Travis Perkins plc

The **right tools** for the job

Annual Report and Accounts 2019

Against a challenging market backdrop the Group has delivered a positive trading performance and made significant strategic progress

Our continued progress on this journey will allow us to deliver on our purpose of providing **best-in-class service to trade customers through advantaged businesses in attractive markets**

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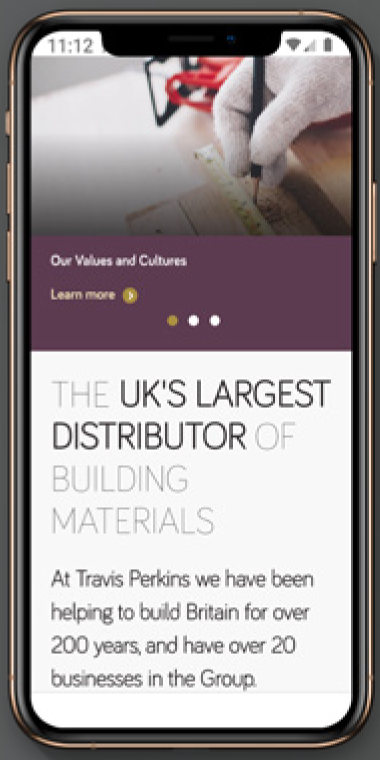

What's in **our report**

Our **tools**

The **right people**

The **right strategy**

The **right culture**

The **right systems**

The **right focus**

The **right locations**

Merchants

Toolstation

Retail

Plumbing & Heating

Contents

The Group is reporting its 2019 accounts under the new lease accounting rules, IFRS 16 – Leases, which significantly impacts income statement and balance sheet metrics, including adjusted operating profit and profit after tax. The impact of this new standard is discussed in the Financial performance section (pages 22 to 39) and in note 10 to the financial statements. Throughout the strategic report, and consistent with prior years, alternative performance measures ("APMs") are used to describe the Group's performance. These are not recognised under IFRS or other generally accepted accounting principles (GAAP). The Board manages and assesses the performance of the business on these measures and believes they are more representative of ongoing trading and facilitate meaningful year-on-year comparisons and hence provide more useful information to shareholders. APMs are defined in the notes to the financial statements and reconciled to the closest GAAP measure.

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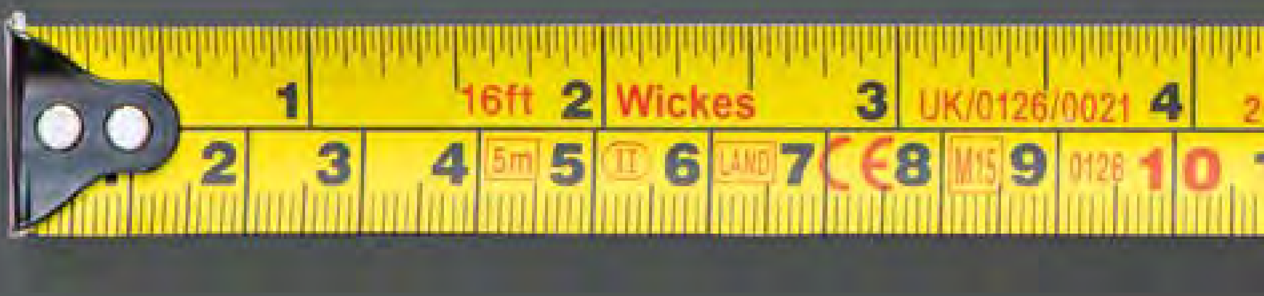


Financial highlights

Revenue

£6,956m

2018: £6,741m

Adjusted operating profit

£442m

2018: £375m

Covenant net debt

£344m

2018: £300m

Profit after tax

£123m

2018: loss of £84m

Dividend per share

48.5p

2018: 47.0p

Operational highlights

- Merchant businesses outperformed challenging markets, benefitting from business simplification and greater local empowerment
- Acceleration of Toolstation UK expansion continued with 65 new branches opened and the acquisition of a controlling share of Toolstation Europe
- Process to demerge Wickes well progressed and due for completion in Q2 2020
- Process to divest the Plumbing & Heating business paused during this period of significant uncertainty. Sale of the plumbing & heating wholesale business completed in January 2020
- Cost reduction activities are on track; streamlining above-branch operations and increasing the agility of the Group

Travis Perkins plc

At a glance

Travis Perkins* is the largest distributor of building materials in the UK

1,800 branches

20k colleagues

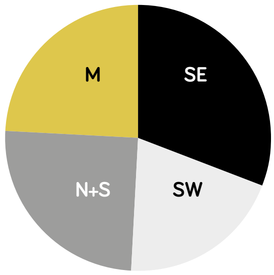
£5.4bn revenue*

Serving a broad range of end markets from generalist to specialist propositions

SPLIT OF END MARKET BY SALES	RESIDENTIAL	COMMERCIAL	INFRASTRUCTURE
New build	15%	15%	5%
Repair maintenance and improvement	60%	5%	0%

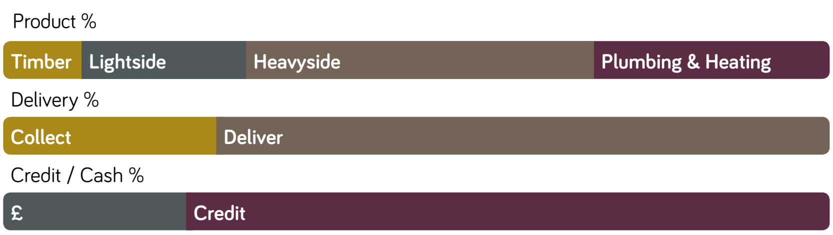
Providing building material customers across the length and breadth of the UK with best-in-class service

Over 200k trade credit customers



Regional Split
South-East: 31%
South-West: 20%
North & Scotland: 25%
Midlands: 24%

Supplying a full range of materials to enable our customers to complete their projects



* The figures on this page exclude Wickes and Primaflow F&P as the Group has announced an intention to demerge Wickes in Q2 2020 and sold Primaflow F&P in January 2020. For details of Wickes' strategy, performance and leadership see pages 30 to 33.

	TOOLSTATION	MERCHANTS					PLUMBING & HEATING
	Toolstation	Travis Perkins	Benchmarx	BSS	CCF	Keyline	PTS / City Plumbing
Branches	466	642	181	64	42	55	370
People	4,000	8,000	1,100	1,400	1,000	900	3,300
Revenue	**£0.5bn**	**£2.2bn**	**£0.1bn**	**£0.4bn**	**£0.5bn**	**£0.6bn**	**£1.1bn**

MAINLY FOCUSED ON DOMESTIC RMI	LARGE PROJECTS	DOMESTIC RMI
	– New build residential – Commercial – Infrastructure	

MANY CUSTOMERS		FEW CUSTOMERS	MANY CUSTOMERS
Small trade (c.70%) and consumer (c.30%)	Smaller local builders to the largest construction businesses	Large trade customers with specific product and service requirements	Smaller local plumbers to large trade customers

WIDE SKU BASE		NARROW SKU BASE	
Lightside	**Timber Heavy Lightside**	**Specialist product set**	**Plumbing & Heating**
Delivery %	Delivery %	Delivery %	Delivery %
Collect / Deliver	Collect / Deliver	C / Deliver	Collect / Deliver
Credit %	Credit %	Credit %	Credit %
£	£ / Credit	£ / Credit	£ / Credit

Chairman's statement

Stuart Chambers
Chairman

Dividend per share
48.5p

LFL revenue growth
3.8%

I am pleased to introduce the Company's Annual Report for the year ended 31 December 2019, a year in which the Group has achieved a positive trading performance against a challenging market backdrop. We have welcomed a new CEO to the Group as well as two new Non-executive Directors and have made significant progress towards the strategic aims set in 2018.

Performance

The Group produced a good performance in 2019 against a challenging market backdrop, with encouraging signs of progress from the strategic initiatives set out in 2018. Total Group revenues grew by 3.2% in 2019 to £6,956m and by 3.8% on a like-for-like basis, with growth driven by market outperformance in the Merchant businesses, further excellent growth in Toolstation and a strong recovery in Wickes.

On a statutory basis operating profit increased to £232m (2018: loss of £22m including £246m goodwill impairment), as the impact of halting the ERP replacement programme and restructuring charges partially offset the positive trading performance.

Adjusted operating profits grew by 7.8% to £442m with growth across all segments, including the strong recovery in Wickes and the benefits of the transformation programme in Plumbing & Heating.

Board of Directors

In August, our CEO John Carter left the Group after 40 years of invaluable service helping to grow and develop our businesses into what they are today, leaving us well placed to address the demands of our customers and to implement our strategic plans.

We welcomed Nick Roberts as the incoming CEO in July and his leadership and contribution to the business has already proven beneficial at this time of significant change. In addition, in November we appointed Marianne Culver and Blair Illingworth as Non-executive Directors, bringing experience and expertise in building products, distribution and logistics.

In February 2019, Tony Buffin stepped down from the Board as COO and left the business, having successfully led the transformation of the Plumbing & Heating Division.

On 3 March 2020, Ruth Anderson, who is in her ninth year as a Non-executive Director, is stepping down from the Board. I would like to thank Ruth for her significant and valuable contributions, particularly her skillful Chairmanship of the Audit Committee for more than six years.

Finally, I would like to thank Chris Rogers for his six years of service, including serving as our Senior Independent Director, as he steps down at the 2020 AGM to start as the Chairman of Wickes plc following its demerger from the Travis Perkins Group.

Strategy

In December 2018 the Group laid out its future plans for the years ahead, clearly defining its purpose to be the first choice supplier of building materials to trade customers. The strategy has two overarching aims: to focus on trade customers through our advantaged trade businesses and to simplify the Group to speed up decision-making and increase the agility of the Group.

The Group has made good progress towards these aims, including significant progress towards demerging Wickes, a positive start on the regeneration of the Travis Perkins general merchant business that is already yielding positive results, and the January 2020 sale of the PF&P wholesale business from the P&H segment.

Dividend

At the Capital Markets event in December 2018 the Group reiterated its commitment to a progressive dividend policy, supported by the Board's confidence in the Group's continued strong cash generation and robust balance sheet. The Board recommends a full-year dividend for 2019 of 48.5 pence representing a 3.2% increase. This increase would give a final dividend of 33.0 pence payable on 13 May 2020 to shareholders on the register on 5 April 2020.

Colleagues

At Travis Perkins, the strength of relationships built with customers, suppliers and other stakeholders is key to our success and in achieving this our people are our greatest resource. Today, we have nearly 30,000 colleagues and it is a huge credit to their hard work that Travis Perkins has been recognised as a Top Employer by the Great Place to Work Institute for the 11th year running.

I would like to take this opportunity, on behalf of the Board, to thank all our colleagues for their engagement with the Group's strategic direction and their commitment, energy and hard work during the course of 2019 towards achieving the Group's goals.

Outlook

The underlying, fundamental drivers of our end markets remain strong, with continued underinvestment in the construction of new housing, and the repair, maintenance and improvement of existing dwellings. The unprecedented level of political and economic uncertainty in the UK in recent years has made the trading environment increasingly challenging, and whilst there are early signs of recovery in some RMI market lead indicators, the Group retains a cautious outlook towards near-term trading conditions. As a Group, we remain focused on delivering on our self-help initiatives which will support our near-term financial performance and position the business well to outperform its end markets and generate sustainable value growth in the long term.

Our year in review

- Nick Roberts welcomed as CEO following John Carter's retirement after 40 years of invaluable service
- Marianne Culver and Blair Illingworth appointed as NEDs, bringing experience and expertise in building products, distribution and logistics
- Dividend of 48.5 pence reflecting the Group's strong cash generation and balance sheet
- Good progress towards strategic goals: demerger of Wickes, separation of P&H and reinvigoration of merchant businesses
- Recognised as a Top Employer for the 11th year running

Chief Executive's report

"Our people make the Group great and I couldn't be more proud of the team we have"

Nick Roberts
Chief Executive Officer

Adjusted operating profit growth

7.8%

Introduction

I am delighted to be introducing my first CEO Statement for Travis Perkins. Since joining the Group in July 2019, I have immersed myself within the business and spent time with colleagues from all areas. I have been truly amazed at the quality of people we have; ranging from apprentices up to colleagues with over 40 years service in the Group. One thing will never change: our people make the Group great and I couldn't be more proud of the team we have.

Our mantra of putting customers at the heart of everything we do has been evident to me across all areas of our business. Whilst there will always be work to do, this industry is heavily dependent on strong relationships and this is something I fully endorse and encourage.

Safety

Keeping people safe is the most important cornerstone of the Group and I am delighted to be able to report that the accident frequency rate improved by 25% in 2019. This improvement is a real achievement and it has happened through the dedication and rigorous efforts of our business leaders, line managers, colleagues and the Stay Safe function.

Sustainability
During 2019 we launched a reinvigorated approach to sustainability, highlighting 12 sustainability focus areas grouped under four pillars: people, social, environmental and industry. Our focus in these areas will enable the Group to build resilience and operational efficiencies, underpinning a robust social offer to customers and improving behaviour in the supply chain.

Performance against strategy
At a Capital Markets event in 2018, the Group laid out its plans for the years ahead, with two overarching strategic aims:
i. To focus on serving trade customers through advantaged trade businesses
ii. To simplify the Group to increase agility, speed up decision-making and enable a leaner cost base.

These strategic aims will enable us to allocate capital in businesses serving trade-focused end markets to create maximum value for shareholders. I believe this is the right plan and I am fully committed to it. We have made good progress in 2019, which is reflected in the encouraging financial performance in the year.

The proposed demerger of Wickes is progressing well, the regulatory process is on track with the prospectus due for publication in late March and the demerger process expected to complete in Q2 2020.

There has been good progress on the transformation and divestment of the Plumbing & Heating businesses. In January 2020 the Group completed the sale of Primaflow F&P, the wholesale P&H business, for £50m which will enable our remaining P&H businesses to focus on delivering market-leading service to direct trade customers. In Q4 2019 the Board paused the process to divest the remaining P&H business at a time of significant political and economic uncertainty in the UK, and whilst there remains an intention to make a divestment, the Group's focus is on maximising value for shareholders not on the specific timeframe.

Streamlining the above-branch cost base is a key part of the simplification of the Group and we are making good progress towards this, although there remains more to do. The Group's target of £20m–£30m of annualised cost savings by mid-2020 will be achieved, as by the end of 2019 all of the planned actions were in place, which will realise annualised savings modestly exceeding expectations. These savings are the result of removing the divisional structure, operational cost savings from the closure of the heavyside range centres and the streamlining of head-office functions.

As I take a step back and assess the Group's short-term strategic direction, there is a need to focus on the key priorities for the Group and deliver them at pace. We need to focus on the regeneration of the Travis Perkins general merchant, accelerate the expansion of Toolstation and deliver an organisational model fit for the future. If we focus on these priorities and execute successfully we will continue to win market share, drive growth and enhance returns for our shareholders.

ERP platform
I am fully aware of the disappointment around the halting of the development of the new ERP platform for the Merchant businesses, but the risk to the Group in implementing it was too high and something that we could not chance the performance of the business on. We are developing our approach to improving the IT and technology landscape across the Group, to create new capabilities with which to serve our customers in the future.

Outlook
The long-term fundamental drivers of the Group's end markets remain strong, with too few domestic homes being built in the UK and ongoing underinvestment in the existing housing stock. I remain confident in the Group's ability to deliver on its strategy and, whilst we are experiencing challenging market conditions in the near term, the self-help initiatives on which we are focused are positioning our businesses well for the future. The overall aim is for our businesses to outperform their end markets, demonstrating strong cost discipline and good free cash flow generation in all market conditions.

Our year in review

- Adjusted operating profit growth of 7.8% driven by cost reduction activity, the recovery in Wickes and P&H transformation
- Merchant businesses outperformed challenging end markets, benefitting from business simplification and more empowered teams
- Acceleration of Toolstation expansion with 65 new branches and the acquisition of Toolstation Europe
- Process to demerge Wickes well progressed, due for completion in Q2 2020
- Plan to divest the P&H business paused during period of significant uncertainty; sale of the PF&P wholesale business in January 2020
- Cost reduction are streamlining above-branch operations and increasing the agility of the Group

Investment case

Solid **foundations**

The fundamental long-term market drivers remain strong with ongoing underinvestment in the UK in building new homes and maintaining existing homes

The Group operates in highly fragmented markets with over 50% of market share held by small, independent businesses

The Group's businesses all hold #1 or #2 positions in their markets with growth in most businesses outperforming their end markets

A strong balance sheet that enables disciplined investments in high-return opportunities, such as Toolstation

The Group generates strong, sustainable cash flow which supports a progressive dividend policy

Market dynamics

Serving all **areas**

The Group serves all areas of the construction market

	Residential	Commercial	Infrastructure
New build	√	√	√
Repair, maintenance and improvement (“RMI”)	√	√	√

Fundamentals

The fundamentals of each area remain robust and will grow in the medium and longer term, driven by demand from end users.

Residential

Projected annual demand for UK homes	270,000
UK annual household formation	(180,000)
UK home-building shortfall	90,000

70 years

Average age of UK residential property

Infrastructure

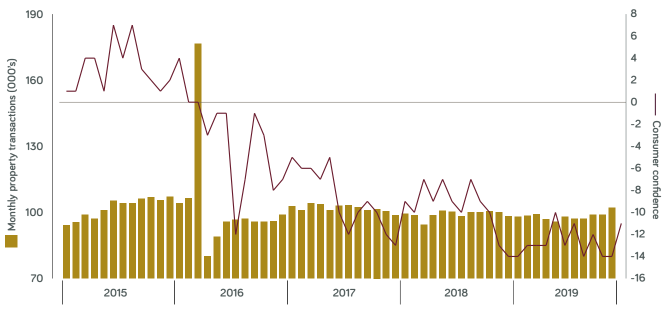
Underlying demand for major infrastructure (rail, airports, power stations, communication networks and utilities) remains strong with investment planned in many areas.

Commercial

Commercial buildings are needed to drive growth in a modern economy. Investment in new commercial buildings and refurbishment of existing stock will increase as the economy recovers.

Current conditions

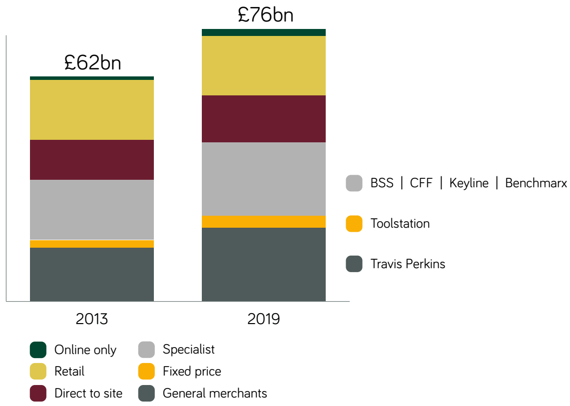
- The strength of the domestic housing market and consumer confidence are leading indicators for over half of Group revenues
- Recent political and macroeconomic uncertainty has impacted both factors, causing consumers to be very thoughtful about spend on big-ticket items
- Greater certainty and confidence combined with strong underlying fundamentals will push the building materials market back to growth once conditions are favourable



Sources: GfK Consumer Confidence Index, HMRC seasonally-adjusted UK property transactions

Addressable markets

- The Group's addressable market for building materials sold through distribution channels increased at a compound annual growth rate of 3.4% from 2013 to 2019
- All trade-focused channels have grown in absolute terms and as a proportion of the market
- The market grew more quickly from 2013 to mid-2016 as it recovered from the global financial crisis
- Growth slowed after the EU referendum in 2016
- The prospect for each of the trade-focused channels remains positive, with share improving in all sectors apart from Retail and direct to site



Business model

Strong and lasting customer and supplier relationships, combined with the strength of Travis Perkins' network and unique culture allow value creation and growth in a self-reinforcing cycle

Inputs

Competitively advantaged resources and relationships

Customers

Deep customer relationships and understanding of needs

Resources

- Nationwide branch network, embedded in communities
- 28,000 engaged colleagues, and a unique and open culture
- Industry leading supply chain
- Strong balance sheet
- Disciplined capital allocation
- 200+ year heritage and businesses that are #1 or #2 in their market

Suppliers

Deep and lasting supplier relationships with ability to connect to customers across the country

What we do

Collaborative value chain

– Collaborate
– Specify
– Quote

Collaborate with our customers, help specify their projects and quote at tailored or fixed low prices

– Negotiate
– Convert
– Sell

Empower and incentivise businesses and branch managers to negotiate and sell on the right payment terms

– Range
– Source

Source the right ranges for changing building practices and customer needs from reliable long-term partners

– Assort
– Procure

Give businesses and branch managers the flexibility to stock the right products, procured at prices reflecting our scale

Supported by

Responsible and sustainable approach

For more information see page 52

Outputs

Self-reinforcing model generating growth and value for stakeholders

Reinvest

– Fulfil
– Collect
– Deliver

Project manage and fulfil customer orders through collection or delivery from high-accuracy and high-availability branches, efficient distribution centres and direct suppliers.

Fulfilled customers

Getting the right value, range, service, convenience and credit

Engaged colleagues

- An empowering environment for colleagues

Enriched communities

- Over £2m raised for charities and community projects

Valued shareholders

- A track record of progressive dividends

Satisfied suppliers

- Paid on time and confident about investing in their relationship with the Group

Reinvest

Sound corporate governance
For more information see page 75

Robust risk management
For more information see page 40

Our strategy and purpose

Getting it **right**

Our purpose

Following a comprehensive review in 2018 the Board concluded that the purpose of Travis Perkins plc is:

To deliver best-in-class service to trade customers through advantaged businesses in attractive markets

- **Best-in-class service:** Service that inspires loyalty and goes beyond the supply of products
- **Trade customers:**: Ranging from smaller local builders to the largest and most complex businesses working in the construction sector
- **Advantaged businesses:** Businesses well placed to win and gain share through strong propositions and cost economics
- **Attractive markets:** Markets with strong underlying fundamentals which are well placed to grow through the cycle

Two major strategic themes:

Focus on the trade

Developing businesses that are well placed to win in their markets

Simplify the Group

Positioning the Group for enhanced returns and long-term growth

Getting it **right**

continued

Focus on the trade

Focus on the trade

Rationale

- The heritage and heartland of the Group is serving UK trade customers and this represents the majority of the Group's activity today
- Trade-focused market sectors continue to see the largest share of industry growth with more resilient margins and a more predictable business cycle
- Trade customers demand competitive prices but still recognise the value of best-in-class service and will use partners that can offer this

A focused Group is a winning Group

- **Management attention**
- **Capital allocation**
- **Prioritisation of activities**
- **Delivery of results**

Delivery: 2019 achievements

Preparation for the demerger of Wickes:
As a business Wickes has a majority consumer focus (70%) and so, whilst a great business which has significant advantages, it does not fit our purpose.

Reinvigoration of the performance of Travis Perkins General Merchanting:
Travis Perkins General Merchanting is the heart of the Group and we were not happy with performance up to 2018. The new management team has worked hard and delivered ten months of market outperformance.

Continued to develop and grow specialist merchants:
Our specialist plumbing & heating and heavyside merchants have evolved their propositions, taken market share and focused hard on their customers.

Accelerated the roll out of Toolstation UK:
The team opened a phenomenal 65 branches in 2019, closing the year with the 400th Toolstation up and trading. This was combined with further progress on commercial, people and digital initiatives.

Expanding the Toolstation proposition in Europe:
With the acquisition of 97% of the Toolstation Europe business, the Group is expanding the Toolstation offer to trade customers in France, Belgium and the Netherlands.

Future plans

The Group is committed to developing the trade-focused business in the future. The goal is to evolve our propositions alongside the changing needs of our customers. We know that their needs will change, driven by factors such as changes to technology, new construction methods, the sustainability agenda and the mix of available skills. We are committed to remaining the first choice partner for the construction industry.

Toolstation Europe holding
97%

Toolstation UK new branches in 2019
65

Simplify the group

Simplify the Group

Rationale

Up to 2018 the Group had grown and become more complex. Sales growth had not translated into profit growth and costs had grown too quickly. Significant investments had been made which were not suited to a lower growth market and capital allocation was challenging. The Group needed to become simpler with three clear aims:

1. **More focused capital allocation**
2. **Faster decision making**
3. **Overhead cost reduction**

Delivery: 2019 achievements

- **Sale of Primaflow F&P:** The sale of Primaflow F&P, the Group's wholesale plumbing & heating business, to Newbury Investments completed on 31 January 2020. This marks an important step in the simplification journey as Primaflow F&P was the only wholesale business in the Group.
- **Simplification of the organisation:** Over the course of 2019 the Group has been able to further clarify its organisational model, allowing the removal of some layers and the exit of some smaller business. This has streamlined decision-making and clarified accountability.
- **Reduction of cost base:** As a result of the organisational changes and an increased focus on efficiency it has been possible to remove significant cost from the organisation. The Group remains on track to achieve £20-30m of annualised savings by mid-2020.

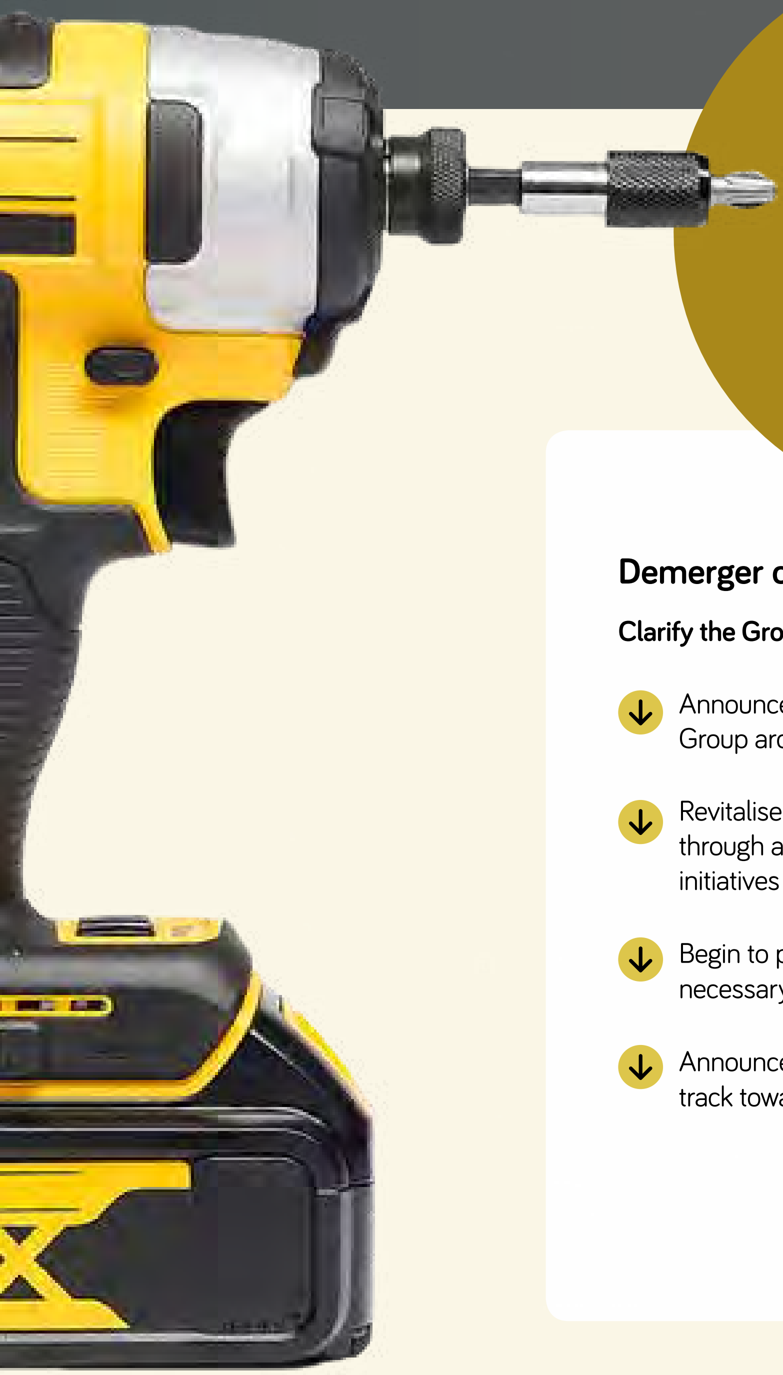
- **Attempted sale of Plumbing & Heating:** In 2018 the Group announced the intention to dispose of the Plumbing & Heating division as part of the move to simplify the Group. Despite running a good process with attractive expressions of interest, the level of political uncertainty in the second half of 2019 meant that the process was paused in October 2019.

Future plans

The Group is committed to continuing the journey of simplification. This means that costs will be kept under close review to ensure that further reductions can be realised. Whilst the Merchant ERP programme has been halted, this commitment also means that investment in modernising the IT estate will continue as this is a key component in process simplification.

Strategy in action

Making an **impact**



Focus on the trade

Demerger of Wickes

Clarify the Group's purpose: to focus on Trade customers

- Announce intention to generate optionality for the Group around Wickes
- Revitalise the business and enhance performance through a series of people, commercial and digital initiatives
- Begin to plan demerger activities and assign necessary resources
- Announce intention to demerge and proceed on track towards execution in Q2 2020

Since announcing the two major strategic themes in December 2018 the Group has worked hard to deliver significant impact in each area.

Simplify the Group

Sale of wholesale Plumbing & Heating business

Restructure organisation to increase efficiency and to reduce cost base

Announce requirement to simplify the Group to achieve greater efficiency and focused capital allocation

- Begin work to separate the Plumbing & Heating division
- Initiate sale process for the Plumbing & Heating division
- Pause process due to market uncertainty
- Maintain process to sell wholesale Plumbing & Heating

- Determine revised organisational model to deliver operational synergies
- Identify and quantify available benefits including achievable cost savings
- Test and refine the new model
- Communicate clearly and put plans in place to deliver
- Monitor results and refine

Execute successfully with a good outcome for all concerned

Key performance indicators (KPIs)

Measuring & checking to get it **right**

The Group tracks its performance using two operating KPIs, three financial KPIs and one non-financial KPI that the Board believes are key indicators of progress against the Group's strategic and financial targets. In addition the Group has a number of guidance measures at a Group, segmental and business level, details of which are set out in the financial performance section on pages 34 to 39.

Operational

Adjusted operating profit*

2019	£442m
2018	£375m
2017	£380m
2016	£409m
2015	£413m

Definition (note 2a)
Profit before tax, financing charges and income, amortisation of acquired intangibles and adjusting items.

Reason
Operating profit is adjusted to exclude non-trading items, such as adjusting items and the amortisation of other intangible assets arising on the acquisition of a business, so management can monitor the Group's underlying trading performance.

Like-for-like sales growth

2019	3.8%
2018	4.9%
2017	3.3%
2016	2.7%
2015	3.8%

Definition (note 1b)
Revenue growth adjusted for new branches, branch closures and trading day differences. Revenue included in like-for-like is for the equivalent periods in both years under comparison. Branches are included once they have traded for more than 12 months.

Reason
Like-for-like sales help management monitor the performance trend of the underlying business and gives a good indication of the health of the business compared to competitors.

Financial

Leverage ratio*

Year	Leverage ratio
2019	2.5x
2018	2.7x
2017	2.7x
2016	2.7x
2015	2.8x

Definition (note 25)
The ratio of net debt to earnings before tax, interest, depreciation, amortisation and adjusting items ("EBITDA"). The comparative figure is calculated as the ratio of lease-adjusted net debt to EBITDA adjusted for rent ("EBITDAR").

Reason
The leverage ratio is an indicator for management and lenders of the Group's ability to support its debt. The Group has a target of 2.5x.

Return on capital employed*

Year	Return on capital employed
2019	10.1%
2018	10.5%
2017	10.7%
2016	11.3%
2015	12.1%

Definition (note 27)
Adjusted operating profit divided by the combined value of balance sheet debt and equity. The comparative figure is EBITDA less 50% of property rent divided by debt, equity and eight times annual property rental expense.

Reason
This ratio allows management to measure how effectively capital is used in the business to generate returns for shareholders.

Free cash flow

Year	Free cash flow
2019	£195m
2018	£168m
2017	£154m
2016	£232m
2015	£156m

Definition (note 24)
Net cash flow before dividends, capital expenditure and disposal proceeds on freehold property, pension deficit repair contributions, adjusting cash flows and financing cash flows.

Reason
The Group needs to generate strong free cash flows to enable it to invest and expand its operations, pay dividends to shareholders and access the best property locations.

* These KPIs have been impacted by the adoption of IFRS 16 – Leases on 1 January 2019. Details of the impact of this new accounting standard are given in note 38. Details of how this has affected the individual KPIs are given in the relevant notes.

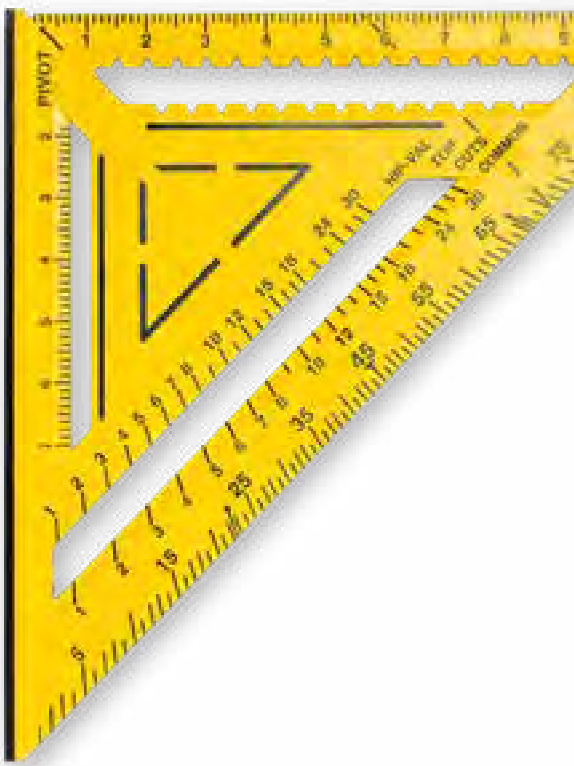
Non-financial

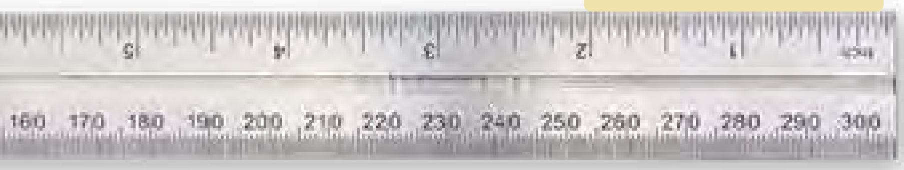
Accident frequency rate

Year	Accident frequency rate
2019	5.6
2018	7.5
2017	7.7
2016	8.9
2015	9.2

Definition
The number of lost-time incidents ("LTIs") per million hours worked.

Reason
Keeping people safe is the Group's first priority. This ratio allows management to measure progress in ensuring a safe workforce.





Business performance

- Like-for-like revenue growth of 3.8% with total revenue growth of 3.2%
- Good growth in the Merchant businesses despite challenging market conditions, continued excellent growth in Toolstation and a strong recovery in Wickes
- Adjusted operating profit growth of 7.8% driven by Wickes recovery, the transformation programme in P&H and the positive impact of cost reduction activities
- Net adjusting items of £187m including a £108m impairment relating to halting of the ERP replacement programme
- Return on Capital Employed increased by 50bps to 10.1% against a 2018 IFRS 16 comparative figure
- Continued strong free cash flow generation of £195m

Basis of preparation

The Group's 2019 audited results are reported on the following basis:

- The Group is reporting for the first time under IFRS 16 – Leases, which treats all lease obligations as debt, leading to changes in the income statement and balance sheet. Illustrative comparatives have been presented as if the new standard had applied in 2018. These have been calculated assuming transition on 1 January 2018, using the same data and lease accounting software as used for the 2019 Annual Report. Consistent accounting policy options and transition methods have been used where possible and the same methodology has been used to calculate incremental borrowing costs.
- The acquisition of a majority holding in Toolstation Europe was completed on 30 September 2019 and since that date the financial results have been fully consolidated.
- The financial results for the Plumbing & Heating business have been consolidated into the Group results, reflecting the pause of the intended sale process in late 2019 due to high levels of uncertainty in the UK macro environment.

Financial performance

The Group produced a positive performance in 2019 against a challenging market backdrop, with early signs of progress from the strategic initiatives set out in December 2018.

Total Group revenues grew by 3.2% in 2019 to £6,956m, and by 3.8% on a like-for-like basis. Sales growth was driven by a good performance from the Merchant businesses in a challenging market environment, with continued very strong growth in Toolstation and a strong recovery in Wickes. The P&H business recorded a modest reduction in sales across the year, but this reduction was concentrated in the lower margin wholesale business, whilst the branch-based business continued to grow.

£m (unless otherwise stated)	2019	2018	2018 (illustrative)	Change vs illustrative comparatives
Revenue	**6,956**	6,741	6,741	3.2%
Like-for-like revenue growth	**3.8%**	4.9%	4.9%	(1.1)ppt
Adjusted operating profit	**442**	375	410	7.8%
Adjusted earnings per share	**112.7p**	114.5p	106.0p	6.3%
ROCE	**10.1%**	10.5%	9.6%	0.5ppt
Covenant net debt	**344**	300		44
Dividend per share	**48.5p**	47.0p		3.2%
Operating profit / (loss)	**232**	(22)		
Total profit / (loss) after tax	**123**	(84)		
Basic earnings per share	**48.9p**	(34.4)p		

Adjusted operating profits grew to £442m, an increase of 7.8% when compared to the 2018 illustrative comparative (including the impact of IFRS 16 –Leases). The increase of £32m was driven by improvements in all segments, with the biggest increase coming from the strong recovery in Wickes. Toolstation UK also grew profits strongly, but this was offset by the consolidation of Toolstation Europe for the last three months of the year and the corresponding losses of around £4m. The transformation of P&H continued to make good progress, improving the balance of business and improving margins.

Statutory operating profit of £232m (2018: £22m loss) includes adjusting items of £200 million (2018: £387 million). The most significant adjusting items are discussed on page 35 of the Strategic Report. They include a £108m charge relating to the halting of the ERP replacement programme. For a full list refer to note 3.

The Group continued to generate good free cash flow of £195m in 2019, after capital expenditure but before freehold activity, at a cash conversion rate of 54% (2018: 46%). Covenant net debt increased by £44m to £344m, primarily driven by higher net working capital, with additional inventory held by the Group as a mitigation against the risk of a "no deal" exit from the EU. There was also higher spend on acquisitions in the year, with further payments relating to Underfloor Heating Store and National Shower Spares, and the acquisition of a majority stake in Toolstation Europe. Underlying net debt, excluding the inventory build and acquisitions, would have improved by around £45m.

Adjusted earnings per share were 112.7 pence for 2019 (2018 illustrative comparative: 106 pence), an increase of 6.3%. This increase in adjusted EPS was modestly lower than the increase in adjusted operating profits due to higher financing charges in the year, primarily driven by the marking-to-market of foreign exchange contracts.

The Board recommends a full-year dividend of 48.5 pence (2018: 47.0 pence), an increase of 3.2% reflecting the Board's confidence in the future cash generation and prospects of the Group.

Strategic progress

At the Capital Markets event in December 2018, the Group laid out its plans for the years ahead, with two overarching strategic aims being

i. To focus on serving trade customers through advantaged trade businesses
ii. To simplify the Group to increase agility, speed up decision-making and enable a leaner cost base.

The Group has made good progress towards its strategic goals, and this is reflected in the encouraging financial performance in 2019.

Simplifying the Group

Wickes demerger

The Travis Perkins plc Board has been clear on the Group's purpose to focus on its advantaged trade businesses, with the intention to concentrate the allocation of capital in businesses serving trade-focused end markets to create maximum value for shareholders. Providing best-in-class service to trade customers represents the Group's heartland, where it has the most experience and advantages in understanding and delivering on specific customer requirements.

The propositions required for trade customers and consumers are different. Trade-focused businesses provide tailored propositions to satisfy diverse customer requirements on a regional, local and often individual level. As a consumer-facing retail business, Wickes deploys a centrally controlled proposition, providing a market-leading service to local trade, Do-It-For-Me and DIY customers. The Travis Perkins plc Board believes that the demerger of Wickes will underpin the creation of enhanced value for shareholders in both Travis Perkins and Wickes by maximising the performance of both businesses through focused capital allocation decisions by dedicated management teams.

The demerger project is proceeding smoothly. Wickes has always operated as a more autonomous business within the Group, in commercial, HR and IT areas. Given Wickes' high lease commitments, the Group has agreed a positive opening cash balance of £130m which will realise an appropriate capital structure and leverage position in line with Wickes' retail peers over time.

The prospectus is due for publication in late March and the demerger process is expected to be completed in April 2020.

Business performance and priorities continued

P&H divestment

In January 2020, the Group announced the sale of Primaflow F&P, the wholesale business within the Plumbing & Heating segment, for cash consideration of £50m. The sale completed on 31 January 2020. This allows the remaining Plumbing & Heating branch and digital businesses to focus on delivering market-leading service to direct trade customers.

The Board paused the process to divest the P&H business in Q4 2019 at a time of significant political and economic uncertainty in the UK. The intention to divest the P&H business remains in place and the 2019 results demonstrate a continued improvement in financial performance. The Group's focus is to maximise value for shareholders, and not on the specific timeframe of divestment. In the meantime, the transformation programme has continued, to drive greater efficiency and improve the balance of business towards the higher returning branch and digital businesses.

Cost reduction activities

A key driver for the simplification of the Group is the opportunity to streamline the above-branch cost base, reducing the overall operating cost of the Group, offsetting overhead cost inflation in a low volume growth environment, and making the business more agile. In 2019, the divisional structure over the trade merchanting businesses has been removed, reducing costs but also speeding up decision-making.

In 2019, the cost base has benefited from the annualisation of cost reduction activities taken in Wickes and Travis Perkins in 2018, with around £15m of cost savings rolling into the first half of the year. In December 2018, the Group committed to enacting actions to achieve £20m–£30m of annualised cost reductions by mid-2020. By the end of 2019 all of the planned actions are in place, which will realise annualised savings modestly exceeding expectations, with around two-thirds of the savings achieved in the 2019 results.. As well as removing the divisional structure, these savings include operational cost savings relating to the closure of the heavyside range centre network and the restructuring and streamlining of support functions.

As anticipated, in 2019 these savings have partially mitigated inflationary pressure in the overhead cost base with increases in rent and rates, and higher salary costs, in part due to the increase in the National Living Wage. The Group continues to selectively invest in businesses to improve customer service and drive growth, including the continued expansion of Toolstation and additional investment in front line branch and sales colleagues in Travis Perkins. It remains a Group priority to maintain focus on the simplification of processes and tight control of costs to offset the impact of inflation in the cost base. The programmes to demerge Wickes and create autonomy in the P&H business have led to around £15m of dis-synergy costs, which the Group will be taking action to mitigate over the course of the next two years..

IT modernisation

The programme to implement a new ERP platform to support the Merchant businesses was halted in 2019, primarily reflecting significant risks relating to the performance of the system. An impairment charge of £108m has been recognised in respect of the cancellation of the programme. The Group has terminated its relationship with the software provider and does not expect to incur any further liabilities. The Group is investigating alternative ways to modernise the IT landscape across the Group to bring benefit to customers and colleagues with a lower risk profile.

Trade-focused priorities

The Group's strategy to focus on its advantaged trade businesses is built on its strong heritage of a deep understanding of trade customers, and a proven track record of providing excellent customer service. These solid foundations are core to the Group, and have been particularly evident in the specialist merchants in recent years. A number of key priorities have been identified to drive sustainable growth across all the trade-focused businesses in the medium term, improving market share and best positioning the businesses to compete successfully in the future.

