	(111.5)
Gross profit		95.3	92.6	84.0
Administrative expenses		(50.1)	(50.1)	(43.7)
Amortisation of intangible assets		(8.1)	(8.1)	(7.0)
Exceptional items	3	(2.7)	(2.7)	(8.5)
Operating profit		34.4	31.7	24.8
Finance costs		(9.6)	(3.9)	(3.8)
Profit before tax		24.8	27.8	21.0
Income tax charge	4	(7.9)	(8.6)	(2.5)
Profit and total comprehensive income for the year from continuing operations		16.9	19.2	18.5
Loss from discontinued operations		(0.2)	(0.2)	(2.8)
Profit attributable to owners of the parent		16.7	19.0	15.7
Earnings/(loss) per share attributable to owners of the parent (pence)				
Total – basic	5	13.4p	15.3p	13.0p
Total – diluted	5	12.9p	14.7p	12.5p
Continuing operations – basic	5	13.6p	15.5p	15.3p
Continuing operations – diluted	5	13.1p	14.9p	14.7p
Discontinued operations – basic	5	(0.2p)	(0.2p)	(2.3p)
Discontinued operations – diluted	5	(0.2p)	(0.2p)	(2.2p)

The reconciliation between the statutory results shown above and the non-GAAP adjusted measures are shown below:

	Note	**Year ended 31 December 2019 £'m**	**Using consistent accounting policies** Year ended 31 December 2019 £'m	Year ended 31 December 2018 £'m
Operating profit – continuing operations		34.4	31.7	24.8
Adjustments for:				
Amortisation of intangible assets	4	8.1	8.1	7.0
Exceptional items	4	2.7	2.7	8.5
Share-based payments charge	4	-	3.8	1.0
Adjustments		10.8	14.6	16.5
Adjusted operating profit		45.2	46.3	41.3
Depreciation of property, plant and equipment	8	24.8	7.7	6.9
Earnings before interest, taxation, depreciation, amortisation and exceptional items (EBITDA)		70.0	54.0	48.2
Profit before tax		24.8	27.8	21.0
Adjustments (as stated above)		10.8	14.6	16.5
Adjusted profit before tax		35.6	42.4	37.5

Consolidated statement of financial position

As at 31 December 2019

	Note	2019 £'m	Using consistent accounting policies 2019 £'m	2018 £'m
ASSETS				
Non-current assets				
Intangible assets	9	257.5	257.5	261.9
Property, plant and equipment		71.8	71.8	71.1
Right of use assets	10	115.1	-	-
Investments		1.6	1.6	-
Deferred tax asset		3.8	3.1	2.5
		449.8	334.0	335.5
Current assets				
Inventories		1.4	1.4	1.1
Trade and other receivables		47.9	47.9	48.7
Cash and cash equivalents	11	17.0	17.0	11.7
		66.3	66.3	61.5
Assets held directly for sale		-	-	1.8
Total assets		516.1	400.3	398.8
LIABILITIES				
Current liabilities				
Trade and other payables		(35.5)	(38.0)	(33.3)
Financial liabilities – borrowings	11	(0.4)	(0.4)	(0.8)
Financial liabilities – leases liabilities	12	(16.6)	-	-
Other financial liabilities		-	(0.1)	(0.2)
Current tax liabilities		(3.9)	(4.3)	(2.4)
Provisions		-	(0.9)	(0.9)
		(56.4)	(43.7)	(37.6)
Liabilities associated with assets held for sale		-	-	(0.2)
Non-current liabilities				
Financial liabilities – borrowings	11	(105.1)	(105.1)	(122.2)
Financial liabilities – lease liabilities	12	(117.7)	-	-
Other financial liabilities		-	(0.1)	(0.1)
Deferred tax liability		(18.4)	(18.4)	(17.6)
Provisions		-	(3.0)	(5.1)
		(241.2)	(126.6)	(145.0)
Total liabilities		(297.6)	(170.3)	(182.8)
Net assets		218.5	230.0	216.0
EQUITY				
Share capital		6.2	6.2	6.2
Share premium account		150.3	150.3	150.3
Other reserves		6.1	6.1	3.8
Retained earnings		55.9	67.4	55.7
Equity attributable to the owners of the parent		218.5	230.0	216.0