Actions towards achieving the immediate priorities of the Group are well under way with encouraging early signs of progress feeding through to the performance of trade businesses in 2019. There remains much to do, and the process to build solid foundations from which to grow the Group will continue throughout 2020.

Regeneration of the Travis Perkins' general merchant

- Greater empowerment of branch managers, enabling them to make quicker, more relevant decisions on behalf of customers and the Group
- Investing in the right areas across branches and sales teams to better understand customer requirements and to tailor trade propositions to best match specific customer groups
- Co-ordinating on a local and regional basis to understand the competitive environment, and developing plans to strengthen the proposition to win local market share
- Ensuring that branches stock the right products in the right volumes to fulfil local customer requirements
- Reducing the administrative burden on branch colleagues by simplifying processes and reducing reporting requirements

Accelerate the growth of Toolstation

Toolstation continues to demonstrate excellent growth and, in line with the strategic intent to focus on advantaged trade businesses, it remains a priority to which the Group will continue to deploy capital.

- Continue to expand the branch network in the UK, further improving customer convenience
- Further extension to the trade-focused product range, both in branch and online, including the addition of more trade-focused brands
- The acquisition of a majority stake in Toolstation Europe, enabling the further expansion of the business in continental Europe

Deliver an organisational model fit for the future

Strengthening the Group's operational foundations is vital to delivering sustainable future growth. This starts with the Group's people, building on the existing strengths and experience of colleagues to ensure that the right knowledge and skills are in place to continue to deliver excellent service in fulfilling our customers' changing requirements.

There is further work to be completed on the structure and operation of the Group's support functions, including the improvements required to core IT and digital platforms to enable the businesses to perform, and to adapt their propositions as customer demands change. This will be underpinned by the careful management of the corresponding overhead cost base as the Group aims to drive efficiency and improve financial performance.

Sustainability is becoming increasingly fundamental to the Group's long-term strategy, particularly around the environmental impact of building efficiency, and the Group is positioning itself to partner with customers and suppliers to develop sustainable solutions for the future.

Outlook

The long-term fundamental drivers of the Group's end markets remain strong. The number of new homes built in the UK continues to lag underlying demand and ongoing underinvestment in the existing, ageing housing stock has led to pent up demand for domestic repair, maintenance and improvement activities.

The Group's end market environment became increasingly challenging through the second half of 2019, although the outcome of the UK general election in December 2019 has now created a more certain political environment. Whilst there has been an improvement in some of the Group's key lead indicators in the near-term, the Group retains a cautious stance, particularly as there is a natural lag between increasing housing transactions and consumer confidence and improvement in the Group's end-market performance.

The Group is monitoring the potential impact of COVID-19 carefully and will continue to review the possible effects on the business and refine its contingency plans as more information about the epidemic emerges.

The Group remains confident in its ability to deliver on its strategy and, notwithstanding challenging market conditions in the near term, the initiatives which are underway to focus on advantaged trade business and improve efficiency are positioning the Group's businesses well for the future. The Group's overall aim is for its businesses to outperform their end markets, with strong cost discipline and continued good free cash flow generation in all market conditions.

Technical guidance

The Group's technical guidance is given on the basis of the Wickes demerger being completed in Q2 2020.

- The results of Wickes in 2020 to the point of demerger will be shown as a discontinued operation
- Consolidation of Toolstation Europe will include a c.£20m loss in the Toolstation segment
- Excludes all Primaflow F&P results following the sale completion at the end of January 2020
- Effective tax rate of 20%
- Underlying finance charges before the impact of IFRS 16 – Leases will be similar to 2019
- Base capital expenditure in 2020 excluding Wickes of £100m to £120m
- Property profits of around £20m (after the application of IFRS 16 – Leases)
- Progressive dividend underpinned by strong cash generation

Merchanting

	2019	2018[1]	Change
Total revenue	**£3,703m**	£3,609m	2.6%
Like-for-like growth	**3.3%**	3.6%	(0.3)ppt
Adjusted operating profit[2]	**£284m**	£279m	1.4%
Adjusted operating margin[2]	**7.7%**	7.7%	–
Return on capital employed	**12%**	12%	–
Branch network	**984**	1001	(17)

[1] 2018 figures used are illustrative comparatives including the impact of IFRS 16 – Leases as previously disclosed
[2] Segmental adjusted operating profit figures are presented excluding property profits

Overall

Merchanting sales grew by 2.6% in 2019, and by 3.3% on a like-for-like basis. Like-for-like sales growth slowed through the course of the year, with growth of 6.4% in H1 reflecting an easier H1 2018 comparator. This was followed by increasingly challenging market conditions in the second half of the year as the significant levels of political uncertainty impacted consumer confidence, and increasingly led to larger projects being postponed or delayed. The specialist merchants continued the ongoing trend of winning market share in their respective markets. Sales in CCF and Keyline were however impacted by the slow down in larger projects in the fourth quarter. LFL sales growth was split evenly between volume and price.

Adjusted operating profits grew by 1.8% to £284m, representing a stable adjusted operating margin of 7.7%. Pressure on operating margins was driven by changes to customer mix, with stronger sales growth to larger customers in Travis Perkins and a greater proportion of direct-to-site deliveries, also to larger customers, in Keyline and CCF, which represents comparatively lower margin business but at a lower cost to serve and a high return on capital. This mix effect was offset by a focus across the Merchant businesses on controlling the above-branch cost base, eliminating the divisional structure, making savings through the supply chain transformation plan in Travis Perkins with the ongoing closure of the heavyside range centre network, and working to improve efficiency across the business.

Travis Perkins

Travis Perkins' performance was encouraging throughout the year, with signs that the early changes made to reinvigorate the business have positively impacted performance. In a challenging second half, Travis Perkins maintained flat LFL sales in Q4, demonstrating continued outperformance of the wider market, a trend that has been achieved through much of 2019. The main areas of progress have been around definition and local stocking of the right product ranges to satisfy local customers, and in the right stock depth to engender real credibility, particularly in heavyside categories.

The mix of sales growth varied by customer type, with stronger growth in larger, national customers, and through the Managed Services proposition providing service to local councils and housing authorities.

2020 strategic priorities

Travis Perkins

- Aiming to be the first choice trade merchant
- Increasing empowerment of local branch managers to bring decision making closer to the customer
- Focus on customer relationships: tailoring proposition of range, pricing and delivery to fulfil individual customer requirements
- Streamlining support functions to remove "pain-points" for branches

Revenue

£3,703m

2018: £3,609m

LFL growth

3.3%

2018: 3.6%

Specialist

The specialist merchants continued the ongoing trend of winning market share in their respective markets. For CCF a strong LFL performance in the first half was followed by a flat second half, impacted by the market slow down and the continued constraint around plasterboard supply which constricted sales volumes. Flat LFL sales still represented a significant market share gain during a difficult period.

In 2019 Keyline continued to focus on its core civils and drainage specialism. Over the year, total sales grew modestly, but from a consolidated branch network (five fewer branches) with lower generalist sales and with share gains in all key product categories. The Rudridge brand was fully integrated into the Keyline branch network, simplifying the business and unifying business processes.

BSS performed well in 2019, with positive LFL growth in both halves of the year despite project delays continuing to impact the business across all regions. Growth was driven by the introduction of new product ranges into branches, and further development and growth of the specialist tool hire offering.

2020 strategic priorities

Keyline

CCF

BSS
Pipeline & Heating Solutions

BENCHMARX
Kitchens and Joinery

- Relentless customer focus – putting the customer at the heart of all decision-making
- Business models tailored to match customer demands with efficient cost-to-serve
- Appropriate network footprint, stocking the right specialist ranges combined with reliable delivery service
- Specialist merchants are a proven success story, replicable across the Group

Adjusted operating profit

£283m

2018: £279m

Return on capital employed

12%

2018: 12%

Plumbing & Heating

	2019	2018[1]	Change
Total revenue	**£1,465m**	£1,528m	(4.1)%
Like-for-like growth	**(1.7%)**	16.1%	(17.8)ppt
Adjusted operating profit	**£48m**	£44m	9.1%
Adjusted operating margin	**3.3%**	2.9%	40bps
Return on capital employed	**13%**	11%	2ppt
Branch network	**375**	373	2

[1] 2018 figures used are illustrative comparatives including the impact of IFRS 16 – Leases as previously disclosed.

Although total revenue in the P&H business fell by 4.1% in 2019, and by 1.7% on a like-for-like basis, the majority of the sales decline was concentrated in the low-margin PF&P wholesale business. The higher-margin branch and digital businesses grew in like-for-like terms, with the branch-based merchant business demonstrating encouraging like-for-like growth of 3.3%.

The transformation programme has continued, driving greater efficiency and improving the balance of business towards the higher-returning branch and digital businesses. Adjusted operating profit increased by 9.1% to £48m despite the decrease in sales, benefitting from the change to business mix, improvements to product ranges and ongoing actions to tightly manage the overhead cost base.

The separation of the Plumbing & Heating business has progressed to plan in 2019, enabling the business to operate autonomously from the Group. The Board paused the process to divest the P&H business in late 2019 at a time of significant political and economic uncertainty in the UK. Whilst the intention to divest the P&H business remains, the 2019 results demonstrate continued improvement in financial performance and the focus for the Group is to realise a suitable valuation for shareholders, rather than a specific timeframe for divestment.

In January 2020, the Group announced the sale of Primaflow F&P, the wholesale business within the Plumbing & Heating segment, for cash consideration of £50m. The sale completed on 31 January 2020. Sale of the wholesale business enables the remaining Plumbing & Heating branch and digital businesses to focus on delivering market-leading service to direct trade customers

Revenue

£1,465m

2018: £1,528m

Adjusted operating profit

£48m

2018: £44m

2020 strategic priorities

- Transformation programme driving earnings growth through cost reduction and improved efficiency
- Balance of sales moving increasingly towards higher-margin branch business
- Complementary digital platforms providing breadth in specialist categories
- Operating as a stand-alone business with independent support functions, enabling a sale at the right time

Toolstation

Toolstation total segment

	2019	2018[1]	Change
Total revenue	**£445m**	£354m	25.7%
Like-for-like growth	**16.3%**	11.4%	4.9ppt
Adjusted operating profit	**£25m**	£24m	4.2%
Adjusted operating margin	**5.6%**	6.8%	(120)bps
ROCE	**7%**	10%	(3)ppt
Branch network (UK)	**400**	335	65
Branch network (Europe)	**66**	40	26

[1] 2018 figures used are illustrative comparatives including the impact of IFRS 16 – Leases as previously disclosed.

UK

In 2019, Toolstation demonstrated outstanding revenue growth of 25.7%, and 16.3% on a like-for-like basis. Growth was driven by the acceleration of the UK network expansion, with 65 branches opened in 2019, bringing the overall network up to 400. This opening profile reflects a branch opening every six days, with new branches demonstrating strong growth trends, including trials of smaller-format branches in smaller catchment areas.

The range available online and through the catalogue was extended by an additional 4,000 products, with added ranges being primarily trade-focused brands which are popular with trade customers. These new products included extension into new categories, including bathrooms, kitchens and home automation.

Toolstation maintained its market-leading value position, with its "Always Low" pricing model keeping a differential to peers across both the core product range and a wider basket of products. The new website launched in December 2018 drove strong growth in click & collect transactions throughout 2019, as well as steadily increasing conversion rates of site visitors.

At a headline level, adjusted operating profits grew by 4.2%, but this included the consolidation of the start-up losses in Toolstation Europe in Q4 of around £4m. Excluding these losses UK profits grew by around 20% with operating margin remaining broadly stable. The business continues to invest heavily not only through capital investment to develop new branches, but also in operating costs for teams to run the growing network.

The inclusion of Toolstation Europe assets and losses in Q4 2019 also impacted ROCE, reducing it by 3ppts. UK ROCE was stable at 10%.

Europe

The Group acquired a further 50% share in Toolstation Europe at the end of September 2019 giving a majority 97% share in the business. Since Q4 2019 Toolstation Europe results have been fully consolidated into the Group's results (previously accounted for as an associate).

Revenue

£445m

2018: £354m

LFL growth

16.3%

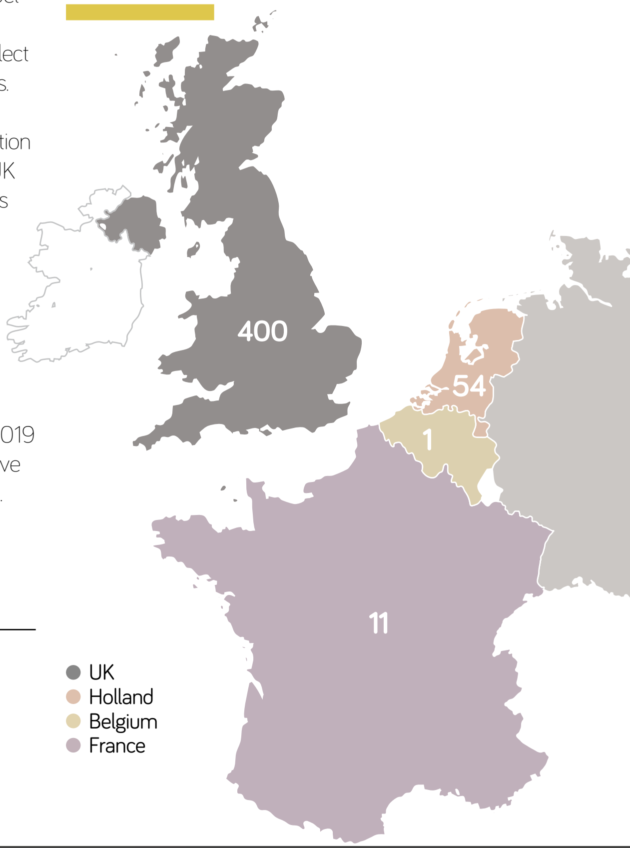
2018: 11.4%

2020 strategic priorities

- Accelerated network growth – over 100 new branches in the last two years – significant runway for further growth
- Proposition focused on trade customers with expanding range of trade-focused brands
- Digital platform supporting branch network
- Acquisition of Toolstation Europe brings opportunity to expand the format in new markets

The development of the Toolstation business in Europe continued, with a further 26 branches opened, bringing the total to 66. In the Netherlands the network rollout continues, with 22 branches opened which continue to perform strongly. The branch trial in France continues to perform well and a first trial branch was opened in Belgium.

Branches



Key highlights

£1.3bn
2019 revenue

8.7%
Like-for-like 2019 growth

> 50%
of our sales are digitally-led

235
stores with 135 stores in our new format

c.500k
TradePro members

28,000 sq ft
average store size

Digitally-led, service-enabled, home improvement business

Retail

	2019	2018[1]	Change
Total revenue[2]	**£1,342m**	£1,250m	7.4%
Like-for-like growth	**8.6%**	(4.3%)	12.9ppt
Adjusted operating profit	**£97m**	£77m	26.0%
Adjusted operating margin	**7.2%**	6.2%	100bps
Return on capital employed	**7%**	5%	2ppt
Store network – Wickes	**235**	241	(6)

[1] 2018 figures used are illustrative comparatives including the impact of IFRS 16 – Leases as previously disclosed.
[2] These figures are presented including the immaterial Tile Giant business, which generated sales of £47m in 2019.

Wickes demonstrated a strong recovery in performance in 2019, with revenue growth of 7.7% and 8.7% on a like-for-like basis. Growth was primarily driven by self-help actions supported by beneficial changes in the competitive market and extreme weather conditions in Q1 2018. Like-for-like growth was strong in both Core at +6.5% and Do It For Me (DIFM) categories at +14.1%.

The strong Core sales performance benefitted from a clear and well balanced trading plan combined with the addition of new ranges, particularly in decorating and landscaping, and improvements made in the supply chain to increase product availability in store. TradePro continues to be an attractive proposition for our trade customers with membership now at around half a million members at the end of 2019.

Kitchen & Bathroom showroom ("K&B") deliveries remained strong throughout the year, benefitting from an improved range and service proposition and the strong order book carried forward from Q4 2018. The proportion of Kitchens sold with a full installation service increased to 56% (up from 54% in 2018), reflecting the high-quality turnkey service provided to end consumers.

Twelve additional Wickes refits were completed in the year with one new store opened, bringing the total number of new store formats up to 135 of an overall network of 235 stores. There was continued development of digital capability and customer service channels, including "online-in-store" capability, allowing colleagues to sell the full online range of products to customers in store, either for in store collection or home delivery. This enables colleagues to provide full project service to all customers, whilst maintaining a tight SKU range in store. Over half of Wickes sales are digitally-led, with 95% of sales touching the physical store.

Adjusted operating profit for the Retail segment showed a significant improvement over 2018, with growth of 26.0% to £97m, whilst adjusted operating profit margin improved by 100bps to 7.2%. In Wickes gross margin pressure in 2018 from competitor pricing activity has stabilised through 2019. Improved profitability reflected volume growth in Core and DIFM categories driving operating leverage, combined with the benefits of significant overhead cost reduction carried out in the first half of 2018. The improvement in adjusted operating profit drove a 2ppt increase in return on capital employed.

The Board proposes to demerge Wickes to shareholders as a standalone listed business in Q2 2020. Further information on Wickes' investment case from the Capital Markets Day on the 29 January 2020 can be found on the Investor Relations section of the Travis Perkins plc website.

Wickes has a compelling investment case and a clear framework to win

Investment case

- Distinctive and hard to replicate customer proposition
- Uniquely balanced business
- Low cost and efficient operating model
- Proven levers for growth

Our mission is to be the partner of choice for home improvers and local trade

Framework to win

Wickes
Let's do it right

Vision
A Wickes project in every home

Mission
To be the partner of choice for home improvers and local trade

Customer proposition

Local Trade	Do it for me ("DIFM")	DIY
From trade-trusted branches to always being 10% cheaper, we can save you time and money when you shop with TradePro	From concept to completion plus all the finishing touches, we can help you with your project every step of the way	From our curated range to bringing you the right quality products at the right prices, we can help you to tackle your project providing service guidance and knowledge

Enabler

Engaged colleagues, winning culture and growing responsibly

Foundations

Curated product ranges	Digitally-led	Distinctive service model providing inspiration, service and fulfilment	Low cost right-sized physical estate	Simple, clear pricing offering value to customers

The store model is complementary to the digital journey with c.95% of sales touching the stores

4. DIFM
Space to dream and visualise your project with expert help at hand

1. Order fulfilment
Orders picked and ready for collection or delivery

3. Assisted selling
Support to find exactly what you need

2. Self service
Simple, quick and easy to shop

2020 strategic objectives

- Successful demerger from Travis Perkins plc
- Developing digital capability
- Winning for the trade – TradePro growth
- Accelerating DIFM – Natural growth extensions
- DIY category wins – Getting our fair share in underweight categories
- Maintaining a winning culture

Guided by strong leadership

Christopher Rogers
Chairman Designate

Christopher has extensive financial, operational and retail experience and expertise in corporate governance and strategic planning. Chris is currently a Non-executive Director of Vivo plc, Kerry Group and Walker Greenbank plc. He is also a visiting fellow at Durham University.

Prior to this Chris was an Executive Director of Whitbread plc from 2005 to 2016 where he served as Group Finance Director from 2005 to 2012 and Global Managing Director of Costa Coffee from 2012 to 2016. He was Group Finance Director of Woolworth Group plc and Chairman of the Woolworth Entertainment businesses from 2001 to 2005 and previously held senior roles in both finance and commercial functions in Comet Group plc and Kingfisher.

David Wood
Chief Executive Officer

David Wood joined Wickes as CEO in May 2019. With almost 30 years in the retail and consumer sector, David is a highly experienced executive with extensive board level experience in both the UK and internationally, having worked for Tesco, Unilever, Kmart and Mondelez. David was Group President of Kmart Holding Corp from 2015 to 2017 and CEO of Mothercare plc from April 2018 until November 2018.

Julie Wirth
Chief Financial Officer

Julie Wirth joined Wickes as CFO in November 2018 having held Board and senior finance roles at Group and divisional level in the retail sector. This included 20 years at Home Retail Group plc, five years at Musgrave GB Ltd and three years at Countrywide Farmers plc, with responsibility across finance, IT, legal and secretariat and change management.

Financial performance

Revenue analysis

Group revenue grew by 3.2% in total and by 3.8% on a like-for-like basis. There was a good performance from the Merchant businesses against a challenging market backdrop, continued excellent growth in Toolstation and a strong recovery in Wickes.

Volume, price and mix analysis

Total revenue growth (%)	Merchanting	Toolstation	Retail	Plumbing & Heating	Group
Volume	1.7%	15.7%	8.9%	(4.1)%	**2.3%**
Price and mix	1.6%	0.6%	(0.3)%	2.4%	**1.5%**
Like-for-like revenue growth	**3.3%**	**16.3%**	**8.6%**	**(1.7)%**	**3.8%**
Network expansion and acquisitions	(0.7)%	9.3%	(1.2)%	(2.4)%	**(0.6)%**
Trading days	–	–	–	–	**–**
Total revenue growth	**2.6%**	**25.6%**	**7.4%**	**(4.1)%**	**3.2%**

The continued expansion of the Toolstation network was offset by branch closures from the rest of the Group. There was no difference in the number of trading days in 2019 compared to 2018. The Group maintained its stance to recover input cost inflation across the trade-focused businesses in 2019, with overall price inflation across the Group of 1.5%.

Quarterly like-for-like revenue analysis

Like-for-like revenue growth (%)	Merchanting	Toolstation	Retail	Plumbing & Heating	Total Group
Q1 2019	10.6%	19.1%	10.0%	(4.0)%	**7.3%**
Q2 2019	2.7%	15.7%	9.4%	(3.9)%	**3.4%**
Q3 2019	1.6%	15.4%	9.7%	0.0%	**3.4%**
Q4 2019	(1.4)%	15.3%	4.6%	0.9%	**1.2%**
H1 2019	6.4%	17.3%	9.7%	(3.9)%	**5.3%**
H2 2019	0.2%	15.4%	7.2%	0.4%	**2.3%**
FY 2019	**3.3%**	**16.3%**	**8.6%**	**(1.7)%**	**3.8%**

For the Group as a whole quarterly like-for-like sales slowed through the course of the year reflecting a strong start from the impact of poor weather setting a low comparator in Q1 2018. This was followed by market conditions growing more challenging in the second half of the year as the significant levels of political uncertainty impacted consumer sentiment, and increasingly led to larger projects being postponed or delayed.

Operating profit and margin

£m	2019	2018 as reported (pre-IFRS 16)	2018 illustrative IFRS 16 adjustment	2018 IFRS 16 illustrative comparatives	Change*
Merchanting	**284**	273	6	279	1.8%
Toolstation	**25**	22	2	24	4.2%
Retail	**97**	47	30	77	26.0%
Plumbing & Heating	**48**	39	5	44	9.1%
Property	**21**	27	(10)	17	23.5%
Unallocated costs	**(33)**	(33)	2	(31)	6.5%
Adjusted operating profit	**442**	**375**	**35**	**410**	**7.8%**
Amortisation of acquired intangible assets	**(9)**				
Adjusting items	**(200)**				
Operating profit	**233**				

* Changes calculated versus FY 2018 illustrative comparatives including the impact of IFRS 16 – Leases as previously disclosed

Adjusting items

Adjusting items of £200m in 2019 (2018: £387m) included:

- An IT-related impairment charge and associated costs of £108m relating to the cancelled Merchant ERP project
- Adjusting items of £47m relating to the separation and disposal preparation of the P&H business
- Restructuring costs of £22m relating to the simplification and streamlining of above-branch support structures, including the closure of the the heavyside ranges network
- Adjusting items totalling £13m relating to the closure of the Built business in April 2019
- Adjusting items of £12m relating to increasing the autonomy of the Wickes business

In addition, a fair value gain of £40m was recognised as an adjusting item in associate income on the acquisition of Toolstation Europe. Deferred tax on prior year adjusting items was £27m.

Finance charge

Net finance charges, shown in note 6, were £87m (2018: £24m). Of this £63m year-on-year difference around £57m was due to the interest charge on leased assets recognised as a result of the implementation of IFRS 16 – Leases.

Net finance costs before lease interest were higher in 2019 by around £7m, primarily reflecting the difference in the fair value remeasurement of foreign exchange and derivatives. In 2019, the mark-to-market was a loss of £5m compared to a £3m gain in 2018.

There was an additional charge of £2m relating to the early refinancing of the Group's revolving credit facility that was completed in January 2019, offset by a pension interest credit in 2019.

Taxation

The tax charge for continuing activities for the period to 31 December 2019 including the effect of adjusting items is £58m (2018: £34m). This represents an effective tax rate ("ETR") of 32.1% (2018: negative 69.0%).

The tax charge for the year before adjusting items is £69m (2018: £60m) giving an adjusted ETR of 19.7% (standard rate 19%, 2018 actual 17.1%). The adjusted ETR rate is higher than the standard rate due to the effect of expenses not deductible for tax purposes (such as depreciation of property) and unutilised overseas losses, although these are mostly offset by the increase in the deferred tax asset related to employee share schemes following an increase in the share price in 2019.

Earnings per share

The Group reported statutory profit after tax of £123m (2018: loss after tax of £84m) resulting in a basic earnings per share of 48.9 pence (2018: loss per share of 34.4 pence). There is no significant difference between basic and diluted basic earnings per share.

Adjusted profit after tax was £281m resulting in adjusted earnings per share (note 20) increasing by 6.3% to 112.7 pence when compared with an illustrative comparative figure for 2018 of 106.0 pence.* There is no significant difference between adjusted basic and adjusted diluted earnings per share.

Reconciliation of reported to adjusted earnings

£m	2019 Earnings	2018 Earnings
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the Parent Company	121	(86)
Adjusting items	160	387
Amortisation of acquired intangible assets	9	10
Adjusting deferred tax	27	–
Tax on adjusting items	(36)	(24)
Tax on amortisation of acquired intangible assets	(2)	(2)
Earnings for adjusted earnings per share	**279**	**285**

*This unaudited illustrative comparative figure has been restated from 104.0 pence in the leases update given on 23 May 2019 as an error was identified in the calculation of tax on the impact of IFRS 16 – Leases.

Central costs

Unallocated central costs increased modestly by £2m to £33m (2018: £31m when adjusted for IFRS 16 – Leases). The increase was primarily driven by the additional costs required to manage the separation activities to increase the autonomy of the P&H and Wickes businesses. These costs and the changes to central allocations combined with inflationary pressure, offset cost reduction actions taken to rightsize the central function in line with the Group's simplification plans, whilst also focusing on delivering an efficient support service to branches.

Financial performance continued

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.

Four new freehold sites were purchased in 2019 at an investment of £6m (2018: £38m), with a further £15m of construction costs to develop sites to be ready for trading (2018: £10m). These investments were fully funded in the year by asset disposals of £87m, which also generated property profits of £21m. The application of IFRS 16 – Leases defers an element of the property profits recognised on sale and leaseback transactions. For 2018, the comparative property profit figure would have been £17m when adjusted for IFRS 16 – Leases (2018 reported: £27m).

Cash flow and balance sheet

Free cash flow

The Group redefined its basis for measuring free cash flow ("FCF") in 2019 to better reflect the cash generation of the business. Under the new definition FCF excludes all freehold property transactions, both investments and disposals, and includes all base capex: the sum of maintenance and investment capital expenditure.

£m	2019	2018
Group adjusted EBITA excluding property profits	**421**	348
Depreciation of PPE and other non-cash movements	**141**	137
Change in working capital	**(129)**	(107)
Net interest paid (excluding lease interest)	**(26)**	(26)
Interest on lease liabilities	**(57)**	–
Tax paid	**(53)**	(55)
Adjusted operating cash flow	**297**	**296**
Capital investments		
Capex excluding freehold transactions	**(121)**	(143)
Proceeds from disposals excluding freehold transactions	**19**	14
Free cash flow	**195**	**168**

Under the new definition, FCF of £195m was generated in 2019 (2018: £168m). The increase was primarily driven by the higher operating profits generated by the Group and lower base capital expenditure.

As expected there was an increase in working capital in 2019. Inventories, which have been held broadly stable in recent years, increased by around £80m in the year, with over £60m relating to the Group's inventory planning to mitigate the risk of a no-deal exit from the EU. This elevated level was maintained throughout 2019 as the potential risk was delayed by a prolonged period of political uncertainty. Going forwards, the Group expects the period of uncertainty to continue and will make decisions regarding the optimal level of inventory to protect customers' access to materials in 2020. Trade receivables grew in line with the growth in credit sales, with around two thirds of Group sales being conducted through a customer credit account.

Capital investments

In line with the Group's guidance for 2019, capital investment was lower than in prior years, with £121m of base capital expenditure (2018: £143m).

£m	2019	2018
Maintenance	56	57
IT	12	42
Growth capex	53	44
Base capital expenditure	**121**	**143**
Freehold property	22	48
Gross capital expenditure	**143**	**191**
Disposals	(82)	(98)
Net capital expenditure	**61**	**93**

Maintenance capital expenditure was broadly stable at £56m (2018: £57m), primarily driven by the required maintenance and replacement of the Group's vehicle fleet.

Growth capex investment was £9m higher than in 2018. Investment in 2019 was focused towards the Group's key priorities: the acceleration of the Toolstation branch network expansion and investments required in the Merchanting branch network to improve convenience for customers and optimise branch returns.

Capex spend on IT was lower in 2019 following the halting of the Merchant ERP programme. The Group is investigating alternative ways to modernise the IT landscape across the Group whilst maintaining a lower business risk profile.

Uses of free cash flow

Free cash flow (£m)	**195**
Investments in freehold property	(22)
Disposal proceeds from freehold transactions	64
Acquisitions and disposals	(43)
Dividends	(116)
Pensions' payments	(10)
Purchase of own shares	(8)
Cash payments on adjusting items	(90)
Other	(18)
Change in cash and cash equivalents	**(48)**

Property transactions in 2019 yielded a net cash inflow of £42m (2018: £36m inflow). The cash cost of acquisitions was higher in 2019 at £43m (2018: £6m inflow), including the acquisition of a controlling share of Toolstation Europe and further payments towards the previous acquisitions of Underfloor Heating Store and National Shower Spares.

Additional cash contributions to the defined benefit pension schemes above the income statement charge, excluding the annual payment against the pension SPV, were £10m (2018: £7m). The cash cost of 2019 adjusting items, and utilisation of prior year provisions for adjusting items was £90m, with costs incurred towards the transformation and separation of the P&H business; increasing the autonomy of the Wickes business ahead of demerger; and in the streamlining and simplification of above-branch services, including the removal of the Merchanting divisional structure and the programme to close the heavyside range centre network.

Under the new policy initiated in 2018 for the Group to purchase shares in the market for employee share schemes; £8m of shares were purchased in the period.

Net debt and funding

The move to accounting under IFRS 16 – Leases has changed the balance sheet metrics around debt. The Group has defined new debt measures as follows:

- **Covenant net debt:** a new KPI which matches the definition of net debt in the Group's banking and bond covenants. 2018 covenant net debt has been recalculated as a direct comparative figure.
- **Net debt:** The Group has stopped reporting lease adjusted net debt as the implementation of IFRS 16 – Leases means that the effect of leases is already reflected in the statutory measure of net debt. 2018 results have not been restated.

Covenant net debt increased by £44m year-on-year, primarily driven by the increase in inventory, the cash costs relating to adjusting items in 2018 and 2019 and higher acquisition costs. The net debt to adjusted EBITDA metric under IFRS 16 – Leases, with net debt now including all lease obligations, reduced to 2.5x, achieving the Group's medium term leverage target of 2.5x. The Group's balance sheet will change significantly when the Wickes business is demerged, and the Group will consider the suitability of the existing medium term leverage target for the future.

	Medium Term Guidance	2019	2018	Change
Covenant net debt		**£344m**	£300m	£44m
Net debt		**£1,788m**	£354m	
Lease-adjusted net debt		**n/a**	£1,833m	
Net debt : Adjusted EBITDA*	2.5x	**2.5x**	2.7x	(0.2)x

*2018 comparative figure is calculated as Lease-adjusted net debt to EBITDAR with a lease adjustment based on 8x the annual net rent charge. Whilst not directly comparable, the two methods are broadly consistent.

Funding

As at 31 December 2019, the Group's committed funding of £950m 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 £400m, which was refinanced in January 2019 and runs until 2024, advanced by a syndicate of eight banks.

As at 31 December 2019, the Group had undrawn committed facilities of £400m (2018: £550m) and cash deposits of £140m (2018: £190m).

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 2019 of 48.5 pence (2018: 47.0 pence) results in a 3.2% increase (2018: 2.2% increase).

Following the demerger of Wickes, the Board will be reviewing the capital structure and dividend policy of the Group and will provide an update with the interim results in August 2020.

An interim dividend of 15.5 pence was paid to shareholders in November 2019 at a cost of £38m. If approved, the proposed final dividend of 33.0 pence per share will be paid on 13 May 2020 to shareholders on the register at the close of business on 3 April 2020, the cash cost of which will be approximately £82m.

Effective financial risk management

The overall aim of the Group's financial risk management policies is to minimise potential adverse effects on financial performance and net assets. The Group manages the principal financial and treasury risks within a framework of policies and operating parameters reviewed and approved annually by the Board of Directors. The Group does not enter into speculative transactions.

The Group negotiated a new revolving credit facility with a syndicate of eight banks in January 2019. The new facility is for a total value of £400m and matures in January 2024. Built into the agreement is an option to extend the size of the facility to £550m, and two one-year extension options which can be activated in April 2020 and April 2021.

The Group's policy is to enter into derivative contracts only with members of its bank facility syndicate, provided such counterparties meet the minimum rating set out in the Board-approved derivative policy. At the year end the Group had no interest rate derivatives and its borrowings were fixed on 100% of the Group's cleared gross debt (before cash and cash equivalents).

The Group settles its currency denominated purchases using a combination of currency purchased at spot rates and currency bought in advance on forward contracts. It purchases forward contracts for approximately 90% of its committed requirements six months forward based on the firm placement of forward stock purchases. At 31 December 2019 the nominal value of currency forward contracts, all of which were US dollar denominated, was $41m (2018: $41m).

The Group is a substantial provider of credit to a large portfolio of small- and medium-size businesses throughout the UK together with some of the country's largest construction companies. It manages its exposure to credit risk through a strong credit control function that works closely with the business and its customers to ensure the Group offers credit sufficient for the needs of those customers without exposing the Group to excessive risk. The bad debt charge in 2019 was approximately 0.4% (2018: 0.4%) of credit sales.

In summary, the key aspects of the Group's financial risk management strategy are to:

- Run the business to investment grade credit parameters
- Reduce reliance on the bank market for funding by having a diverse mix of funding sources with a spread of maturities
- Seek to maintain a strong balance sheet
- Place a high priority on effective cash and working capital management
- Maintain liquidity headroom of over £250m and build and maintain good relationships with the Group's banking syndicate
- Manage counterparty risk by raising funds from a syndicate of lenders, the members of which maintain investment grade credit ratings
- Operate banking covenants attached to the Group's revolving credit facilities within comfortable margins
- The ratio of net debt to adjusted EBITDA has to be lower than 3.0x and it was 0.71x (2018: 0.65x) at the year end
- The number of times adjusted operating profit covers interest charges has to be a least 3.5x and it was approximately 16x (31 December 2018: 14x)
- Have a conservative hedging policy that reduces the Group's exposure to currency fluctuations

The financial ratios are calculated under IFRS as adopted by the EU as it was immediately before the adoption of IFRS 16 – Leases.

Tax strategy and tax risk management

The Group's objectives in managing and controlling its tax affairs and related tax risks are as follows:

- Ensuring compliance with all applicable rules, legislation and regulations under which it operates
- Maintaining an open and co-operative relationship with the UK Tax Authorities to reduce its risk profile
- Paying the correct amount of tax as it falls due

Tax policies and risks are assessed as part of the formal governance process and are reviewed by the Chief Financial Officer and reported to the Audit Committee on a regular basis. Significant tax risks, implications arising from these risks and potential mitigating actions are considered by the Board when strategic decisions are taken. In particular the tax risks of proposed transactions or new areas of business are fully considered before proceeding. The Group employs professional tax specialists to manage tax risks and takes appropriate tax advice from reputable professional firms where it is considered to be necessary. The Group's tax strategy is published on its website.

Viability assessment

In accordance with provision 31 of the UK Corporate Governance Code, published by the Financial Reporting Council in 2018, the Board of Directors has undertaken an assessment of the viability of the Group.

As part of its deliberations the Board undertook a robust review of the Principal Risks and Uncertainties facing the Group, how they are managed and the actions that could be taken to mitigate their effect or avoid them altogether. The resulting disclosures, which include those risks that could threaten the Group's business model, performance, solvency and liquidity are shown on pages 40 to 51 of the Annual Report. The Board believes the Group is well placed to manage those risks successfully.

The Board has decided that it is appropriate to assess the performance of the Group over a three-year period from 29 February 2020, the month end date closest to the approval of the 2019 annual results. Three years has been chosen because this is the period that it is reasonably possible to forecast forward with a degree of accuracy. This is because the Group is subject to the vagaries of the economic cycle and property market which cannot reasonably be forecast with certainty further than three years forward. Whilst the Board has no reason to believe the Group will not remain viable over a longer period, the inherent uncertainty involved means three years is the appropriate period over which to give users of the Annual Report a reasonable degree of confidence.

The Corporate Plan which is prepared annually on a rolling basis considers the Group's future profitability, cash flows, liquidity headroom, availability of funds and covenant compliance. For the purposes of the viability review, the Board has performed a robust sensitivity analysis to stress test the downside scenario based upon the 2008–2009 financial crisis and the mitigating actions that the business would take to protect the Group's viability. These actions include restricting credit and reducing costs, capital and revenue investment and payments to shareholders.

Based upon the assessment undertaken, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Risk management is a key factor in the successful delivery of the Group's strategic objectives

The Group's risk management activities continue to be developed to support management in identifying both threats and opportunities that could materially impact strategic delivery, performance, compliance and reputation. The Group operates in markets and an industry which, by their nature, are subject to a number of inherent risks. In common with most large organisations the Group is also subject to general commercial, political and economic risks. The Group is able to mitigate those risks by adopting different strategies and by maintaining a strong system of internal control which is routinely tested and assured. However, regardless of the approach that is taken, the Group must accept a certain level of risk in order to generate suitable returns for shareholders, and for that reason the risk management process is closely aligned to the Group's strategy.

Risk management framework

The Board has developed a risk reporting framework that ensures it has visibility of the Group's key risks, the potential impacts on the Group and how and to what extent those risks are mitigated. Further details of the Group's risk management processes and oversight are given in the Corporate Governance Report on page 79.

The Board undertook an enhanced exercise during 2019 to consider the nature and level of risk it is prepared to accept to deliver the strategy. Risk appetite is set across a suite of risk categories directly relevant to the Group, supported by high-level risk statements which set out the expectations for the management and control of each category of risk. The resulting assessment of risk appetite has been set to balance opportunities for growth and business development in areas of potentially higher risk and return, whilst prioritising safety and maintaining the Group's reputation, legal and regulatory compliance and the desired high levels of customer service and satisfaction.

Principal risks

At least twice a year, the Board and Group Leadership Team formally assess the Group's principal risks.

The table on pages 42 to 51 sets out, in no particular order, the principal risks that are currently considered by the Board to be material to the achievement of the Group's objectives, their potential impacts, mitigating factors and those areas of the businesses' strategies that are potentially impacted. The inherent risk (before the operation of mitigating controls) is stated for each risk area together with an indication of the current trend for that risk..

The nature of risk is that its scope and potential impact will change over time. As such the list below should not be regarded as a comprehensive statement of all potential risks and uncertainties that may manifest in the future. Additional risks and uncertainties that are not presently known to the Directors, or which are currently deemed immaterial, could also have an adverse effect on the Group's future operating results, financial condition or prospects.

Key changes in the year

The risk environment in which the Group operates does not remain static. As part of the ongoing risk review process, the Board and Group Leadership Team: identify new risks for the Group, assess the inherent risk associated with each principal risk, and determine whether the risk trend facing the Group is increasing, decreasing or unchanged.

Whilst the risk profile for the Group remains relatively stable relative to 2018, the following key changes were identified in 2019:

- One additional principal risk has been disclosed in relation to IT systems and infrastructure. This risk previously formed part of the risk associated with change management and has been separated given the Group's plans to modernise its IT infrastructure and replace a number of legacy systems
- The inherent risk associated with business transformation initiatives, including the IT modernisation programme, has been reassessed as "high" to reflect the scale of change activities ongoing or planned within the Group
- The inherent risk associated with cyber threats and data security has been increased to "high" to acknowledge that the continual changes in both threat sources and the tactics employed by cyber criminals present an ongoing challenge for all companies, including the Group

Emerging risks

The Board is required to undertake a robust assessment of the emerging risks that may impact the Group under the 2018 UK Corporate Code, which is effective from 1 January 2019. In response to this requirement, consideration of emerging risk has been integrated into the Group's current risk management practices, which continue to be developed and refined. The Board regularly considers the latest risk research alongside views on emerging risks collated from assessments made by the business unit and functional leadership teams. These risks are monitored but are not currently assessed as sufficiently material to be considered as principal risks.

The Group is monitoring the potential impact of COVID-19 carefully. The Group will continue to review the possible impacts on the business and refine its contingency plans as more information about the epidemic emerges.

Risk workshops are undertaken periodically with the most significant business units and are structured to consider a number of risk categories, including "disruption", being the risks that may emerge and impact the viability of a strategy or business model. The current statement of principal risks recognises the potential for such disruption in the competitor and customer landscape, as well as in relation to suppliers.

Category	Principal risks	Risk trend	Inherent risk
External	Changing customer and competitor landscape	◀▶	High
	Supplier risks	◀▶	Medium
	Brexit	◀▶	High
	Market conditions	◀▶	High
Strategic	Capital allocation	▼	Medium
	Change management	▲	High
	Portfolio management	◀▶	Medium
Technological	IT systems and infrastructure	▲	High
	Cyber threat and data security	▲	High
Operational	Health and safety	◀▶	Medium
	Talent management	◀▶	Medium
	Legal compliance	▲	Medium

Key disruptive risks are also identified and mitigated by the Group. None of them are currently considered to be principal risks.

Risk trend:
▲ – Increasing
▼ – Decreasing
◀▶ – Unchanged

Statement of principal risks and uncertainties continued

Changing customer and competitor landscape

Inherent risk	Risk description	Risk mitigation
Inherent risk High **Trend** Unchanged **Strategy** A B C **Impact** Adverse effect on financial results Loss of market share	The Group sells and distributes building materials through a number of channels. The number of outlets and channels where building materials can be purchased continues to grow with new competitors entering the market. These new entrants may operate business models which differ significantly from the traditional merchanting, retail and online formats from which the Group currently operates and may take market share. The demerger of the Wickes business will change the risk profile of the Group in the coming year, as exposure to the retail sector is reduced. Customer purchasing habits also continue to evolve with an increasing percentage of transactions for the Group now originating online. Customers' preference for purchasing materials through a range of supply channels and not just through the Group's traditional competitors may adversely impact the profitability of branch-based operations and the Group's overall performance. Increasing price transparency could lead to a perception that the Group is less price competitive leading to downward pressure on price and margins.	The Board is cognisant of the risks and opportunities presented by the changing customer and competitor landscape and evaluates developments both in terms of threats and opportunities for the Group.. One example of this in 2019 is the decision to pursue the demerger of the Wickes business, and for the Group to focus on the service of trade rather than retail customers. The Group continues to build multi-channel capabilities that complement its existing operations and enable customers to transact with the Group through channels that best suit their needs. The Group is able to use its sites flexibly to respond to changes. Alternative space utilisation models are possible, including maintaining smaller stores and implanting additional services into existing branches. During 2019, Toolstation opened its first high street store. The development of new, innovative and competitive supply solutions is a key strength of the Group. It works closely with customers and suppliers on a programme of continuous improvement to enhance the customer proposition. Pricing strategies across the Group are regularly reviewed and refined as necessary to ensure they remain competitive.

Link to Strategy:
A – Best-in-Class Services
B – Focus on Trade
C – Advantaged Businesses
D – Simplifying the Group
E – Financial Strength

Talent management

Inherent risk	Risk description	Risk mitigation
Inherent risk Medium **Trend** Unchanged **Strategy** A B D **Impact** Adverse effect on delivery of strategy	People are key to the Group's success. The ability to recruit, develop, retain and motivate suitably qualified and experienced staff is an important driver of the Group's overall performance. The Group may also be exposed to skills shortages in certain areas which can result in salary cost pressures. This may be compounded by Brexit if significant numbers of EU citizens decide to leave the UK (see also page 47). In particular, the availability of suitably qualified commercial drivers is an area of ongoing focus for the Group, which is critical to the operation of its fleet to meet customer delivery expectations.	The Group's employment policies and practices are kept under regular review. Staff engagement and turnover by job type is reported regularly to the Group Leadership Team and the Board. A Group-wide talent and succession exercise was undertaken in 2019 and reviewed by the Board. Succession plans are reviewed annually; the process was reviewed for 2020 to ensure that plans are in place for the Board, senior management positions and other critical roles and to promote the development of diverse and inclusive pipelines. The Group's reward and recognition systems are actively managed to ensure high levels of employee engagement. Salaries and other benefits are benchmarked regularly to ensure that the Group remains competitive and the Group operates incentive structures to ensure that high-performing colleagues are adequately rewarded and retained. A wide range of training programmes are in place to encourage staff development. Management development programmes are available to those identified for more senior positions. The Group's "Learn and Earn" Apprenticeship Programme ("LEAP") has been in place for a number of years and has a track record of successful delivery of apprenticeships in both branch-based and functional roles.
Competitive disadvantage	The strength of the Group's customer proposition is underpinned by the quality of people working throughout the Group, particularly in branch and other customer-facing roles. Many colleagues have worked for Travis Perkins for many years, during which they have gained valuable product and customer knowledge and expertise. The Group faces competition for the best people from other organisations. Ensuring the retention and development of colleagues and that robust succession plans exist for key positions is important for the Group to ensure it has the right skills and experience to deliver on its strategic objectives.	

Statement of principal risks and uncertainties continued

Supplier risks

Inherent risk
Medium

Trend
Unchanged

Strategy
A B D E

Impact
Adverse effect on financial results

Adverse effect on reputation

Risk description

The Group faces a number of supplier risks in relation to key dependencies and relationships, overseas sourcing and disintermediation, all of which could adversely impact upon ranging and price.

The Group is the largest customer to a number of its suppliers. In some cases, those suppliers are large enough to cause the Group significant difficulties and disruption if they are unable to meet their supply obligations due to either economic or operational factors. Alternative sourcing may be available, but the volumes required and the time it may take those suppliers to increase production could result in significant stock-outs for a considerable time, adversely impacting customer service and, potentially, leading customers to switch to a competitor in the short- or long-term.

The Group sources a number of products from overseas factories, which increases the Group's exposure to sourcing, quality, trading, warranty and currency issues. This again may adversely impact customer service and choice.

Manufacturers of materials and products sold by the Group may also look to sell directly to end customers in the future, diminishing the role of distributors..

The Group's intended demerger of the Wickes business, as well as the potential future sale of its Plumbing & Heating businesses, will reduce the size of the Group, which may impact on its ability to renegotiate future supply contracts on equivalent or favourable terms.

Risk mitigation

Making decent returns is one of the Group's cornerstones which requires it to treat both customers and suppliers fairly. The commercial and financial teams have established strong relationships with the Group's key suppliers and work closely with them to agree contracts that are beneficial to both parties and facilitate continuity of quality materials. This interaction continues as the Wickes demerger is progressed and revised contractual arrangements are put in place.

Where possible, contracts exist with more than one supplier for key products, to reduce the risks of dependency on a sole supplier.

The Group has made a significant investment in its Far East infrastructure to support its direct sourcing operation. This allows the development of own brand products, thereby reducing the reliance on branded suppliers. The Group has also adopted a conservative hedging policy to reduce its exposure to currency fluctuations.

Independent checks are undertaken on the factories producing products for the Group, including the quality and suitability of those products before they are shipped to the UK. The results of these checks are kept under review with action taken as necessary to address any concerns.

Health and safety

Inherent risk	Risk description	Risk mitigation
Inherent risk Medium **Trend** Unchanged **Strategy** A E **Impact** Harm to our colleagues, customers and the wider community Potential legal action, fines and penalties Adverse effect on financial results Adverse effect on reputation	Keeping the Group's colleagues, customers, suppliers and the public safe is a cornerstone of the business and at the heart of how it operates. The Group expects everyone to go home to their families safely everyday. The Group operates over two thousand sites, many with complex and busy yards. It also operates one of the largest vehicle fleets in the UK, distributing heavy and bulky materials. Poorly implemented safety practices on site, on the road and at delivery locations could result in significant harm to people which would damage the Company's reputation and could impact trading performance.	The Group continues to challenge its thinking and approach to improving its safety performance through its now well established "Stay Safe" brand. Governance of Stay Safe is well established and designed to promote a continual focus on health and safety. Stay Safe performance is reviewed at all Board Meetings, by the Group Leadership Team and by the dedicated Stay Safe Committee, which is chaired by a Non-executive Director. Safety performance is a focus at the leadership meetings for each of the Group's business units, with regular consideration of continuous improvement plans in this area. These forums also monitor the achievement of transport-related compliance requirements, including driver licensing and professional competence. In addition, a number of the business units, including Travis Perkins, have retained FORS accreditation of their vehicle fleets. During 2019 a programme of "Safety Deep Dive" reviews was introduced to assess how effectively key safety risks are managed and to benchmark the Group to leading practice. Safety management arrangements are periodically assessed and accredited by members of the Safety Schemes in Procurement Forum. Incidents are monitored, investigated and corrective action taken to reduce the likelihood of similar incidents in future. Stay Safe assurance reviews are regularly undertaken at all sites by dedicated safety professionals with any resulting improvement actions tracked to completion. De-risking the Group's operations, improving health and safety awareness and implementing improved ways of working are at the forefront of the Group's activities. Further information on progress made during the year can be found in the Health and Safety report on page 55.

Statement of principal risks and uncertainties continued

Capital allocation

Inherent risk	Risk description	Risk mitigation
Inherent risk Medium **Trend** Decreasing **Strategy** B C E **Impact** Adverse effect on financial results	**Risk description** The Group manages a number of different businesses in the UK which operate in different, but complementary channels. As the Group's markets continue to develop, it is investing to enhance its existing businesses and also to develop new propositions to better serve its customers. While the Group operates a disciplined capital allocation process, there is a risk that it may be over-investing in channels which may decline or that it may not be allocating sufficient capital to new propositions and advantaged businesses resulting in sub-optimal returns on capital.	**Risk mitigation** Return on capital is one of the Group's key performance indicators as shown on page 21. The Group's decision to refine its strategy and focus on trade customers in the most advantaged businesses has influenced the allocation of capital during 2019, with more focused management attention and capital deployment in areas of higher return. This capital allocation policy is also a driver for the Wickes demerger, enabling both Wickes and the remaining Group to pursue separate strategies and priorities for investment and growth. Responsibility for identifying and implementing opportunities to expand, improve or modify the Group's operations rests with each of the business unit leadership teams. Capital is deployed or re-deployed through a Group-led forum to strategically-aligned projects expected to achieve the best return on capital. Projects are required to present a comprehensive business case and, for the largest investments, Board approval is sought. Major projects are reviewed by the Group Leadership Team, which introduced a monthly programme review during 2019. Progress against plan is kept under close review. Post implementation reviews are undertaken of all major projects and returns are monitored on an on-going basis to ensure that the expected returns are achieved, but also to allow the Group to modify its capital allocation when appropriate.

Change management

Inherent risk	Risk description	Risk mitigation
Inherent risk High **Trend** Increasing **Strategy** A C D E **Impact** Adverse effect on financial results Adverse effect on shareholder value	**Risk description** The Group undertakes a variety of projects throughout its business in order to generate returns for its shareholders. These projects include the modernisation of the Group's core IT systems and infrastructure, on-going development of its supply chain operations and branch and store networks, and the simplification of the Group to speed up decision-making and reduce costs. By their nature, such strategic projects are often complicated, interlinked and may require considerable resource to deliver. As a result, the expected benefits, timescale for delivery and the costs of implementation of each project may deviate from those anticipated at their outset. Colleague engagement may be impacted during a period of significant change and cost-focus. Following the announcement in 2019 to delay the Merchant ERP replacement programme, the Group is considering its approach to implementation of the various elements of an ERP system, after modernisation of the core IT architecture. The results and delays to this programme are illustrative of the challenges associated with major transformation projects in Group with a number of complex legacy systems.	**Risk mitigation** As set out in relation to capital allocation, all potentially significant projects are subject to detailed investigation, assessment and approval prior to commencement. Dedicated teams, including financial resource, are allocated to each project, with additional expertise being brought into the Group to supplement existing resource when necessary. All strategic projects are supported by an appropriate governance structure and are closely monitored through the Group Leadership Team's programme review with regular reporting to the Board. Regular communications are undertaken to keep colleagues informed. When projects do not deliver against expectations, exercises are undertaken to capture the "lessons learned" which are fed into future projects.

Brexit

Inherent risk
High

Trend
Unchanged

Strategy
A E

Impact
Adverse effect on financial results

Risk description

The result of the UK vote to leave the European Union ("Brexit") and the subsequent process to determine the terms of the withdrawal agreement has caused considerable market uncertainty throughout 2019 and continues to do so. It remains difficult to predict the economic outlook and impact to the Group in the short term or long term. The Group continued to experience significant volatility in the value of sterling against the principal currencies used to pay for imported goods during 2019.

Future trading relationships with overseas markets have yet to be determined and these may result in higher tariffs or duties on imports of construction products as well as extended lead times on imported supplies or result in the need to source some products elsewhere. These risks have the potential to impact the Group significantly. Of less risk to the Group, but potentially significant for its customers, are the significant numbers of non-UK nationals employed in the construction industry and the distribution and logistics markets. If the UK becomes a less attractive place for them to work this could result in labour shortages and consequent salary cost pressures and could change dynamics in our key markets. Whilst significant changes to product standards and legislative requirements more generally are not anticipated in the short term, they could impact the Group if introduced in the future.

The Group operates a small number of branches in Northern Ireland and the Republic of Ireland. During 2019, the Group acquired a controlling share of the Toolstation Europe business. Whilst not material to the Group, business operations in these territories may be impacted by the final agreements made with the EU including those in respect of borders, tariffs and information flow.

The continued uncertainties that surround Brexit mean that a more precise assessment of the impact on the Group's operations is unlikely to be possible until further detail becomes available in respect of the future trading relationships of the UK after the transition period.

Risk mitigation

It remains difficult to determine the full impact of Brexit on the Group. The Board continues to monitor developments and market conditions and will react accordingly.

The Board has undertaken a process to assess the risks associated with Brexit. This includes assessment of existing risk mitigations and actions in progress and is updated on a regular basis.

The Group continues to invest in the business where those investments are expected to realise acceptable returns, but it is prepared to flex activity levels should market conditions so dictate.

Throughout 2019, exercises were undertaken by the business unit leadership teams to assess the level of stock holding required in each business unit to minimise disruption to customers as a consequence of Brexit. The Group has taken steps to minimise disruption to its imports from the EU and was granted Authorised Economic Operator status by HMRC in early 2019.

Regular communication continues with both customers and key suppliers. A customer statement is in place and will be reassessed as agreements with the EU are clarified.

Where the cost of goods increases due to the exchange rate deteriorating or additional tariffs and duties, the Group will seek to pass those price increases through to its customers, but its ability to do so will depend upon market conditions at the time.

The processes in place around the recruitment and retention are set out in the related principal risk on page 43.

Statement of principal risks and uncertainties continued

Market conditions

Inherent risk	Risk description	Risk mitigation
Inherent risk High **Trend** Unchanged **Strategy** A B C **Impact** Adverse effect on financial results	**Risk description** The Group's products are sold to businesses, trades and retail customers for a broad range of end uses in the built environment. The Group's markets are cyclical in nature and the performance of those markets is affected by general economic conditions and a number of specific drivers of construction, Renovation, Maintenance and Improvement and DIY activity, including mortgage availability and affordability, housing transactions and the timing and nature of government activity to stimulate activity, net disposable income, house price inflation, consumer confidence, interest rates and unemployment. A significant downturn in economic conditions or major uncertainty about the future outlook could affect the levels of construction activity in the Group's markets and the confidence levels of the Group's customers, which could reduce their propensity to purchase products and services from the Group's businesses.	**Risk mitigation** The Board conducts an annual review of strategy, which includes an assessment of likely competitor activity, market forecasts and possible future trends in products, channels of distribution and customer behaviour. The Group maintains a comprehensive tracking system for lead indicators that influence the market for the consumption of building materials in the UK. Significant events including those in the supply chain that may affect the Group are monitored by the Group Leadership Team and reported to the Board monthly by the Group CEO. Should market conditions deteriorate then the Board has a range of options dependent upon the severity of the change. Historically these have included amending the Group's trading stance, cost reduction, lowering capital investment and reducing the dividend.

Portfolio management

Inherent risk	Risk description	Risk mitigation
Inherent risk Medium **Trend** Unchanged **Strategy** B C D E **Impact** Adverse effect on financial results Adverse effect on shareholder value Adverse effect on reputation	**Risk description** The Group undertakes acquisition and disposal activity to optimise its portfolio of businesses and drive shareholder return. In December 2018, the Group announced a strategy to simplify the Group and concentrate on its trade-focused businesses. In the last year, the Group has: • Set out its intention to explore the potential divestment of the Plumbing & Heating businesses. The Group confirmed in January the sale of its Primaflow F&P wholesale business to Newbury Investments (UK) Ltd. Further activity in relation to the remaining businesses has been paused • Announced a proposed demerger of the Wickes business in 2020 • Acquired a controlling shareholding in Toolstation Europe Programmes to separate businesses for sale or demerger can be complex given the many linkages to Group systems and processes. Communication of the impacts to colleagues both in the affected and remaining businesses require careful consideration to ensure that colleagues remain informed, engaged and also that confidentiality is not breached. The projected benefits, costs and timescale for portfolio management activities may deviate from those originally planned, which could in turn impact the progression of the process and the value realised or price paid.	**Risk mitigation** All portfolio management activities are subject to a detailed appraisal process and ultimate approval by the Board. A formal programme of work, with dedicated resource is put in place for the larger-scale transactions including those in relation to Plumbing & Heating and Wickes. External expertise and advisers are involved as required to support the programme teams. The Plumbing & Heating businesses were successfully separated both functionally and in system terms during 2019 to the agreed timescales. The Wickes demerger activity is progressing in line with plans. All activity of this kind is supported by robust governance and monitoring. The largest programmes are closely monitored by a Steering Committee, with sponsorship and representation from members of the Group Leadership Team and, when appropriate based on the significance of a transaction, the Board. Both the Group Leadership Team and the Board receive regular updates on all portfolio management activities.

IT systems and infrastructure

Inherent risk	Risk description	Risk mitigation
High **Trend** Increasing **Strategy** A D **Impact** Adverse effect on financial results Adverse effect on reputation Adverse effect on delivery of strategy Competitive disadvantage	The Group is dependent on a wide range of IT systems and supporting infrastructure for its day-to-day operations and technology plays a significant role in the future growth and success of the Group. The current IT landscape is complex and includes some legacy systems that lack the functionality of modern software and where expertise is diminishing. System failures or outages could disrupt the day-to-day operations of the Group and, in turn, impact customer service and the Group's financial performance. The Group is developing a comprehensive modernisation plan that will include the replacement of a number of legacy systems. This will bring greater stability, capability and longevity to the Group's systems and infrastructure. In its digital offerings, the Group's ability to meet customer demand will impact longer-term growth and delivery of the strategy. There is significant risk associated with IT change programmes including risks in relation to prioritisation and sequencing, resource allocation, cost and time overruns, testing and business acceptance. These risks, alone or in combination, could impact the financial results and reputation of the Group, and achievement of the longer-term strategy.	To mitigate the risk of disruption in the event of a system failure, an IT disaster recovery plan is in place, together with broader business continuity plans. Arrangements are in place for alternative data sites. Off-site back-up routines are in place. Plans are regularly tested and the results assessed to drive further improvements. The incident management process is designed to prioritise and respond to any incident quickly and effectively, with escalation and communication protocols. Recovery targets are in place and are designed to minimise the operational and customer impact. Internal Audit reviewed the disaster recovery plans and incident management processes during the year. In relation to the modernisation of the Group's IT systems and infrastructure, the IT strategy is currently being updated. A governance structure is in place for change programmes from idea generation through to deployment. This includes protocols, reviewed by internal audit during the year, to ensure that upgrades and improvements are delivered to the business in a controlled manner and limit the potential for disruption. The Group Leadership Team receives regular progress reports and larger programmes are reported to the Board. This structure has been refreshed during the year and is designed to ensure that programmes are appropriately resourced and progress to plan. Any system change is rigorously tested in respect of functionality and that it meets business requirements before it is implemented. Following the cancellation of the Merchant ERP replacement programme, a full lessons learned exercise was undertaken, as is standard at the end of every programme, with insights captured and rolled into future change programmes.

Statement of principal risks and uncertainties continued

Cyber threat and data security

Inherent risk
High

Trend
Increasing

Strategy
A E

Impact
Adverse effect on financial results

Adverse effect on reputation

Potential legal action, fines and penalties

Risk description

Incidents of sophisticated cyber-crime represent a significant and increasing threat to all businesses including the Group. The tactics of cyber criminals evolve on a daily basis, finding new ways to compromise organisations, which presents a continuous challenge for Information Security teams in terms of cyber risk protection and preparation for potential incidents. Threat sources change continually such that, while the Group may be targeted by cyber-criminals, it may also be impacted by attacks aimed at impacting the UK's infrastructure more generally.

Information Security incidents can be caused externally or internally, accidentally or deliberately. The Group's business activities are heavily dependent on IT systems that are available when needed, based on accurate and complete data. An external cyber-attack or insider threat (or an equivalent incident at a third party with whom Group data is shared legitimately) could result in disruption to customer-facing, supplier-facing and financial systems through theft and misuse of confidential data, damage to or manipulation of operationally critical data or interruption to IT services, any of which may have serious consequential impacts on the Group's reputation, ability to trade and compliance with data protection regulations.

Whilst cyber incidents have not significantly impacted the Group to date, these threats continue to evolve and can, in turn, impact the effectiveness of mitigating actions. The Group continues to be vigilant and assess its exposure.

Risk mitigation

The Group takes its responsibilities and legal obligations in respect of data security and protection seriously and continues to make investments to protect data, including customer data, and ensure that its confidentiality, integrity and availability is maintained.

The Group takes a two-pronged approach to data security: through technology (protective tools and countermeasures) and people (awareness and training).

Best of breed technical solutions are deployed across the Group's infrastructure including firewalls, virus protection, email threat protection, intrusion detection and vulnerability scanning. There is an ongoing review process to ensure that these solutions provide optimal benefit and protection to the Group, through appropriate tuning and configuration. An outsourced Security Operations Centre has recently launched to provide round the clock monitoring of the Group's infrastructure using market-leading tools. This will deliver mature levels of threat intelligence to support proactive defence against cyber threats.

New IT projects are scrutinised and supported by the Information Security team, ensuring security by design. All changes to technology solutions require information security review and approval.

An information security improvement project was initiated in 2019 with the objective of continuously advancing the Group's information security profile and maturity against the recognised National Institute of Standards and Technology – Cyber Security Framework. This has led to the introduction of a new governance framework, including a steering group and "Security Champion" forum, and the development of a new policy framework.

The Group continues to maintain compliance with the Payment Card Industry – Data Security Standard.

The Group has a comprehensive set of data protection and information security policies in place and all colleagues are required to undertake regular training regarding the protection of information. This emphasises the importance of keeping personal information safe and secure in whatever format it is held by the Group. A Data Governance Committee is in place to support the Group's data governance and information security framework. Its remit includes reviewing and approving key information security policies, supporting development of a positive culture of compliance (including by promoting awareness of key information security policies) and, where appropriate, reviewing the response to data security breaches.

In the event of an incident, the response protocols and recovery plans in place are designed to mitigate the impact and support a rapid and efficient recovery of systems and service.

Legal compliance

Inherent risk	Risk description	Risk mitigation
Medium **Trend** Increasing **Strategy** A B C D E **Impact** Adverse effect on reputation Adverse effect on financial and operational performance Potential legal action, fines and penalties	The Group is subject to a broad range of existing and evolving governance requirements, environmental, health and safety and other laws, regulations, standards and best practices which affect the way the Group operates and give rise to significant compliance costs, potential legal liability exposure for non-compliance and potential limitations on the development of the Group's operations.	The Group's in-house legal team is responsible for monitoring changes to laws and regulations that affect the business and is supported by external advisers. The Group has a comprehensive framework of policies in place that set out the ways colleagues and suppliers are expected to conduct themselves. Those expectations are widely disseminated using a range of methods to ensure colleagues and suppliers understand their responsibilities to comply with the law and other regulations affecting the Group at all times. In recognition of the ongoing changes and requirements across the Group's regulatory compliance landscape, a Regulatory Risk Business Partner has recently been appointed who will support the business in meeting new requirements and continue to develop and improve the existing framework. The Group provides online training to colleagues in key areas of legal and regulatory compliance, including a suite of mandatory training for those that join the Group. The Group Leadership Team and the Board regularly monitor compliance with laws and regulations. The Group operates a whistleblowing process that allows the anonymous reporting, through an independent hotline, of any suspected wrongdoing or unethical behaviour, including reporting instances of non-compliance laws and regulations. All reported cases are investigated.

Doing the **right thing**

The framework below highlights the 12 most material sustainability focus areas for the Group, organised around four pillars. They were determined through consultation with internal and external stakeholders, taking into account key risks and opportunities. They support success in both the short and long term. Progress in these areas will build resilience in the business, underpin a robust Social Value offer to customers and improve behaviours in the supply chain.

Our pillars and why they're important to us.

1 People

Purpose	Safety and well-being	Diversity and inclusion	Development	Reward and benefits	Employee voice and engagement
Be the best employer	The safety and well-being of colleagues is the Group's first priority. A workforce that is safe and physically and mentally healthy is the foundation of everything the Group does.	A diverse workforce and an inclusive workplace ensures everyone feels welcome, valued for their contribution and can perform at their best. It also allows the Group to build employee pride and mirror and better serve its customer base.	A strong pipeline of talented people protects the current and future success of the Group. In an industry that is keen to attract young talent, development programmes allow the Group to retain existing colleagues and nurture new recruits.	Effective reward and benefits' programmes allow the Group to attract, motivate and retain the best talent in a competitive marketplace. Well-structured benefits' packages support colleagues to meet their current and future financial needs.	A business should meet the needs of multiple stakeholders, not just shareholders. Colleague opinion and input is sought to support and inform our decision-making, increase engagement and drive innovation.

2 Social

Purpose	Human rights and anti-slavery	Responsible sourcing	Legal compliance	Community and charity
Conduct all business with integrity	The Group employs over 29,000 people. Ensuring colleagues and workers within the supply chain are protected from human rights abuses is a fundamental aspect of the Group's social responsibility.	The Group sources products and services from 1,000s of suppliers. Responsible sourcing of quality products from approved suppliers is essential to establish resilient and transparent supply chains and protect the Group from interruption or reputational damage.	As a responsible business, it is Company policy to comply with all applicable laws in the countries in which the Group operates. Whether anti-bribery and corruption, General Data Protection Regulation ("GDPR"), competition compliance or any other area of law, the Group will do the right thing.	The Group's businesses are based on relationships. Local branches forge strong bonds with local communities. Sales teams collaborate with customers on Social Value propositions. Colleagues devote time and money to chosen charities. Being a good corporate citizen is core to the Travis Perkins Group.

3 Environmental

Purpose	Carbon	Waste
Mitigate operational impacts on the environment	The Group operates a large vehicle fleet and property estate. The Group has a responsibility to address rising stakeholder concern around climate change and mitigate the impact of increasing energy prices and carbon taxes.	Millions of products pass through the Group's businesses each year, generating operational, product and packaging waste. Public interest in plastics and packaging, increasing waste costs and new taxes all drive this agenda.
	Environmental impacts within the supply chain are addressed through the Group's Responsible Sourcing programme. Environmental impacts of products through their life cycle are addressed through the Group's Sustainable Products and Services programme.	

4 Industry

Purpose	Sustainable products and services
Innovate to meet future needs	Building regulations, national commitments and construction methods are always evolving. The Group can support its customers with information, products and services to meet changing requirements.

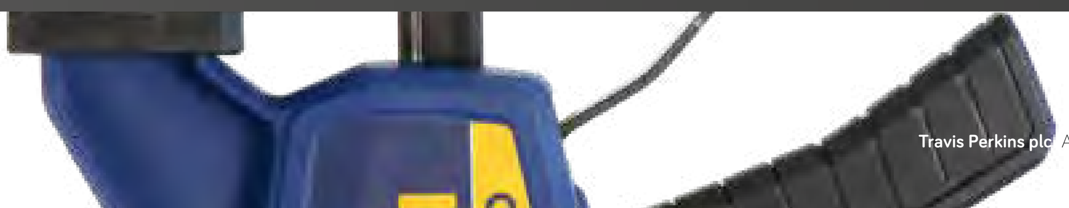
How does this support the strategy?

By doing the right thing, the Group has confidence in a sustainable and value-generating business model. The sustainability programme supports the Group's long-term strategy of being the first choice partner for the construction industry, building on its 200+ year heritage.

The Group delivers best-in-class service by investing in its colleagues and its unique and open culture, continually striving to be the best employer. The Group operates through a nationwide network of over 2,000 branches who win the custom of the "best builders in town" by building strong bonds with their customers and their local communities.

Being at the forefront of evolving industry trends and regulations is important for the Group's customers and for maintaining the leadership positions of the Group's businesses. The commitment to responsible sourcing supports the deep and lasting supplier relationships that enable the Group to provide quality products and services to its customers.

For more information on the business model and strategy see page 12.



Sustainability overview
continued

How does this align with the cornerstones?

Everything the Group does is underpinned by the five cornerstones, or principles, of the business. The material focus areas highlight **what** the Group does on sustainability and the cornerstones define **how** the Group does it.

- Upholding family values
- Keeping people safe
- Making decent returns
- Working for our customers
- Being the best

Defining the material focus areas for the Group

The material focus areas of the Group's sustainability programme were determined through in-depth consultation with a wide group of stakeholders. The materiality assessment was completed during 2019 and involved colleagues, the Group Leadership Team, a range of different customers, suppliers and investors. The Group's approach has been benchmarked against competitors, supply chain partners and leaders from other industries. Changing industry needs, upcoming regulation and macro-economic trends have been taken into account. The Group's material focus areas will be reviewed on an ongoing basis to ensure that the Group stays focused on the most important topics for the business and its stakeholders.

Engaging with stakeholders

The Group actively engages with stakeholders to share progress, inform plans, listen to feedback and seek views.

Shareholders are encouraged to attend the Annual General Meeting to understand and ask questions about the Group's performance, challenges and opportunities.

Over 80 colleagues, customers, suppliers and investors were consulted as part of the materiality assessment for sustainability in 2019. The "You Talk, We Listen" engagement survey held in 2019 sought the honest views of all colleagues and allowed the Group to understand and act on their opinions (see page 60). Customer events and supplier conferences hosted by businesses in the Group offer the opportunity to consult with key supply chain partners and understand how Travis Perkins can support.

Governance of sustainability

The Group Leadership Team and the Travis Perkins plc Board have overall responsibility for sustainability. A Head of Sustainability was appointed in 2019 to support the Group in evolving and delivering against its sustainability strategy. Progress is reported to the Group Leadership Team and the Board on each material focus area as needed to monitor and improve performance. A separate Stay Safe Committee of the Board oversees performance in health and safety.

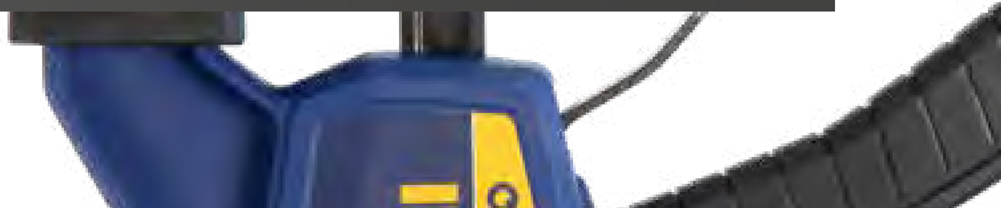
Objectives or targets are set for each material focus area.

Assessing climate-related financial risk

The Group has submitted an annual climate disclosure to the Carbon Disclosure Project ("CDP") for ten years, including a financial assessment of climate-related risks and opportunities. Work is underway to disclose climate-related financial risk in the Annual Report and Accounts by 2022, in line with the Taskforce for Climate-related Financial Disclosure ("TCFD") recommendations.

Alignment with the UN Sustainable Development Goals

By doing the right thing, the Group is supporting a number of the UN Sustainable Development Goals ("SDGs"). Of the 17 UN SDGs, seven align most directly with the Group's sustainability programme.



Safety and well-being

2019 objectives

- In line with the three-year Safety and Well being strategy defined in 2018, focus continued on managing key safety risks to reduce the Lost-Time Incident Frequency and Accident Severity Rates.
- The Group committed to further developing its approach to colleague well being, with a particular focus on mental and financial health.

LTI frequency rate improved by **25%**

Severity rate improved by **27%**

2019 progress

Performance in safety and well-being continued to improve during the year under review. LTI frequency rate improved by 25% from 7.5 to 5.6 LTIs per million hours worked. The Severity rate improved by 27%, from 0.11 to 0.08 lost work days per thousand hours worked. The Average Safety Review score improved from 6.0 to 6.3 out of 8.

This was driven by continued focus on managing the most significant safety risks in each individual business.

Specific improvement actions taken during 2019 included:

- the development of business-specific safety and well-being improvement plans
- a programme of "Deep Dives" to understand how effectively key risks are managed and to externally benchmark performance
- enhanced management of compact yellow plant suppliers and plant handovers
- a restructure of HSE support to reflect the wider organisational structure changes
- successfully establishing standalone H&S functions and systems in the Plumbing & Heating division (in readiness for divestment) and in Wickes (in readiness for demerger)

Business units continue to maintain a focus on managing the safety of their vehicle fleets. Many use external assurance accreditation schemes like FORS and the Driver and Vehicle Standards Agency ("DVSA") Earned Recognition scheme.

What's next?

In 2020 the Group will maintain focus on reducing and managing key safety risks and will continue to externally benchmark performance and improvement activities.

The Group is committed to raising the bar on mental health awareness and businesses will progress with their defined improvement plans.

Having strengthened controls to address compact yellow plant safety, learnings will be shared externally in order to improve industry standards.

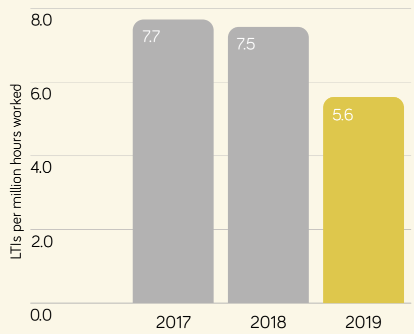
> **We have seen strong performance in 2019, outperforming previous years on the Group's three main measures. Given the strategic changes taking place across the business this result is particularly pleasing and testament to the continuing commitment and passion of the Group Leadership Team and everyone in the business to keep people safe. From a governance perspective the newly introduced Safety Deep Dive programme is a particular highlight, mixing good quality safety assurance and external benchmarking to challenge continual improvement.**

Pete Redfern
Chairman of Stay Safe Committee
Non-executive Director

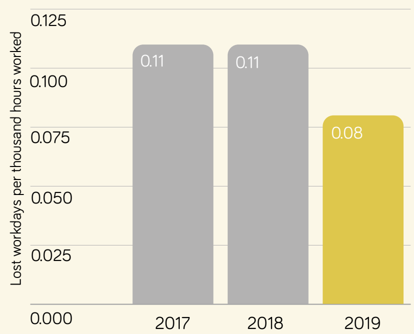
Case study:
External benchmarking

During 2019 the Group introduced a series of Safety Deep Dives to establish how effectively key safety risks are being managed. As part of the drive for continual improvement, practices were benchmarked with other leading organisations in different industry sectors. During the course of the year the business engaged with 12 other organisations including Network Rail, Siemens, DHL, Royal Mail and Ocado to explore ways to improve areas such as occupational road risk and safety in the final 25 yards of the delivery.

Accident frequency rate



Accident severity rate



Sustainability overview continued

Development:
Apprenticeships
2019 objectives

- **Invest in the leadership pipeline, optimising engagement with the Group's industry-leading "Learn and Earn" Apprenticeship Programmes ("LEAP").**

2019 progress

Engagement with apprenticeship programmes continues to increase with 243 colleagues graduating during the year, 61% with distinction. The Group also gained recognition as "Asian Apprentice Employer of the Year".
2019 improvements included:

- The enrolment of 565 colleagues onto apprenticeship programmes, and an increase in the range of internally-delivered programmes
- New partnerships with the Builders Merchant Federation ("BMF") and the Building Services Research and Information Association ("BSRIA") to support entry-level programmes
- The development of a "Branch Counter to Boardroom" approach with accompanying internal qualifications ranging from certificate to master's degree level

What's next?

Develop new brand-specific, entry-level apprenticeships for each of the trade merchanting businesses applying the "Branch Counter to Boardroom" approach. A suite of apprenticeship programmes will be created to support the growth of the Toolstation business.

For me the most enjoyable part of the scheme is working alongside other people in similar positions to me, helping me build new business relationships and work with people across other brands within the Travis Perkins Group.

Gemma Ridler
Keyline Preston –
Passed "Serving our Customers" Apprenticeship Level 2

Colleagues enrolled onto apprenticeship programmes
565

Graduates passing with "distinction" in 2019
61%

Case study:
Asian Apprenticeships Award

At the 2019 Asian Apprenticeship Awards, presented at Edgbaston Stadium in Birmingham, Travis Perkins plc won the Employer of The Year Award in the Retail, Hospitality & Tourism category. The award was won in recognition of work done to increase the Black and Minority Ethnicity ("BAME") diversity of the Group's apprenticeships. The same award scheme shortlisted Jogesh Jassi for the Apprentice award, after he started the Management Apprenticeship scheme at Benchmarx in Telford in 2016, where he is now an Assistant Branch Manager.

The Asian Apprenticeship Awards aim to encourage more young British Asians to consider apprenticeships and more employers to provide opportunities to them. The Awards were launched in 2016 following the publication of a report by the then-business secretary Sajid Javid who set a target to increase BAME diversity of apprenticeships by 20%. Jogesh won the Travis Perkins Apprenticeship of the Year Award in 2018.

Management and leadership development
2019 objectives

- **Design and launch a comprehensive development "curriculum" for all colleagues, managers and directors to enable them to deliver outstanding service to customers.**

2019 progress

The colleague, management and leadership agenda was agreed and scoped, taking into account feedback from branch managers, leadership teams and colleagues.

A new "Winning Leaders" programme was launched, with a comprehensive two-year curriculum focused on cultural and leadership behaviours to drive sustainable learning. The suite of development opportunities is being tailored to different needs, beginning with leader development programmes such as "Coaching to Win" and "Winning People Decisions". The first phase began during the year with three days' training delivered to all regional leaders.

What's next?

The full curriculum will be rolled out across Travis Perkins merchanting businesses over the course of 2020. This will include a further seven days training to all leaders and managers, as well as the launch of a comprehensive programme of learning for all colleagues in partnership with the Builders Merchants Federation focusing on core trading competencies.

Tailored versions of this development suite will also be rolled out across the specialist merchanting businesses (BSS, CCF, Keyline and Benchmarx), as well as support functions.

Phase two of the curriculum will be designed and piloted in the trade merchanting businesses. This will include the integration of the Group's award-winning LEAP apprenticeship programmes, which will be rebranded as the "Travis Perkins, Counter to Boardroom" qualification suite.

It is great that Travis Perkins invest in people currently in the business and it is a great opportunity for me to develop my skills and progress in my career.

Alan Mann
Tool Hire Manager
TP Pollokshaws Glasgow
Passed "Managing a Team"
Apprenticeship with a distinction

Talent and succession
2019 objectives

- **Create succession and retention plans for the most senior positions within the Group.**
- **Invest in leadership pipelines creating strong and healthy internal talent pools.**

2019 progress

A refreshed talent and succession-planning process was defined and implemented across the Group. Future skills required for senior management and critical roles were identified in order to better deliver the strategy, adapt to changing market conditions and exceed the needs of customers.

Succession pipelines across all senior management and critical roles were reviewed and improved.

What's next?

Ensure a well-balanced representation of backgrounds, nationalities, cultures, skills and experiences within succession pipelines and talent pools at all levels.

Continually improve the employee value proposition to offer a unique, competitive and compelling colleague experience to support the Group's external talent attraction strategy.

62%
of senior leadership roles internally appointed in 2019.

Group awarded
37
promotions from senior leadership talent pool.

Reward and benefits

2019 objectives

- **Increase colleague awareness of the MyPerks benefits proposition and help colleagues to maximise the value they take from it.**
- **MyPerks benefits include, for example, life insurance, income protection and medical insurance; financial well-being support and education; colleague well-being hub; flexible benefits including an all-employee car scheme, cycle to work and childcare vouchers; a comprehensive range of voluntary benefits and discounts and employee recognition schemes.**

2019 progress

A well-being hub was launched on the MyPerks employee benefits platform

Responding to colleague views in a financial well-being survey, a suite of savings products was launched on the well-being hub.

Colleagues can also benefit from affordable loan products and financial education and guidance tools.

Leading-edge colleague communications were established to tailor the information sent to each colleague, highlighting relevant benefits.

A new rewards platform YourPerks was introduced for retired colleagues to provide an online community and continued access to discounts and savings

Assessment of rewards and benefits in the 2019 engagement survey "You Talk, We Listen" increased by six percentage points.

What's next?

- Increase the focus on colleague physical, emotional and financial well-being
- Continue to improve and introduce benefits via MyPerks
- Ensure bonus programmes deliver strategic benefit for the Group and allow colleagues to share in the Group's success.

Group win award at the HR Brilliance Awards

Gold

"YourPerks" benefits platform won the
"Most Innovative Benefits programme"
Award at the 2019 Engagement Excellence Awards

Using a number of the methods recommended by Neyber and utilising every discount possible on MyPerks, I was able to clear all of my debt, finally get on the property ladder and more importantly learn how to budget so I'm not in a similar situation in the future.

Kirsty Lancaster
Transport Compliance Coordinator

Case study:
Reward awards

The HR Brilliance Awards celebrate innovatively designed and superbly executed HR analytics strategies and how they can leverage business performance.

The Award given to Travis Perkins recognises the Company's focus on driving best practice through modern and innovative HR technologies. Travis Perkins won gold awards for Innovative use of Technology in HR and for being recognised as an Innovative Team of the year.

The judges commended Travis Perkins' work to improve processes around HR analytics and to place real and useful insights into the hands of stakeholders (using MySparx technology). Importantly, users are also now able to run their own reports and make decisions based on KPIs that matter.

Diversity and inclusion

2019 objectives

- **During 2019, the Group's key objective on diversity and inclusion was to continue to deliver improvements through the "Workforce with a Difference" programme.**

Gender pay gap reduced to **10%**

Increase in female branch managers **8%**

2019 progress

In 2019, the business implemented recommendations for improving diversity that had been determined in the "Chief Executive Challenge" group. This group includes high-potential Regional Director-level members. The recommendations included recruitment videos and new ways of describing and advertising roles.

The gender pay gap has reduced from 11% in 2018 to 10% in 2019 and seven out of nine businesses saw a reduction in the mean wage gap from 2018.

The gender diversity of branch managers improved with 8% more female branch managers in 2019 than in 2018.

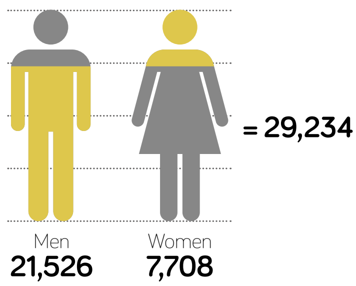
We recognise that the overall percentage of women in senior management has been largely flat in the last 4 years. This is a focus area for the Group going forward.

What's next?

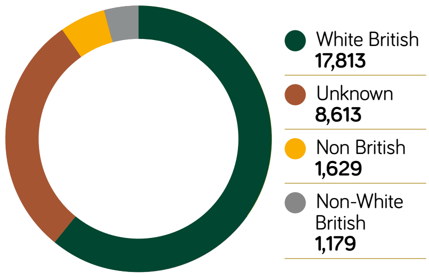
In 2020, the Group will map the experience of current and future colleagues to identify focus areas to support the "Workforce with a Difference" programme.

A "Women's Network" will be established to create an inclusive environment for all colleagues to sell the benefits of working for Travis Perkins and to attract talent and build more diverse teams.

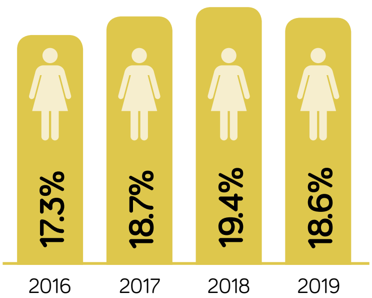
Group head count



Ethnicity



Women in senior management*



* Senior management is defined as Directors and Managers (department heads).

Gender Diversity

	Female	%	Male	%	Total
Director	4	21%	15	79%	19
Manager	66	18%	292	82%	358
Colleague	7,638	26%	21,219	74%	28,857
Total	**7,708**	**26%**	**21,526**	**74%**	**29,234**

	Female	%	Male	%	Total
Central Services	372	47%	416	53%	788
Consumer	4,545	38%	7,491	62%	12,036
Plumbing & Heating	826	20%	3,215	80%	4,041
Trade Merchanting	1,965	16%	10,404	84%	12,369
Total	**7,708**	**26%**	**21,526**	**74%**	**29,234**

Apprenticeship programmes and local recruitment support will be aligned to this agenda to enable the business to attract and select from more diverse backgrounds.

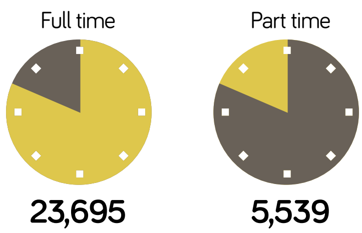
Case study:
Armed Forces Gold

After signing up to the Armed Forces Covenant in 2017, the Group was recognised in 2019 with a Defence Employer Recognition Scheme ("ERS") Gold award for its work to support the Armed Forces following the recruitment of over 600 service leavers across the Group since 2015.

Travis Perkins sees this engagement as key to promoting diversity and tapping into a range of skills, such as teamwork, problem-solving, IT and many more. The respect for others, integrity, discipline and loyalty veterans have developed in the forces are also key values that match Travis Perkins' own cornerstones.

In addition to a well-established recruitment programme and CV and interview guidance for former forces personnel, Travis Perkins also works with a leading employment charity, The Poppy Factory, which supports wounded, injured and sick veterans into civilian work. This has in the past year resulted in five successful placements at Travis Perkins and BSS for wounded, injured and sick veterans, with a further 142 veterans hired across the Group in 2019.