Consolidated statement of changes in equity
For the year ended 31 December 2019

	Attributable to owners of the parent				
	Share capital £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity £'m
Balance at 1 January 2018	5.6	100.9	3.2	46.2	155.9
Profit for the year	-	-	-	15.7	15.7
Total comprehensive income for the year	-	-	-	15.7	15.7
Transactions with owners					
Issue of shares in the year	0.6	51.0	-	-	51.6
Issue costs	-	(1.6)	-	-	(1.6)
Dividends	-	-	-	(6.6)	(6.6)
Transfers	-	-	(0.4)	0.4	-
Share-based payments charge	-	-	1.0	-	1.0
Balance at 31 December 2018	6.2	150.3	3.8	55.7	216.0
Change in accounting policy	-	-	-	(10.0)	(10.0)
Restated total equity at 1 January 2019	6.2	150.3	3.8	45.7	206.0
Profit for the year	-	-	-	16.7	16.7
Total comprehensive income for the year	-	-	-	16.7	16.7
Transactions with owners					
Dividends	-	-	-	(8.0)	(8.0)
Transfers	-	-	(0.7)	0.7	-
Share-based payments charge	-	-	2.1	-	2.1
Current tax on share-based payments	-	-	0.3	-	0.3
Deferred tax on share-based payments	-	-	0.6	-	0.6
Deferred tax taken directly to equity	-	-	-	0.8	0.8
Balance at 31 December 2019	6.2	150.3	6.1	55.9	218.5

	Using consistent accounting policies				
Balance at 1 January 2019	6.2	150.3	3.8	55.7	216.0
Profit for the year	-	-	-	19.0	19.0
Total comprehensive income for the year	-	-	-	19.0	19.0
Transactions with owners					
Dividends	-	-	-	(8.0)	(8.0)
Transfers	-	-	(0.7)	0.7	-
Share-based payments charge	-	-	2.1	-	2.1
Current tax on share-based payments	-	-	0.3	-	0.3
Deferred tax on share-based payments	-	-	0.6	-	0.6
Balance at 31 December 2019	6.2	150.3	6.1	67.4	230.0

Consolidated statement of cash flows
For the year ended 31 December 2019

	Note	Year ended 31 December 2019 £'m	Using consistent accounting policies: Year ended 31 December 2019 £'m	Using consistent accounting policies: Year ended 31 December 2018 £'m
Net cash generated from operations	8	71.3	51.7	32.4
Net finance costs		(8.7)	(3.1)	(3.6)
Income taxes paid		(5.7)	(5.7)	(3.2)
Net cash generated from operating activities		56.9	42.9	25.6
Cash flows from investing activities				
Purchase of property, plant and equipment and applications software		(9.0)	(9.0)	(10.1)
Purchase of subsidiary undertakings, net of cash acquired	7	(2.2)	(2.2)	(4.0)
Purchase of trade and assets	7	(0.6)	(0.6)	(88.5)
Proceeds from sale of property, plant and equipment		0.2	0.2	0.9
Disposal of subsidiary, net of cash disposal		(0.2)	(0.2)	-
Cash flows used in investing activities		(11.8)	(11.8)	(101.7)
Cash flows from financing activities				
Net proceeds from share issues		-	-	50.0
Dividends paid		(8.0)	(8.0)	(6.6)
Repayment of bank borrowings		-	-	(2.3)
Repayment of revolving credit facility		(17.4)	(17.4)	(8.0)
New bank loans raised		-	-	44.0
Finance lease repayments		(14.3)	(0.3)	(0.1)
Net cash (used in)/generated by financing activities		(39.7)	(25.7)	77.0
Net increase in cash and cash equivalents		5.4	5.4	0.9
Cash and cash equivalents at start of year		11.2	11.2	10.3
Cash and cash equivalents at end of year		16.6	16.6	11.2
Cash and cash equivalents shown above comprise:				
Cash at bank		17.0	17.0	11.7
Bank overdraft		(0.4)	(0.4)	(0.8)
Assets held as classified for sale		-	-	0.3
	11	16.6	16.6	11.2