Flexible work patterns



Employee voice and engagement

2019 objectives

Primary objectives on employee voice and engagement in 2019 were:

- **to regularly report employee engagement to the Group Leadership Team and to the Board**
- **to ensure colleague views on issues are sought via a variety of mechanisms. Examples include Managing Director listening groups, regional and business consultation forums and regular engagement surveys**

These objectives reflect the Group's ongoing commitment to stay tuned to the needs of colleagues.

2019 progress

Board engagement with the workforce was strengthened through the formation of a "Colleague Voice Panel". The Panel is made up of a designated Non-Executive Director and three members of the Group Leadership Team.

Colleague engagement surveys were conducted across 11 businesses and functions. The "You Talk, We Listen" colleague engagement survey scores improved across almost all businesses and functions, including an improvement of 8.9 percentage points in the Travis Perkins engagement score. The improvement was largely driven by better communications and colleague empowerment in branches to focus on activities that mattered most to them, their branches and their customers.

Over 130 "Colleague Voice" listening forums were held where colleagues could express their views and contribute to decision-making within the Group.

"Colleague Voice" listening forums held

130

Percentage point improvement in Travis Perkins' engagement score

8.9

What's next?

Continual assessment is a key priority and the Group will ensure colleague engagement surveys are undertaken for all businesses and functions every 12–18 months.

The "Colleague Voice" panel's role is to listen to colleagues to understand how well the culture and values are embedded, the key issues that they are facing and the plans in place to address them..

The businesses will continue to offer a variety of "Colleague Voice" forums and two-way feedback opportunities, ensuring colleagues' views and opinions are contributing to business decisions.

> **Our increased colleague engagement has really supported improvements to our service to the branch network. Attendance has improved dramatically, which makes operational planning easier and reduces the need for overtime. Increased training and development for our colleagues has resulted in a continuous improvement attitude and a willingness to suggest ideas that make the site ever more successful.**

Guy Sambrook
General Manager
Brackmills Primary Distribution Hub

Case study: Improving colleague engagement

The Travis Perkins General Merchant colleague engagement score increased by nine percentage points to 62% engagement in 2019. To be classed as "engaged", colleagues have to answer positively to four key questions:

- I feel motivated to perform well in my job
- I am proud to work for this business
- I would recommend the business's products and services
- I would recommend people to come and work here

Colleague participation in the survey also increased by 4.4 percentage points, meaning more colleagues have had their say. This improvement was largely driven by better communications and through the empowerment of colleagues in branches to focus on value-adding activities that mattered most to them, their branches.

Human rights and modern slavery

2019 objectives

In 2019 the Group committed to:

- **revisit its supplier risk assessment process to ensure that mitigation efforts are applied most effectively**
- **set a KPI to measure performance in modern slavery due diligence**
- **enhance its own-brand factory ethical audit approach.**

2019 progress

The supplier risk assessment methodology was improved to take into account not only country risk (ie the Transparency International Corruption Perceptions Index and the Global Slavery Index) but also high-risk product and service categories (eg raw materials, cleaning services, freighting services).

A KPI has been established to track employee training on modern slavery from 2020. To date, employees in the most relevant roles such as commercial, QA and HR have completed an online training module on modern slavery.

The Group began to accept internationally-recognised SMETA ethical audits from its own-brand factory sites. Work is ongoing to transition all own-brand factory sites onto a new ethical audit format (whether SMETA or the Group's own format).

Additional modern slavery checks and requirements were put into place with labour agencies supporting the Group's distribution centres.

What's next?

In 2020, all suppliers will be assessed against the new risk assessment approach.

An improved training module on modern slavery will be launched and guidance will be available for all employees on spotting the red flags of modern slavery.

Work will continue to transition all own-brand factory sites to a new ethical audit format.

The Group will collaborate with its key customers to support their work in preventing modern slavery.

The protection of Human Rights and prevention of slavery, both within the business and its supply chain, is aligned with the Company's core values. The Group's Modern Slavery Statement can be found at www.travisperkinsplc.com, detailing due diligence undertaken in the year under review.

Megan Adlen
Head of Sustainability

Legal compliance

2019 objectives

- **The Group has well established policies and procedures governing regulatory compliance, eg Anti-Bribery and Corruption, Competition Law and Data Protection. These are underpinned by training, controls and a whistleblowing process to support its businesses and employees with legal compliance.**
- **The principal objective for 2019 was to recruit a Group Regulatory Risk Business Partner to proactively assist with the continued evolution of the control frameworks governing these areas.**

2019 progress

Existing policies relating to legal compliance were re-launched under the "Doing the Right Thing" brand. This achieved the principal aims of improving both awareness and accessibility of existing guidance material.

A Group Regulatory Risk Business Partner was appointed in Q4 2019.

Initial analysis on the regulatory control frameworks has commenced and is due to be finalised in 2020.

During 2019, 24 incidents were raised via the Group whistleblowing line. These were primarily people-related issues and all reported concerns were managed in a timely manner.

What's next?

A Regulatory Risk plan is under development to improve the maturity of processes and controls. This will be implemented in 2020 in order to:

- Improve Oversight – enhancing the information available to senior management
- Improve Assurance – identifying and closing any gaps in the assurance framework
- Improve Understanding – simplifying guidance and refreshing training to further embed the management of regulatory risk in the business.

Sustainability overview continued

Responsible sourcing

2019 objectives

The Group has clear requirements for its suppliers ("Supplier Commitments") and continues work to uphold them. This includes:

- **requiring centrally-managed product suppliers to complete an Online Risk Assessment ("ORA") to demonstrate their compliance with the Supplier Commitments;**
- **working with recognised independent auditors to assess own-brand factory sites against both technical and ethical criteria**
- **providing guidance to suppliers to support them in meeting Travis Perkins' expectations**

The Group remains committed to its corporate objective to buy only responsibly sourced timber.

2019 progress

In 2019 we appointed a Head of Sustainability who is working with the Quality Assurance teams in each of the businesses to bring consistency to supplier assessment approaches and tools.

The Group's businesses began using separate technical and ethical audit formats to assess own-brand factory sites (previously one combined audit had been undertaken). This allows for a more comprehensive assessment of supplier operations, reducing the risk of human rights abuses in the supply chain.

An improved supplier risk assessment methodology was developed.

FSC or PEFC Certified Timber purchased in 2019

97%

What's next?

In 2020, the Group will assess all suppliers (whether product or service, for resale or not) against its new risk assessment approach.

The Online Risk Assessment tool will be improved and re-launched to suppliers based on their risk level.

The transition to separate technical and ethical audits for own-brand manufacturing sites will continue.

A Timber Roadmap will be developed to further increase the percentage of timber purchases from certified sources.

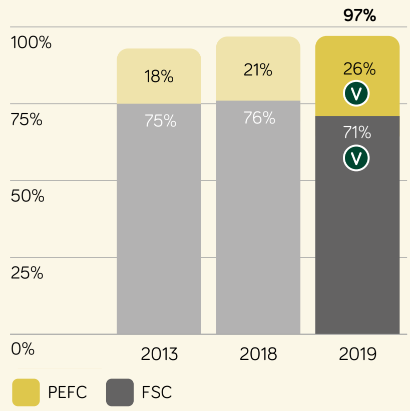
As a major distributor of timber, the Group takes its responsibility to sourcing legal and sustainable timber very seriously. Besides being legally compliant, 97% of timber purchased in 2019 was certified. The Travis Perkins Group is also certified to FSC/PEFC standards, allowing us to sell the timber on through Travis Perkins, Keyline and CCF branches with the full Chain of Custody.

Steve Ford
Group Timber Certification Manager

Case study:

The Group was delighted to score the highest rating of "3 Trees" in WWF-UK's 2019 Timber Scorecard. This means Travis Perkins is performing well against its sustainable timber commitments and action. Find out more at **www.wwf.org.uk/timberscorecard**

Timber and timber products for resale (£)



Specific timber data points, marked with the logo 'V', have been assured against Lloyd's Register verification procedures. For a link to the assurance statement see page 66.

Contributing to communities and charities

2019 objectives

- Review the Group-wide payroll giving and lottery schemes and make them more accessible to colleagues.
- Continue to support chosen charity and community partners through fundraising, donations and volunteering.
- Continue to support Public Sector customers to meet their Social Value Act requirements.

£3.8m raised for chosen charities

£100k Generated by payroll and lottery schemes in 2019

2019 progress

Group-wide schemes (payroll and lottery) continued and the businesses engaged with preferred charity partners to fundraise, volunteer and donate product and time.

Charities supported by the businesses and funds raised in 2019 (to the nearest £'000) include:

Macmillan Cancer Support (Travis Perkins & Benchmarx): £507,000
Mind (BSS): £209,000
Alzheimer's Society (CCF): £109,000
The Teenage Cancer Trust (CPS, PTS): £386,000
Whizz Kidz (Transport): £20,000
Prostate Cancer UK (Keyline): £180,000
Alzheimer's Research UK (Wickes): £2,293,000
RNLI (Toolstation): £74,000

The payroll and lottery schemes generated £100k in 2019 to support the Group's key charities.

The Group's businesses continued to support Public Sector customers to meet Social Value Act requirements, driving economic, social and environmental benefits through publicly-funded projects.

What's next?

In 2020, the Group's approach to Social Value propositions and delivery will be reviewed to differentiate customer support and to improve positive impacts on society.

The businesses will extend existing charity partnerships with Macmillan and Teenage Cancer Trust.

Product donations and outreach programmes will continue.

The Group's approach to community and charity partnerships will be reviewed to optimise the value generated, align them with the business and best engage colleagues.

Our partnership with Plumbing & Heating is remarkable. Thanks to the passion and commitment of everyone in the branches, offices and warehouse locations over the last seven years, together we've raised an incredible £2m. The continued and ongoing support means that we are ever closer to supporting every young person with cancer in the UK. On behalf of all of the young people we support, thank you Plumbing & Heating!

Jess Coombs
Head of High Value Fundraising
Teenage Cancer Trust

Case study:
Living Livery Campaign

Through its Living Livery campaign, which won the "Livery of the Year" Award in the 2019 Motor Transport Awards,Travis Perkins has decked out a number of its trucks with livery representing Mind, Prostate Cancer and the Alzheimer's Society, while educating its drivers to be ambassadors for these charities to raise awareness of key issues. As well as raising awareness of these issues to the general public, this campaign also targets key groups such as workers on the hundreds of construction sites it delivers to each day.

Driver Richard Ellson, who drives CCF's Alzheimer's vehicle, has been overwhelmed with the amount of attention the vehicle attracts: *"I'm approached by people sharing with me their own experiences and concerns. CCF has provided me with handout material from the charity, so that I can really help those people who need it. I feel I'm positively contributing towards such a great cause!"* he said.

Carbon

2019 objectives

- **Continue progress toward the Group target to reduce scope 1 and scope 2 carbon emissions per £m deflated sales by 28% (from 2013 levels) by 2020.**
- **Continue to invest in on-site generation for new builds and make internal investments in energy efficiency to support scope 2 carbon reductions.**
- **Maintain the strong foundation in place with the dedicated environmental resources, Group Environmental Policy, ISO 14001 certification and mandatory training for all colleagues.**

Carbon reduction per £m deflated sales since 2013

38%

2019 progress

The Group has achieved a 38% reduction in emissions per £m deflated sales since 2013 (against a 28% target), surpassing its ambitious target one year early. New targets will be developed during 2020.

The roll-out of SMART Meters continued in order to monitor consumption and identify energy-saving opportunities. During 2019, LED lighting was installed at 84 sites. A monitoring and targeting system has been set up to track progress and prioritise sites for lighting upgrades. Another 52 sites are already in scope for upgrades. A new team member was appointed in 2019 to support the Group Energy Manager in delivering planned improvements.

A feasibility study was completed on the retrofit of heat pumps within the estate. This has led to a trial installation being planned.

Lighting and Heating "kill switches" were also assessed, resulting in a planned pilot of this technology.

On World Environment Day (5th June 2019) the Group launched its "Environment Essentials" internal portal to enable all colleagues to access policies, procedures and guidance sheets and improve environmental performance.

What's next?

In 2020, the Group will set a new long-term carbon reduction target, taking into account UK Government commitments to net-zero carbon. A detailed Carbon Roadmap will be developed to support achievement of the new target.

The planned LED replacements, heat pump trial and lighting and heating "kill switch" trial will be completed during the year.

Commercial vehicle manufacturers will be engaged to introduce commercial electric vehicles to the fleet. Electric Company cars will be added to the corporate fleet list for colleagues to select.

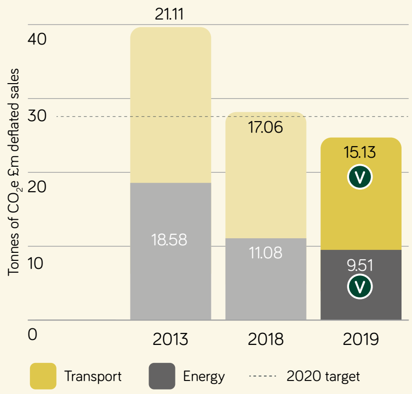
The fleet management system which was successfully deployed in the specialist merchanting brands will be rolled-out to the Travis Perkins brand in 2020 to monitor driver performance, help increase fuel efficiency and reduce carbon emissions.

New environmental training packages will be launched for colleagues across a range of roles within the business.

Case study:

The installation of the 84 smart meters has allowed for improved understanding of where and how energy is being used across the estate. These smart meters will help to deliver 3.6mkWh savings to the business over a 12-month period.

Tonnes of CO_2e per £m deflated sales



	Carbon Dioxide Equivalent (CO_2e) Tonnes 2019	2018
Scope 1 Direct emissions from burning gas and solid fuel for heating and from road fuel use for distribution	Ⓥ **116,689**[4]	131,284
Scope 2 Indirect emissions from use of electricity	Ⓥ **38,736**	45,672
Intensity[5] Tonnes of CO_2e from scope 1 and 2 sources per £m of inflation adjusted sales	Ⓥ **24.64**	28.14

Carbon data table[1]

The Group has reported on all of the emissions' sources required under the Companies Act 2006 (Strategic Report and Directors Reports) Regulations 2013. Scope 1 and 2 emissions are calculated using the UK Government Conversion Factors for Company Reporting 2019[2] on an operational control basis. 94% of Scope 1 and 2 data is from measured sources[3] with the remainder extrapolated from either expenditure on fuel or distance travelled. Specific data points in the carbon chart and the carbon data table, marked with the logo 'Ⓥ', have been assured against Lloyd's Register verification procedures. For a link to the assurance report see page 66.

1. The numbers reported include data for companies where Travis Perkins plc has operational control.
2. Fugitive emissions from domestic refrigeration, vehicles and building air conditioning are excluded as they are not material to the Group's overall emissions.
3. 6% of data underpinning the 2019 carbon numbers is estimated due to supplier data provision issues.
4. Scope 1 Co_2e emissions include 21,249 tonnes from buildings and 95,441 tonnes from transport.
5. Carbon intensity is reference to turnover, adjusted to allow for inflation, relative to baseline year. Adjusted sales figures use 2019 Office of National Statistics inflation data.

Waste

2019 objectives

- **Continue to strive for zero operational waste direct-to-landfill.**
- **Revise and relaunch the successful "Waste Management Guide" to support branches in better managing and reducing waste.**
- **For objectives on reducing product and packaging waste (particularly single-use plastic), see the next section on Sustainable Products and Packaging.**
- **Maintain the core waste management programme, policies, systems and training.**

2019 progress

In 2019, the Group introduced Biffa as its new waste services provider for wheelie bin collections. Biffa supports the Group's waste reduction plans and zero waste to landfill aspiration. As a major influencer in the waste industry, Biffa is in a prime position to support Travis Perkins' drive to encourage a more circular economy.

The backhaul of recyclable waste from branches to the distribution centres continued, enabling branches to return materials such as plastic, cardboard, wood and pallets. Over 6,500 tonnes of cardboard/paper and 1,796 tonnes of plastic were backhauled from branches in 2019 and sent for recycling. This helped the Group to divert 94% of its waste from landfill.

Work continued with Recipro to donate surplus or unwanted products for reuse by community groups and educational centres.

Waste diverted from landfill

94%

What's next?

In 2020, new targets will be set for waste reduction and a Waste Roadmap will detail the steps that the business will take to achieve its new targets.

Customer waste solutions already in place will be reviewed to ensure that customer expectations are continually met.

Travis Perkins will engage with relevant forums and industry partners to share best practices and to learn and develop shared solutions as the industry moves towards a more circular economy.

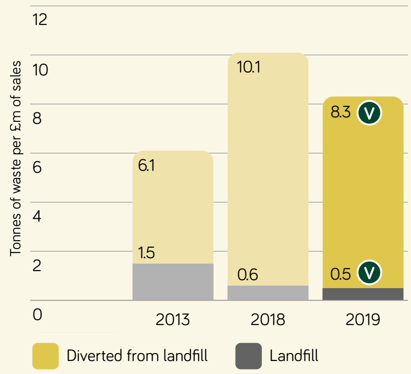
"Reducing total waste volumes has been a key focus this year and the revised Waste Management Guide has really helped to raise awareness across the Group. In 2020 we're keen to explore the opportunities for circular economy solutions and continue our drive to eliminate waste from our activities.

James Vance
Group Head of Environment

Case study:

During National Recycling Week (23–27 Sep 2019) the Group re-launched its revised "Waste Management Guide" to all branches. Posted out with a Kit Kat, yard supervisors were encouraged to "Take a Break", read the guide, reduce waste and boost recycling. The guide helped achieve an 11% reduction in wheelie bin weights between October and November alongside an increase in backhauled recycling.

Tonnes of waste per £m of yard and core sales



Specific data points in the waste chart and the "incidents" paragraph, marked with the logo 'V', have been assured against Lloyd's Register verification procedures. For a link to the assurance report see page 66.

Environment incidents V

In 2019 the Group recorded 29 environmental incidents with 13 classed as 'reportable' and 16 'non-reportable'. Of the 29, 13 were a result of "3rd party" sources (such as spillages from supplier or customer vehicles). Most incidents related to spillages such as hydraulic oil or paint. The other issues involve a seagull nuisance complaint, incorrect disposal of fridges from one site and a site drainage failure which resulted in a foul drain overflowing into a surface drain but which did not cause any pollution.

Sustainability overview continued

Sustainable products and services

2019 objectives

- **Continue to support customers with tailored services, information and products to meet their changing needs. Whether net zero carbon, climate resilience, water management and flood resistance, improved materials or reduced packaging, there are many ways in which the Group can support its customers to deliver a more sustainable built environment.**
- **Accelerate work to identify opportunities to reduce single-use plastic packaging and to influence suppliers to support improvements.**

2019 progress

In 2019, the Group began to work with housing association customers to understand and support their new commitments to net-zero carbon homes. Learnings from the Group's own Carbon and Waste programmes are taken into account in developing customer services and relevant product ranges.

The Group's businesses sell a wide range of products which support customers in delivering more sustainable construction projects.

The Supplier Commitments (which cover Waste & Efficiency) continued to be used with suppliers to influence reductions in unnecessary packaging and to seek more reusable solutions.

Commercial teams across the Group were engaged to collaborate on plastic packaging reduction programmes with key suppliers.

What's next?

In 2020, the Group will"

- continue to evolve product ranges and services to support customers to deliver against Government plans for Zero Carbon Homes. This includes improved information on business websites to more easily identify relevant products
- engage with suppliers to reduce the amount of unnecessary packaging entering our supply chain, in particular single-use plastics
- set up an internal working group to ensure best practice is shared across our brands for wider implementation
- develop its strategy and plans to optimise the solutions provided to customers.

A prominent trend affecting our customers' decision-making is the desire to purchase sustainable products. To coincide with this we have introduced recycled glass worktops alongside recycling bins,waste disposal units and a flow restricted tap. We are already working with our suppliers to progress with new technologies that will enable our customers to reduce their negative impact on the environment.

Julia Trendell
Product Development Manager
Benchmarx Kitchens and Joinery

Case study:

The Energy Efficiency and Renewables team within the Plumbing & Heating business provide impartial advice, specifications and design services to the construction industry. Their vision is to make energy efficiency a staple part of any new build or retrofit project.

An example project in 2019 was the provision of a complete support service to a social housing provider who wanted to install new heating and hot water systems at 16 social housing properties in Whitby. The team supported with funding advice, design, commission and installation of sustainable and energy-efficient air-source heat pumps. The skills and services offered by the team allows them to support customers in a variety of ways, saving them time, effort and cost.

Assurance

Specific data points in the Sustainability (or "Doing the Right Thing") section, marked with the logo 'V' have been verified by Lloyd's Register. A copy of their Limited Assurance Statement is available at **https://www.travisperkinsplc.co.uk/responsibility/environment.**

Section 172 statement

Engaging with stakeholders

The success of our business is dependent on the support of all of our stakeholders. Building positive relationships with stakeholders that share our values is important to us, and working together towards shared goals assists us in delivering long-term sustainable success.

Our Group comprises a number of business units, all of which have extensive engagement with their own unique stakeholders as well as other businesses in the Group. The governance framework delegates authority for local decision-making at business unit level up to defined levels of cost and impact which allows the individual businesses to take account of the needs of their own stakeholders in their decision-making.

The leadership teams of each business make decisions with a long-term view in mind and with the highest standards of conduct in line with Group policies. In order to fulfil their duties, the Directors of each business and the Group itself take care to have regard to the likely consequences on all stakeholders of the decisions and actions which they take. Where possible, decisions are carefully discussed with affected groups and are therefore fully understood and supported when taken.

Reports are regularly made to the Group Board by the business units about the strategy, performance and key decisions taken which provides the Board with assurance that proper consideration is given to stakeholder interests in decision-making.
At Group level, the Board is well informed about the views of stakeholders through the regular reporting on stakeholder views and it uses this information to assess the impact of decisions on each stakeholder group as part of its own decision-making process. Details of the Group's key stakeholders and how we engage with them are set out below.

Shareholders

As owners of our Group we rely on the support of shareholders and their opinions are important to us. We have an open dialogue with our shareholders through one-to-one meetings, group meetings, webcasts and the Annual General Meeting. Discussions with shareholders cover a wide range of topics including financial performance, strategy, outlook, governance and ethical practices. Shareholder feedback along with details of movements in our shareholder base are regularly reported to and discussed by the Board and their views are considered as part of decision-making.

Colleagues

Our people are key to our success and we want them to be successful individually and as a team. There are many ways we engage with and listen to our people including colleague surveys, forums, listening groups, face-to-face briefings, internal communities, newsletters and through our anonymous colleague concern line. Key areas of focus include health and well-being, development opportunities, pay and benefits. Regular reports about what is important to our colleagues are made to the Board ensuring consideration is given to colleague needs. The newly formed "Colleague Voice Panel" will help in this regard.

Customers

Our ambition is to deliver best-in-class service to trade customers. We build strong lasting relationships with our trade customers and spend considerable time with them to understand their needs and views and listen to how we can improve our offer and service for them. We use this knowledge to inform our decision-making, for example to tailor our proposition to suit customer demands, with fixed range/fixed price models for small trade customers, and more flexible access to a wider product range with volume-related discounting in the Merchant businesses.

Suppliers

We build strong relationships with our suppliers to develop mutually beneficial and lasting partnerships. Engagement with suppliers is primarily through a series of interactions and formal reviews and we also host regular conferences to bring suppliers and customers together to discuss shared goals and build relationships. Key areas of focus include innovation, product development, health and safety and sustainability. The Board recognises that relationships with suppliers are important to the Group's long-term success and is briefed on supplier feedback and issues on a regular basis.

Communities

We engage with the communities in which we operate to build trust and understand the local issues that are important to them. Key areas of focus include how we can support local causes and issues, create opportunities to recruit and develop local people and help to look after the environment. We partner with local charities and organisations at a site level to raise awareness and funds. The key issues and themes across local communities are reported back to the Board. The impact of decisions on the environment both locally and nationally is considered with such considerations as the use of and disposal of plastic and how this might be minimised.

Government and regulators

We engage with the government and regulators through a range of industry consultations, forums, meetings and conferences to communicate our views to policy makers relevant to our business. Key areas of focus are compliance with laws and regulations, health and safety and product safety. The Board is updated on legal and regulatory developments and takes these into account when considering future actions.

Further information on the ways in which the Board engages with stakeholders is set out in the Governance Report on pages 75 to 79 including the ways in which it plans to strengthen the employee voice at Board level and further information on environmental considerations can be found in the Sustainability Report on pages 52 to 66.

Section 172 statement continued

Decision-making in practice

One of the major decisions made by the Group this year was to demerge the Wickes business. In making this decision the Board considered the interests of and the impact on all stakeholders. To provide insight into the approach taken by the Board, a summary of stakeholder views and conclusions is set out below.

Stakeholder	Stakeholder views	Conclusions
Shareholders	Our shareholders want us to maximise returns in a responsible way and support our strategic aims to focus on advantaged trade businesses and to simplify the Group.	The demerger will create two separately listed and focused groups, each with separate boards and management teams and the autonomy to execute its own distinct strategy and allocate capital to its customer proposition and growth opportunities with a clear focus maximising the long-term success of both groups.
Colleagues	Our colleagues want to be kept informed of changes to the business and to be listened to in relation to changes which will affect them and their teams. They also want the business to provide security and opportunities to develop.	The Wickes business has historically operated relatively standalone with its own largely independent management team so the majority of colleagues will not be materially impacted by the demerger. Overall, the demerger will result in a small increase in roles. It has also created opportunities for colleagues to move between Wickes and the Group and both parties have fully supported colleague moves between them. Views of colleagues across the Group affected by the demerger have been sought. This has resulted in action being taken to mitigate the impacts of the demerger and maximise opportunities resulting from it. For example, the Board intends to undertake a share consolidation immediately after the demerger to minimise the impact on colleague Share Schemes.
Customers	Our customers want propositions that work for them and for the business to operate in an ethical way.	The propositions required for trade customers and consumers are different and there is minimal overlap between the Travis Perkins business and the Wickes business and their respective customer bases. The Group will focus on providing a best-in-class service to trade customers whereas Wickes has most experience and advantage in delivering on the consumer segments of Do-It-For-Me ("DIFM"), DIY and local trade customers. Demerging into two separate groups, each with autonomy to execute its own distinct strategy with a clear focus, will allow each business to develop its own proposition tailored specifically for its own customer base.
Suppliers	Our suppliers want to understand the impact of the demerger on their relationships and contractual arrangements. They are mindful of the potential impact on their revenues and margins but also see an opportunity for future growth.	The Wickes business has historically operated relatively standalone and has built its own strong relationships with suppliers. Suppliers unique to Wickes and those unique to the rest of the Group will not be impacted by the demerger. There are a number of shared suppliers across the Group, resulting in the need to separate contractual arrangements for the demerger. The Board agreed a programme of engagement, working with shared suppliers to agree separate contracts in an open and constructive way.
Communities	Our communities want our continued support with local causes and issues.	The work that both Wickes and the Group do in the community will not be affected as a result of the demerger.
Government and regulators	The government and regulators want us to operate in an ethical way and comply with laws and regulations.	The demerger will maximise the long-term success of Wickes and Travis Perkins which is in the public interest. The Group has appointed relevant expert advisers to ensure that all obligations relevant to Wickes and Travis Perkins in relation to the demerger are fulfilled.

Non-financial information statement

The information below is intended to help users of these accounts understand our position on key non-financial matters and has been prepared in response to the reporting requirements contained in section 414C(7), 414CA and 414CB of the Companies Act 2006.

Reporting requirements	Principal risks	Policy embedding, outcomes and key performance indicators	Link
Colleagues	Health and safety	Business model	Page 12
		Key performance indicators – lost-time injury frequency rate	Page 21
	Talent management	Safety and well-being	Page 55
		Apprenticeships	Page 56
		Management and leadership	Page 57
		Talent and succession	Page 57
		Reward and benefits	Page 58
		Diversity and inclusion	Page 59
		Employee voice and engagement	Page 60
		Chairman's introduction – Engaging with stakeholders and the workforce	Page 75
		Directors' remuneration report	Page 88
		Directors' Report – Employees	Page 117
Environment		Business model	Page 12
		Carbon	Page 64
		Waste	Page 65
		Sustainable products and services	Page 66
Human rights, anti-bribery and anti-corruption	Legal compliance	Human rights and modern slavery	Page 61
		Legal compliance	Page 61
		Chairman's introduction – Culture	Page 75
		Directors' Report – Modern slavery	Page 117
Social and community		Business model	Page 12
		Contributing to charities and communities	Page 63
		Responsible sourcing	Page 62

A description of the Group's business model and how it creates sustainable value can be found on pages 12 to 13.

Most of the reporting on these topics and KPIs is contained in the Strategic Report under the sections Business Model, Doing the Right Thing and Statement of Principal Risks and Uncertainties or are incorporated into the Strategic Report by reference from the pages noted. The Group has appropriate policies and diligence procedures regarding all the non-financial information presented in this Annual Report.

Strategic Report approval

The Strategic Report on pages 3 to 69 was approved by the Board of Directors and signed on its behalf by:

Nick Roberts
Chief Executive
2 March 2020

Alan Williams
Chief Financial Officer
2 March 2020

Getting it **right** for everyone

Governance

The **right people**

The **right culture**

The **right focus**

Board of Directors

Stuart Chambers
Non-executive Chairman

Nationality
British

Appointment date
1 September 2017 (Non-executive Director)
7 November 2017 (Chairman)

Committee membership
N R S

Skills and experience
Stuart has extensive global executive management and boardroom experience across industrial, logistical and consumer sectors. He is currently Chairman of Anglo American plc and a member of the UK Takeover Panel. Stuart was Chairman of Rexam plc from 2012 to 2016 and ARM Holdings plc from 2014 to 2016. He served as a Non-executive Director on the Boards of Tesco plc, Tesco Bank, Manchester Airport Group, Smiths Group plc and Associated British Ports Holdings plc. Stuart's executive career included ten years with Shell and ten years with the Mars Corporation. Stuart then joined Pilkington plc in 1996, where he was appointed Group Chief Executive in 2002. Pilkington was acquired by Nippon Sheet Glass in 2006 and Stuart became Group Chief Executive of the new combined Group until 2010.

Nick Roberts
Chief Executive

Nationality
British

Appointment date
1 July 2019

Committee membership
S

Skills and Experience
Nick joined Travis Perkins from design, engineering and project management consultancy Atkins, where he was President. He has over 25 years of international consulting experience and is a passionate advocate for diversity and inclusion. A geologist by profession, Nick holds an MSc in Environmental Impact Assessment from Aberystwyth University and a BSc in Geology from the University of Reading. He is a Chartered Geologist, Fellow of the Geological Society and Honorary Fellow of the Institution of Civil Engineers. He is a Deputy Chair and Director of the Forces in Mind Trust in the UK.

Alan Williams
Chief Financial Officer

Nationality
British

Appointment date
3 January 2017

Committee membership
N/A

Skills and experience
Alan is a qualified Accountant and Treasurer and in addition to having a strong finance background, he has extensive experience in leading strategic initiatives, mergers and acquisitions, integration and business transformation. Prior to joining the Group, Alan served as CFO at Greencore Group plc for six years. Alan also previously worked at Cadbury plc in a variety of financial roles in the UK, France and the USA.

Pete Redfern
Non-executive Director

Nationality
British

Appointment date
1 November 2014

Committee membership
N R S

Skills and experience
Pete has extensive financial, operational and management experience as well as strong construction and property expertise. Pete is a Chartered Surveyor, as well as a Chartered Accountant and is currently Chief Executive of Taylor Wimpey plc. He was previously Chief Executive of George Wimpey plc and prior to that, successively held the posts of Finance Director and Chief Executive of George Wimpey's UK Housing business. Pete is also Chairman of the Youth Adventure Trust and was a Trustee of the homelessness charity Crisis until 2019.

Ruth Anderson
Non-executive Director

Nationality
British

Appointment date
24 October 2011

Committee membership
A N S

Skills and experience
Ruth is a Chartered Accountant and has extensive financial and taxation experience as well as strong boardroom and audit committee Chairman experience. Ruth has held a number of positions in KPMG (UK) from 1976 to 2009, being a member of its Board from 1998 to 2004 and Vice Chairman from 2005 to 2009. Ruth is a Non-executive Director of The Royal Parks and was a Non-executive Director of Ocado Group plc from 2010 to 30 September 2019 and of Coats Group plc from 2014 to May 2018. Ruth was also a Trustee of the charity The Duke of Edinburgh's Award for ten years to 31 March 2019.

Committee membership key:

- A Audit
- N Nominations
- R Remuneration
- S Stay Safe
- Chairman

Christopher Rogers

Senior Independent Non-executive Director

Nationality
British

Appointment date
1 September 2013

Committee membership
A N R

Skills and experience
Christopher has extensive financial, operational and retail experience and expertise in corporate governance and strategic planning. Chris is currently a Non-executive Director of Vivo plc, Kerry Group and Walker Greenbank plc. He is also a visiting fellow at Durham University. Prior to this, Chris was a Director of Whitbread plc from 2005 to 2016 where he served as Group Finance Director from 2005 to 2012 and Managing Director of Costa Coffee from 2012 to 2016.

He was Group Finance Director of Woolworth Group plc and Chairman of the Woolworth Entertainment businesses from 2001 to 2005 and previously held senior roles in both finance and commercial functions in Comet Group plc and Kingfisher.

Coline McConville

Non-executive Director

Nationality
Australian

Appointment date
1 February 2015

Committee membership
A N R

Skills and experience
Coline has a wealth of international experience with a background in management, marketing and media as well as extensive remuneration and boardroom experience. Coline is currently a Non-executive Director of TUI AG, Fevertree Drinks plc and 3i Group plc and was formerly a Non-executive Director of Inchcape plc, UTV Media plc, Wembley National Stadium Limited, Shed Media plc and HBOS plc and a global adviser and Director of Grant Thornton International Limited. Prior to that Coline was Chief Operating Officer and Chief Executive Officer Europe of Clear Channel International Limited. She holds an MBA from Harvard Business School where she was a Baker Scholar.

John Rogers

Non-executive Director

Nationality
British

Appointment date
1 November 2014

Committee membership
A N

Skills and experience
John has extensive finance, strategy, digital online, property and retail experience. John has recently been appointed as Chief Financial Officer of WPP Plc and until October 2019 was Chief Executive Officer of Sainsbury's Argos and a member of the J Sainsbury's plc Board and Sainsbury's Bank plc Board. Prior to his appointment as CEO of Sainsbury's Argos, John was Chief Financial Officer of J Sainsbury plc for six years and during his career at Sainsbury's he also held the posts of Property Director, Director of Group Finance and Director of Corporate Finance. Before joining Sainsbury's, John held a variety of financial, operational and strategy roles.

Blair Illingworth

Non-executive Director

Nationality
British

Appointment date
1 November 2019

Committee membership
N

Skills and experience
Blair has extensive executive and board experience in the building products sector having been a Director of Marshalls plc, Chief Executive of Polypipe plc, and Chief Executive of Tarmac Building Products. His varied career includes military service as a commissioned officer in the Royal Marines and roles at the most senior level in public and private companies. He is Chief Executive and a Director of Stirling Industries plc.

Marianne Culver

Non-executive Director

Nationality
British

Appointment date
1 November 2019

Committee membership
N

Skills and experience
Marianne has extensive executive and board experience in the global distribution and logistics sectors. She has served as Chief, Global Supply Chain with Premier Farnell plc and as Chief Executive (UK & Ireland) of TNT. Marianne was latterly Global President of RS Components, the components trading and distribution division of Electrocomponents plc. Marianne's Non-executive Directorship career to date has included membership of the Boards of Rexel SA (listed on Euronext Paris), The British Quality Foundation and EDS Corporation.

Chairman's introduction

I am pleased to present the Corporate Governance Report for the year ended 31 December 2019.

We report this year against the Financial Reporting Council's updated UK Corporate Governance Code (the "Code"). The Code places an explicit requirement on us, as Directors and as a Board, to consider the views of all of our stakeholders and the impact of our decisions on wider society. I am pleased to report compliance with the Code.

The Board receives regular briefings and updates on corporate governance at Board and Committee meetings and has processes in place to ensure compliance with applicable regulations and to meet the requirements of our shareholders.

Over the past year the Board has spent the majority of its time on the progress of the strategic decisions to "Focus on Trade" and "Simplify the Group" as announced at the Capital Markets Day in December 2018. Good governance has and will continue to be essential to the success of these plans to ensure the long-term sustainable success of the Group, generating value for shareholders and contributing to the communities in which we operate.

The coming year will prioritise the strategic plans for the trade merchanting business which will include a focus on empowering branch teams to win in their local markets.

There were a number of changes to the Board in 2019. In February, as a result of the changing shape and structure of the Group, the board level role of Chief Operating Officer was no longer required and Tony Buffin stepped down from the Board and left the business, having successfully led the transformation of the Plumbing & Heating division.

In August we said goodbye to the outgoing CEO John Carter, whose 40 years of service to the business have had a significant impact on the growth and development of the Group. John left the business well placed to meet the demands of implementing our strategic plans.

We welcomed Nick Roberts as the incoming CEO in July and his leadership and contribution to the business have already proved beneficial at this time of significant change for the Group.

In addition, in November we appointed Marianne Culver and Blair Illingworth as Non-executive Directors.They bring a breadth of experience and expertise particularly in building products, distribution and logistics, from which we will surely benefit.

On 3 March 2020 after nearly nine years with the Group, Ruth Anderson will be stepping down as Non-executive Director. Ruth has been invaluable in her role as a Non-executive but especially so in her role as Chairman of the Audit Committee for the past seven years.

As announced by the Company in January 2020, Chris Rogers has been appointed as Chairman Designate of Wickes and will be stepping down from the Board at the 2020 AGM after six years as a Non-executive Director that included serving as Senior Independent Director.

The Board was pleased to appoint Pete Redfern as "Colleague Voice" representative with a view to strengthening the consideration and representation of the views of all colleagues of the Group in decision-making. The Board and I look forward to further developing this link in the coming year.

I look forward to meeting with shareholders on 28 April 2020 at the Annual General Meeting and along with all members of the Board, I will be available to answer your questions at the meeting or at any other time.

Stuart Chambers
Chairman
2 March 2020

Corporate governance report

UK Corporate Governance Code
Throughout the year ended 31 December 2019, the Company was in full compliance with the provisions set out in the July 2018 UK Corporate Governance Code issued by the Financial Reporting Council and available at www.frc.org.uk.

Leadership
Role of the Board
The Board is responsible for promoting the long-term sustainable success of the Company, generating value for shareholders and contributing to the wider society. It sets the overall Group Strategy, the tone and approach to corporate governance and considers the opportunities and risks to the future success of the business. The principal risks of the business are set out in more detail on pages 40 to 51. The Board discusses strategic matters at every meeting and has an annual strategic off-site day to consider the Group's strategic direction as a whole and the opportunities and risks faced by the Group. The Group's Purpose, Strategy and Business Model are set out on pages 12 to 17.

The Board has a schedule of matters reserved to it which is reviewed annually. No changes were necessary in 2019. The schedule of matters reserved to the Board can be found on the Group's corporate website at www.travisperkinsplc.co.uk.

In line with the Corporate Governance Code, the Board has a number of Committees through which it delegates certain responsibilities. There are four Committees: Audit, Nominations, Remuneration and Stay Safe. All Committees operate within defined terms of reference and these can be found on the Group's corporate website. The minutes of all Committee meetings are made available to all Directors.

Culture
The Board strongly believes that it should, in addition to operating effectively, focus on the culture in our businesses. The Group builds its business upon five cornerstones which provide strong values and foundations for development in all activities. Further information on the cornerstones can be found on page 54.

The Board receives regular updates on cultural indicators to assist its understanding and oversight of the Group's culture. These include the Colleague Voice Panel, the colleague engagement survey ("You Talk We Listen"), and a number of listening groups and colleague communities.

Engaging with stakeholders and the workforce

The Chairman met with various shareholders throughout the year to understand their views on governance and the Group's performance against its agreed strategy. The Audit Committee Chairman engaged with the Financial Reporting Council in relation to the Group's accounts whilst the Remuneration Committee Chairman engaged with shareholders in consultation and consideration of the plans to review the Remuneration Policy in 2020.

The Executive Directors and investor relations team attended a large number of meetings with both institutional and private investors during 2019 and held two briefings on results. The investor relations team has an ongoing programme of engagement with shareholders and provides regular updates to the Board on the Shareholder Register and the views of shareholders. Feedback on these discussions is provided so that the entire Board has a clear understanding of the views of shareholders. The Chairman and the Senior Independent Director are always available throughout the year should shareholders wish to discuss matters with them.

The Board takes into account the views of its stakeholders when making decisions, liaising with various stakeholder groups throughout the year and particularly when strategic decisions are to be taken. Stakeholder groups such as analysts, investors, shareholders, customers, suppliers and colleagues were all engaged with in relation to the strategic direction of the Group, not only to communicate the future plans, but to gain feedback to inform the implementation and realisation of those plans. A statement on the ways in which the Group is meeting the Section 172 duty is described in the Strategic Report on page 67.

The Board has undertaken to highlight the Colleague Voice at Board level and Pete Redfern was appointed to the role of Colleague Voice Representative this year. Pete is engaging with colleagues through forums across the Group and commenced the feedback process to the Board in the latter part of the year. The Board looks forward to building and strengthening this link between colleagues and the Board, and using the outcome of the engagement to inform its decision-making going forward.

Annual General Meeting
Shareholders receive more than twenty working days' notice of the Annual General Meeting ("AGM") at which all Directors are available for questions and a short business presentation takes place. Each substantive issue considered at the AGM is the subject of a separate resolution. The numbers of proxy votes for and against each resolution are announced at the meeting and the final votes are subsequently published on the Company's website.

There was strong support from shareholders for the majority of last year's meeting with an average of 96% votes in favour. In the event that a resolution at the Annual General Meeting results in 20% or more of votes cast against the Board's recommendation, the Board would seek to take actions to consult with shareholders to understand the reasons behind their decision. No such result has occurred.

Corporate governance report continued

Conflicts of interest and raising concerns
Declarations of any actual or potential conflicts of interest with items on the agenda are requested and made at the start of every Board and Committee meeting.

Directors complete a questionnaire annually of potential or actual conflicts of interest and their activities throughout the year. Those potential conflicts are reviewed by the Board as a whole and if necessary, mitigating actions are taken and recorded on the Conflicts of Interest register. The impact of any relationships or involvements are considered carefully to ensure that they do not compromise or override the Directors' ability to exercise independent judgement.

Concerns in relation to the operation of the Board can be raised with the Chairman or the Senior Independent Director. No such concerns were raised during the year.

A Colleague Concern line is available for all staff should they need to raise an issue in confidence. A report is made at least annually to the Board to enable it to monitor the effective operation of this service and the investigation and resolution of the issues raised.

Division of responsibilities
Chairman and Chief Executive
The Chairman leads the Board and ensures its effectiveness. The Chairman, Stuart Chambers, was independent on appointment as assessed against the circumstances set out in the Code. The roles of the Chairman and Chief Executive are split and the Board has approved a written statement of the division of key responsibilities between the Chairman and Chief Executive which is reviewed annually and is available on the Group's corporate website.

Non-executive Directors
The Board ensures that at least half of its members are independent non-executives and annually reviews any relationships or circumstances which are likely to affect their judgement. None of the circumstances set out in the Code provision 10 apply and the Board is satisfied that all Non-executive Directors remain independent.

The Senior Independent Director ("SID"), Christopher Rogers, acts as a sounding board for the Chairman and an intermediary for Directors and shareholders. The SID's responsibilities are set out in writing and are available on the Group's corporate website. The SID is available to shareholders should they wish to raise an issue through a different channel. The Non-executive Directors led by the Senior Independent Director meet without the Chairman present annually to discuss the Chairman's performance and any other matters as required.