Notes to the preliminary financial information for the year ended 31 December 2019

1.Basis of Preparation
The consolidated financial statements of Restore plc have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on a historical cost basis although when derivatives are used, they are reflected at their fair value. The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed later in this note.

The consolidated financial statements are presented in pounds sterling and, unless stated otherwise, shown in pounds million to one decimal place.

2. Segmental Analysis
The Group is organised into two main operating segments, Document Management and Relocation, and incurs Head Office costs. Services per segment operate as described in the Strategic report. The vast majority of trading of the Group is undertaken within the United Kingdom. Segment assets include intangibles, property, plant and equipment, right of use assets, inventories, receivables and operating cash. Central assets include deferred tax and head office assets. Segment liabilities comprise operating liabilities. Central liabilities include income tax and deferred tax, corporate borrowings and head office liabilities. Capital expenditure comprises additions to computer software, property, plant and equipment and includes additions resulting from acquisitions through business combinations. Segment assets and liabilities are allocated between segments on an actual basis.

Revenue
The revenue from external customers was derived from the Group's principal activities primarily in the UK (where the Company is domiciled) as follows:

		Using consistent accounting policies	
Continuing operations	**2019 £'m**	**2019 £'m**	2018 £'m
Restore Records Management	95.9	95.9	86.5
Restore Datashred	41.0	41.0	41.8
Restore Digital	22.6	22.6	19.3
Document Management division	159.5	159.5	147.6
Restore Harrow Green	41.5	41.5	37.6
Restore Technology	14.6	14.6	10.3
Relocation division	56.1	56.1	47.9
Total Revenue	215.6	215.6	195.5

Major customers
For the year ended 31 December 2019 no customers individually accounted for more than 3% (2018: 3%) of the Group's total revenue.

Segmental information

Profit before tax	2019 £'m	Using consistent accounting policies 2019 £'m	2018 £'m
Document Management division	45.1	42.9	38.5
Relocation division	7.7	7.2	5.8
Head office	(3.8)	(3.8)	(3.0)
Amortisation of Intangible assets	(8.1)	(8.1)	(7.0)
Exceptional Items	(2.7)	(2.7)	(8.5)
Share-based payments charge	(3.8)	(3.8)	(1.0)
Operating profit	34.4	31.7	24.8
Finance costs	(9.6)	(3.9)	(3.8)
Profit before tax	24.8	27.8	21.0

	Document Management £'m	Relocation £'m	Head Office £'m	31 December 2019 Total £'m
Segment assets	447.2	68.8	0.1	516.1
Segment liabilities	164.5	31.1	102.0	297.6
Capital expenditure	7.8	1.0	0.2	9.0
Depreciation and amortisation	29.2	3.6	0.1	32.9

	Using consistent accounting policies			
	Document Management £'m	Relocation £'m	Head Office £'m	31 December 2019 Total £'m
Segment assets	346.8	54.2	(0.7)	400.3
Segment liabilities	50.9	16.6	102.8	170.3
Capital expenditure	7.8	1.0	0.2	9.0
Depreciation and amortisation	14.7	1.0	0.1	15.8

	Using consistent accounting policies			
	Document Management £'m	Relocation £'m	Head Office £'m	31 December 2018 £'m
Segment assets	335.1	61.2	2.5	398.8
Segment liabilities	41.6	12.4	128.8	182.8
Capital expenditure	8.8	1.1	0.2	10.1
Depreciation and amortisation	13.2	0.7	-	13.9

On 25 February 2019, the Company sold ITP Group Holdings Limited, its printer cartridge recycling business in exchange for a 40% stake in Ink and Toner Recycling Limited, also a printer cartridge recycling company. The Company is now represented on the board of Ink and Toner Limited and accounts for this as an investment (note 15). The investment of £1.6m is included within the Relocation division segment assets line in the above.

		Using consistent accounting policies	
Discontinued operations	**31 December 2019 £'m**	**31 December 2019 £'m**	31 December 2018 £'m
Revenue	-	-	4.2
Operating loss	-	-	0.3
Impairment and amortisation of intangible assets	-	-	2.5
Loss before tax	-	-	-
Tax charge	-	-	-
Loss on disposal	0.2	0.2	2.8
Loss for the year from discontinued operations	0.2	0.2	2.8

At 31 December 2018, the assets and liabilities of the business were presented as held for sale.

Assets classified as held for sale	**£'m**
Property, plant and equipment	0.1
Other current assets	1.4
Cash	0.3
	1.8
Liabilities classified as held for sale	
Trade and other payables	0.2

3. Exceptional Items

		Using consistent accounting policies	
	2019 £'m	**2019 £'m**	2018 £'m
Acquisition – transaction costs	0.1	0.1	2.4
Acquisition related restructuring costs	2.3	2.3	4.6
Other exceptional	0.3	0.3	1.5
Total	2.7	2.7	8.5

Restore's strategy is to grow organically, through acquisition and from unlocking margin expansion opportunities, particularly the development of synergies across the Group. To deliver these goals, costs of a one-off or unusual nature may occur and in order to give a suitable representation of the underlying earnings of the Group, these are shown separately.

Transaction costs include stamp duty costs and transitional service arrangement fees, in addition to the cost of legal and professional fees incurred as part of the acquisitions.

Acquisition related restructuring costs were £2.3m in 2019, a reduction of £2.3m on 2018 due to the lower levels of acquisition activity and the completion of restructuring on prior year acquisitions. These costs include:

- The cost of duplicated staff roles during the integration and restructuring period
- The redundancy cost of implementing the post completion staff structures
- IT costs associated with the wind down of duplicated IT systems and the transfer across to the destination systems
- Property costs associated with sites which are identified at the point of acquisition as being superfluous to ongoing requirements and where a credible exit strategy is clear to management.

Other exceptional costs of £0.3m relate to the employers national insurance on the excise of share options in the year (2018: £0.6m, £0.7m non-cash write down of fixed assets and £0.2m other).

4. Taxation

		Using consistent accounting policies	
	2019 £'m	**2019 £'m**	2018 £'m
Current tax:			
UK corporation tax on profit for the year	7.3	7.9	5.7
Adjustment in respect of previous periods	-	-	(0.4)
Total current tax	7.3	7.9	5.3
Deferred tax:			
Current year	(1.3)	(1.2)	(2.4)
Adjustment in respect of previous periods	1.9	1.9	(0.4)
Total deferred tax	0.6	0.7	(2.8)
Total tax charge	7.9	8.6	2.5

The adjustment in respect of deferred tax for prior periods relates to a re-estimation of the deferred tax liability associated with intangible assets

The charge for the year can be reconciled to the profit in the Consolidated statement of comprehensive income as follows:

		Using consistent accounting policies	
	2019 £'m	**2019 £'m**	2018 £'m
Profit before tax	24.8	27.8	21.0
Profit before tax multiplied by the rate of corporation tax of 19.0% (2018: 19.0%)	4.7	5.3	4.0
Effects of:			
Expenses not deductible	3.6	2.1	-
Income not chargeable for tax purposes	(2.7)	(1.0)	(1.5)
Adjustment in respect of corporation tax for previous periods	-	-	(0.4)
Adjustment in respect of deferred tax for previous periods	1.9	1.9	(0.4)
Share-based payments charge	0.2	0.2	0.2
Effect of change in rate used for deferred tax	0.2	0.1	0.5
Deferred tax not recognised	-	-	0.1
Tax charge	7.9	8.6	2.5

5. Earnings Per Ordinary Share

Basic earnings per share have been calculated on the profit for the year after taxation and the weighted average number of ordinary shares in issue during the year.