The Non-executive Directors and Chairman meet regularly without the Executive Directors present to review the performance of the Executive Directors against agreed performance objectives.

Time commitment
When making new appointments to the Board the competing demands on candidates' time is considered carefully. Candidates are required to disclose any significant commitments along with an indication of the time involved prior to appointment. Each Non-executive Director's letter of appointment sets out the time commitment expected of them and these letters will be available for inspection at the Annual General Meeting.

The Board considers on an annual basis the time commitments of each Director and it is satisfied that all Directors continue to have sufficient time available to fulfil their duties. Any new external appointments during the year are given careful consideration, taking into account the number and scale of each Director's other commitments before approval is given and recorded. There was only one such consideration regarding John Rogers' new position as Chief Financial Officer at WPP plc commencing in January 2020 which was approved at the Board meeting in December 2019.

The Company allows Executive Directors to hold no more than one external Non-executive Directorship with a listed entity.

So far as is practicable the Company liaises with the Non-executive Directors to ensure the schedule of meetings for the year does not clash with external appointments. Directors are able to attend meetings by video link or telephone conferencing if there is an issue with location or travel.

Board and Committee meetings
The Board held seven scheduled meetings in 2019. Regular items on the agenda included detailed updates on health and safety, progress against strategic objectives, financial position and performance against KPIs, and strategic reviews of business units and divisions. Other areas of consideration included funding, capital expenditure, investor feedback, risk and governance.

During the year the Board made a number of operational site visits and held an off-site strategy meeting. The agenda for meetings is agreed by the Chairman in conjunction with the Chief Executive and the General Counsel & Company Secretary. Agendas are based on an annual plan and incorporate topical items and matters of particular concern or interest to the Board.

Key financial and other relevant information is circulated to the Board outside of the scheduled meetings and is monitored by the Chairman to ensure that it is sufficient, timely and clear.

The Chairman meets regularly with Board members between Board meetings and ensures that they are kept informed of material developments. At meetings the Chairman encourages debate and equal contribution from each Board member within a transparent and constructive atmosphere.

The number of Board and Committee meetings attended by each Director during the year is set out below.

	PLC Board	Audit Committee	Nominations Committee	Remuneration Committee	Stay Safe Committee	Overall attendance (%)
Number of meetings	7	6	6	6	3	100%
Attendance:						
R Anderson	7/7	6/6	6/6	–	3/3	100%
A Buffin[1]	1/1	–	–	–	–	100%
J Carter[2]	5/5	–	–	–	2/2	100%
S Chambers	7/7	–	6/6	6/6	3/3	100%
M Culver[3]	1/1	–	–	–	–	100%
B Illingworth[3]	1/1	–	–	–	–	100%
C McConville	7/7	6/6	6/6	6/6	–	100%
P Redfern	7/7	–	6/6	6/6	3/3	100%
N Roberts[4]	3/3	–	–	–	1/1	100%
C Rogers	7/7	6/6	6/6	6/6	–	100%
J Rogers	7/7	6/6	6/6	–	–	100%
A Williams	7/7	–	–	–	–	100%

1 A. Buffin stepped down from the Board with effect from 26 February 2019.
2 J. Carter stepped down from the Board with effect from 5 August 2019.
3 B. Illingworth and M. Culver joined the Board with effect from 1 November 2019.
4 N. Roberts joined the Board with effect from 1 July 2019.

All Directors had full attendance at Board and Committee meetings (noting that as indicated above, where Directors joined or stepped down during the year, they attended all required meetings for the period for which they served). The average attendance for the Board and Committees combined was 100%.

Group leadership team

The Board has delegated responsibility for the execution of the Group's strategy and the day-to-day management and operation of the Group's business to the CEO. The CEO has established and chairs the Group Leadership Team which comprises key business and functional leaders.

Other colleagues are invited to attend Group Leadership Team meetings from time to time in relation to specific matters. The main purpose of the Group Leadership Team is to assist the Executive Directors in the performance of their duties, particularly in relation to the development and implementation of strategy, operational plans, policies, procedures and budgets; the monitoring of operational and financial performance; the assessment of control of risk; and the prioritisation and allocation of resources.

Provision of information and support

All Directors have direct access to the General Counsel & Company Secretary who is responsible for advising the Board on all governance matters. Directors may also seek independent professional advice at the Company's expense in the furtherance of their duties as required.

Composition, succession and evaluation

Board composition

As at 31 December 2019 the Board comprised eight Non-executive Directors and two Executive Directors. The biographies of the Board are listed on pages 72 to 73.

As announced by the Company in November 2019, Ruth Anderson will step down from her role as Non-executive Director with effect from 3 March 2020. Marianne Culver and Blair Illingworth joined as Non-executive Directors with effect from 1 November 2019. The Company announced in January 2020 that Chris Rogers had been appointed to the role of Chairman Designate at Wickes.

The Company further announced in February 2020 that on 3 March 2020 Chris Rogers would step down from the Audit and Remuneration Committees, Pete Redfern would join the Audit Committee, Blair Illingworth would join the Stay Safe Committee and Marianne Culver would join the Remuneration Committee.

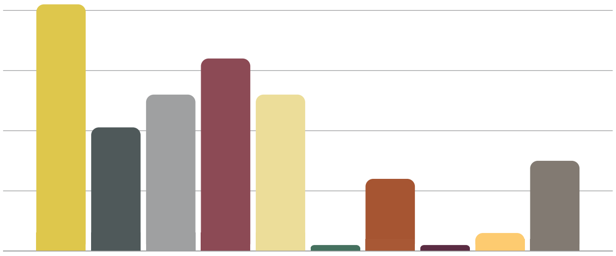
Appointments

Appointments of new Directors are made by the Board on the recommendation of the Nominations Committee. The Nominations Committee has undertaken a rigorous and comprehensive selection process for the Non-executive Directors with the assistance of Russell Reynolds Associates. Russell Reynolds Associates have no other connection to the Company or individual Directors save for any previous selection processes for which they have been engaged. The Nominations Committee's responsibilities and a description of its work can be found in the Nominations Committee Report on pages 80 to 81.

Re-election of Directors

All Directors are considered to be eligible, on the basis of performance and contribution to the long-term sustainable success of the Company, to submit themselves for re-election at the 2020 Annual General Meeting. Marianne Culver and Blair Illingworth will be put forward for election. Chris Rogers is not seeking re-election and will have stepped down from the Board by the date of the meeting.

Tenure

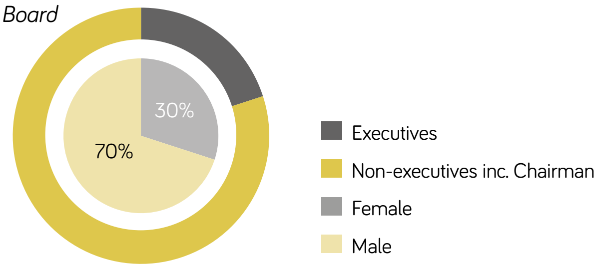


R Anderson	8 years 2 months	M Culver	2 months
C McConville	4 years 11 months	S Chambers	2 years 4 months
P Redfern	5 years 2 months	B Illingworth	2 months
C Rogers	6 years 4 months	N Roberts	6 months
J Rogers	5 years 2 months	A Williams	3 years

Gender balance

As at 31 December 2019

Board



Board effectiveness review

The Board Evaluation process undertaken this year focused on the progress made since the thorough external review in 2018 and new opportunities to improve the Board's effectiveness. The annual evaluation of the Board's performance is an opportunity to identify efficiencies, maximise strengths and highlight areas for further development.

Following the evaluation in 2018 a number of key areas of focus were agreed by the Board:

Focus area	Actions
Review Board and Committee responsibilities, composition and diversity	• Deeper mapping of existing skills against future business needs • Planning for Non-executive Director refreshment • Review of Committee structures and responsibilities
Build on the progress made with strategy	• Increasing the proportion of Board time focused on core brands, stakeholders and culture
Succession planning	• Broadening of talent programmes to include more diversity initiatives
Board engagement with the business	• Review of stakeholder engagement processes • Planning operational visits around updated strategic priorities

The results showed significant improvement in three of the four focus areas, particularly in the Board's clarity and alignment with the strategy and strategic issues, with significantly more time spent on this and emerging issues.

The areas identified for more of the Board's focus in 2020 are as follows:

- Company culture
- People strategy and development
- Trade Merchanting strategy
- Key Performance Indicators for Trade Merchanting and Toolstation
- IT strategy and project execution oversight

An action plan will be agreed by the Board to ensure progress is made against these five focus areas in 2020.

The SID undertook an evaluation of the Chairman's performance with input from the Executive and Non-executive Directors and the Non-executives reviewed the performance of the Chief Executive and Chief Financial Officer.

The Board concluded that each Director brings considerable expertise and exposure to Board discussions and the Board is satisfied that each Director continues to contribute effectively to Board debate and guide and challenge management's strategic plans and their implementation.

Statement by the Board

A review of the performance of the Group's businesses and the financial position of the Group is included in the Strategic Report on pages 34 to 39. The Board uses it to present a full assessment of the Group's position and prospects, its business model and its strategy for delivering that model. The Directors' responsibilities for the financial statements are described on page 119.

Going concern

After reviewing the Group's forecasts and risk assessments and making other enquiries, the Board has formed the judgement at the time of approving the financial statements that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the 12 months from the date of signing this Annual Report and Accounts. For this reason the Board continues to adopt the going concern basis in preparing the financial statements.

In arriving at their opinion the Directors considered:

- The Group's cash flow forecasts and revenue projections
- Reasonably possible changes in trading performance
- The committed facilities available to the Group and the covenants thereon
- The Group's robust policy towards liquidity and cash flow management
- The Group's ability to successfully manage the principal risk and uncertainties outlined on pages 40 to 51 during periods of uncertain economic outlook and challenging macroeconomic conditions

The Board's fair, balanced and understandable declaration
At the Board meeting during which the Group's results for the year were presented by the Chief Executive and the Chief Financial Officer, the Board considered whether the Annual Report and Accounts, when taken as a whole, present a fair, balanced and understandable overview of the Group and its performance. After hearing from the Executive Directors receiving a report from the Audit Committee Chairman on that Committee's meeting to review the preparation and content of the year-end financial statements and the audit conducted upon them reviewing the contents of the Annual Report and Accounts the Board concluded that the Annual Report and Accounts are fair, balanced and understandable and accordingly the Directors' declaration to that effect can be found under the Statement of Directors' Responsibilities on page 119.

Audit, risk and control
The Board has established an Audit Committee comprising four independent Non-executive Directors. The Audit Committee's responsibilities and a description of its work is set out in the Audit Committee Report on pages 82 to 87.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. In the design of the system of internal control, consideration has been given to the significant risks to the business, the probability of these risks manifesting themselves and the most cost-effective means of controlling them. The threat posed by those risks and any perceived change in that threat is reviewed half yearly by both the Group Leadership Team and the Board. The system manages rather than eliminates risk and therefore can only provide reasonable and not absolute assurance against material misstatement or loss.

The day-to-day operation of the system of internal control is delegated to the Group Leadership Team and senior management, but the Audit Committee reviews and discusses internal controls on a regular basis. The system of internal controls is reviewed by the Board in a process that accords with the Financial Reporting Council guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

It is the responsibility of the Board to establish the risk framework within which the Group operates. The Board and the Group Leadership Team review the risk register and risk appetite at least once each year. Members of the Audit Committee also receive reports of Internal Audit reviews. If appropriate these reports include recommendations for improvements in controls or for the management of those risks. Measures to integrate risk management processes into the Group's operations, to extend awareness of the importance of risk management and to ensure that recommended improvements are implemented are regularly reviewed and refreshed.

As part of its viability review, the outcome of which is set out on page 39, the Board considered the principal risks and uncertainties and mitigating factors set out on pages 40 to 51.

In conjunction with the Audit Committee, the Board has carried out an annual review of the overall effectiveness of the system of internal control and risk management during the year and up to the date of approval of this Annual Report, and concluded that they are effective.

Remuneration
The Board has established a Remuneration Committee comprising three independent Non-executive Directors and the Chairman of the Board. The Remuneration Committee's responsibilities and a description of its work is set out in the Remuneration Committee Report on pages 88 to 115.

The Governance Report has been approved by the Board of Directors and is signed on its behalf by:

Stuart Chambers
Chairman
2 March 2020

Nominations Committee report

Activities in 2019

The principal activities undertaken by the Committee during the year were:

- Concluding the CEO succession process
- Succession planning and subsequent appointment of two new Non-executive Directors

Number of meetings during 2019

6

Overall attendance

100%

Stuart Chambers
Chairman
2 March 2020

Dear Shareholder,

As Chairman of the Nominations Committee, I am pleased to present the Nominations Committee's Report for the year ended 31 December 2019.

The Committee had a particularly busy year with the successful onboarding of the new CEO and two new Non-executive Director appointments to the Board.

Part of the Committee's role is to guide the Board in the assessment of the appropriate balance of skills and experience on the Board. The Committee plays a pivotal role in ensuring a diverse pipeline of talent to serve robust succession planning. It reviews and monitors the skills, knowledge and experience of current board members via a skills' matrix, in order to assess potential gaps in expertise which may exist or arise in the future. A summary of the skills of serving Board members can be found in the biographies on pages 72 to 73.

With the strategic focus on trade merchanting and the departure of the previous CEO (who had extensive merchanting experience), the Committee felt that it was imperative that this expertise was identified in the search for new Non-executive Directors. Both Blair Illingworth and Marianne Culver bring with them extensive executive and board experience in the building products sector and the global distribution and logistics sectors respectively.

The Committee will continue to review the composition of the Board, its Committees and the Group's long-term succession planning at Board and executive level in order to support the implementation of the Group's strategic plans.

Committee membership
The Committee comprises all the Non-executive Directors (see biographies on pages 72 to 73), demonstrating the importance of its role. The Chairman of the Committee is Stuart Chambers, the Chairman of the Board, who does not Chair the Committee when the matter of his own succession is being discussed. Directors, other employees of the Company and external advisers are invited to attend meetings when appropriate.

The Committee held six formal meetings during the year and details on attendance can be found on page 77.

Role of the Nominations Committee
The principal responsibilities of the Committee are to regularly review the structure, size and composition of the Board, to support the Board in fulfilling its responsibilities to ensure that effective succession plans are in place for Directors and other senior executives and to ensure there are formal, rigorous and transparent processes in place for the appointment of Directors to the Board and other senior executives.

The Committee operates under formal Terms of Reference which can be found on the Group's corporate website www.travisperkinsplc.co.uk

Activities in 2019
The principal activities undertaken by the Committee during the year were:
- Execution of the CEO succession process
- Succession planning and subsequent appointment of two new Non-executive Directors

	Nominations Committee	Overall attendance (%)
Number of meetings	6	100%
Attendance:		
R Anderson	6/6	100%
C McConville	6/6	100%
C Rogers	6/6	100%
J Rogers	6/6	100%

Focus for 2020
The Committee will focus on the continual review and refresh of the Board and its Committees to ensure that it remains diverse in its thinking and operation, and effective in its role.

Process for appointments
Through a rigorous selection process, appointments to the Board are made on merit and against an agreed set of specific and objective criteria. The Committee oversees this process on behalf of the Board, and advises the Board on the identification, assessment and selection of candidates.

The appointment process includes:
1. Agreeing the key skills, attributes and business experience required for the role
2. Preparing a role description
3. Engaging independent recruitment consultants
4. Conducting a market search via the recruitment consultant
5. Preparing a "long list" of candidates, taking into account diversity considerations and the Committee's review of the composition and skill sets of the Board
6. Selecting a shortlist of candidates which meet the Committee's criteria
7. A selection of Board members interviewing those candidates
8. Candidate assessments
9. Interview with the remaining Board members
10. Taking up detailed references

In addition to relevant background information on the work of the Board and the business to date, appointees are provided with a programme of induction meetings and visits with key personnel and to key areas of the businesses within the Group.

Board diversity
The Committee has noted the latest Hampton–Alexander Review and continues to believe that for the promotion of a healthy culture, different perspectives and a good balance between challenge and support are imperative and minimise the risk of "group thinking".

With that in mind, the selection process for appointments to the Board takes into account diversity including gender diversity as well as focusing on the necessary skills and attributes required for the role. The Group believes that diversity should be considered broadly and not just be focused on one element such as gender and the Group therefore does not believe it is appropriate to set targets in this area.

The progress made under the "Workforce with a difference" programme has been encouraging with a reduction in the gender pay gap and more women in senior roles throughout the business. As at 31 December 2019 the Board had three female Board Directors (30%) and one woman on its Group Leadership Team (11%). Further details of the Group's workforce diversity are set out in the Sustainability section on page 59. The Group's Gender Pay Gap report is available on the Group's corporate website.

The Nominations Committee Report has been approved by the Board of Directors and is signed on its behalf by:

Stuart Chambers
Chairman
2 March 2020

Audit Committee report

2019 focus areas

- Corporate simplification activities
- ERP project financial reporting judgements
- Internal audit and risk management progress
- Implementation of IFRS 16 – Leases

Number of meetings during 2019

6

Overall attendance

100%

Ruth Anderson
Chairman, Audit Committee
2 March 2020

Dear Shareholder,

I am pleased to present the Audit Committee's Report for the year ended 31 December 2019. The report sets out the Committee's work in relation to financial reporting, internal audit and risk management and oversight of the external audit process.

The Committee has reviewed financial reporting judgements and monitored internal controls and management of risk associated with the activities undertaken to "simplify the Group" and "focus on the trade". This has included financial reporting judgements relating to the sale of the Plumbing & Heating wholesale business, the planned demerger of Wickes, the Plumbing & Heating separation and sale process and the closure of Built.

The challenges in the Group's ERP project and the significant impairment recognised in June 2019 were a particular area of focus, with the Committee reviewing the associated financial reporting judgements throughout the year.

During the year the Committee has monitored the execution of the internal audit and risk management process plans, against which notable progress has been made. The 2020 plans were approved by the Committee and aim to build on this.

This year has also seen the implementation of the new accounting standard IFRS 16 – Leases, which is significant for the Group because of the large number of leases it holds. The Committee monitored progress in implementing this new standard and the judgements made in doing so.

On 3 March 2020 I will be stepping down as Non-executive Director after nearly nine years on the Board. John Rogers, who has been appointed as Chairman of the Committee with effect from 3 March 2020 and who has been a member of the Committee for five years, will be available at the Annual General Meeting to answer any questions about the work of the Committee.

Committee membership and attendance

The Committee comprised Ruth Anderson as Chairman of the Committee, Coline McConville, Christopher Rogers and John Rogers throughout 2019.

Ruth Anderson will step down from the Board and her role as Audit Committee Chairman in March 2020 and John Rogers will become Chairman of the Committee. Christopher Rogers will step down from the Committee in March 2020.

All members are independent Non-executive Directors. Three of the members have recent and relevant financial experience and all members have competencies relevant to the Company's sector, gained through a variety of corporate and professional appointments, as required by the UK Corporate Governance Code. (see biographies on pages 72 to 73.)

The Deputy Company Secretary was Secretary to the Committee throughout 2019.

The Committee held six formal meetings during 2019. Attendance is set out below. The Group Chairman, Chief Executive, Chief Financial Officer, General Counsel & Company Secretary, Director of Group Finance, Director of Internal Audit, Group Chief Accountant and external auditors also attended the Committee's meetings. The Committee held separate meetings with the Director of Internal Audit and external auditors without the presence of management and held separate meetings with management without the external auditors.

In addition to attending Committee meetings, the Committee Chairman met with operational and finance team members during the year.

Committee attendance

	Audit Committee	Overall attendance (%)
Number of meetings	6	100%
Attendance:		
R Anderson	6/6	100%
C McConville	6/6	100%
C Rogers	6/6	100%
J Rogers	6/6	100%

Role of the Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibilities. The main roles and responsibilities of the Committee include:

- To monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance and to review significant financial reporting judgements contained within them
- To review the effectiveness of the Company's internal financial controls and internal control and risk management systems
- To monitor and review the effectiveness of the Company's internal audit function
- To maintain an appropriate relationship with the Company's external auditors and to review and monitor their independence, objectivity and effectiveness, taking into account relevant UK professional and regulatory requirements.

Work of the Committee

The Committee functions around an annual work plan.This work plan is regularly reviewed by the Committee to ensure that it continues to include all matters for which consideration must be given in order to meet the Committee's corporate governance responsibilities.

The Committee duly considers the content of the Annual Report and Accounts, the results' announcements prepared by management and the associated press releases issued at the half year and year end. In discharging its financial reporting responsibilities the Committee reviewed accounting policies and compliance with accounting standards, going concern and viability assumptions, significant financial reporting estimates and judgements made during the preparation of the Group's interim and annual accounts.

In addition, during the year, the Committee reviewed:

- The Group's systems of controls, the effectiveness of controls and management's continuing controls improvement programme
- The controls framework for new IT systems under development and accounting for the Group's ERP project
- Management's approach to the implementation of IFRS 16 – Leases, which was reported on for the first time in 2019
- The Group's approach to risk, key risks and the effectiveness of the risk management framework
- Progress reports on information security initiatives and other security matters reported by the Group's security function
- The external audit plan and findings
- The internal audit plan and strategy for the development of internal audit activities
- The effectiveness and independence of internal audit and the external auditors

In addition to the above specific matters, the Committee considered at each of its meetings a number of standing agenda items:

- Internal Audit reports
- Progress on implementing recommendations arising from internal and external audit work
- Non-audit fees

The Committee places reliance on regular reports from management, internal audit and the external auditors in order to carry out the activities set out above. The Committee is satisfied that it received sufficient, timely and reliable information to enable it to fulfil its responsibilities during the year.

At each meeting of the Committee, an opportunity is provided for the Committee to meet with the internal and external auditors without management present.

The Board is updated on key matters and recommendations following each Audit Committee meeting.

Audit Committee report continued

Significant issues related to the financial statements

The Audit Committee has assessed whether suitable accounting policies have been adopted by the Group and whether management has made appropriate judgements and estimates.

The table below sets out the key judgement areas associated with the Group's financial statements for the year ended 31 December 2019 that were considered by the Audit Committee. This is not a complete list of all accounting issues, estimates and policies, but includes those which the Committee believes are the most significant.

In reaching its conclusions, set out in more detail in the table, the Committee considered papers and explanations given by management, discussed each matter in detail, challenged assumptions and judgements made and sought clarification where necessary. It reviewed and discussed any internal audit reports in respect of the matters under consideration and the Committee also received a report from the external auditors on the work undertaken to arrive at the conclusions set out in their audit report on pages 122 to 130 and had the opportunity to discuss it with them in depth.

Area	Issue and nature of judgement	Factors considered and conclusions reached
Accounting for inventory and inventory valuation	To meet customer expectations the Group carries a wide range of inventory in over 2,000 locations. Inventory should be included in the balance sheet at the lower of cost or net realisable value. At 31 December 2019 stock was valued at £938m. The determination of cost is made more difficult by the ageing accounting systems and also by material rebate and fixed price discount agreements, so requiring regular reconciliations in areas such as accruals for goods received not invoiced.	During the year management regularly reported on inventory valuation and provisioning to the Committee and did so again at its meeting to consider the year-end Annual Report and Accounts. The Committee reviewed and discussed the information presented about gross inventory values and the adjustments made by management to reduce inventory carrying values to allow for rebates and fixed price discounts attributable to inventory and provisions to reflect obsolescence or slow-moving inventory. The Committee assessed the judgements made by management and concluded from the information it had received and its discussions with management and the auditors that inventory was fairly stated in the balance sheet. Further information is given in the notes to the financial statements (note 11 – inventories and note 12 – supplier income).
Accounting for rebate income and fixed price discounts ("supplier income")	The terms of supplier agreements result in a significant value of supplier income being received by the Group. The calculation of the amount that is receivable and the value deferred into stock is complicated due to the number, nature and structure of the agreements in place. However, only two agreements are not coterminous with the Group's accounting year end. Furthermore, approximately 80% of amounts due to the Group are received during the course of the year. Therefore the key judgements relate to the calculation of the total value of rebates and fixed price discounts still to be received at the year end and the value of fixed price discounts and rebates to be set against the gross value of inventory in the balance sheet.	During the year the Committee received reports that enabled it to monitor supplier income collection rates and compare them with the prior year and it discussed the Group's adherence to its accounting policies and procedures. A summary of supplier income received during the year and amounts included in the balance sheet at 31 December 2019 was given to the Committee at the meeting held to consider the year-end results. The Committee reviewed management's judgements regarding the estimates of supplier income and amounts included in the balance sheet. The Committee concluded that the controls over recognising and recovering supplier income were appropriate, that the £428m of supplier income included in debtors or offset against creditors was recoverable and that the amount set against the gross carrying value of inventory was appropriate. Further information is given in the notes to the financial statements (note 12 – supplier income).

Area	Issue and nature of judgement	Factors considered and conclusions reached
The carrying value of goodwill and other intangible and tangible fixed assets	The Group balance sheet contains £1,697m of goodwill and other intangible assets and £882m of tangible fixed assets. The Directors are required to determine annually whether those assets have suffered any impairment. They do so by comparing the present value of future cash flows for each cash-generating unit with the carrying value of assets. In addition, the Company balance sheet contains £3,589m of investments. The Directors compare the net present values of future cash flows from each investment to the carrying value of the investment in the balance sheet. The calculations undertaken to help arrive at a conclusion incorporate a consideration of the risks associated with each cash-generating unit and are based upon forecasts of their long-term future cash flows, which by their nature require judgement to be exercised and are subject to considerable uncertainty.	The cash flow forecasts used for impairment considerations are prepared from the strategic business plans presented to and approved by the Board of Directors annually. Management presented the Committee with papers setting out the results of the work done, the assumptions made and the conclusions reached. They explained to the Committee how the cash flow and discount rate calculations were prepared, the key assumptions and judgements that were made and how sensitive those cash flows were to changes in the key assumptions. After reviewing management's papers and obtaining further explanation where necessary, the Committee concluded that management had taken a consistent, balanced and reasoned approach to preparing its calculations and that the judgements made were acceptable. It noted that the value-in-use model used by management showed all material cash-generating units had significant headroom and concluded that there were no impairments. The Committee considered advice received on the implications of the planned demerger of the Wickes business for the carrying value of goodwill and discussed this with management and the auditors. It concluded that the use of a value-in-use model was appropriate for the 31 December 2019 impairment review and that the disclosures in the Annual Report and Accounts on the possible accounting impact of the planned demerger in 2020 were suitable. Further information is given in the financial statements (note 8 – goodwill and other intangible assets and note 29 – impairment)
Accounting for the Group's ERP project	The Group announced a delay to its ERP programme in December 2018 and this project continued to face significant challenges in 2019. In this context, the Directors were required to consider whether it remained appropriate to continue to recognise an asset in respect of the development spend on this programme. The accounting for cloud-based intangible assets is a complex and developing area, with accounting practice and guidance continuing to evolve.	During the year management regularly reported on the accounting judgements made in relation to this project and the associated accounting and legal advice received. The Committee assessed the judgements made by management and concluded from the information it had received and its discussions with management and the external auditors that the impairment recognised in June 2019 was appropriate. The Committee reviewed the disclosures proposed by management for the Group's interim financial statements and Annual Report and Accounts and, having considered legal advice received by management on these disclosures, concurred with management's judgements. Further information is given in the notes to the financial statements (note 3 – adjusting items and note 8 – goodwill and other intangible assets).

Audit Committee report continued

Internal audit
Activities to deliver the new strategy for internal audit developed in 2018 have been delivered in 2019, with progress reported at each Committee meeting. Areas of focus include initiatives to ensure conformance with professional standards and improved alignment of activities to business risks and priorities. The focus for 2020 will be to make greater use of data and technology in audit delivery. Internal audits continue to be delivered by the in-house team, supported by co-source partners that are used to bring specialist knowledge and skills to audits in areas such as IT and data protection.

Alongside its development activities, internal audit executed an audit plan focused on areas of significant risk, development and change within the Group. The annual plan of activity, reviewed and approved by the Audit Committee, is constructed through internal audit's evaluation of risk against a comprehensive audit universe for the Group. The Group Leadership Team and other key stakeholders in the business are consulted to ensure that developments and key priorities for management have been considered. Audit activities and progress against the agreed audit plan are reviewed at each Committee meeting and updated as business priorities and risks change.

The 2019 audit plan covered a broad range of operational, legal, regulatory, IT and transformation activities, as well as a continued focus on reviewing financial controls in areas considered higher risk. Core financial control areas are audited regularly. This includes annual reviews of balance sheet control accounts and of statements by the Group's businesses on their compliance with key internal financial controls.

At each meeting the Committee considered reports from internal audit setting out the findings from the audits carried out. It also continued to review the implementation of recommendations proposed by internal audit and agreed by management, through a system that tracks activity on all active recommendations by age and level of risk to the business.

During the year the Committee reviewed the effectiveness of the internal audit function both in relation to delivery against its plans and against recognised attributes of a high-performing function. Based on the progress made, the Committee was satisfied with the overall effectiveness of the internal audit function in 2019.

Risk management and internal controls
Details of risks faced by the Group are maintained in Group or business risk registers. Risks are managed at a Group level or within the businesses on an ongoing basis. These risks are regularly collated and reviewed by the Group Leadership Team and the Board to assess the potential impact and likelihood of occurrence, after taking into account key controls and mitigating factors. Additional mitigating actions are identified where necessary and agreed with relevant business owners. The Group's approach to risk continued to be refined during 2019 and this will continue in 2020.

An updated risk methodology and supporting tools have been developed and successfully trialled. This will be rolled out across the Group in 2020. There has been a particular focus in 2019 on risks in relation to IT and the development of a risk capture and reporting process that management can use for active management of risks in areas of ongoing change. This has been used to inform the internal audit plan for IT in 2020 .

Significant time was spent in 2019 considering the risks associated with Britain's exit from the European Union, with regular updates to the Board and Group Leadership Team to help assess the potential impacts and the steps taken by the Group. This will continue to be assessed through the transition period in 2020.

The principal risks and uncertainties are set out on pages 40 to 51, together with information on how those risks are mitigated and how emerging risks are assessed.

The Audit Committee monitors the key elements of the Company's internal control framework throughout the year and has conducted a review of the effectiveness of the Company's risk management and internal controls, concluding that they are effective. The internal control framework is intended to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Management has continued its programme of work to improve the control environment, which has developed over many years. There are a number of system replacements under consideration that will enhance and improve the Group's control framework and lead to greater consistency and automation of controls. The Audit Committee will monitor progress through the year and reviewing the system transformation programmes will remain an area of focus for internal audit.

External auditor
KPMG LLP has been the external auditor since 2015. There are no contractual restrictions on the Group with regards to this appointment. The Company will re-tender the external audit in accordance with the timescales set out in the Financial Reporting Council's guidance.

Audit scope and effectiveness
The scope of the external audit of the 2019 Annual Report and Accounts was presented by the external auditor to the Committee in September 2019 so the Committee could discuss and challenge the audit plan and understand the key elements.

The Committee considers the effectiveness of the external auditor during the year and, with input from management, carries out a formal review of its performance after the year-end audit has been completed.

In undertaking this assessment the Committee considers:
- The experience and expertise of the auditor
- The completion of the agreed external audit plan
- The content, quality of insights and added value of external audit reports
- The robustness and perceptiveness of the external auditor in their handling of key accounting and audit judgements
- The interaction between management and the auditor
- The provision of non-audit services

Financial Reporting Council
In 2019 the Financial Reporting Council ("FRC") conducted a thematic review of disclosures relating to impairment of non-financial assets. As part of this, the FRC carried out a limited scope review of the disclosures relating to the impairment of non-current assets in the Group's 2018 Annual Report & Accounts and exchanged letters with the Group. This limited scope review considered compliance with reporting requirements and does not provide any assurance over the disclosures that were reviewed. The FRC (which includes the FRC's officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders. As a result of this correspondence, the Group committed to making a number of enhancements to its disclosures relating to the impairment of non-current assets.

Independence and objectivity
One of the Committee's responsibilities is to ensure compliance with the Board's policy on services provided by and fees paid to the external auditor. The policy sets out the work that is permitted to be performed by the external auditor and the work that is prohibited.

The process for approving all non-audit work provided by the external auditor is overseen by the Committee in order to safeguard the objectivity and independence of the auditor. The Committee considers whether it is in the interests of the Company that the services are purchased from KPMG LLP rather than another supplier. In 2019 KPMG was engaged to provide non-audit services in relation to the maintenance of the Group's employee benefits system and the demerger of the Wickes business. All non-audit services were pre-approved by the Committee.

The audit firm was considered the most appropriate firm to carry out the reporting accountant work for the Wickes demerger given its knowledge of the Group and the synergies that arise from running this engagement alongside the main audit.

The provision of non-audit services by KPMG in relation to the employee benefits system will continue until the current maintenance contract ends in 2021. The provision in relation to the Wickes demerger will cease on completion.

Non-audit fees require approval and the amount payable to the external auditor in any particular year cannot exceed 70% of the average of the current and previous two years' audit fees.

Reporting
The Chief Financial Officer reports to the Committee on fees for non-audit services payable to the external auditor at every meeting. As shown in note 4 to the accounts, during the year the auditors were paid £1,100,000 (2018: £920,000) for audit-related work and £616,000 (2018: £133,000) for non-audit work. Non-audit work related to the review of the Group's interim financial statements, the maintenance of the Group's employee benefits system and the Wickes demerger. The total fees paid by the Group to KPMG LLP in 2019 amount to less than 0.08% of KPMG's UK fee income. In addition, £7.3m (2018: £3.7m) of fees were paid to other accounting firms for non-audit work, principally consulting services related to the ongoing sale, separation and demerger activity.

Assessment of the external auditor
Having considered the external auditor's performance and representations from the auditors about their internal independence processes, the Committee concluded that it was satisfied with the independence, objectivity and effectiveness of the external auditor and recommended to the Board that it recommend that KPMG LLP be reappointed by shareholders at the Annual General Meeting on 28 April 2020.

Greg Watts, the previous external audit partner, retired in 2019 and a new audit partner, Anthony Sykes, was appointed in May 2019 following a managed transition.

This report has been approved by the Board of Directors and signed on its behalf by:

Ruth Anderson
Chairman, Audit Committee
2 March 2020

Directors' remuneration report

2019 highlights

- Nick Roberts appointed as CEO
- Policy review to be undertaken in 2020
- Pensions for new executives aligned to the workforce

Number of meetings during 2019

6

Overall attendance

100%

Coline McConville
Remuneration Committee Chairman
2 March 2020

Dear Shareholder,

As Chairman of the Remuneration Committee, I am pleased to introduce the 2019 Directors' Remuneration Report.

Policy review

The last 12 months have been a significant period of change for Travis Perkins. At our Capital Markets Day in December 2018 we announced our strategy of focusing on serving trade customers through advantaged businesses in attractive markets, and simplifying the Group to reduce complexity and cost to drive improved returns. Following this, on 31 July 2019 we announced our plans to demerge Wickes as a separate listed business. As part of our planned succession planning process Nick Roberts joined the business on 1 July 2019, stepping up to the CEO role on 5 August 2019 with John Carter continuing to support Nick's transition until 31 December 2019.

Against this significant change backdrop – the strategic evolution of the Group, the ongoing work being undertaken to reshape the business to deliver value growth for shareholders through a simplified, leaner business as well as the appointment of a new CEO – the Committee concluded that now was not the right time to undertake a detailed review of the Directors' Remuneration Policy. Once we have made further progress in implementing the strategic and operational changes communicated to shareholders the Committee intends to undertake a detailed review of the Directors' Remuneration Policy during 2020 to ensure that our policy continues to effectively support the execution of this strategy and the creation of shareholder value. We were pleased to gain the support of our major shareholders for this approach and we will be consulting with shareholders in relation to this review during 2020.

The Directors' Remuneration Policy for which we seek shareholder approval for at the AGM on 28 April 2020 is therefore largely unchanged from the 2017 Policy. The Committee believes that the existing arrangements continue to deliver reward for performance and are appropriate for the current environment and Company context. The Committee does however intend to make changes to the Policy in certain areas in order to align with best practice and to comply with the 2018 UK Corporate Governance Code. These changes are as follows:

- **Pension: new hires** – As outlined in our 2018 Directors' Remuneration Report we have reduced our pension allowance for new Executive Director hires to 10% of base salary, which is in-line with the pension provision available to the majority of the workforce.
- **Pension: CFO** – The current pension allowance for the CFO is 25% of salary. Taking into account the evolving views of our shareholders in this area the Committee has agreed with the CFO that his pension will be reduced to 20% of salary from 1 January 2020. This monetary amount (£103,530) will be frozen at this fixed level so that it does not attract future salary increases. The Committee believes that this change is the most appropriate action for Travis Perkins at this point in time. In making this decision the Committee took into consideration the views of our shareholders as well as the existing contractual commitments to Alan Williams, our highly performing CFO who is key to the delivery of the Group's new strategy. The Committee intends to continue to monitor market practice and keep the pension provision for the CFO under review.
- **Holding period for the Co-Investment Plan** – Awards granted under our Performance Share Plan ("PSP") are already subject to a two-year holding period following vesting for Executive Directors. For 2020 awards onwards Co-Investment Plan ("CIP") matching shares that vest (ie vesting in 2023 onwards) will also be subject to a two-year holding period following vesting. This results in a total vesting and holding period for Executive Directors for both the PSP and the CIP of five years in line with the 2018 UK Corporate Governance Code.
- **Post-employment shareholding guidelines** – In light of evolving market practice the Committee has introduced a post-employment shareholding guideline. Following cessation of employment, Executive Directors will be required to maintain a minimum shareholding of 1 x base salary (or actual shareholding if lower) for a period of two years following stepping down from the Board. In most circumstances Executives who have been in role for three years or more will retain an interest in shares of more than 2x salary due to the post-vesting holding period that applies to our PSP and from 2020 our Co-Investment Plan matching awards. However, to safeguard against situations where this is not the case on leaving, the Committee has introduced this additional "underpin" requirement described above. The Committee believes that this proposed approach means that Executive Directors will continue to retain an appropriate level of shareholding in the Company to ensure that their interests remain aligned with shareholders following their departure from the business.
- **Malus and clawback** – The circumstances in which malus and clawback may apply under the annual bonus plan, PSP and CIP have been extended to include material failure of risk management, serious reputational damage and material corporate failure to align with evolving best practice.

Leadership changes

As noted above, Nick Roberts joined the Board as CEO designate on 1 July 2019 taking over from John Carter as CEO on 5 August 2019. Nick's salary was set at £630,000 per annum which is lower than the salary level for the previous CEO. His pension allowance is 10% of salary in-line with the pension provision available to the majority of the workforce. His annual bonus and long-term incentive opportunities are in-line with our policy. The Company has granted Nick "buy-out" awards to reflect awards forfeited on leaving his previous employer. The value and terms of these awards were on a like-for-like basis with the awards forfeited. Further details are provided on page 109.

John Carter stepped down from the Board on 5 August 2019 but remained with the business until 31 December 2019 continuing to support Nick and the business. He remained eligible for an annual bonus for 2019 subject to performance. John did not receive a PSP or CIP award in respect of 2019. He has been treated as a good leaver in respect of his outstanding share awards.

Tony Buffin stepped down from the Board on 26 February 2019 by reason of redundancy. Tony continued to be paid a salary and contractual benefits until 12 May 2019 when payments ceased upon him taking up another role outside of the Group. Tony was not eligible to receive an annual bonus or LTIP awards for 2019. He was treated as a good leaver in respect of his outstanding incentive awards with normal pro-rating and performance testing being applied.

Salary review

With effect from 1 January 2020 Alan Williams' salary was increased by 1.5% in line with the general increase applied across the Group. Nick Roberts' salary was increased by 1% reflecting the fact that he joined mid-way through 2019. New salaries are £517,650 for Alan Williams and £636,300 for Nick Roberts.

Non-executive Directors' fees will next be reviewed in July 2020.

2019 Remuneration outcomes

Despite the prolonged uncertainty following the EU referendum in June 2016, which has had a significant impact for domestic UK businesses heavily exposed to the economic cycle such as Travis Perkins, the Group has delivered strong financial performance with significant profit growth achieved.

The performance against key financial objectives is as follows:

- Adjusted operating profit of £442m (2018: £375m, on a pre-IFRS 16 basis)
- ROCE of 10.1% (2018: ROCE of 9.6% on an illustrative IFRS 16 basis)

2019 Bonus payout

Bonuses for Executive Directors are based on adjusted operating profit (60%), ROCE (20%) and performance against our strategic tracker (20%). The Group adjusted operating profit achievement of £442m resulted in a payout of 98% of maximum bonus potential for this element and ROCE of 10.1% led to a maximum payment reflecting disciplined capital management throughout the year.

There was solid progress against the strategic tracker during 2019, including good progress against the strategic objective of Group simplification and improved colleague engagement. Further details are provided on page 106.

Remuneration report continued

The strategic tracker is an important part of the short-term incentive. It focuses management effort towards delivering strategic goals which are considered critical for delivering sustainable growth in returns over the long term but which may require short-term investment. It is closely aligned to the corporate plan and the levers of value creation and so provides an important bridge from annual bonus to long-term incentive plans. Payout against the strategic tracker was assessed by the Committee to be 50% of this portion of the bonus.

These results have generated bonuses of 88.7% of maximum for the Executive Directors. For the CEO this equates to 160% of salary (pro-rata for Nick Roberts) and 133% of salary for the CFO. Half of this bonus will be paid in cash following the year end. The remaining half will be deferred as shares which will vest after three years.

The Committee considered that these levels of bonus were an appropriate reflection of the excellent financial performance and progress against strategic objectives achieved in 2019. No discretion was exercised by the Committee.

Long-term incentives

Vesting of 2017 long-term incentive awards continues to be impacted by market uncertainty following the UK's decision to leave the European Union. In this context, the EPS growth and target has not been achieved. However strong share price appreciation and strong cash generation have resulted in long-term incentive plan targets being met for TSR and cash elements. Further details on each element of the long-term incentives is provided below:

2017 PSP vesting

PSP awards granted in 2017 were subject to adjusted EPS (40%), TSR (20%) and cash flow (40%) performance. The adjusted EPS performance was below the trigger required for any vesting of this element of the award. Aggregate cash flow over the three-year period was £1,068m which was above the maximum target and resulted in the full 40% of the cash flow element vesting, reflecting excellent cash performance in challenging market circumstances. TSR performance was at the 51st percentile resulting in vesting marginally above threshold for this element. Overall 46% of PSP awards granted in 2017 vested.

2017 Co-Investment awards

These awards were subject to CROCE performance. CROCE performance over the three-year period was 10.5% reflecting strong cash generation underpinned by improvements in working capital, judicious capital expenditure and asset recycling. This performance was above the maximum target set and resulted in 100% of awards vesting.

The Committee considered that the level of vesting under the PSP and Co-Investment plan in respect of 2019 to be an appropriate reflection of performance over the last three years and in particular the work management have undertaken to deliver strong cash performance. No discretion was exercised by the Committee.

The Group implemented the new lease accounting standard IFRS 16 from January 2019 which will impact performance targets for 2018 and 2019 PSP awards. In addition the Company is planning to demerge with Wickes business during Q2 2020. This will have an impact on the performance conditions for long-term incentive awards granted in 2018 and 2019. The Committee will be reviewing the impact of this transaction as well as the introduction of IFRS 16 – Leases during 2020 and the adjusted targets will be disclosed in due course. The guiding principle for any adjustment is that the revised targets should be no easier or more challenging than the previous targets set.

The Committee will be submitting its remuneration policy and report to the 2020 AGM where the policy will be subject to a binding shareholder vote and the report subject to an advisory shareholder vote. We look forward to receiving your support.