		Using consistent accounting policies	
	2019	**2019**	2018
Weighted average number of shares in issue	124,164,022	124,164,022	120,367,778
Total profit for the year	£16.7m	£19.0m	£15.7m
Total basic earnings per ordinary share	13.4p	15.3p	13.0p
Weighted average number of shares in issue	124,164,022	124,164,022	120,367,778
Share options	5,097,959	5,097,959	5,351,055
Weighted average fully diluted number of shares in issue	129,261,981	129,261,981	125,718,833
Total fully diluted earnings per share	12.9p	14.7p	12.5p
Continuing profit for the year	£16.9m	£19.2m	£18.5m
Continuing basic earnings per share	13.6p	15.5p	15.3p
Continuing fully diluted earnings per share	13.1p	14.9p	14.7p
Discontinued loss for the year	(£0.2m)	(£0.2m)	(£2.8m)
Discontinued basic loss per share	(0.2p)	(0.2p)	(2.3p)
Discontinued fully diluted loss per share	(0.2p)	(0.2p)	(2.2p)

Adjusted earnings per share
The Directors believe that the adjusted earnings per share provide a more appropriate representation of the underlying earnings derived from the Group's business. The adjusting items are shown in the table below:

		Using consistent accounting policies	
	2019 £'m	**2019 £'m**	2018 £'m
Continuing profit before tax	24.8	27.8	21.0
Adjustments:			
Amortisation of intangible assets	8.1	8.1	7.0
Exceptional items	2.7	2.7	8.5
Share-based payments charge	-	3.8	1.0
Adjusted continuing profit for the year	35.6	42.4	37.5

The adjusted earnings per share, based on the weighted average number of shares in issue during the year, 124.2m (2018: 120.4m) is calculated below:

		Using consistent accounting policies	
	2019	**2019**	2018
Adjusted profit before tax (£'m)	35.6	42.4	37.5
Tax at 19.0% / 19.0% (£'m)	(6.8)	(8.1)	(7.1)
Adjusted profit after tax (£'m)	28.8	34.3	30.4
Adjusted basic earnings per share	23.2p	27.6p	25.2p
Adjusted fully diluted earnings per share	22.3p	26.5p	24.2p

6. Dividends

In respect of the current year, the Directors propose a final dividend of 4.8p per share (2018: 4.0p) will be paid to ordinary shareholders on 3 July 2020. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. An interim dividend of 2.4p per share (2018: 2.0p) was paid during the year.

The proposed final dividend for 2019 is payable to all shareholders on the Register of Members at 29 May 2020. The final estimated dividend to be paid is £6.0m (2018: £5.0m).

7. Business Combinations

On 5 June 2019, the Group completed the acquisition of Secure IT Disposals Limited (SITD), an technology company, for cash consideration of £2.1m. Deferred consideration of £0.4m has been contractually agreed with the vendors and will be paid in 2020 on renewal of a major contract. The Group is still in the process of establishing the fair value of the assets and liabilities acquired, the provisional customer relationships were £1.3m.

As the Group is still in the process of establishing the fair value of the assets and liabilities acquired the fair values presented below are provisional.

	£'m
Intangibles – customer relationship	1.3
Property, plant and equipment	0.3
Inventories	0.2
Trade and other receivables	0.8
Cash	0.2
Trade and other payables	(0.5)
Corporation tax	(0.1)
Deferred taxation	(0.2)
Finance leases	(0.2)
Net assets acquired	1.8
Goodwill	0.7
Consideration	2.5
Satisfied by:	
Cash to Vendors	2.1
Deferred consideration	0.4
Total consideration	2.5

On 7 July 2019, the Group acquired the trade and assets of Team Recycling Limited, a technology business based in Somerset for cash consideration of £0.2m. The provisional customer relationships were £0.2m.

On 1 October 2019, the Company acquired the trade and assets of FDA Limited a records management business based in Chichester for cash consideration of £0.1m which provisionally represents customer relationships.

On 2 December 2019, the Company acquired the trade and assets of Archive Limited a records management business based in Manchester for cash consideration of £0.3m which provisionally represents customer relationships.

During the year, deferred consideration of £0.3m was paid, in relation to the acquisitions of Ink and Toner Limited and Crimson UK Limited.

Post acquisition results

The table below gives the revenue and profit for the acquisitions completed in the year and included in the consolidated results.

	2019 £'m	2018 £'m
Revenue	2.2	18.3
Profit before tax since acquisition included in the Consolidated statement of comprehensive income	0.2	7.0

If the acquisitions had been completed on the first day of the financial year, Group revenue would have been £217.6m (£217.6m under consistent accounting policy) and Group continuing profit before tax would have been £30.5m (£30.5m under consistent accounting policy). As explained in note 5, following the acquisitions a number of restructuring costs are incurred, and after this post acquisition restructuring the acquisitions have a positive impact on Group profit before tax.

The acquisitions made during the year were to further extend national coverage, increase customers and sites and increase the Group's market share in its records management and technology services.

8. Cash Inflow from Operations

		Using consistent accounting policies	
Continuing operations	**2019 £'m**	**2019 £'m**	2018 £'m
Profit before tax	24.8	27.8	21.0
Depreciation of property, plant and equipment	24.8	7.7	6.9
Amortisation of intangible assets	8.1	8.1	7.0
Net finance costs	9.5	3.9	3.8
Share-based payments charge	3.8	3.8	1.0
Gain on disposal of property, plant and equipment	-	-	(0.2)
Increase in inventories	(1.0)	(1.0)	-
Decrease/(increase) in trade and other receivables	1.0	1.0	(4.7)
Increase/(decrease) in trade and other payables	0.5	0.6	(2.4)
Net cash generated from operating activities	71.5	51.9	32.4
Net cash used by operating activities – discontinuing operations	(0.2)	(0.2)	-
Net cash generated from total operations	71.3	51.7	32.4

9. Intangible Assets

	Goodwill £'m	Customer relationships £'m	Trade names £'m	Applications software IT £'m	Total £'m
Cost					
1 January 2018	135.8	78.2	4.3	3.8	222.1
Arising on acquisition of subsidiaries	7.2	3.5	-	-	10.7
Arising on acquisition of trade and assets	21.7	43.9	-	-	65.6
Additions - external	-	-	-	1.2	1.2
Transfer to assets held for sale	(1.3)	(1.6)	-	-	(2.9)
31 December 2018	163.4	124.0	4.3	5.0	296.7
1 January 2019	163.4	124.0	4.3	5.0	296.7
Arising on acquisition of subsidiaries	0.7	1.3	-	-	2.0
Arising on acquisition of trade and assets	-	0.6	-	-	0.6
Additions – external	-	-	-	1.1	1.1
31 December 2019	164.1	125.9	4.3	6.1	300.4
Accumulation amortisation and impairment					
1 January 2018	10.6	13.8	1.6	2.2	28.2
Charge for the year	-	6.0	0.3	0.7	7.0
Transfer to assets held for sale	-	(0.4)	-	-	(0.4)
31 December 2018	10.6	19.4	1.9	2.9	34.8
1 January 2019	10.6	19.4	1.9	2.9	34.8
Charge for the year	-	7.0	0.3	0.8	8.1
31 December 2019	10.6	26.4	2.2	3.7	42.9
Carrying amount at 31 December 2019	153.5	99.5	2.1	2.4	257.5
Carrying amount at 31 December 2018	152.8	104.6	2.4	2.1	261.9
Carrying amount at 31 December 2017	125.2	64.4	2.7	1.6	193.9

The customer relationships have a remaining life of 3–20 years. Amortisation is charged to profit or loss as an administrative expense.