Coline McConville
Remuneration Committee Chairman
2 March 2020

Quick view – remuneration in 2019

Measuring performance

Ambition	Strategic KPI	Bonus Weighting	LTIP Weighting
Profit growth	Adjusted operating profit	60%	–
	Earnings per share ("EPS") growth	–	40% PSP
Delivery against investments	Return on capital employed ("ROCE")	20%	–
	Cash return on capital employed ("CROCE")	–	100% CIP
Strategic delivery	Strategic and operational objectives so that we continue to lay the foundations to deliver future success	20%	–
Turning profit into cash	Aggregate cash flow	–	40% PSP
Delivering value to shareholders	Relative total shareholders return ("TSR")	–	20% PSP

2019 outcomes

Element	Nick Roberts[1]	Alan Williams	John Carter[2]	Tony Buffin[4]
Base salary (annualised)	£630,000	£510,000	£703,934	£543,949
Annual bonus (% of Max)	88.7%	88.7%	88.7%	n/a
LTIP (% of Max)[3]	n/a	67.6%	67.6%	67.6%

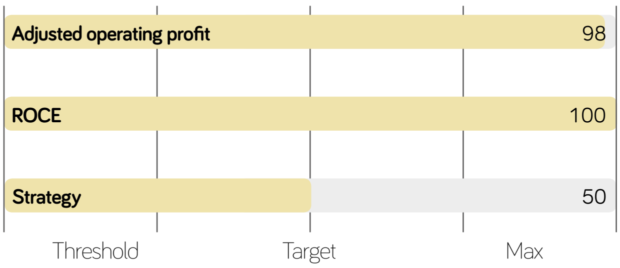
1. Appointed to the Board and as CEO designate on 1 July 2019 and appointed as CEO on 5 August 2019.
2. Stepped down from the Board as CEO on 5 August 2019 and continued to support the new CEO until 31 December 2019.
3. Combined vesting across the PSP and Co-Investment plan.
4. Tony Buffin stepped down from the Board on 26 February 2019. He was not eligible to receive a bonus or LTI award in 2019. His outstanding LTI awards have been pro-rated and are subject to performance testing in the normal way.

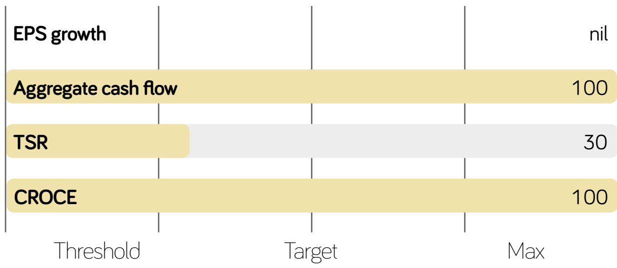
Annual bonus outcome

The maximum bonus opportunity for the CEO is 180% of salary and 150% of base salary for other Executive Directors. Half of bonus earned is deferred into shares for three years. All bonus is subject to malus and clawback. Performance weighting and measures are unchanged from the previous year.

LTIP outcome

The maximum PSP award for Executive Directors is 150% of base salary. The maximum award under the Co-Investment Plan is 100% of base salary subject to an executive investing 50% of their net salary.





Share-ownership guidelines

Executive Directors are required to hold shares valued at two times annual salary within five years of appointment.

Remuneration policy report

Policy report

The following sets out the Group's Directors' Remuneration Policy (the "Policy"). The Policy is subject to a binding shareholder vote at the AGM 28 April 2020 and, if approved by shareholders, will apply to payments made on and from this date. This Policy will replace in full the Directors' remuneration policy set out in the 2016 Annual Report, which was approved by 97% of shareholders at the AGM held on 24 May 2017.

Remuneration philosophy

The principles of the Group's remuneration policy are:

- Remuneration arrangements are determined taking into account the 2018 Corporate Governance Code, wider workforce remuneration and emerging best practice in relation to Executive Director remuneration
- Remuneration should be clear and simple and support the execution of the strategy and contribute to the delivery of short- and long-term superior sustainable financial returns for shareholders
- Remuneration should contain significant performance-related incentive elements. Award levels are capped with payout linked to performance against a limited number of measures which are well linked to our strategy. Stretching but fair targets are set. This ensures that potential reward outcomes are clear and aligned with performance achieved, with the Committee having the discretion to adjust payouts where this is not considered to be the case
- Reward mechanisms should ensure that a significant proportion of variable pay is delivered in deferred shares ensuring that executives retain a meaningful personal stake in the Group's success
- Malus and clawback and discretion provisions, LTIP holding periods and shareholding guidelines, including post-employment should be in place to create alignment with shareholders and to mitigate reputational and other risk
- Remuneration should be competitive and fair taking into account external market levels as well as internal practice to ensure pay remains competitive while being equitable within the Company. The approach to basic salary increases should be consistent across all colleagues
- All colleagues should be able to share in the success of the Group through participation in both annual bonus schemes and longer term share plans

These principles apply across the Group. In addition to competitive base salary and bonus programmes, colleagues also have access to an extensive range of benefits under the Group's MyPerks colleague benefit programme. This includes a wide range of flexible and voluntary benefits, retirement benefits, our all-colleague Sharesave Scheme and a range of recognition programmes.

Element	Link to Strategy	Operation	Maximum Potential Value	Performance Metrics	Remuneration Committee Discretion
Base Salary	Core element of total package, essential to support recruitment and retention of high-calibre executives.	The Committee sets base salary levels taking into account: • Role, experience and individual performance • Pay awards elsewhere in the Group • Salary levels at other companies of a similar size • General economic environment and performance of the business Any salary increases are normally effective from 1 January	Whilst there is no maximum salary level of increase, the increase for Executive Directors will normally be in line with the general employee increase.	None.	The Committee retains discretion to award salary increases in excess of the general population where this is considered appropriate to reflect performance or significant changes in market practice or the size of the Company, to recognise changes in roles and responsibilities or where a new Executive Director has been appointed to the Board at a lower than typical market salary to allow for growth in the role.

Element	Link to Strategy	Operation	Maximum Potential Value	Performance Metrics	Remuneration Committee Discretion
Benefits	Maintain a competitive package with a range of benefits for the Director and their family.	Directors are currently entitled to benefits including: • Private medical insurance • Income protection • Annual leave • Fully expensed Company car (or cash alternative) • Life insurance of up to five times salary • All employee share plans such as SAYE and BAYE The Committee may introduce other benefits if it is considered appropriate to do so. Executive Directors shall be reimbursed for all reasonable expenses and the Company may settle any tax incurred in relation to these where appropriate.	Benefit levels reflect those typically available to senior managers within the Group and may be subject to change. The maximum potential value being the cost to the Company to provide those benefits.	None.	The Committee may remove benefits that Executive Directors receive or introduce other benefits if it is considered appropriate to do so taking into account the circumstances.
Pension	Helps executives provide for retirement and aids retention.	Our policy is that for new Executive Directors up to 10% of salary is provided either as a cash allowance in lieu of pension or as or a contribution to a personal pension plan (or a combination of both) in line with the policy approved for the wider workforce.	The CEO receives a pension allowance of 10% of salary. The CFO's pension allowance is £103,530 (fixed at this level from 2020).	None.	

Remuneration policy report continued

Element	Link to Strategy	Operation	Maximum Potential Value	Performance Metrics	Remuneration Committee Discretion
Annual Bonus and Deferred Share Bonus Plan	Rewards achievement of annual financial and key business strategy objectives. Rewards personal performance measured against key objectives. Deferred element encourages longer term shareholding and aligns reward to shareholder interests. Malus and clawback-based forfeiture provisions discourage excessive risk taking and short-term outlook ensuring that executive and shareholder interests are aligned.	Total bonus level is determined after the year end, based on achievement of targets. Normally up to 50% of the total bonus is paid in cash. The remainder of the bonus is deferred as shares for three years. The deferred element may be granted in the form of nil cost options or conditional share awards. Targets are set annually in line with the performance metrics. Dividend equivalents on shares that are released may be paid. Malus and clawback provisions apply as explained further in the notes to this table.	Maximum bonus opportunity under the plan is 180% of annual salary for the CEO and 150% of annual salary for the CFO.	Bonus measures typically include: • Financial targets • Individual or Group targets pertaining to delivery of the business strategy Financial targets will account for at least 50% of the bonus. Performance below threshold results in zero bonus. Bonus earned rises from 25% to 100% of maximum bonus opportunity for levels of performance between threshold and maximum targets. Performance measures and weightings are set out in the Statement of Implementation of the Remuneration Policy.	The Committee retains the discretion to review the measures, the weighting of measures and to set the performance targets and ranges for each measure . The Committee will determine financial targets and the amount of bonus which can be earned for achievement of the Group's plan. This determination will be based upon an assessment of the degree of difficulty in achieving the targets taking into account market conditions, improvement on prior year performance required, and other relevant factors. The Committee may in its discretion, adjust annual bonus payments, if it considers that such level would not reflect the underlying performance of the executive or the Group or if such level would not be appropriate in the circumstances.

Element	Link to Strategy	Operation	Maximum Potential Value	Performance Metrics	Remuneration Committee Discretion
Performance Share Plan	Incentivises participants to deliver key financial targets over a longer term, with particular focus on shareholder return and the generation of cash to fund investment in growth and long-term sustainability. Helps retain high performing executives.	Awards are normally granted in the form of nil cost options, annually to participants. Awards will normally vest after three years subject to the satisfaction of performance conditions. For executive directors a post-vesting holding period of two years will normally apply to awards granted under the PSP. Awards may also be granted in conjunction with a tax-advantaged "CSOP" option up to the HMRC limits (currently £30,000) as a "Qualifying PSP Award". The vesting of a Qualifying PSP Award will be scaled back to take account of any gain made on exercise of the associated CSOP option. A Qualifying PSP Award will enable the executive and the Company to benefit from tax advantaged treatment on part of their PSP award without increasing the pre-tax value delivered to the executive or cost to the Company. The tax advantaged options are subject to the same performance measures as the non-tax advantaged element. The Committee may decide to scale back participation where the shareholding requirement set by the Committee is not met. Dividend equivalents on shares that are released may be paid. Malus and clawback provisions apply as explained further in the notes to this table.	The maximum annual award for all Executive Directors is 150% of salary.	Performance measures are typically based around key financial and/or share price metrics which reflect the Group strategy. Vesting criteria are set against a target range based on performance levels determined by the Group's projections for the next three years for the relevant measure. Where relative performance measures are used (for example TSR) threshold target levels will be set at the median performance level. Performance below the threshold target results in zero vesting. From the threshold target level the amount of the award vesting rises from 25% to 100% of maximum opportunity for levels of performance between threshold and maximum targets. Performance conditions and weightings are set out in the Statement of Implementation of the Remuneration Policy .	The Committee retains discretion to review the performance measures, the weighting applied to measures, and to set the target ranges for each measure. In addition the Committee will review and select the appropriate comparator group for relative performance measures. The Committee may in its discretion, adjust the vesting level of an award (other than a CSOP option), if it considers that the vesting level would not reflect the underlying performance of the executive or the Group or if such level would not be appropriate in the circumstances.

Remuneration policy report continued

Element	Link to Strategy	Operation	Maximum Potential Value	Performance Metrics	Remuneration Committee Discretion
Co-Investment Plan	Encourages a mutual commitment whereby participants build up a shareholding in the Company and are incentivised to deliver key financial targets over a longer term. Helps retain high-calibre executives.	Executive Directors may be invited to participate in the Co-Investment Plan annually. Each participant buys shares from their own resources. These shares are designated as "Investment Shares" for the purposes of the Co-Investment Plan. A matching share award (normally in the form of a nil cost option) is made to each participant, which vests after three years subject to achievement of performance measures. The number of matching shares will lapse pro rata to the disposal of any associated Investment Shares by the participant prior to the vesting of the associated matching share award. For Executive Directors a post-vesting holding period of two years will normally apply to awards granted under the CIP for matching shares awarded from 2020. Dividend equivalents on shares that are released may be paid. Malus and clawback provisions apply as explained further in the notes to this table.	Participants may invest up to 50% of their net salary Maximum matching awards of twice the gross salary equivalent of the amount invested (ie 100% of gross salary)		
Shareholding Requirements	Aligns the interests of executives and shareholders.	Formal requirements (not voluntary guidelines) apply to Directors and senior executives. Participation in long-term incentives may be scaled back or withheld if the requirements are not met or maintained. For the purposes of assessing compliance with the shareholding requirement vested but unexercised awards will be considered.	N/A	Executive Directors are expected to hold shares valued at two times salary within five years of appointment to the Board.	The Committee retains discretion to increase shareholding requirements.

Changes to policy

The key changes to this Policy compared to the previous policy are as follows:

- For new Executive Director hires pension allowance has been reduced to 10% of base salary, which is in-line with the pension provision available to the majority of the workforce
- The pension allowance for the CFO has been reduced from 25% to 20% of salary from 1 January 2020. This monetary amount (£103,530) has been frozen at this fixed level so that it does not attract future salary increases
- For Executive Directors a post-vesting holding period has been introduced for CIP matching awards. For 2020 awards onwards, executives will be required to hold any shares that vest for a further two year period from vesting
- Executive Directors that step down from the Board following the adoption of this policy will be expected to maintain a minimum shareholding of 1 x base salary (or actual shareholding if lower) for a period of two-years following stepping down from the board
- The circumstances in which malus and clawback may apply under the annual bonus plan, PSP and CIP have been extended to include material failure of risk management, serious reputational damage and material corporate failure to align with evolving best practice
- Other minor changes have been made to the wording of the policy to aid operation and to increase clarity

Summary of decision-making process

In determining the revisions to the Remuneration Policy the Committee followed a robust process which included discussions on the content of the Policy at Remuneration Committee meetings during the year. The Committee considered the input from management and our independent advisers, as well as considering best practice and guidance from major shareholders.

Performance metrics

In considering appropriate performance metrics for the short- and long-term incentives the Committee seeks to incentivise and reinforce delivery of the Company's strategic objectives achieving a balance between delivering annual return to shareholders and ensuring sustainable long-term profitability and growth. Measures will therefore reflect a balance of direct shareholder value, such as TSR and those which reflect appropriate investment strategies, for example, CROCE, as well as measures focused on meeting specific strategic objectives aligned to long-term growth.

The Committee calibrates these targets by due reference to market practice, the Group's strategic plan, general and bespoke market intelligence, lead indicators and other indicators of the economic environment such that targets may represent relative as well as absolute, achievement.

Malus and clawback

Malus and clawback provisions are included in all incentives: the Annual Bonus, Deferred Share Bonus Plan, the Co-Investment Plan and the Performance Share Plan. The circumstances in which malus and clawback could apply include:

- a material misstatement resulting in an adjustment to the Company's audited consolidated accounts
- the determination of the number of shares subject to an award or the assessment of any performance condition was in error or based on inaccurate or misleading information
- the Board determining in its reasonable opinion that any action or conduct of the Participant amounts to serious misconduct, fraud or gross misconduct
- the Board determining that there has been a material failure of risk management (for 2020 bonus and incentive awards onwards)
- the Board determining that there has been serious reputational damage (for 2020 bonus and incentive awards onwards)
- the Board determining that there has been a material corporate failure (for 2020 bonus and incentive awards onwards)
- any other circumstances which the Board in its discretion considers to be similar in their nature or effect

Malus and Clawback and malus provisions can be applied to an award if one or more of the relevant circumstances occurs between the start of the performance / bonus period and until the third anniversary of payment of any cash bonus or the date of award under the Deferred Share Bonus Plan and the sixth anniversary of award under the Performance Share Plan and the Co-Investment Plan.

Discretion

Areas where the Committee has discretion have been outlined in the Policy. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules. A number of Committee discretions apply to awards granted under each of the Company's share plans, including that:

- awards may be granted as conditional share awards or nil-cost options or in such other form that the Committee determines has the same economic effect
- awards may be settled in cash at the Committee's discretion (for Executive Directors this provision will only be used in exceptional circumstances such as where for regulatory reasons it is not possible to settle awards in shares)
- awards may be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may affect the Company's share price

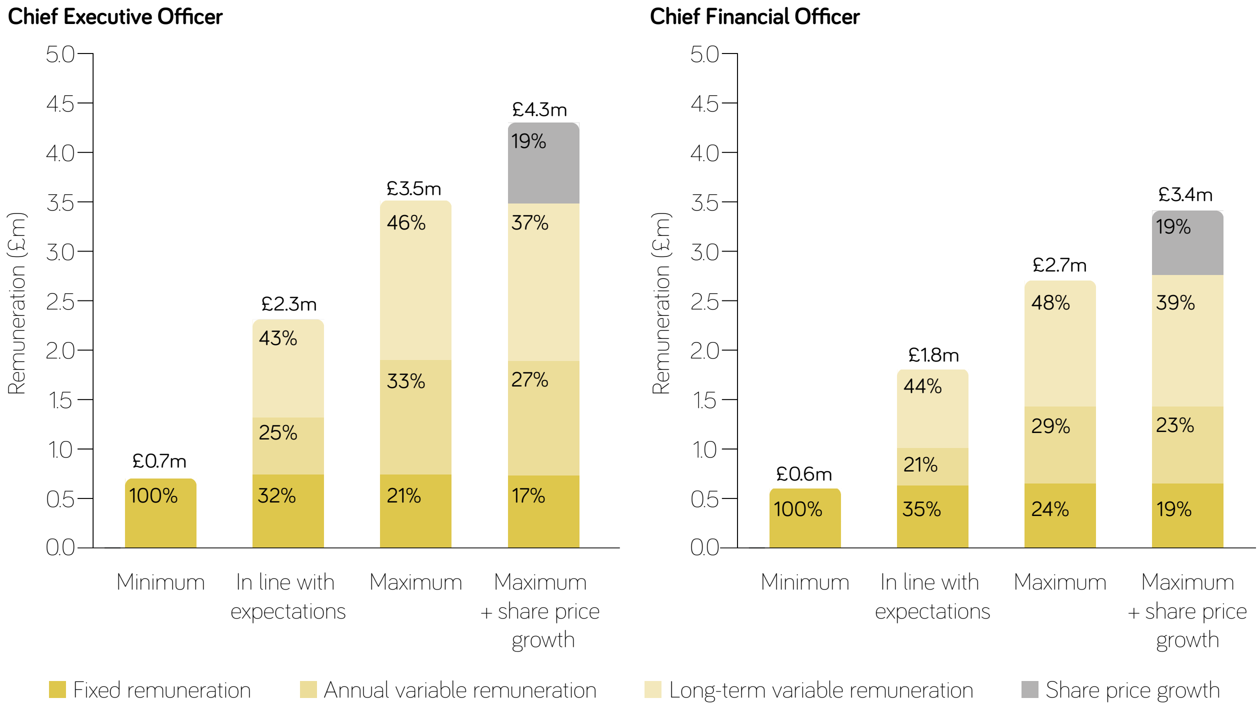
In addition, the Committee has the discretion to amend the Policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, inappropriate to seek or await shareholder approval.

The Committee retains discretion to amend or substitute performance measures and targets and the weightings attached to performance measures part-way through a performance year if one or more significant corporate events occurs which causes the Committee to believe that an amended or substituted performance measures, weightings or targets would be more appropriate and not materially less difficult to satisfy. Discretion may also be exercised in cases where the Committee believes that the outcome is not a fair and accurate reflection of business performance. Any exercise of this discretion will be explained in full to shareholders.

Remuneration policy report continued

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the policy set out above came into effect, provided that the terms of the payment were consistent with any applicable shareholder-approved directors' remuneration policy in force at the time they were agreed or where otherwise approved by shareholders; or (ii) at a time when the relevant individual was not a Director of the Company (or other persons to whom the Policy set out above applies) and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company or such other person. For these purposes "payments" include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" no later than the time the award is granted. This Policy applies equally to any individual who is required to be treated as a director under the applicable regulations.

Illustration of the application of the Remuneration Policy



- Fixed remuneration includes basic salary (from 1 January 2020), pension provision (from 1 January 2020) and other benefits (based on value disclosed in the single figure for 2019)
- The "Minimum" scenario includes fixed remuneration only.
- The "In line with expectations" scenario includes fixed remuneration plus target annual bonus (50% of maximum) plus mid-range performance for the Performance Share Plan and Co-Investment Plan (62.5% of maximum).
- The "Maximum" scenario includes fixed remuneration plus maximum bonus (180% of salary for Nick Roberts and 150% of salary for Alan Williams) plus 100% vesting of the Performance Share Plan (150% of salary) and Co-Investment Plan (100% of salary).
- The "Maximum + share price growth" scenario is as per the "Maximum" scenario and assumes share price growth of 50%.

Non-executive Directors' fees

Fees for the Non-executive Chairman and Non-executive Directors are set at an appropriate level to recruit and retain Directors of a sufficient calibre to guide and influence Board level decision-making without paying more than is necessary to do so. Fees are set taking into account the following factors:

- The time commitment required to fulfil the role
- Typical practice at other companies of a similar size and complexity to Travis Perkins

Non-executive fees will typically be reviewed annually with increases normally being effective from 1 July each year. Non-executive Director fees policy is to pay:

- A basic fee for membership of the Board
- An additional fee for the Chairman of a Committee and the Senior Independent Director to take into account the additional responsibilities and time commitment of the role

Additional fees may be paid to reflect additional Board or Committee responsibilities as appropriate. The Non-executive Chairman receives an all-inclusive fee for the role.

Current fees are detailed within the Statement of Implementation of the Remuneration Policy.

A minimum of 25% of Non-executive Director fees is paid in shares. Non-executive Directors do not receive any other benefits (other than a staff discount card for purchasing products) and are not eligible to join a Company pension scheme. No compensation is payable on termination of office, which may be without notice from the Company. They cannot participate in any of the Company's share plans. The Company will pay reasonable expenses incurred by the Chairman and Non-executive Directors (including any tax incurred in relation to these where appropriate).

Recruitment remuneration

It is the Group's policy to recruit the best candidate possible for any executive Board position. It seeks to avoid paying more than is considered necessary to secure the candidate and will have regard to guidelines and shareholder sentiment when formulating the remuneration package.

Generally the Group will set salary, incentives and benefits for candidates in line with the above remuneration policy and accordingly participation in short- and long-term incentives will typically be on the same basis as existing Directors. In all cases the Group commits to providing shareholders with timely disclosure of the terms of any new executive hires including the approach taken to determine a fair level of compensation. The maximum level of variable remuneration which may be awarded (excluding any "buyout" awards referred to below) in respect of recruitment is 430% of salary, which is in line with the current maximum limit under the annual bonus and long-term incentives. The table below outlines the Group's normal recruitment policy:

Base Salary and Benefits	The pay of any new recruit would be determined following the principles set out in the remuneration policy table.
Pension	The appointee will be able to receive either a contribution to a personal pension scheme or cash allowance in lieu of pension benefits in line with the Company's policy as set out in the remuneration policy table.
Annual Bonus	The appointee will be eligible to participate in the Annual Bonus and Deferred Share Bonus Plan as set out in the remuneration policy table. Awards may be granted up to the maximum opportunity allowable in the remuneration policy table at the Remuneration Committee's discretion.
Long-Term Incentives	The appointee will be eligible to participate in the Company's Long-Term Incentive Plans as set out in the remuneration policy table. Awards may be granted up to the maximum opportunity allowable under scheme rules at the Remuneration Committee's discretion.
Share Buy-outs / Replacement Awards	Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of appointment, the Committee may offer compensatory payments or awards if after careful consideration it is determined that it is appropriate to offer a buy-out. Any buy-out may be in such form as the Committee considers appropriate, taking into account all relevant factors including the form of awards, expected value and vesting timeframe of forfeited opportunities. When determining any such buy-out, the guiding principle would be that awards would generally be on a "like-for-like" basis unless this is considered by the Committee not to be practical or appropriate. The Performance Share Plan allows for awards to be made outside of the plan limit to facilitate the recruitment of an Executive Director. To the extent that it was not possible or practical to provide the buyout within the terms of the Company's existing incentive plans, a bespoke arrangement may be used (including granting an award under the Listing Rule 9.4.2 which allows for the granting of awards, to facilitate, in unusual circumstances, the recruitment of an Executive Director). Any buyout award made under the Company's Deferred Share Bonus Plan or Long-Term Incentive Plans will not count towards the individual's maximum opportunity under those plans.
Relocation	Where the Group requires a candidate to relocate in order to take up an executive position it will normally reimburse the reasonable costs of the relocation. This may include one-off ongoing expenses such as schooling or housing for a reasonable period of time.

Where an internal candidate is promoted to an executive position the Group will honour any contractual commitments made through their employment prior to the promotion including any accrued defined benefit pension provision. Future pension provision which will be aligned with our policy set out above.

Recruitment remuneration for Non-executive Directors would be assessed following the principles set out in the policy for Non-executive Director fees.

Remuneration policy report continued

Policy on payment for Directors leaving employment

Executive Directors' contracts do not have a fixed expiry date but can be terminated by serving notice. Contractual notice periods for Directors are normally set at six months' notice from the Director and 12 months' notice from the Company and the Company would normally honour contractual commitments in the event of the termination of a Director. Notwithstanding this approach it is Company policy to seek to minimise liability in the event of any early termination of a Director.

The Group classifies terminations of employment arising from death, ill health, disability, injury, retirement with Company agreement, redundancy or the transfer from the Group of the employing entity as "good leaver" reasons. In addition the Committee retains discretion under incentive plan rules to determine "good leaver" status in other circumstances. In the event such discretion is exercised a full explanation will be provided to shareholders.

Leaver reason may impact treatment of the various remuneration elements as follows:

Remuneration element	Good leaver reason	Other leaver reason
Salary	Ceases on cessation of employment (salary may be paid in lieu of notice) unless a pre-existing contractual term applies.	Ceases on cessation of employment (salary may be paid in lieu of notice) unless a pre-existing contractual term applies.
Bonus including Deferred Share Bonus Plan*	Unpaid bonus from a completed performance period prior to cessation will be paid in full. For the performance period in which cessation occurs a pro-rata bonus may be paid, subject to normal performance conditions. Any unvested deferred bonus share awards will normally continue until the normal vesting date and vest in full. The Committee may determine that awards should vest on cessation of employment.	All unpaid bonus payments lapse. Any unvested deferred bonus shares also lapse on leaving.
Benefits	Provision or accrual of benefits will cease on cessation of employment or, if later, at the end of the relevant subscription period.	Provision or accrual of benefits will cease on cessation of employment or, if later, at the end of the relevant subscription period.
Performance Share Plan*	Unvested awards will normally vest at the normal vesting date and remain subject to performance. Awards will be pro-rated for a time unless the Committee decides otherwise. Awards will normally remain subject to any applicable holding period. The Committee may determine that awards should vest and be released at cessation of employment taking into account the extent to which performance targets have been met and unless the Committee decides otherwise the period of time elapsed since award. Where a participant ceases employment during any holding period (other than for reason of gross misconduct) they will continue to retain their award in full and it will be released at the end of the holding period unless the Committee determines that the award should be released at the time of cessation. For awards in the form of options participants will have six months from vesting to exercise their award.	Unvested awards lapse at cessation of employment. Where a participant ceases employment during any holding period (other than for reason of gross misconduct) they will continue to retain their award in full and it will be released at the end of the holding period unless the Committee determines that the award should be released at the time of cessation. For awards in the form of options, participants will have six months to exercise any vested awards.

Remuneration Element	Good Leaver Reason	Other Leaver Reason
Co-investment Plan*	Unvested awards will normally vest at the normal vesting date and remain subject to performance. Awards will be pro-rated for time unless the Committee decides otherwise. Awards will normally remain subject to the applicable holding period. The Committee may determine that awards should vest at cessation of employment taking into account the extent to which performance targets have been met and unless the Committee decides otherwise the period of time elapsed since award. Where a participant ceases employment during any holding period (other than for reason of gross misconduct) they will continue to retain their award in full and it will be released at the end of the holding period unless the Committee determines that the award should be released at the time of cessation. For awards in the form of options participants will have six months from vesting to exercise their award.	Unvested awards lapse at cessation of employment.

* Leaver vesting provisions are fully defined in the appropriate plan documents.

The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment. In addition, the Company may pay any fees for outplacement assistance and/or the Director's legal or professional advice fees in connection with his cessation of office or employment. Where a Director was required to relocate to take up their role then reasonable repatriation expenses may be included.

Post-employment shareholding

The Company has introduced a policy to support alignment with shareholder interests following an Executive Director stepping down from the Board. Executive Directors that step down from the Board following the adoption of this Policy will be expected to maintain a minimum shareholding of 1 x base salary (or actual shareholding if lower) for a period of two years following stepping down from the Board.

Non-executive Directors

The chairman and non-executive directors' appointment letters provide for no compensation or other benefits on their ceasing to be director.

Change of control

In the event of a takeover or winding up of the Company, share awards may vest early. For the PSP and the Co-Investment Plan the Committee will determine the extent to which awards shall vest taking into account the extent to which the performance conditions have been satisfied and unless the Committee determines otherwise, the proportion of the performance period that has elapsed. Deferred share awards will normally vest in full. In the case of a winding-up, demerger, delisting, special dividend or similar circumstances, awards may, at the Committee's discretion, vest early on the same basis as for a takeover.

Considering colleague views

The Committee reviews information regarding the typical remuneration structure and reward levels for other UK-based employees to provide context when determining executive remuneration policy.

The Company undertakes engagement surveys for all Group colleagues to understand their views on working for Travis Perkins and how this can be improved. Feedback on employee reward is provided as part of this survey. The Company established a Colleague Voice Panel in 2019 which includes within its terms of reference the aim of listening to colleague's views when developing the Directors' Remuneration Policy. Pete Redfern, the panel Chairman, plans further colleague listening groups in 2020 and all relevant views will be incorporated into the 2020 Review. A significant portion of colleagues are shareholders meaning that they are also able to express their views in the same way as other shareholders.

Considering shareholder views

The Committee believes that it is very important to maintain open dialogue with shareholders on remuneration matters. The Committee regularly consults with significant shareholders regarding our approach to executive remuneration and the views of shareholders are important in determining any final changes. The Committee engaged with shareholders regarding the changes proposed to the Policy and were pleased with the level of support received. We will be engaging with shareholders during 2020 following our detailed review of the Directors' Remuneration Policy. The Committee intends to continue to engage with shareholders regarding any material changes to remuneration arrangements.

Annual remuneration report

The following sets out the Group's Annual Remuneration Report for 2019 which includes details of how its Policy was implemented in 2019 and how it intends to implement its Policy in 2020. This report is subject to an advisory shareholder vote at the 2020 AGM.

Statement of implementation of the Remuneration Policy in 2020
Executive Directors:
The following provides a summary of the Group's remuneration policy and how the Group intends to implement the Policy during 2020.

Plan	Individual maximum opportunity in 2020	Measures and weighting	Operation
Base salary	CEO – £636,300 (2019: £630,000) CFO – £517,650 (2019: £510,000)	n/a	With effect from 1 January 2020 the Remuneration Committee agreed that Alan Williams' salary would be increased by 1.5% in line with the general increase applied across the Group. Nick Roberts' salary was increased by 1% reflecting the fact that he joined mid-way through 2019.
Benefits	n/a	n/a	Directors continue to be entitled to benefits in-line with policy, including private medical insurance, income protection, annual leave, Company car (or cash alternative), life insurance of up to five times salary and participation in all-employee share plans operated such as Sharesave ("SAYE") and BAYE.
Pension	CEO 10% of salary in-line with the rate available across the wider workforce CFO pension allowance is £103,530 per annum.	n/a	Directors participate in a defined contribution arrangement or receive a cash allowance. Taking into account the evolving views of our shareholders in this area the Committee agreed with the CFO that his pension will be reduced to 20% of salary from 1 January 2020. This monetary amount has been frozen at this fixed level so that it does not attract future salary increases. The Committee believes that this change is the most appropriate action for Travis Perkins at this point in time. In making this decision the Committee took into consideration the views of our shareholders as well as the existing contractual commitments. A 20% pension contribution level is consistent with a number of other key managers across the Group. The Committee intends to continue to monitor market practice and keep the pension provision for the CFO under review.
Annual Bonus	Maximum annual bonus opportunity: CEO – 180% of salary CFO – 150% of salary	The 2020 bonus will be based on the following measures (these are unchanged from 2018): • Adjusted operating profit: 60% • ROCE: 20% • Business strategy: 20%	Targets are determined in relation to the Group's budget. Threshold payment is made for performance at 95% of the Group's budget, with maximum payments only being made for performance well in excess of the Group's budget. Performance below threshold results in zero bonus. For 2020 the strategic tracker includes measures related to Group simplification, business strategy and safety and people-related objectives 50% of bonus earned is deferred as shares for three years. Malus and clawback provisions apply.

Plan	Individual maximum opportunity in 2020	Measures and weighting	Operation
Performance Share Plan	Maximum annual award of 150% of base salary	The 2020 PSP award will be based on the following measures (these are unchanged from 2019): • Adjusted EPS growth 40% • Aggregate cash flow 40% • Relative TSR 20%	Awards are subject to performance over a three-year performance period. Awards that vest are subject to a further two-year holding period. Performance below threshold results in zero vesting. From the threshold level the amount of the award vesting rises from 25% to 100% of maximum opportunity for levels of performance between threshold and maximum. 2020 awards will be subject to the following performance conditions and targets: Adjusted EPS – threshold target of 3% p.a. growth over three years with full vesting at 10% pa growth. The aggregate cash flow range is £770m to £850m Relative TSR – relative position in FTSE 50–150 • Threshold is median relative position • Maximum is upper quartile relative position The Company is planning on demerging the Wickes business in Q2 2020. These targets have therefore been set on the basis that Wickes will no longer be part of the Group. Malus and clawback provisions apply.
Co-Investment plan	Participants may invest up to 50% of their net salary Maximum matching awards of twice the gross salary equivalent of the amount invested (ie 100% of gross salary)	The 2020 Co-investment matching award will be based on: • Cash return on capital employed ("CROCE")	Awards are subject to performance over a three-year performance period. Matching awards granted in 2020 onwards that vest are subject to a further two-year holding period. Performance below threshold results in zero vesting. From the threshold level the amount of the award vesting rises from 25% to 100% of maximum opportunity for levels of performance between threshold and maximum. 2020 awards will be subject to: • CROCE target performance range 8.9% to 9.9%. The Company is planning on demerging the Wickes business in Q2 2020. These targets have therefore been set on the basis that Wickes will no longer be part of the Group. Malus and clawback provisions apply.

Shareholding guidelines including post-employment apply to Executive Directors as set out on pages 89 and 90.

The Company operates different performance measures for the PSP and the CIP as it considers it important that the incentives drive performance in different areas. This has been the case since the CIP was introduced and is well understood by management.

Bonus targets are considered to be commercially sensitive, and disclosure of such may provide an unfair advantage to the Company's competitors. However targets, and the corresponding level of bonus earned, will be disclosed retrospectively, in the relevant reporting period.

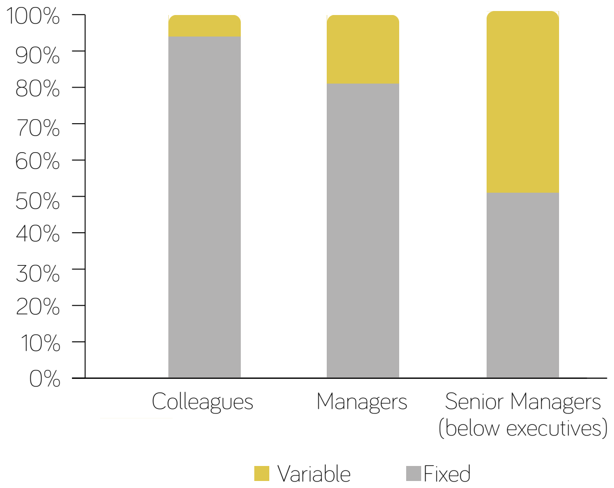
Annual remuneration report continued

Non-Executive Directors:

Fees and Benefits	• Non-executive Director fees policy is to pay:
	  • A basic fee for membership of the Board
	  • An additional fee for the Chairman of a Committee and the Senior Independent Director to take into account the additional responsibilities and time commitment of the role
	• The Non-executive Chairman receives an all-inclusive fee for the role. The Group also pays part of the employment costs of the Chairman's assistant.
	• A minimum of 25% of Non-executive Director and Chairman fees is paid in shares. Non-executive Directors do not receive any other benefits (other than a staff discount card for purchasing products) and are not eligible to join a Company pension scheme.
	• The review date for Non-executive Directors' fees has been changed to 1 July. Therefore there are no changes with effect from 1 January 2020
	  • Chairman – Upon appointment on 7 November 2017 it was agreed that the Chairman's fee will be fixed at £320,000 for a period of three years. His fee will next be reviewed with effect from 1 January 2021
	  • Non-executive basic fee – £57,511
	  • Chairman of Audit and Remuneration Committees – £17,000
	  • Senior Independent Director – £12,500
	  • Chairman of Health & Safety Committee – £10,000

Remuneration elsewhere in the Group

The Committee takes into account remuneration packages available to all colleagues when considering executive pay. As with many companies, executives and senior management participate in a wider range of incentives than the majority of colleagues. The Group believes that it is necessary to operate on this basis to attract and retain high-quality managers, but ensures that a significantly higher proportion of reward for this group of colleagues is driven by variable incentive outcomes as illustrated in the chart below.



The Group's employee value proposition is underpinned by our colleague reward and benefits' provision which in turn is strongly influenced by our Cornerstones.

Fairness underpins our salary positioning. All employee pay is generally reviewed as part of the annual salary review which takes into account individual contribution and salary position and is funded by a budget based on macro-economic factors, market analysis/outlook and affordability. All colleagues are able to earn a bonus. Within the context of "making decent returns" this allows the company to create value for colleagues as well as other stakeholders. Bonuses at all levels are typically underpinned by profit performance. We always seek to maintain a "line of sight" for colleagues to their bonus opportunity even where this is indirect. This helps optimise the bonus process as a means of communicating strategic priorities and focus.

The Company operates a broad range of employee benefits through its MyPerks benefits platform. All colleagues are provided with life cover and pension, and our focus for a number of years has been around more inclusive aspects of the benefit portfolio, particularly in relation to employee welfare. Our financial well being programme is well established and includes education and guidance as well as practical support such as savings and discounts on non-discretionary spend areas (for example groceries), affordable loans, easy access to savings vehicles (retirement, sharesave, ISAs etc) and more specific and individual employee support through our employee assistance programme. In 2019 we relaunched our Health and Well being hub which includes support, guidance and products related to emotional, mental and physical well being. Our approach here is strongly led by the "keeping people safe" cornerstone.

We regularly benchmark our colleague proposition. We aim to "be the best" in our benefits offering and have won numerous awards over the past few years for our benefit product launches and innovations. We seek out new partners and work with them to develop new offerings. Most recently this has been the deployment of "MySparx" which allows automated, segregated employee communications sending targeted and appropriate communications to the right colleagues and/or managers at the right time.

Audited information

Single total figure of remuneration

	2019							2018						
£000	**Salary**	**Benefits**	**Bonus**	**LTI[4]**	**Pension**	**Buy-out[5]**	**Total**	Salary	Benefits	Bonus	LTI[6]	Pension	Buy-out[7]	Total
Executive Directors														
Nick Roberts[1]	**315**	**13**	**503**	**–**	**32**	**560**	**1,423**	–	–	–	–	–	–	–
John Carter[2]	**420**	**28**	**655**	**695**	**105**	**–**	**1,903**	690	49	435	911	173	–	2,258
Tony Buffin[3]	**87**	**4**	**–**	**730**	**22**	**–**	**843**	533	35	280	705	133	–	1,686
Alan Williams	**510**	**21**	**678**	**913**	**128**	**–**	**2,250**	500	19	263	-	125	370	1,277
Non-Executive Directors														
Ruth Anderson	**75**	**–**	**–**	**–**	**–**	**–**	**75**	75	–	–	–	–	–	75
Stuart Chambers	**320**	**–**	**–**	**–**	**–**	**–**	**320**	320	–	–	–	–	–	320
Coline McConville	**75**	**–**	**–**	**–**	**–**	**–**	**75**	75	–	–	–	–	–	75
Pete Redfern	**68**	**–**	**–**	**–**	**–**	**–**	**68**	68	–	–	–	–	–	68
Chris Rogers[8]	**70**	**–**	**–**	**–**	**–**	**–**	**70**	70	–	–	–	–	–	70
John Rogers	**58**	**–**	**–**	**–**	**–**	**–**	**58**	58	–	–	–	–	–	58
Marianne Culver[9]	**10**	**–**	**–**	**–**	**–**	**–**	**10**	–	–	–	–	–	–	–
Blair Illingworth[9]	**10**	**–**	**–**	**–**	**–**	**–**	**10**	–	–	–	–	–	–	–
Total	**2,018**	**66**	**1,836**	**2,338**	**287**	**560**	**7,105**	2,389	103	978	1,616	431	370	5,887

Notes:

1. Nick Roberts was appointed as a Director of Travis Perkins and CEO designate on 1 July 2019 and appointed CEO on 5 August 2019.
2. John Carter stepped down as CEO and from the Travis Perkins' Board on 5 August 2019. He received a total bonus of £1,123,267. Reported above is the pro-rata amount reflecting the period up to 5 August. Similarly the total value of his vesting LTIP award was £1,191,353; reported above is the pro-rata amount reflecting the period up to 5 August
3. Tony Buffin stepped down from the Board and left the business on 26 February 2019. He was not eligible to receive an annual bonus for 2019.
4. LTI reported for 2019 for John Carter, Tony Buffin and Alan Williams include LTI awards vesting in March 2020. The value of these awards has been calculated based on the average share price for the last quarter of 2019 of £14.82. LTI awards for Tony Buffin have been pro-rated based on his time in employment during the performance period and period of gardening leave until finding new employment. For co-investment plan awards, the share price on the date of grant of 30 March 2017 was £15.18.. For performance share plan awards, the share price on the date of grant of 15 March 2017 was £14.88. The share price used to value the LTIP for single figure purposes of £14.82 represents no increase and the proportion of the 2017 LTIP value disclosed in the single figure attributable to share price growth was therefore nil. No discretion has been exercised in respect of share price appreciation.
5. Nick Roberts has been granted "buy-out" awards to compensate him for awards he forfeited on leaving his former employer. Such buy-out awards were determined on a like-for-like basis with the incentives he forfeited. Further details are provided on page 109. As part of his buy-out Nick received the following awards which have been included in the single figure for 2019 (1) a cash payment of £210,000 paid on joining to compensate him for a retention award he forfeited (2) a cash award of £175,000 and a share award of £175,000 which vest 28% in July 2020 and 72% in July 2021. These awards are not subject to any further performance conditions and reflect the terms of the original awards and therefore have been disclosed in the single figure on grant.
6. LTI reported for 2018 for John Carter (£686k) and Tony Buffin (£531k) and the PSP element of buyout awards reported for 2018 for Alan Williams (£272k) were calculated on an estimated basis using the average share price of the final quarter of 2018 of £10.60. They are restated here to reflect the actual share prices on vesting (PSP £14.55, Co-investment Plan £13.79 and Buyout PSP awards £14.405) giving revised figures of £911k, £705k and £370k for John Carter, Tony Buffin and Alan Williams respectively. For co-investment plan awards, the share price on the date of grant was £18.34. For performance share plan awards, the share price on the date of grant was £18.49. For buyout awards, the share price on the date of grant was £14.41. The share price used to value the co-investment plan awards and PSP awards for single figure purpose represents no increase and the proportion of the 2017 LTIP value for John Carter and Tony Buffin disclosed in the single figure attributable to share price growth on these awards was therefore nil. The share price used to value the buyout awards for single figure purposes represents an increase of 0.3% and the proportion of Alan Williams' 2017 LTIP value disclosed in the single figure attributable to share price growth was therefore 0.3%. The Remuneration Committee did not exercise discretion in respect of the share price appreciation.
7. On appointment Alan Williams was made awards to buy-out remuneration forfeited on leaving his previous employer. Further details were provided in last year's report.
8. In December Chris Rogers received a payment of £40,000 in respect of services provided in relation to the demerger of the Wickes business.
9. Marianne Culver and Blair Illingworth were appointed to the Board on 1 November 2019

Annual remuneration report continued

Explaining the single figure table

Benefits

Benefits for 2019 for Nick Roberts, John Carter, Tony Buffin and Alan Williams include private medical insurance and the provision of a Company car and fuel (or allowance alternative).

Annual bonus for 2019

The tables below provide a summary of the performance achieved under the annual bonus for 2019:

Director	Maximum Bonus Opportunity	Actual Bonus (% of salary)	Actual Bonus
Nick Roberts*	180%	79.8%	£502,646
John Carter*	180%	58.3%	£655,239
Alan Williams	150%	133.0%	£678,198

* Stated figures are pro-rata based on date of commencement or date stepped down from the board.

All bonus earned in respect of 2019 performance is included in the annual bonus column in the single figure table. Half of the bonus earned is deferred as shares for three years.

Bonus earned is based upon achievement of the following Group financial targets:

		Targets				
Performance measure	Weighting	Threshold (0%)	Plan (50% bonus)	Maximum (100% bonus)	Actual performance	Pay-out (as a % of maximum)
Adjusted operating profit	60%	£413m	£423m	£443m	£442m	98%
ROCE	20%	9.2%	9.6%	10.0%	10.1%	100%
Business Strategy	20%		The Committee assessed performance against a number of strategic targets which were set at the start of the year. A summary of performance is provided on the following page 34 to 39.			50%

Measure	Summary of performance	Committee's assessment
Stay safe	Good improvement in accident frequency and severity rates	Achieved
Colleague engagement	Strong improvement in colleague engagements' scores	Comprehensively achieved
Simplification of the Group	Clearly defined strategy, good progress on Group restructuring, good progress on cost reduction measures	Comprehensively achieved
IT strategy	Reset of core systems project; some progress in architecture modernisation	Limited achievement

Long-Term Incentive Plans ("LTIP")

The long-term incentive figure in the single figure is made up of the following plans:

	Performance Share Plan	Co-Investment Plan	Total
John Carter	£493,964 (33,330 shares including 3,108 dividend equivalents added in the vesting period)	£697,389 (47,056 shares including 4,413 dividend equivalents added in the vesting period)	£1,191,353
Alan Williams	£377,742 (25,488 shares including 2,303 dividend equivalents added in the vesting period)	£534,972 (36,097 shares including 3,385 dividend equivalents added in the vesting period)	£912,714
Tony Buffin	£302,232 (20,393 shares including 1,984 dividend equivalents added in the vesting period)	£427,924 (28,874 shares including 2,906 dividend equivalents added in the vesting period)	£730,157

The value of shares vesting has been calculated with reference to the average price over the last quarter of 2019 of £14.82.

Performance Share Plan

The following table sets out the performance targets, achievements and vesting levels for the Performance Share Award granted in 2017 and vesting in 2020 in respect of performance period ending on 31 December 2019:

Measure	Weighting	Threshold	Maximum	Actual	Vesting
Adjusted EPS Growth	40%	3% pa	10% pa	6%	0%
Relative TSR	20%	Median	Upper quartile	51st percentile	6%
Aggregate Cash Flow	40%	£866m	£958m	£1,068m	40%
Total vesting					46%

Relative total shareholder return performance was measured against companies ranked 50–150 in the FTSE index on the date of award.

Co-Investment Plan

The following table sets out the performance targets, achievements and vesting levels for the matching awards granted in 2017 and vesting in 2020 in respect of performance period ending on 31 December 2019:

Measure	Weighting	Threshold	Maximum	Actual	Vesting
Cash Return on Capital Employed (three-year average)	100%	8.4%	9.4%	10.5%	100%
Total vesting					100%

When considering the level of annual bonus payout and long-term incentive vesting, the Committee also considered the underlying performance of the Group over the performance period, taking into account performance against key financial and non-financial indicators as well as the share price performance and the experience of shareholders and other stakeholders. The Committee also considered whether there had been a significant negative event (such as an ESG event) which would warrant an adjustment. The Committee concluded the proposed pay-out outcomes detailed above to be appropriate.

Overall, the Committee considers that the Remuneration Policy has operated as it intended during 2019.

Directors' pension entitlements

In lieu of pension contribution, a gross cash allowance of 25% of salary was paid to John Carter and Alan Williams. Tony Buffin received 25% of salary paid as a mix of pension contributions to the DC scheme and a cash allowance. Nick Roberts receives 10% of salary paid as a mix of pension contributions to the DC scheme and a cash allowance. From 1 January 2020, Alan Williams' pension provision will be fixed at £103,530.

	Nick Roberts £000	John Carter £000	Alan Williams £000	Tony Buffin £000
Pension value in the year from company contributions to DC scheme	5,000	n/a	n/a	1,607
Pension value in year from cash allowance (Salary Supplement in place of Employer pension contributions)	26,500	105,022	127,500	20,248
Total pension benefit accrued in 2019	31,500	105,022	127,500	21,855

Share interests awarded during the financial year
Performance Share Plan

	Date of Award	Type of Award	Basis	% Vesting at Lower Target	Face Value*	Performance Period
Nick Roberts**	14 August 2019	Performance Shares – nil cost option	150% of Salary	25%	£944,997 (78,423 shares at £12.05/share)	1 January 2019 to 31 December 2021
Alan Williams	12 March 2019				£764,997 (53,911 shares at £14.19/share)	Awards are subject to an additional two-year holding period post vesting

* Awards are increased at each dividend payment date to reflect the dividends that would have been paid on vested shares between grant and vesting.

** On the same date, Nick Roberts was also awarded 2,489 market value options under the HMRC tax-advantaged CSOP element of the PSP with a face value of £30,000 and an exercise price of £12.05 (the market value on the day prior to the award). This award is subject to the same performance conditions as the PSP award. If the options vest they are exercisable until the tenth anniversary of grant.

Performance Share Plan awards are subject to the following performance measures:

Measure	Weighting	Target range	Vesting range
Adjusted EPS growth	40%	Lower target – 3% pa over the vesting period Maximum target – 10% pa over the vesting period	No vesting below lower target Lower target – 25% vests Maximum target – 100% vests Pro-rata vesting between these points
Aggregate cash flow over the performance period	40%	Lower target £1,100m Maximum target £1,200m	
Company TSR relative to FTSE 50–150 Index	20%	Lower target – median performance (top 50%) Maximum target – upper quartile performance (top 25%)	

Co-Investment Plan

	Date of award	Type of award	Basis	% vesting at lower target	Face value*	Performance period
Nick Roberts	14 August 2019	Matching Shares – nil cost option	up to 2:1 matching of shares purchased	25%	£541,619 (44,985 shares at £12.04/share)	1 January 2019 to 31 December 2021 Awards are subject to an additional two-year holding period post vesting
Alan Williams	1 April 2019				£506,599 (36,978 shares at £13.70/share)	

* Awards are increased at each dividend payment date to reflect the dividends that would have been paid on vested shares between grant and vesting.

Co-Investment Plan matching awards are subject to the following performance measure:

Measure	Weighting	Target detail	Matching range
Cash Return on Capital Employed ("CROCE")	100%	Lower target 8.3% Maximum target 9.3%	0.5:1 matching at lower target 2:1 matching at maximum target Pro-rata matching between these points

The Committee is currently reviewing the targets for 2018 and 2019 PSP and CIP matching awards in light of the introducing of IFRS 16 and the demerger of Wickes. The adjusted targets will be disclosed in due course. The guiding principle for any adjustment is that the revised targets should be no easier or more challenging than the previous targets set.

Deferred Share Bonus Plan

Shares awarded during 2019

Half of the bonus earned in respect of 2018 performance was awarded as deferred shares as follows:

	Date of award	Face value	Number of shares**	Share price *
John Carter	12 March 2019	£217,382	20,128	£10.80
Tony Buffin		£139,979	12,961	£10.80
Alan Williams		£131,242	12,152	£10.80

* The share price used to calculate the number of shares awarded was the last 30 days of the Company's 2018 financial year.

** Shares vest three years from the date of award. Awards are increased at each dividend payment date to reflect the dividends that would have been paid on vested shares between grant and vesting.

Half of the bonuses earned in 2019 will be issued as deferred shares as follows:

	Type of award	Basis	Face value
Nick Roberts	Shares	50% of 2019 bonus	£251,323
John Carter			£327,620
Alan Williams			£339,099

Shares vest three years from the date of award.

Buyout arrangements for Nick Roberts

Nick Roberts joined the Board on 1 July 2019 and became CEO on 5 August 2019. On leaving his former employer Nick forfeited outstanding incentives. The Committee carefully considered whether it was appropriate to provide compensation for these forfeited awards and determined that this was a fair and reasonable approach. The "buy-out" awards made are summarised below. The value and terms of these awards were on a like-for-like basis with awards forfeited.

- On appointment Nick received a gross cash award of £210,000. This was to compensate for the forfeiture of a retention award granted to him by his previous employer. The forfeited award was in cash and not subject to any performance conditions. This award is reported in the single figure table for 2019.
- To replace forfeited unconditional cash-settled awarrds, Nick was granted on appointment a cash award of £175,000 and a share award with a value of £175,000. The first £49,000 of each award will vest on 30 August 2020 with the balance of each award vesting on 30 August 2021. These vesting dates reflect the original vesting dates of the forfeited awards. These awards are not subject to performance (as the forfeited awards they are in compensation for did not have performance conditions) but are subject to continued employment (and not being under notice) at the dates of vesting. These are awards reported in the single figure table for 2019.
- On leaving his former employer Nick forfeited 2017 and 2018 awards which were due to vest in December 2019 and December 2020 subject to performance. To replace these forfeited conditional LTIP awards Nick was granted an award with a value of £476,000 under the Performance Share Plan on 14 August 2019. This award vests after three years and is subject to the standard PSP performance measures (Aggregate cash, EPS growth and TSR) and rules which applied to all PSP awards made in 2019 to the senior management team earlier in the year. The Committee considered that it was appropriate to link this buy-out award to Travis Perkins' performance to ensure Nick Roberts is incentivised to deliver value for our shareholders. The value of the forfeited awards were the same as the buy-out award. The forfeited awards were due to vest earlier than the vesting date of the compensatory award. These awards will be reported in the single figure table for 2021.
- On tendering his resignation at his former employer Nick forfeited his right to receive incentive awards in respect of 2019. The Committee therefore considered that it was appropriate to granted him a PSP and CIP matching award under the 2019 Travis Perkins plans to compensate him for the fact that he did not receive full-year incentives at his former employer.

The following details the share awards granted to Nick Roberts in connection with his buy-out during the year:

	Date of award	Type of award	% vesting at lower target	Face value	Performance period
Nick Roberts	14 August 2019	Performance Shares – nil cost option	25%	£476,000 (39,502 shares at £12.05/share)	1 January 2019 to 31 December 2021 Subject to the same performance conditions as outlined above for 2019 awards
	14 August 2019	Buy-out award nil cost option	n/a	£175,000 (14,522 shares at £12.05/share)	No performance conditions 4,066 shares vesting on 30 August 2020 and 10,456 shares vesting on 30 August 2021 subject to continued employment

Remuneration arrangements for leaving Directors – in line with policy

John Carter stepped down as CEO and from the Board on 5 August 2019. He remained with the business until the end of 2019 to support transition. He continued to receive his salary, benefits and pension for this period. He did not receive a payment in lieu of notice. As he remained employed and working, he was eligible for a bonus for the period to 31 December 2019 on the same terms as normal. John was treated as a good leaver for incentive purposes. He continues to be eligible to receive deferred bonus shares awarded in 2018, 2019 and 2020 which vest at the normal time.

He also continues to be eligible to receive his 2018 PSP and CIP matching share awards. These awards have been pro-rated for time and remain subject to performance with vesting at the normal date. The PSP awards continued to be subject to holding periods. He did not receive PSP or CIP awards in 2019.

Tony Buffin stepped down from the Board on 26 February 2019 by reason of redundancy. As disclosed in the RNS announcing his departure, Tony continued to be paid salary and contractual benefits (including pension contributions / allowance) until 12 May 2019 when payments ceased upon him taking up alternative employment.

Tony was treated as good leaver for incentive purposes. He continues to be eligible to receive deferred bonus shares awarded in 2017, 2018 and 2019 which vest at the normal time. He also continues to be eligible to receive his 2017 and 2018 PSP and CIP matching share awards. These awards are pro-rated for time, subject to performance and vesting at the normal date. The PSP awards continued to be subject to holding periods. He did not receive PSP or CIP awards in respect of 2019 but retained his all employee share awards. A fee of £3,250 (excluding VAT) was paid directly to third-party service providers in respect of legal services. Tony also received a statutory redundancy payment and £100 in consideration for enhanced post-employment undertakings.

Annual remuneration report continued

Director's shareholding and share interests – Executive Directors

Formal shareholding requirements (not voluntary guidelines) apply to Executive Directors and senior executives. The Committee may decide to scale back or withhold participation in long-term incentives if the requirements are not met or maintained. Executive Directors are required to hold shares valued at two times annual salary within five years of appointment. As at 31 December 2019 Nick Roberts' shareholding was 0.3 times salary and Alan Williams' was 4.6 times salary based on the average share price for the last quarter of 2019 (£14.82). At the point of stepping down from the Board, the shareholdings of John Carter and Tony Buffin were 8.2 times and 4.0 times salary respectively.

Directors' shareholdings and share interests as at 31 December 2019 (or date of departure from Board if earlier):

Executive Director	Beneficial Owner	Conditional Shares Granted Under LTI Plans1	Unconditional Shares Granted Under LTI Plans2	Unvested Options Subject to Performance Conditions3	Vested but Unexercised Options	Total Interests	Interests Qualifying Towards Shareholder Requirement4
Nick Roberts	12,524	164,230	14,522	2,489	–	193,765	12,524
Alan Williams	157,698	288,435	33,049	2,016	–	481,198	157,698
John Carter[5]	391,039	268,149	62,721	1,034	321	723,264	391,209
Tony Buffin[5]	147,580	279,062	28,532	2,016	1,573	458,763	148,413

1. Includes unapproved Performance Share Plan awards, Co-Investment Plan awards and buyout awards which are subject to performance conditions.
2. Includes awards made under Deferred Share Bonus Plan (which are not subject to further performance conditions), Sharesave and buyout awards not subject to performance conditions.
3. Market value options awarded under the HMRC tax-advantaged CSOP element of the PSP. These awards are subject to the same performance conditions as the corresponding PSP award.
4. Interests qualifying towards shareholding requirement comprise ordinary shares beneficially held at 31 December 2019 by the executive and their spouse/partner, vested but unexercised SAYE options and the post tax value (53%) of any share options or awards which have vested but have not been exercised.
5. John Carter stepped down from the Board on 5 August 2019 and Tony Buffin stepped down from the Board on 26 February 2019 and their share interests are shown as at these dates.

There were no changes in Executive Directors' share ownership between 31 December 2019 and 25 February 2020.

During 2019 the following awards were exercised:

John Carter	Exercise Date	Number of Shares	Price per Share
Performance Share Plan	4 March 2019	24,298	£14.57
Deferred Share Bonus Plan	4 March 2019	2,441	£14.57
Co-Investment Plan	1 April 2019	40,547	£13.75
Sharesave	4 March 2019	1,177	£12.74

Awards exercised up to 5 August 2019, the date on which John Carter stepped down from the Board.

Alan Williams	Exercise Date	Number of Shares	Price per Share
Buyout award	18 March 2019	25,657	£14.38

Nick Roberts did not exercise any awards during the year.
Tony Buffin had not exercised any awards on the date he stepped down from the Board.

Director's shareholding and share interests – Non Executive Directors

Non-Executive Director	Beneficial Shareholding (as at 31 December 2019)	Beneficial Shareholding (as at 25 February 2020)
Ruth Anderson	5,288	5,404
Stuart Chambers	6,991	7,431
Marianne Culver	58	124
Blair Illingworth	58	124
Coline McConville	3,312	3,424
Pete Redfern	10,160	10,245
Christopher Rogers	8,416	8,525
John Rogers	2,619	2,691

A minimum of 25% of Non-executive Director fees is paid in shares. Between 31 December 2019 and 27 February 2020 Non-executive Directors' share ownership increased due to the payment of a portion of their fees in shares.

Unaudited information

Service contracts

Each of the Executive Directors has a service contract, which will be available for inspection at the Annual General Meeting or at the Company's registered office. These contracts provide for six months notice from the Directors and 12 months notice from the Company. They do not specify any particular level of compensation in the event of termination or change of control. Details of the Group's policy on payments in respect of loss of office are provided in the Group's Directors' Remuneration Policy.

The dates Executive Directors service contracts were entered into are as follows:

- Nick Roberts – 1 July 2019
- Alan Williams – 3 January 2017

Non-executive Directors do not have a service contract, but each has received a letter of appointment which will be available for inspection at the Annual General Meeting or at the Company's registered office. These appointments expire on the following dates:

Director	Expiry of Appointment Letter
Ruth Anderson	2021 AGM
Coline McConville	2021 AGM
Pete Redfern	2021 AGM
Christopher Rogers	2020 AGM
John Rogers	2021 AGM
Stuart Chambers	2021 AGM

In accordance with best practice, the Non-executive Directors stand for re-election annually. Ruth Anderson and Christopher Rogers will not seek re-election at the 2020 AGM.

No compensation is payable on termination of the employment of Non-executive Directors, which may be with or without notice.

Outside appointments

Travis Perkins recognises that its Executive directors may be invited to become Non-executive Directors of other companies. Such Non-executive duties can broaden a Director's experience and knowledge which can benefit Travis Perkins.

Subject to approval by the Board, Executive Directors are allowed to accept one Non-executive Directorship or other significant appointment, provided that these appointments will not lead to conflicts of interest, and they may retain the fees received. Nick Roberts holds a pre-existing appointment as Director and Trustee of the Forces in Mind Trust. Nick receives no fee for this appointment. Alan Williams held no external appointments during 2019.

Funding of equity awards

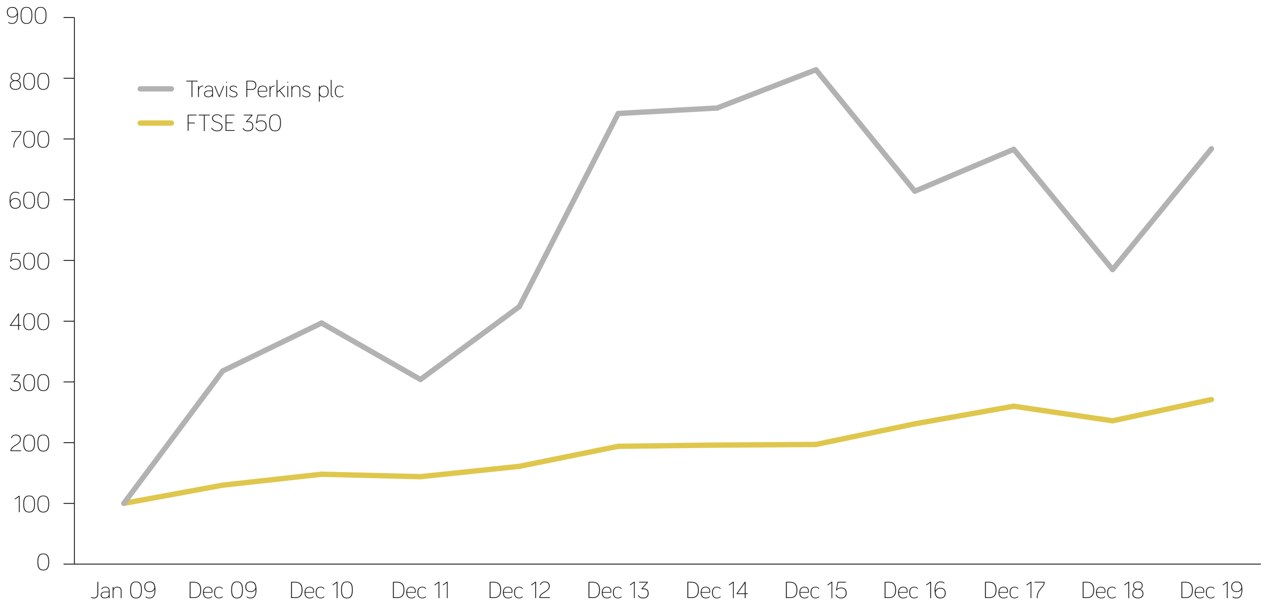
Both executive incentive arrangements and entitlements under the HMRC-approved all-colleague Sharesave scheme are satisfied by shares purchased in the market. Shares purchased in the market are held by a trust and the voting rights relating to the shares are exercisable by the Trustees in accordance with their fiduciary duties. At 31 December 2019 the Trust held 3,657,667 shares.

Annual remuneration report continued

Performance graph and table

For comparative purposes the FTSE 350 index has been selected as this is the index of which the Company was a member during the reporting year.

Total shareholder return



TSR is rebased to 100 from 1 January 2009

Historic CEO pay

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Single Figure Remuneration (£000)	1,423	1,938	3,506	2,044	2,634	2,360	2,575	2,532	2,258	2,622
Annual bonus payout (% of maximum)	100%	76%	27%	63%	89%	32%	24%	72%	35%	89%
Vesting of Share Options (% of maximum)	–	–	–	–	–	–	–	–	–	–
Vesting of Performance Share Plan (% of maximum)	0%	0%	80%	37%	45%	97%	54%	40%	40%	46%
Vesting of Co-Investment Plan (% of maximum)	0%	51%	100%	0%	0%	44%	97%	100%	100%	100%

Data for 2019 relates to both Nick Roberts and John Carter, reflecting their tenure in the role of CEO during 2019. 2014–2018 relates to John Carter. Earlier data relates to the previous CEO, Geoff Cooper.

CEO to all colleague pay ratio

The following table provides pay ratio data in respect of the CEO's total remuneration compared to the 25th, median and 75th percentile colleague.

Financial Year	Method	25th Percentile Pay Ratio	Median Pay Ratio	75th Percentile Pay Ratio
2019	Option A	133	109	81

The colleagues used for the purposes of the table above were identified on a full-time equivalent basis as at 31 December 2019. Option A was chosen as it is considered to be the most accurate way of identifying the relevant colleagues.

Employee Pay includes salary, allowances, overtime, bonus, commission, benefits and share plan proceeds. For the purpose of the calculation, employee pay has been standardised to the equivalent of a 40 hour working week and where employees have started mid-period the employees' pay has been restated on a full year basis to ensure a like-for like comparison.

The following table provides salary and total remuneration information in respect of the colleagues at each quartile.

Financial Year	Element of Pay	25th Percentile Colleague	Median Colleague	75th Percentile Colleague
2019	Salary	19,760	20,706	21,080
	Total remuneration	19,760	24,154	32,332

The Board have confirmed that the ratio is consistent with the Company's wider policies on colleague pay, reward and progression.

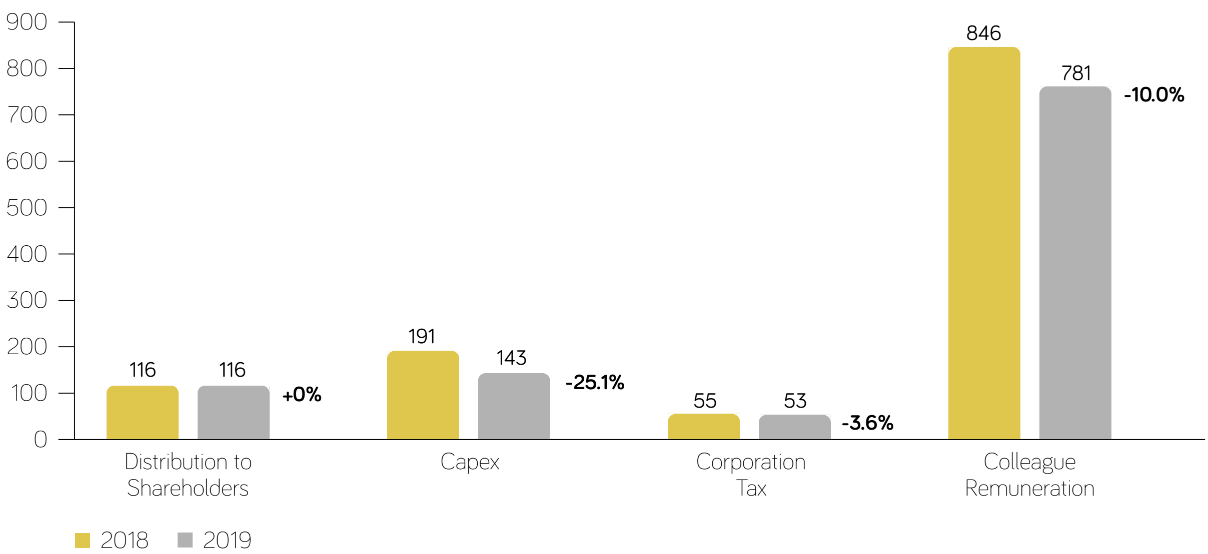
Change in remuneration of Director undertaking the role of CEO

	Percentage change in salary earned (2019 full year compared to 2018 full year)†	Percentage change in bonus opportunity earned (2019 full-year forecast compared to 2018 full year)	Percentage change in taxable benefits received (2018–19 tax year compared to 2017–18 tax year)‡
CEO	2%	53.7%	5.1%
Comparative Employee Group*	2%	14.5%	7.7%

* The comparator group is all colleagues within the merchanting businesses and central functions
† Based on annual salary increases applied from 1 January 2019
‡ Based on a match sample across the two periods

Relative importance of spend on pay

Capital expenditure is shown, for comparison, as an indicator of investment by the Company in future growth. It includes funds invested in the purchase of property, plant and equipment. Corporation tax is included as an indicator of wider societal contribution facilitated by the Company's operations and is the actual amount of corporation tax paid in the relevant reporting periods.



Annual remuneration report continued

Governance

During the year the Committee comprised Coline McConville (Chairman), Pete Redfern and Christopher Rogers, all of whom are independent Non-executive Directors, and Stuart Chambers, Chairman of the Board, who was independent on appointment.

Deloitte was appointed by the Committee in December 2015, following an interview process, to provide independent advice on executive remuneration.

Deloitte are founding members of the Remuneration Consultants Code of Conduct and adhere to this Code in its dealings with the Committee. The Committee is satisfied that the advice provided by Deloitte is objective and independent. The Committee is comfortable that the Deloitte engagement partner and team that provides remuneration advice to the Committee do not have connections with the Company that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Deloitte provided additional services to the Company in relation to remuneration including support in developing and implementing remuneration proposals, compensation benchmarking and other tax and consulting services mainly in the area of digital strategy, innovation, operating model design and change management.

Fees are charged on a time and materials' basis. During the year Deloitte was paid £52,300 for advice provided to the Committee. In addition John Carter (CEO to 5 August 2019), Nick Roberts (CEO from 5 August 2019), Alan Williams (CFO), Robin Miller (Company Secretary), Carol Kavanagh (Group Human Resources Director), Helen O'Keefe (Deputy Company Secretary), Jon Erb (Director of Group Finance) and Paul Nelson (Reward Director) have assisted the Committee in its work and attended Committee meetings where appropriate. No individual is involved in the setting of their own remuneration.

Responsibilities

The Remuneration Committee is responsible for developing and implementing the remuneration policy within the Company. It determines and agrees with the Board the policy for the remuneration and benefits of the Chairman of the Company, Executive Directors and executive committee members and other senior executives. The Committee also oversees the administration of the Company's share plans. The Committee's terms of reference are available on the Company website (www.travisperkinsplc.co.uk) or from the Company Secretary.

Key items discussed in 2019 meetings

In 2019 the Remuneration Committee formally met five times, with additional conference calls as required. The Committee discussed amongst others the following matters:

Month	Key Issues Considered
January	• 2019 incentive targets • Committee governance
February	• Review of 2018 performance against targets and determining annual and long-term incentive outcomes • Annual bonus and LTIP targets for 2019 • Directors' salary review 2019 • 2018 Directors' Remuneration Report • Committee governance
September	• Review of performance for 2018 • Annual bonus and LTI targets for 2019 • Committee governance • Corporate governance including the new UK Corporate Governance Code • Review Directors' Remuneration Policy for 2020
October	• Review Directors' Remuneration Policy for 2020 • Approach to shareholder consultation
December	• Salary review 2020 • Review of performance targets for 2019 annual bonus and the 2017 long-term incentive awards • Review Directors' Remuneration Policy for 2020 • Review of shareholder feedback • Review of the impact of the Wickes' transaction on incentive arrangements

Shareholder voting

The following resolutions in relation to remuneration were put by the Company's AGM (2018 Directors' Remuneration Report and 2017 Policy):

Resolution	Votes For	% for	Votes against	% against	Votes withheld
To receive and approve the Directors' Remuneration Report (2019 AGM)	195,676,339	97.09%	5,862,852	2.91%	725,902
To receive and approach the Directors' Remuneration Policy (2017 AGM)	183,055,598	96.97%	5,725,210	3.03%	51,858

The Director's Remuneration Report has been approved by the Board of Directors and is signed on its behalf by:

Coline McConville
Chairman of the Remuneration Committee
2 March 2020

Directors' Report
For the year ended 31 December 2019

The Directors present their Annual Report and audited accounts for the year ended 31 December 2019. The Corporate Governance Report on pages 75 to 79 forms part of the Directors' Report.

Business review
A review of the Group's position, developments, activities in the field of research and development and future prospects can be found in the Strategic Report on pages 34 to 39. Whilst the Group operates predominantly in the UK, it has a small number of branches in the Isle of Man and the Republic of Ireland and the recently acquired company Toolstation Europe has 66 branches in Belgium, France and Holland.

Information to be disclosed under LR 9.8.4R

Listing rule	Detail	Page Reference
9.8.4R (1–2)(5–11)(14)	Not applicable	
9.8.4R (4)	Long-term incentive schemes	90
9.8.4R(12)	Dividend waiver	170
9.8.4R (13)	Dividend waiver	170

Articles of Association
The Company's Articles of Association may only be amended by special resolution at a general meeting of the Shareholders. The Company has determined that all Directors should seek election or re-election at the Annual General Meeting. The Articles of Association of the Company further regulate the appointment and removal of Directors, in addition to the Companies Act 2006 and related legislation. The powers and responsibilities of the Directors are described in the Corporate Governance Report on pages 75 to 79.

Board of Directors
The names of the Directors at 31 December 2019 together with their biographical details are set out on pages 72 to 73. With the exception of Marianne Culver and Blair Illingworth who joined the Board on 1 November 2019 all Directors held office throughout the year.

The Executive Directors have rolling 12-month notice periods in their contracts. The Non-executive Directors do not have service contracts. In light of the outcome of the evaluation of the Board's effectiveness set out on page 78 and due to the skills and experience that each Director brings to their role, the Board concluded that each Director's contribution is and continues to be, important to the Company's long-term sustainable success.

Director's conflict of interest
During the year, no Director had any material interest in any contract of significance to the Group's business. The Company has undertaken to comply with best practice on approval of Directors' conflicts of interest in accordance with the Company's Articles of Association. These provisions have operated effectively. Under the Companies Act 2006 a Director must avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts or possibly may conflict with the Company's interests. The disclosable interests of Directors at 31 December 2019 including holdings, if any, of spouses and of children under the age of 18 are contained in the Directors' Remuneration Report on pages 88 to 91.

Directors' indemnities
Article 141 of the Company's Articles of Association permits the Company to indemnify any person who is or was a Director of the Company or of any associated company in respect of any liability incurred in relation to the affairs of the Company or any associated company to the extent the law allows (including in connection with any associated company's activities as trustee of an occupational pension scheme). The Company maintains Directors' and Officers' liability insurance which gives appropriate cover for legal action brought against its Directors. The Company has granted indemnities to its Directors and Directors of associated companies to the extent permitted by law and these remain in force in the year ended 31 December 2019.

Greenhouse gas emissions' reporting
Details of the Group's greenhouse gas emissions' reporting can be found in the Sustainability Report on pages 52 to 66.

Results and dividends
The Group results for the year ended 31 December 2019 and dividends for the year ending 31 December 2019 are set out in the income statement and note 21 respectively. The final dividend will be paid on 15 May 2020 to those shareholders on the register at the close of business on 2 April 2020.

Balance sheet and post balance sheet events
The balance sheet on page 132 shows the Group's financial position. No important events have occurred since the balance sheet date.

Principal risks and uncertainties
A review of the Group's principal risks and uncertainties is set out in the Strategic Report which can be found on pages 40 to 51.

Financial risk management
Details of the Group's approach to capital management and the alleviation of risk through the use of financial instruments are given in the Financial Review on pages 34 to 39. Specific quantitative information on borrowings and financial instruments is given in notes 22 to 28 on pages 171 to 172 and 175 to 179 of the financial statements.

Substantial shareholdings

As at 31 December 2019, the Company had been notified of the following interests amounting to 3% or more of the voting rights in the issued ordinary share capital of the Company:

		Number	%
BlackRock, Inc.	Indirect	Not disclosed	Less than 5%
Investec Asset Management	Indirect	12,741,837	5.05
Harris Associates L.P.	Indirect	12,398,948	4.92
OppenheimerFunds, Inc.	Indirect	12,381,080	4.91
Sanderson Asset Management LLP	Indirect	12,321,382	4.89
Sprucegrove Investment Management Ltd	Not disclosed	12,006,659	4.76

Between 31 December and 29 February 2020 no notifications were received by the Company:

Close Company status

The close Company provisions of the Income and Corporate Taxes Act 1988 do not apply to the Company.

Colleagues

Statements on colleague matters are contained in the Sustainability section of the Annual Report on pages 52 to 66.

Details of the number of colleagues and related costs can be found in note 34 to the financial statements.

The Company is committed to equality of opportunity and recognises the benefit of diversity within its workforce. Its approach to the matter of diversity is set out in the Nominations Committee report on pages 80 to 81 and in the Sustainability section of the Annual Report on pages 52 to 66.

The Company has an equal opportunities policy aimed at ensuring that employment decisions are based on ability and potential regardless of gender, race, colour, ethnic origin or sexual orientation, marital status, pregnancy, gender reassignment, age or disability. In particular applications for employment by disabled persons are always fully and fairly considered, bearing in mind the aptitudes of the person concerned. In the event of a member of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other colleagues.

The Group's policies and practices have been designed to keep colleagues informed on matters relevant to them as colleagues through regular meetings and communications. There are various channels utilised across the Group and these include listening groups; colleague forums; workshops; conferences; internal newsletters and newspapers; and online communities. Colleagues representatives are consulted regularly on a wide range of matters affecting their interests through various channels including colleague forums. To achieve a common awareness of the financial and economic factors affecting the performance of the Group, Colleagues are briefed on the Group's financial performance and strategy. This is carried out through emails, webcasts and personal briefings which take place during half-year and full-year results-announcements. All colleagues with more than three months' service are eligible to participate in the Company's Sharesave and Buy-As-You-Earn plans. Details can be found in the Directors' Remuneration report on pages 88 to 90.

Modern slavery

The Group recognises the harmful impact that modern slavery and human trafficking has on society and is committed to eliminating the criminal activity from the business and supply chain. The Group produces a slavery and human trafficking statement each financial year. The latest statement can be found on the Group's corporate website www.travisperkins.co.uk

Political donations

The Group's policy is not to make donations to political parties. The Group did not give any money for political purposes nor did it make any donations to political organisations or independent candidates or incur any political expenditure during the year.

Auditor

KPMG LLP, appointed in 2015, is the Company's auditor at the date of this report. Resolutions will be proposed at the Annual General Meeting to re-appoint KPMG LLP as the Company's auditor and to authorise the Audit Committee to set the auditor's remuneration.

Stakeholder engagement

A summary of how the Group engages with stakeholders is set out in the Section 172 Statement on pages 67 to 68 of the Strategic Report.

Directors' Report continued

Statement on disclosure of information to the auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware
- the Director has taken all reasonable steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s.418 of the Companies Act 2006.

Share capital and change of control

As at 31 December 2019 the Company had an allotted and fully paid share capital of 252,143,923 ordinary shares of 10 pence each, with an aggregate nominal value of £25,214,392 (including shares owned by the Travis Perkins Employee Share Ownership Trust). The ordinary shares are listed on the London Stock Exchange and all shares rank pari passu.

The rights and obligations attaching to the shares are set out in the Company's Articles of Association. Fully paid shares in the Company are freely transferable. There are no persons that hold securities carrying special rights with regard to the control of the Company. Details of the structure of the Company's share capital and changes in the share capital during the year are also included in note 19 of the financial statements.

As at 31 December 2019 the Travis Perkins Employee Share Ownership Trust owned 3,657,667 shares in the Company (1.5% of the issued share capital) for use in connection with the Company's share schemes. Any voting or other similar decisions relating to those shares would be taken by the trustees, who may take account of any recommendation of the Company.

There are no restrictions on voting rights attaching to the Company's ordinary shares. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

The rules governing the appointment and replacement of Board members and changes to the Articles of Association accord with usual English company law provisions. The powers of the Company's Directors are set out in the Company's Articles of Association. In particular, the Board has the power to issue shares and to purchase the Company's own shares and is seeking renewal of these powers at the forthcoming Annual General Meeting in accordance with the restrictions and within the limits set out in the notice of that meeting.

There are a number of agreements to which the Company is a party that may take effect, alter or terminate upon a change of control following a takeover bid. None of these agreements is considered significant in the context of the Company as a whole. The Company does not have agreements with any Director or any colleague that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to colleagues under such schemes and plans to vest on a takeover.

The Directors' Report has been approved by the Board of Directors and is signed on its behalf by:

Robin Miller
General Counsel & Company Secretary
2 March 2020

Statement of Directors' responsibilities

in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU") and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable, relevant and reliable
- state whether they have been prepared in accordance with IFRSs as adopted by the EU
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Statement of Directors' Responsibilities has been approved by the Board of Directors and is signed on its behalf by:

Nick Roberts
Chief Executive
2 March 2020

Alan Williams
Chief Financial Officer
2 March 2020

Financial statements

Financial statements

The **right systems**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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TRAVIS PERKINS PLC

1. Our opinion is unmodified

We have audited the financial statements of Travis Perkins plc ("the Company") for the year ended 31 December 2019 which comprise the Consolidated Income Statement, the Consolidated and Company Statements of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes, including the accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 28 May 2015. The period of total uninterrupted engagement is for the five financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole	£16m (2018: £16m) 4.7% (2018: 5%) of Group profit before tax and adjusting items as disclosed on the face of the income statement.	
Coverage	95% (2018:95%) of Group profit before tax and adjusting items as disclosed on the face of the income statement	
Key audit matters		**vs 2018**
Recurring risks	The impact of uncertainties due to Britain exiting the European Union	◀▶
	Going Concern (driven by Brexit)	◀▶
	Recoverability of Wickes Goodwill	◀▶
	Deferral of supplier rebates into Inventory	◀▶
	Parent Company's key audit matter: Recoverability of the Parent Company's investments in subsidiaries	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 43 and 47 (principal risks),	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described below with respect to the key audit matters outlined below related to the valuation of Wickes goodwill and recoverability of the Parent Company's investments in subsidiaries, and the related disclosures, and appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the Directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge** – We considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. • **Sensitivity analysis** – When addressing the valuation of Wickes goodwill and recoverability of the Parent Company's investments in subsidiaries and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency** – As well as assessing individual disclosures as part of our procedures on the valuation of Wickes goodwill and of the recoverability of the Parent Company's investments in subsidiaries we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** As reported under the valuation of Wickes goodwill and recoverability of the Parent Company's investments in subsidiaries, we found the resulting estimates and related disclosures of the valuation of Wickes goodwill and of the recoverability of the Parent Company's investments in subsidiaries and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Going Concern (driven by Brexit) Refer to page 78 (Corporate Governance Report) and page 139 (accounting policy).	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model, in particular, risks associated with Brexit, and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and Company's available financial resources over this period were mainly driven by Brexit and were: • The impact of a significant business continuity issue affecting the Group's suppliers • The uncertainty of Brexit and knock on impact on consumer demand and the Group's supply chain The risk for our audit was whether or not the above risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability of the Group and Company to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	**Our procedures included:** • **Funding assessment:** Considering the current and available committed facilities, including the facility documentation, to assess their availability to the Group during the forecast period. Considering any related covenants requirements and the evidence available regarding whether they will be met. • **Historical comparisons:** Assessing historical forecasting accuracy, by comparing forecast cash flows to those actually achieved by the Group. • **Benchmarking assumptions:** Comparing the Group's assumptions used in the cash flow projections to externally derived data in relation to key inputs such as projected growth and cost inflation. • **Sensitivity analysis:** Considering sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively resulting from Brexit. • **Assessing transparency:** Assessing the completeness and accuracy of the Going concern disclosures in the Annual Report and considering whether they reflect the position of the Group's financing and the risks associated with the Group's ability to continue as a going concern. • **Our results:** We found the going concern disclosure without any material uncertainty to be acceptable (2018: acceptable).

	The risk	Our response
Recoverability of Wickes' goodwill (Goodwill: £455million; 2018: £455 million) Refer to page 85 (Audit Committee Report), pages 139 to 140 (Critical judgements and key sources of estimation uncertainty) and pages 150 to 152 and 179 to 181 (financial disclosures).	**Subjective estimate** Notwithstanding the £246 million impairment charge recognised in FY18 the Goodwill allocated to the Wickes Cash Generating Unit remains significant (£455 million) and represents one of the Group's most significant assets. Despite improving financial performance in FY19, a worsening in the UK economy, fall in consumer confidence, the impact of cost price inflation or being slow to respond to changes in customer buying behaviours may impact the performance of the Wickes businesses over the short, medium and long term such that the remaining goodwill balance could be further impaired. As a result we anticipate that the recoverable amount in the year end impairment calculation (determined with reference to Value In Use) will be sensitive to key assumptions, notably; the discount rate, forecast revenue growth and forecast profit margins. We consider that the Wickes Value in Use calculation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount.	**Our procedures included:** • **Historical comparisons:** Assessing the reasonableness of the forecast used by considering the historical accuracy of previous forecasts and the results currently being achieved. • **Our sector experience**: Assessing whether assumptions used, in particular those relating to forecast revenue growth and profitability reflect our knowledge of the business and industry, including known or probable changes in the business environment. • **Benchmarking assumptions:** Challenging, using our own valuation specialists, the key inputs used in the Group's calculation of the discount rate by comparing it to externally derived data, including available sources for comparable companies. • **Sensitivity analysis:** Performing our own sensitivity analysis on the forecast, including a reduction in assumed growth rates, medium term profitability and an increased discount rate to identify key assumptions to consider further. • **Assessing transparency:** Assessing whether the Group's disclosures regarding the sensitivity of the impairment assessment, to changes in key assumptions, appropriately reflects the risks inherent in the valuation of goodwill. **Our results** We found the carrying amount of Wickes' goodwill to be acceptable (2018: acceptable).