10. Right of use assets

	Leasehold Property £'m	Office equipment, fixtures and fittings £'m	Motor Vehicles £'m	Total £'m
Cost				
31 December 2018	-	-	-	-
Change in accounting policy (note 36)	110.2	0.7	9.4	120.3
1 January 2019	110.2	0.7	9.4	120.3
Additions	6.7	0.1	5.6	12.4
Disposals	(0.1)	-	-	(0.1)
31 December 2019	116.8	0.8	15.0	132.6
Accumulated depreciation				
1 January 2019	-	-	-	-
Depreciation charge for the year	13.3	0.6	3.2	17.1
31 December 2019	13.3	0.6	3.2	17.1
Net book value				
31 December 2019	103.5	0.2	11.8	115.5
1 January 2019	110.2	0.7	9.4	120.3
31 December 2018	-	-	-	-

11. Financial Liabilities – Borrowings

		Using consistent accounting policies	
	2019 £'m	**2019 £'m**	2018 £'m
Current			
Bank loans and overdrafts	0.4	0.4	0.8
Bank loans – secured	-	-	-
Deferred financing costs	-	-	-
	0.4	0.4	0.8
Non-current			
Bank loans – secured	106.0	106.0	123.3
Deferred financing costs	(0.9)	(0.9)	(1.1)
	105.1	105.1	122.2

Analysis of net debt

		Using consistent accounting policies	
	2019 £'m	**2019 £'m**	2018 £'m
Cash at bank and in hand	17.0	17.0	11.7
Bank loans due within one year	(0.4)	(0.4)	(0.8)
Bank loans due after one year	(105.1)	(105.1)	(122.2)
	(88.5)	(88.5)	(111.3)

12. Changes in accounting policies

(a) Adjustments recognised on the adoption of IFRS16

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in (b) below.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet at 1 January 2019.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using a rationale based on the Group's incremental borrowing rate as of 1 January 2019 which was 4.2%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the 1 January 2019. The measurement principles of IFRS 16 are only applied after that date. The re-measurements to the lease liabilities were recognised as adjustments to the related right of use assets immediately after the date of initial application.

A reconciliation of the lease liability recognised at 1 January 2019 to operating lease commitments at 31 December 2018 is shown below.

	£'m
IAS17 operating lease commitments	159.0
Add: adjustments related to variable lease payments based on an index or rate	2.3
Less: adjustments due to disposal of subsidiary	(0.4)
Less: contracts to which the short-term leases exemption has been applied	(0.5)
Add: service/non-lease components of lease contracts	8.8
Subtotal gross IFRS16 liabilities recognised at 1 January 2019	169.2
Discounted using the Group's incremental borrowing rate of 4.2%	135.8
Add: finance lease liabilities recognised at 31 December 2018	0.3
IFRS16 lease liability as at 1 January 2019	136.1
Of which are:	
Current lease liabilities	14.3
Non-current lease liabilities	121.8
	136.1

The Group leases various premises and assets under non-cancellable lease agreements of varying terms.

The majority of the lease agreements are renewable at the end of the lease period at market rate.

The associated right of use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 1 January 2019. Onerous lease provisions of £4.4m at 1 January 2019 have been offset against the right of use asset at the date of initial application. The recognised right of use assets are shown in note 14.

The effects of the change in accounting policy include the following items in the balance sheet on 1 January 2019:

- right of use assets – increase by £120.3m
- deferred tax assets – increase by £1.7m
- lease liabilities – increase by £136.1m

The net impact on retained earnings on 1 January 2019 was a decrease of £10.0m.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of single discount rate structures, to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and interpretation 4

Determining whether an arrangement contains a lease

(b) **The Group's leasing activities and how these are accounted for**

The Group leases various properties, plant and equipment and vehicles. Rental contracts are typically made for fixed periods and may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.
Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined interest rate structures based on the lessee's incremental borrowing rate have been used, to reflect the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right of use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less and low-value assets comprise IT-equipment and small items of office furniture.

Extension and termination options
Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

13. Post Balance Sheet Events
There have been no events since the balance sheet date which require disclosure.

END.