2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Deferral of supplier rebates into Inventory Refer to page 84 (Audit Committee Report), pages 139 to 140 (accounting policy) and pages 158 to 159 (financial disclosures)	**Complex calculation** The Group carries a wide range of inventory and receives a significant value of supplier income from a large number of suppliers that are required to be deducted from the cost of inventory. The calculation of cost is made more difficult by the ageing accounting system. We consider the risk to relate to the accuracy of the inventory cost held on the balance sheet at the year end.	**Our procedures included:** • **Accounting analysis:** Evaluating the appropriateness of the methodologies applied in determining product cost and critically assessing the respective calculations (including the allocation of rebates attributable to inventory at the year end). • **Reperformance:** Recalculating the inventory net purchase cost for the entire population of inventory for in-scope components in Merchanting at year end from the full year's product cost database. • **Test of details:** For a statistical sample of recalculated inventory cost, vouching the product cost to third party purchase documentation. • **Assessing transparency:** Considering the adequacy of the Group's disclosures regarding the degree of estimation involved in arriving at the cost. **Our results** As a result of our work, we consider the deferral of supplier rebates into inventory to be acceptable (2018: acceptable).
Recoverability of the Parent Company's investments in subsidiaries (£3,609 million; 2018: £3,558 million) Refer to pages 82 to 87 (Audit Committee Report), pages 182 to 183 (accounting policy) and pages 182 to 183 (financial disclosures)	**Subjective estimate** The carrying amounts of the Parent Company's investments in subsidiaries are significant and may not be recoverable. The estimated recoverable amount of these balances is determined with reference to their net assets or value in use. The latter is.will be sensitive to key assumptions, notably; the discount rate, forecast revenue growth and forecast profit margins. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of the cost of investments in subsidiaries has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount.	**Our procedures included:** • **Benchmarking assumptions:** Where net assets of the subsidiary do not support the total value of the investment, challenging the assumptions used in the budgets supporting the carrying value of the investment based on our knowledge of the Group and the markets in which the subsidiaries operate. • **Historical comparisons:** Assessing the reasonableness of the budgets by considering the historical accuracy of the previous forecasts. • **Our sector experience:** Evaluating the current level of trading, including identifying any indications of a downturn in activity, by examining the post year end management accounts and considering our knowledge of the Group and the market. • **Assessing transparency:** Assessing the adequacy of the Parent Company's disclosures in respect of the investments in subsidiaries. **Our results** We found the carrying amount of the Parent's investments in subsidiaries to be acceptable (2018: acceptable).

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We continue to perform procedures over the recognition of supplier income and recoverability of respective receivables. However, the specific risk that is of most significance to the audit and which is reflected in the key audit matter described above is the deferral of supplier income into inventory. The quantum and timing of recognition of supplier income and recoverability of the related supplier income receivable does not involve significant estimation or judgement. As a result, we have not assessed supplier income or supplier income receivable as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £16 million (2018: £16 million), determined with reference to a benchmark of Group profit before tax and before adjusting items as disclosed on the face of the income statement ('Adjusted Group profit before tax*') of £340.9 million of which it represents 4.7% (2018:5.0%).

Materiality for the Parent Company financial statements as a whole was set at £9.6 million (2018: £8.0 million), determined with reference to a benchmark of Company total assets, of which it represents 0.2% (2018: 0.2%).

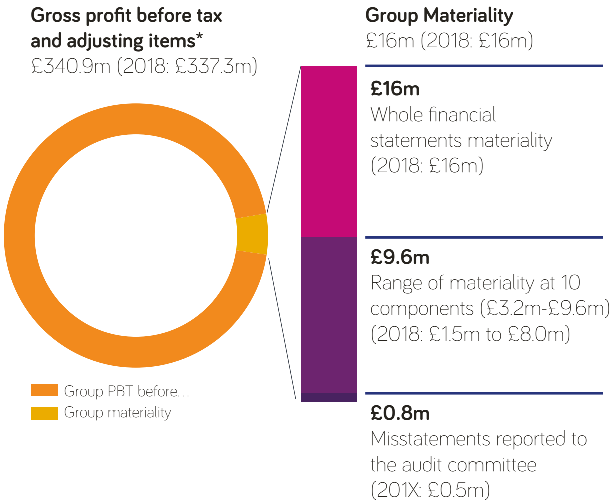
We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.8 million (2018: £0.5 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

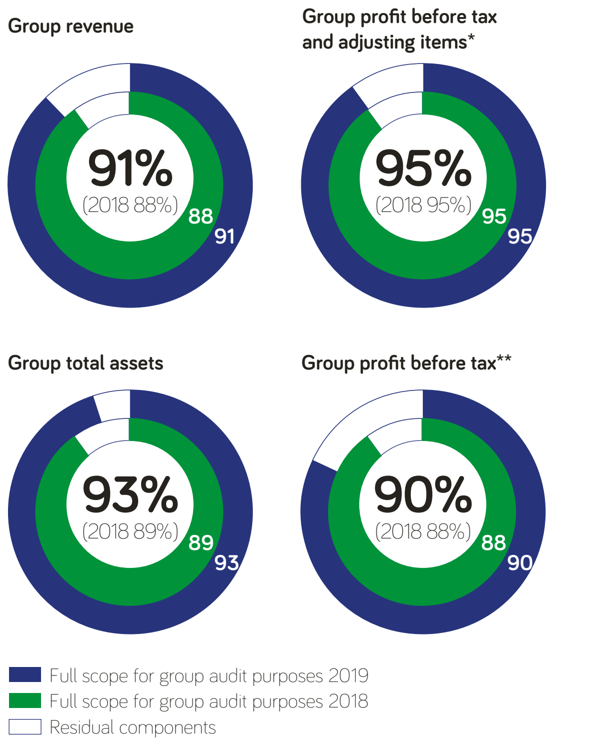
Of the Group's 53 (2017: 50) reporting components, we subjected 9 (all UK based) (2018: 10 (all UK based)) to full scope audits for Group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite which refer to the total adjusted profit and adjusted losses that made up the total Group profit before tax and before adjusting items, total revenue and total assets. The remaining 10% of total Group revenue, 5% of Group profit before tax and before adjusting items* and 17% of total Group assets is represented by 44 reporting components, none of which individually represented more than 3% of any of total Group revenue, adjusted Group profit before tax and before adjusting items* or total Group assets. For these residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities, which ranged from £3.2 million to £9.6 million, having regard to the mix of size and risk profile of the Group across the components. The work on 3 of the 9 components (2018: 2 of the 10 components) was performed by component auditors, and the rest, including the audit of the Parent Company, was performed by the Group team. The Group team performed procedures on the items excluded from adjusted Group profit before tax.

The Group audit team visited 3 of the 3 (2018 1 of 2) component locations subject to full scope audits to assess the audit risk and strategy. Telephone conference meetings were also held with all component auditors. At these visits and meetings, the findings were reported to the Group audit team in more detail, and any further work required by the Group audit team was then performed by the component auditor.





* adjusting items as disclosed on the face of the income statement.
** 90% (2018: 90% of the total profits and losses that made up group profit before tax.

Independent auditor's report continued
to the members of Travis Perkins plc

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 3 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in the notes to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

- the related statement under the Listing Rules set out on pages 38 to 39 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report
Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;

- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report
In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability
Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement page 39 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;

- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and

- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or

- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 119, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

7. Respective responsibilities continued

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety and employment law. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Tony Sykes
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square,
Canary Wharf,
London,
E14 5GL

2 March 2020

Consolidated income statement
For the year ended 31 December 2019

£m	Notes	2019	2018
Revenue	1	**6,955.7**	6,740.5
Adjusted operating profit	2(a)	**441.5**	374.5
Amortisation of acquired intangible assets		**(9.0)**	(9.5)
Adjusting items – operating	3	**(200.4)**	(386.7)
Operating profit/(loss)	2(a)	**232.1**	(21.7)
Adjusting items – remeasurement of associates	3	**40.3**	–
Share of associates' result		**(4.3)**	(4.0)
Finance costs	6(a)	**(92.2)**	(27.9)
Finance income	6(a)	**4.9**	4.2
Profit/(loss) before tax		**180.8**	(49.4)
Adjusting items – deferred tax	3	**(27.1)**	–
Other tax		**(30.9)**	(34.1)
Total tax	7(a)	**(58.0)**	(34.1)
Profit/(loss) for the year		**122.8**	(83.5)
Attributable to:			
Owners of the Company		**121.1**	(85.6)
Non-controlling interests		**1.7**	2.1
		122.8	(83.5)
Earnings per ordinary share:			
Basic	20(a)	**48.9p**	(34.4)p
Diluted	20(a)	**48.4p**	(34.4)p

All results relate to continuing operations. The accompanying notes form an integral part of these financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2019

£m	Notes	2019	2018
Profit/(loss) for the year		**122.8**	(83.5)
Items that will not be reclassified subsequently to profit and loss:			
Actuarial (loss)/gain on defined benefit pension schemes	18(h)	**(43.0)**	102.0
Income tax relating to other comprehensive income	7(b)	**8.3**	(19.3)
Items that may be reclassified subsequently to profit and loss:			
Foreign exchange differences on retranslation of foreign operations		**3.2**	–
Other comprehensive income for the year net of tax		**(31.5)**	82.7
Total comprehensive income/(loss) for the year		**91.3**	(0.8)

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

Consolidated balance sheet
As at 31 December 2019

£m	Notes	2019	2018
Assets			
Non-current assets			
Goodwill	8(a)	**1,359.1**	1,289.2
Other intangible assets	8(b)	**332.6**	385.4
Property, plant and equipment	9	**882.0**	913.2
Right-of-use assets	10(a)	**1,276.8**	–
Interest in associates	31(a)	**1.9**	34.2
Investments	31(c)	**6.7**	6.6
Retirement benefit asset	18(c)	**57.5**	81.2
Other receivables	13	**–**	43.3
Total non-current assets		**3,916.6**	2,753.1
Current assets			
Inventories	11	**937.8**	855.3
Trade and other receivables	13	**1,239.7**	1,253.8
Cash and cash equivalents	23(b)	**207.9**	255.4
Total current assets		**2,385.4**	2,364.5
Assets of disposals Group classified as held for sale	14	**138.0**	–
Total assets		**6,440.0**	5,117.6
Equity and liabilities			
Capital and reserves			
Issued share capital	19	**25.2**	25.2
Share premium account	19	**545.6**	545.4
Merger reserve	19	**326.5**	326.5
Revaluation reserve	19	**14.5**	14.7
Own shares	19	**(50.8)**	(47.8)
Foreign exchange reserve	19	**3.2**	–
Other reserve	19	**(4.1)**	(5.6)
Retained earnings	19	**1,722.6**	1,847.5
Equity attributable to owners of the Company		**2,582.7**	2,705.9
Non-controlling interests		**4.4**	11.8
Total equity		**2,587.1**	2,717.7
Non-current liabilities			
Interest-bearing loans and borrowings	22	**583.3**	605.2
Lease liabilities	10(a)	**1,253.6**	–
Derivative financial instruments	28	**–**	0.9
Deferred tax liabilities	16	**62.7**	77.8
Retirement benefit liability	18(c)	**4.9**	-
Long-term provisions	15	**8.0**	18.4
Total non-current liabilities		**1,912.5**	702.3
Current liabilities			
Interest-bearing loans and borrowings	22	**–**	3.8
Lease liabilities	10(a)	**158.7**	–
Derivative financial instruments	28	**2.5**	4.7
Trade and other payables	17	**1,613.9**	1,603.2
Tax liabilities		**13.4**	25.9
Short-term provisions	15	**60.4**	60.0
Total current liabilities		**1,848.9**	1,697.6
Total liabilities		**3,761.4**	2,399.9
Liabilities of disposal Group classified as held for sale	14	**91.5**	–
Total equity and liabilities		**6,440.0**	5,117.6

The financial statements of Travis Perkins plc, registered number 824821, were approved by the Board of Directors on 2 March 2020 and signed on its behalf by:

Nick Roberts
Director

Alan Williams
Director

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

£m	Notes	Share capital	Share premium	Merger reserve	Revaluation reserve	Own shares	Foreign exchange reserve	Other	Retained earnings	Total equity before non-controlling interest	Non-controlling interest	**Total equity**
At 1 January 2018		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 paid		–	–	–	–	–	–	–	(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		–	–	–	–	–	–	–	19.6	19.6	–	19.6
Tax on equity-settled share-based payments		–	–	–	–	–	–	–	0.1	0.1	–	0.1
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**
At 1 January 2019		**25.2**	**545.4**	**326.5**	**14.7**	**(47.8)**	**–**	**(5.6)**	**1,847.5**	**2,705.9**	**11.8**	**2,717.7**
Impact of change in accounting policy	38	–	–	–	–	–	–	–	(106.1)	**(106.1)**	–	**(106.1)**
Adjusted balance at 1 January 2019		25.2	545.4	326.5	14.7	(47.8)	–	(5.6)	1,741.4	**2,599.8**	11.8	**2,611.6**
Profit for the year		–	–	–	–	–	–	–	121.1	**121.1**	1.7	**122.8**
Other comprehensive income for the period net of tax		–	–	–	–	–	3.2	–	(34.7)	**(31.5)**	–	**(31.5)**
Total comprehensive income for the year		–	–	–	–	–	3.2	–	86.4	**89.6**	1.7	**91.3**
Dividends paid		–	–	–	–	–	–	–	(116.2)	**(116.2)**	–	**(116.2)**
Dividend equivalent payments		–	–	–	–	–	–	–	(0.1)	**(0.1)**	–	**(0.1)**
Issue of share capital		–	0.2	–	–	–	–	–	–	**0.2**	–	**0.2**
Purchase of own shares		–	–	–	–	(7.7)	–	–	–	**(7.7)**	–	**(7.7)**
Adjustments in respect of revalued fixed assets		–	–	–	(0.2)	–	–	–	0.2	**–**	–	**–**
Arising on acquisition		–	–	–	–	–	–	–	(11.9)	**(11.9)**	(9.1)	**(21.0)**
Equity-settled share-based payments		–	–	–	–	–	–	–	23.0	**23.0**	–	**23.0**
Tax on equity-settled share-based payments		–	–	–	–	–	–	–	4.5	**4.5**	–	**4.5**
Option on non-controlling interest		–	–	–	–	–	–	1.5	–	**1.5**	–	**1.5**
Own shares movement		–	–	–	–	4.7	–	–	(4.7)	**–**	–	**–**
At 31 December 2019		**25.2**	**545.6**	**326.5**	**14.5**	**(50.8)**	**3.2**	**(4.1)**	**1,722.6**	**2,582.7**	**4.4**	**2,587.1**

Consolidated cash flow statement
For the year ended 31 December 2019

£m	2019	2018
Cash flows from operating activities		
Adjusted operating profit	**441.5**	374.5
Adjustments for:		
Depreciation of property, plant and equipment	**97.5**	101.0
Depreciation of right-of-use assets*	**174.3**	–
Lease terminations and impairments*	**2.2**	–
Amortisation and impairment of internally-generated intangibles	**23.5**	15.5
Share-based payments	**19.9**	19.6
Foreign exchange	**4.1**	–
Other non-cash movements	**4.2**	2.1
Gain on disposal of property, plant and equipment	**(20.6)**	(26.8)
Purchase of toolhire assets	**(9.2)**	–
Adjusted operating cash flows	**737.4**	485.9
Increase in inventories	**(104.2)**	(49.5)
Decrease/(increase) in receivables	**12.5**	(141.4)
(Decrease)/increase in payables	**(36.4)**	80.9
(Decrease)/increase in supplier financing arrangements	**(0.1)**	2.9
Payments in respect of adjusting items	**(90.0)**	(40.6)
Pension payments in excess of the income statement charge	**(9.9)**	(7.2)
Cash generated from operations	**509.1**	331.0
Interest paid	**(27.0)**	(26.2)
Interest on lease liabilities*	**(57.0)**	–
Debt arrangement fees	**(2.9)**	–
Current income taxes paid	**(52.9)**	(55.1)
Net cash from operating activities	**369.4**	249.7
Cash flows from investing activities		
Interest received	**0.8**	0.7
Proceeds on disposal of property, plant and equipment	**82.0**	98.4
Development of computer software	**(8.4)**	(44.4)
Purchases of property, plant and equipment	**(125.2)**	(146.9)
Interest in associates	**(20.6)**	(17.6)
Acquisition of businesses	**(23.0)**	(3.0)
Disposal of business	**–**	9.0
Net cash used in investing activities	**(94.4)**	(103.8)
Cash flows from financing activities		
Proceeds from the issue of share capital	**0.2**	2.0
Purchase of own shares	**(7.7)**	(43.4)
Repayment of lease liabilities*	**(175.6)**	(6.5)
Payments to pension scheme	**(3.4)**	(3.3)
Dividends paid	**(116.2)**	(116.1)
Purchase of non-controlling interest	**(19.8)**	–
Net cash from financing activities	**(322.5)**	(167.3)
Net (decrease)/increase in cash and cash equivalents	**(47.5)**	(21.4)
Cash and cash equivalents at 1 January	**255.4**	276.8
Cash and cash equivalents at 31 December (note 23b)	**207.9**	255.4

* These are new or altered captions arising from the implementation of IFRS 16 - Leases. See notes 10 and 38 for details on this new standard and its impact on these financial statements.

Company statement of comprehensive income

For the year ended 31 December 2019

£m	Notes	2019	2018
Revenue	1	**80.0**	385.8
Adjusted operating profit		**56.9**	367.1
Adjusting items	3	**(19.6)**	(274.7)
Operating profit	2(a)	**37.3**	92.4
Finance income	6(a)	**2.3**	4.1
Finance costs	6(a)	**(49.0)**	(48.3)
(Loss)/profit before tax		**(9.4)**	48.2
Tax	7(a)	**13.3**	12.9
Profit for the year		**3.9**	61.1
Total comprehensive income for the year		**3.9**	61.1

All results relate to continuing operations and are attributable to the owners of the Company. The accompanying notes form an integral part of these financial statements.

Company balance sheet
As at 31 December 2019

£m	Notes	2019	2018
Assets			
Non-current assets			
Property, plant and equipment	9	**0.1**	0.4
Interest in associates		**0.1**	46.4
Investment in subsidiaries	31(b)	**3,589.5**	3,558.3
Investments	31(c)	**4.7**	4.6
Deferred tax asset	16	**3.9**	1.5
Total non-current assets		**3,598.3**	3,611.2
Current assets			
Trade and other receivables	13	**731.3**	615.4
Cash and cash equivalents		**96.0**	177.4
Total current assets		**827.3**	792.8
Total assets		**4,425.6**	4,404.0
Equity and liabilities			
Capital and reserves			
Issued capital	19	**25.2**	25.2
Share premium account	19	**544.3**	544.3
Merger reserve	19	**326.5**	326.5
Own shares	19	**(50.8)**	(47.8)
Other reserve	19	**(4.1)**	(5.6)
Accumulated profits	19	**600.8**	693.2
Equity attributable to owners of the Company		**1,441.9**	1,535.8
Total equity		**1,441.9**	1,535.8
Non-current liabilities			
Interest-bearing loans and borrowings	22(a)	**551.8**	555.2
Amounts due to subsidiaries		**2,408.0**	2,285.6
Derivative financial instruments	28	**-**	0.9
Total non-current liabilities		**2,959.8**	2,841.7
Current liabilities			
Derivative financial instruments	28	**2.5**	4.7
Trade and other payables	17	**21.4**	21.8
Total current liabilities		**23.9**	26.5
Total liabilities		**2,983.7**	2,868.2
Total equity and liabilities		**4,425.6**	4,404.0

The financial statements of Travis Perkins plc, registered number 824821, were approved by the Board of Directors on 2 March 2020 and signed on its behalf by:

Nick Roberts
Director

Alan Williams
Director

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

£m	Share capital	Share premium	Merger reserve	Own shares	Other	Retained earnings	**Total equity**
At 1 January 2018	25.2	542.3	326.5	(15.3)	(4.9)	738.8	1,612.6
Profit and total comprehensive income for the year	–	–	–	–	–	61.1	61.1
Dividends	–	–	–	–	–	(114.1)	(114.1)
Dividend equivalent payments	–	–	–	–	–	(0.8)	(0.8)
Issue of share capital	–	2.0	–	–	–	–	2.0
Purchase of own shares	–	–	–	(43.4)	–	–	(43.4)
Own shares movement	–	–	–	10.9	–	(10.9)	–
Foreign exchange	–	–	–	–	–	(0.5)	(0.5)
Equity-settled share-based payments	–	–	–	–	–	19.6	19.6
Options on non-controlling interest	–	–	–	–	(0.7)	–	(0.7)
At 31 December 2018	**25.2**	**544.3**	**326.5**	**(47.8)**	**(5.6)**	**693.2**	**1,535.8**
Profit and total comprehensive income for the year	–	–	–	–	–	3.9	**3.9**
Dividends	–	–	–	–	–	(116.2)	**(116.2)**
Dividend equivalent payments	–	–	–	–	–	(0.1)	**(0.1)**
Purchase of own shares	–	–	–	(7.7)	–	–	**(7.7)**
Own shares movement	–	–	–	4.7	–	(4.7)	**–**
Equity-settled share-based payments	–	–	–	–	–	23.0	**23.0**
Tax on equity-settled share-based payments	–	–	–	–	–	1.7	**1.7**
Options on non-controlling interest	–	–	–	–	1.5	–	**1.5**
At 31 December 2019	**25.2**	**544.3**	**326.5**	**(50.8)**	**(4.1)**	**600.8**	**1,441.9**

Company cash flow statement
For the year ended 31 December 2019

£m	2019	2018
Cash flows from operating activities		
Adjusted operating profit	56.9	367.1
Adjustments for:		
Share-based payments	10.5	5.7
Adjusted operating cash flows	67.4	372.8
Increase in receivables	(515.9)	(193.6)
Decrease in payables	584.3	(29.7)
Cash generated from operations	135.8	149.5
Interest paid	(27.0)	(26.2)
Net cash from operating activities	108.8	123.3
Cash flows from investing activities		
Interest received	0.6	0.6
Purchases of property, plant and equipment	–	(0.2)
Proceeds on disposal of property, plant and equipment	0.3	-
Interest in associates	(20.6)	(17.6)
Investments	(43.7)	–
Net cash used in investing activities	(63.4)	(17.2)
Financing activities		
Proceeds from the issue of share capital	–	2.0
Purchase of own shares	(7.7)	(43.4)
Debt arrangement fees	(2.9)	–
Dividends paid	(116.2)	(114.1)
Net cash from financing activities	(126.8)	(155.5)
Net decrease in cash and cash equivalents	(81.4)	(49.4)
Cash and cash equivalents 1 January	177.4	226.8
Cash and cash equivalents 31 December	96.0	177.4

Notes to the financial statements
For the year ended 31 December 2019

General information
Overview
Travis Perkins plc is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 185. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 3 to 69.

These financial statements are presented in pounds sterling, the currency of the primary economic environment in which the Group operates.

Basis of accounting
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union under current legislation and therefore the Group financial statements comply with Article 4 of the EU IAS Regulations.

Basis of preparation
The financial statements have been prepared on the historic cost basis, except that derivative and other financial instruments and contingent consideration arising from business combinations are stated at fair value through profit and loss and also designated financial instruments are stated at fair value through other comprehensive income. The consolidated financial statements include the accounts of the Company and all entities controlled by the Company (its subsidiaries) (together referred to as "the Group") from the date control commences until the date that control ceases. Control is achieved where the Company:
- Has power over the investee
- Is exposed or has rights to a variable return from the involvement with the investee
- Has the ability to use its power to affect its returns

As such, the results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition.

Following the Group's decision to postpone the sale of the Plumbing & Heating business, announced in October 2019, the classification as held for sale of this business segment, introduced in 2019 interim statement, has been reversed in 2019 Annual Report and Accounts..

Foreign currencies
Transactions denominated in foreign currencies are recorded at the rates ruling on the date of the transaction.

At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Going concern
The Directors are currently of the opinion that the Group's forecasts and projections show that the Group should be able to operate within its current facilities and comply with its banking covenants. Detailed considerations of going concern and principal risks and uncertainties are provided in the Annual Report on pages 78 and 40 to 51 respectively.

The Directors believe that the Group has the flexibility to react to changing market conditions and is adequately placed to manage its business risks successfully.

After making enquiries, the Directors have formed a judgement at the time of approving the financial statements, that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for twelve months from the date of signing these accounts.

For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Significant accounting policies
The principal accounting policies adopted in preparing the financial statements are provided throughout the notes to the financial statements.

Notes to the financial statements continued
For the year ended 31 December 2019

Key judgements and estimates
The preparation of financial statements requires the Directors to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience and current and expected economic conditions. The Directors frequently re-evaluate these significant factors and make adjustments as facts and circumstances dictate.
Some financial information is produced by finance systems that were first implemented by the Group over 30 years ago. As the business has grown, these have been amended to cope with significantly higher transaction levels and more complicated ways of doing business. This has made the systems unwieldy and could result in a material misstatement in the information calculated by those systems in areas such as supplier income and inventories. There are processes and controls in place to mitigate these risks.

Key estimates which are material to the financial statements are found in the following notes:

Page	Note	Description
158	11	Cost of inventories
162	15	Claims in respect of the merchant ERP programme
163	18	Pension assumptions
179	29	Impairment of goodwill

Key judgements which are material to the financial statements are found in the following notes:

Page	Note	Description
181	29	Definition of cash-generating units

Other significant judgements made in the preparation of these financial statements include contingent assets and liabilities in respect of the cancellation of the Merchant ERP replacement programme.

Notes to the financial statements
The notes are organised into the following sections:
Income and expenses: Provides a breakdown of individual line items in the income statements and summarises the accounting policies, judgements and estimates relevant to understanding these items.

Assets and liabilities: Provides a breakdown of individual line items in the balance sheets and summarises the accounting policies, judgements and estimates relevant to understanding these items.

Capital: Provides information about the capital management practices of the Group and shareholder returns for the year.

Risks: Discusses the Group's impairment testing and the exposure to various financial risks, explains how these affect the Group's financial position and performance and what the Group does to manage these risks.

Group structure: Explains aspects of the Group structure and how changes have affected the financial position and performance of the Group.

People: Provides information about people costs.

Other: Provides information on items which require disclosure, but are not considered critical in understanding the financial performance or position of the Group.

Significant items
During the year ended 31 December 2019 the following significant items took place that are relevant to the understanding of the Group's results and financial position:

Group transformation and restructuring (note 3):
As part of the strategy of focusing on the trade and simplifying the Group, a programme has been undertaken to demerge the Wickes business and separate the IT and support activities of the Plumbing & Heating segment.

The costs associated with these transformation and restructuring activities have been disclosed as adjusting items.

As part of this programme the wholesale Plumbing & Heating business, Primaflow F&P, was sold in January 2020 for cash consideration of £50.1m. The assets and liabilities of this business have been classified as assets held for sale in the Group balance sheet as at 31 December 2019.

Acquisition of Toolstation Europe (note 32):
In September the Group acquired control of Toolstation Europe for cash consideration of £21.9m. This has resulted in the consolidation of this business, the derecognition of the previous investment in associates balance and the recognition of goodwill and other intangible assets of £92.2m.

A gain of £40.3m recognised as a result of the remeasurement of the previous investment in associates balance to fair value has been disclosed as an adjusting item.

IFRS 16 – Leases (note 10):
The new lease accounting standard is now effective for the Group for the first time and it has had a material impact on the Group's income statement and balance sheet as well as key ratios.

IT-related impairment charge (notes 3 and 8):
An impairment charge of £107.6m has been recognised in respect of the cancellation of the Merchant ERP replacement programme. The Group is negotiating the termination of its relationship with the software provider and does not expect to incur any further liabilities in respect of this.

1. Revenue

Accounting policy
Revenue recognition
Revenue is recognised when the Group has satisfied its performance obligations to the customer and the customer has obtained control of the goods or services being transferred. Revenue is measured at the transaction price received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and value added tax. For the Group, services comprise tool hire and kitchen and bathroom installations. Tool hire revenue is recognised on a straight-line basis over the period of hire. Revenue from the installation of kitchens and bathrooms is recognised when the Group has fulfilled all its obligations under the installation contract. For the Parent Company, revenue comprises management charges receivable and dividend income received.

Customer rebates
Where the Group has rebate agreements with its customers, the value of customer rebates paid or payable, calculated in accordance with the agreements in place based on the amount which is highly probably not to reverse, is deducted from turnover in the year in which the revenue is recognised.

a. Revenue

	The Group		The Company	
£m	**2019**	2018	**2019**	2018
Sale of goods	**6,739.0**	6,546.6	**–**	–
Sale of services	**216.7**	193.9	**–**	–
Dividends from subsidiaries	**–**	–	**80.0**	385.8
	6,955.7	6,740.5	**80.0**	385.8

b. Revenue reconciliation and like-for-like sales
As explained in note 5 the Group has changed its internal reporting structure and as a result has changed the definition of operating segments. The segmental information for revenue and like-for-like sales has been restated to reflect the new operating segments.

£m	Merchanting	Retail	Toolstation	Plumbing & Heating	**Total**
2018 revenue	3,608.8	1,249.6	354.4	1,527.7	**6,740.5**
Like-for-like revenue	116.7	105.1	57.5	(26.0)	**253.3**
	3,725.5	1,354.7	411.9	1,501.7	**6,993.8**
Network change	(22.1)	(12.3)	33.2	(36.9)	**(38.1)**
2019 revenue	3,703.4	1,342.4	445.1	1,464.8	**6,955.7**

Like-for-like sales are a measure of underlying sales performance for two successive periods. Branches and stores 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, including changes to the number of trading days. When branches close, revenue is excluded from the prior year figures for the months equivalent to the post-closure period in the current year.

2. Profit

a. *Operating profit*

	The Group		The Company	
£m	2019	2018	2019	2018
Revenue	6,955.7	6,740.5	80.0	385.8
Cost of sales	(4,921.1)	(4,812.7)	–	–
Gross profit	2,034.6	1,927.8	80.0	385.8
Selling and distribution costs	(1,475.9)	(1,607.4)	–	–
Administrative expenses	(353.6)	(375.0)	(23.1)	(293.4)
Profit on disposal of properties	20.6	26.8	–	–
Other operating income	6.4	6.1	–	–
Operating profit/(loss)	232.1	(21.7)	56.9	92.4
Adjusting items (note 3)	200.4	386.7	19.6	274.7
Amortisation of acquired intangible assets	9.0	9.5	–	–
Adjusted operating profit	441.5	374.5	76.5	367.1
Profit on disposal of properties	(20.6)	(26.8)	–	–
Adjusted operating profit before property disposals	420.9	347.7	76.5	367.1

Other operating income consists of rents receivable.

b. *Adjusted profit*

	The Group	
£m	2019	2018
Profit/(loss) before tax	180.8	(49.4)
Adjusting items (note 3)	160.1	386.7
Amortisation of acquired intangible assets	9.0	9.5
Adjusted profit before tax	349.9	346.8
Total tax	(58.0)	(34.1)
Tax on adjusting items	(36.3)	(24.2)
Adjusting items - deferred tax (note 3)	27.1	-
Tax on amortisation of acquired intangible assets	(1.6)	(1.6)
Adjusted profit after tax	281.1	286.9

Adjusted profit excludes adjusting items and amortisation of acquired intangible assets.

3. Adjusting items

Accounting policy

Adjusting items are those items of income and expenditure that, by reference to the Group, are material in size or unusual in nature or incidence and that in the judgement of the Directors should be disclosed separately on the face of the financial statements (or in the notes in the case of a segment) to ensure both that the reader has a proper understanding of the Group's financial performance and that there is comparability of financial performance between periods.

Items of income or expense that are considered by the Directors for designation as adjusting items include, but are not limited to, significant restructurings, onerous contracts, write-downs or impairments of current and non-current assets, the costs of acquiring and integrating businesses, gains or losses on disposals of businesses and investments, re-measurement gains or losses arising from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective, material pension scheme curtailment gains and the effect of changes in corporation tax rates on deferred tax balances.

£m	The Group 2019	The Group 2018	The Company 2019	The Company 2018
Adjusting items – operating				
IT-related impairment charge	**107.6**	15.7	**–**	–
Plumbing & Heating separation and disposal process	**46.5**	45.3	**–**	–
Wickes separation and demerger costs	**11.7**	–	**–**	–
Merchant supply chain and support centre restructuring	**21.5**	58.4	**–**	–
Loss on the sale and closure of businesses	**13.1**	10.3	**–**	–
Impairment of investments and goodwill	**–**	252.1	**19.6**	274.7
Pension-related items	**–**	4.9	**–**	–
	200.4	386.7	**19.6**	274.7
Adjusting items – business acquisitions				
Fair value gain on the acquisition of Toolstation Europe	**(40.3)**	–	**–**	–
	(40.3)	–	**–**	–
Adjusting items – tax				
Rollover relief deferred tax	**27.1**	–	**–**	–
	27.1	–	**–**	–
	187.2	386.7	**19.6**	274.7

IT-related impairment charge

The previous programme to develop a new ERP platform to support the Merchant businesses was halted in 2019. As a result the existing capitalised spend has been written off. The charge consists of the write-off of £59.7m of capitalised development spend (2018: £6.7m) and £44.3m of prepaid licence fees, as well as £3.6m of associated costs incurred in 2019.

Plumbing & Heating separation and disposal process

In 2019 the Plumbing & Heating business was separated from the Group's central IT infrastructure and support functions to enable the business to operate autonomously and support any future disposal. Costs of £46.5m have been incurred in 2019 in relation to these activities, which have been disclosed as an adjusting item, and consists of the following:

- £23.6m of costs related to the separation of IT systems including people costs and the cost of additional infrastructure
- £9.8m of non-IT separation costs such as the carve out of support functions, people costs and parallel-running costs in the transition
- £7.6m professional fees incurred in preparation for the sale of the segment and in support of the separation process
- £5.5m of other costs, including a charge for share-based payments resulting from the restructuring activity

Wickes' separation and demerger costs

In July 2019, the Group announced its intention to demerge the Wickes business as part of its strategy of simplifying the Group and focusing on the trade. In accordance with the Group's accounting policy, the total cost of £11.7m has been disclosed as an adjusting item and consists of the following:

- £9.8m of costs related to the separation of IT and support functions from the Group's shared services. This includes a £0.7m impairment charge for IT assets that are no longer in use
- £1.2m of fees incurred for professional services in preparation for demerger
- £1.1m of restructuring costs related to redundancy payments and the outsourcing of services
- Release of £0.4m related to the under-utilisation of a 2018 restructuring provision initially recognised as an adjusting item

Notes to the financial statements continued
For the year ended 31 December 2019

3. Adjusting items continued

Merchant supply chain and support centre restructuring

The restructuring charge of £21.5m relates to cost reduction activities in the supply chain and support centre of the merchant busineses and includes the costs of the closure of the Group's range centres and timber network. The adjusting item consists of the following:

- £5.3m of property costs relating to the range centre and timber network closures
- £16.3m of other costs relating to the supply chain closures, including redundancy costs, asset disposal costs and inventory write-downs
- £2.0m of other restructuring projects in the Merchant supply chain, including the cost of integrating Rudridge into the Keyline business
- Release of £2.1m related to the under-utilisation of property closure provisions initially recognised as an adjusting item

Closure of the Built business

The closure of the Built business in April 2019 resulted in the recognition of £8.6m of property-related charges and redundancy, stock write-off and other closure costs of £4.5m.

Fair value gain on the acquisition of Toolstation Europe

The Group's investment in associates balance for Toolstation Europe was re-measured at fair value when the Group obtained control. This resulted in the recognition of a gain of £40.3m which has been disclosed as an adjusting item due to its unusual nature and magnitude.

Rollover relief deferred tax

The Group changed its property strategy and therefore its assessment of its ability to use rollover relief indefinitely on capital gains in 2019, resulting in creation of a deferred tax charge of £27.1m relating to 2018 and earlier. In accordance with Group accounting policies this is disclosed as an adjusting item. This has arisen due to a change in an estimate resulting from a change in facts and circumstances and not a change in an accounting policy.

2018

The following items were disclosed as adjusting in 2018:

- Impairment charge of £252.1m in respect of goodwill in the Wickes and Tile Giant CGUs
- Impairment charge related to intangible fixed assets of £15.7m arising from the termination of certain IT projects in the Wickes business (£6.5m) and in the central IT function (£2.5m) and from two specific components of the Group's ERP project (£6.7m)
- Costs of £45.3m incurred in 2018 in the Plumbing & Heating division to reduce capacity, integrate the CPS and PTS businesses, overhaul the division's customer proposition, create a dedicated Plumbing & Heating supply chain and prepare for a future sale process
- Restructuring costs of £58.4m related to cost-reduction programmes announced in 2018. This included £16.0m for Merchanting supply chain rationalisation, £16.3m for the closure of 27 branches, £12.8m of redundancy and reorganisation costs in the Wickes business and £13.3m of Group costs
- Pension-related charge of £4.9m consisting 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

The Company

The Company has recognised an impairment of £19.6m in respect of investments in dormant entities as part of its ongoing project to simplify the Group's legal structure during 2019.

As a result of the impairment recognised in the Group, in 2018 the Company impaired the carrying value of investments in subsidiaries by £274.7m.

4. Expenses

Operating profit has been arrived at after charging/(crediting):

	The Group		The Company	
£m	**2019**	2018	**2019**	2018
Movement of provisions against inventories	**7.0**	6.0	**–**	–
Cost of inventories recognised as an expense	**4,914.1**	4,806.7	**–**	–
Pension costs in administration expenses	**1.3**	1.4	**0.1**	0.1
Pension costs in selling and distribution costs	**23.7**	22.1	**–**	–
Gain on disposal of property, plant and equipment	**(20.6)**	(26.8)	**–**	–
Rental income	**(6.4)**	(6.1)	**–**	–
Hire of vehicles, plant and machinery*	**–**	35.7	**–**	–
Other leasing charges – property*	**–**	184.9	**–**	–

* Following the implementation of IFRS 16 - Leases these are no longer applicable.

During the year the Group incurred the following costs for services provided by the Company's auditor:

£000	2019	2018
Fees payable to the Company's auditor for audit services:		
Audit of the Company's annual accounts	160	150
Auditor for the audit of the Company's subsidiaries	940	770
Additional fees payable for the prior period audit	155	151
Fees paid to the Company's auditor for other services:		
Audit-related assurance services	55	55
Services relating to corporate finance transactions	502	
Other services	59	78
	1,871	1,204

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 82 to 87 and includes an explanation of how auditor objectivity and independence is safeguarded when the auditor provides non-audit services.

5. Business segments

The operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ("CODM"), which is considered to be the Board, to assess performance and allocate capital. From 1 January 2019 the Group has changed its internal reporting structure and as a result has identified four operating segments:

- Merchanting
- Retail
- Toolstation
- Plumbing & Heating

These segments reflect the Group's organisation around differences in products (general building versus plumbing & heating), customers (trade versus consumer) and price and range flexibility (fixed range and fixed price versus variable and variable range).

All operating segments sell building materials to a wide range of customers, none of which are dominant, and operate almost exclusively in the United Kingdom. The information previously reported under the business segments note has been restated to reflect the new operating segments.

Segment result represents the result of each segment without allocation of certain central costs, finance income and costs and tax. Unallocated segment assets and liabilities comprise financial instruments, current and deferred tax, cash and borrowings and pension scheme assets and liabilities.

a. Segment information

	2019					
£m	Merchanting	Retail	Toolstation	Plumbing & Heating	Unallocated	Consolidated
Revenue	3,703.4	1,342.4	445.1	1,464.8	–	6,955.7
Segment result	275.4	85.0	22.0	3.7	(154.0)	232.1
Amortisation of acquired intangible assets	6.1	–	2.6	0.3	–	9.0
Adjusting items	23.5	11.6	–	45.4	119.9	200.4
Adjusted segment result	305.0	96.6	24.6	49.4	(34.1)	441.5
Less property profits	(20.7)	–	–	(1.0)	1.1	(20.6)
Adjusted segment result excluding property profits	284.3	96.6	24.6	48.4	(33.0)	420.9
Adjusted segment margin	8.2%	7.2%	5.5%	3.4%	–	6.3%
Adjusted segment margin excluding property profits	7.7%	7.2%	5.5%	3.3%	–	6.1%
Average capital employed	2,287.4	1,479.9	344.9	356.9	(82.3)	4,386.8
Segment assets	3,037.3	1,705.5	552.4	860.2	284.6	6,440.0
Segment liabilities	(1,224.6)	(1,134.7)	(241.0)	(528.7)	(723.9)	(3,852.9)
Consolidated net assets	1,812.7	570.8	311.4	331.5	(439.3)	2,587.1
Capital expenditure	89.0	23.8	13.2	15.8	1.0	142.8
Amortisation of acquired intangible assets	6.1	–	2.6	0.3	–	9.0
Depreciation and amortisation of software	67.4	27.8	4.3	8.0	9.4	116.9

Notes to the financial statements continued

For the year ended 31 December 2019

5. Business segments continued

a. Segment information continued

£m	Merchanting	Retail	Toolstation	Plumbing & Heating	Unallocated	Consolidated
	2018*					
Revenue	3,608.8	1,249.6	354.4	1,527.7	–	6,740.5
Segment result	237.7	(208.8)	21.0	(5.4)	(66.2)	(21.7)
Amortisation of acquired intangible assets	6.3	1.5	0.9	0.8	–	9.5
Adjusting items	34.4	272.3	–	46.3	33.7	386.7
Adjusted segment result	278.4	65.0	21.9	41.7	(32.5)	374.5
Less property profits	(6.3)	(17.7)	–	(2.8)	–	(26.8)
Adjusted segment result excluding property profits	272.1	47.3	21.9	38.9	(32.5)	347.7
Adjusted segment margin	7.7%	5.2%	6.2%	2.7%	–	5.6%
Adjusted segment margin excluding property profits	7.5%	3.8%	6.2%	2.5%	–	5.2%
Average capital employed	1,930.9	712.9	169.3	263.8	(87.9)	2,989.0
Lease adjusted capital employed	2,281.9	1,543.9	280.4	436.4	(74.4)	4,468.2
Lease adjusted operating profit excluding property profits	300.2	116.9	28.8	52.5	(31.6)	466.8
Segment assets	1,848.0	1,333.9	910.3	645.2	380.2	5,117.6
Segment liabilities	(490.8)	(458.2)	(318.9)	(392.2)	(739.8)	(2,399.9)
Consolidated net assets	1,357.2	875.7	591.4	253.0	(359.6)	2,717.7
Capital expenditure	143.8	36.1	11.0	4.7	1.9	197.5
Amortisation of acquired intangible assets	6.3	–	2.4	0.8	–	9.5
Depreciation and amortisation of software	78.4	23.0	6.1	8.8	0.2	116.5

During 2018 an impairment loss was recognised in the Consumer segment in respect of goodwill totalling £252.1m (see note 29).

* Restated for comparability purposes into the four new operating segments.

b. Unallocated segment assets and liabilities

Unallocated segment assets and liabilities comprise the following:

£m	**2019**	2018
Assets		
Interest in associates	**1.9**	34.2
Financial instruments	**3.2**	0.6
Property, plant and equipment	**3.2**	0.4
Investments	**6.7**	6.6
Cash and cash equivalents	**207.9**	255.4
Retirement benefit surplus	**57.5**	81.2
Unallocated corporate assets	**4.2**	1.8
	284.6	380.2
Liabilities		
Financial instruments	**–**	(0.9)
Tax liabilities	**(13.3)**	(25.9)
Deferred tax liabilities	**(62.7)**	(77.8)
Retirement benefit obligations	**(4.9)**	–
Interest-bearing loans, borrowings and loan notes	**(583.3)**	(609.0)
Unallocated corporate liabilities	**(59.7)**	(26.2)
	723.9	(739.8)

Non-current assets owned by Toolstation Europe Limited are located in foreign countries.

c. Reportable segments

Segmental operating profit represents the profit earned by each segment without allocation of certain central costs, finance income and costs and income tax expense. Inter-segment trading is eliminated. Unallocated segment assets and liabilities comprise financial instruments, current and deferred taxation, cash and borrowings and pension scheme assets and liabilities.

6. Net finance costs

a. Finance costs and finance income

	The Group	
£m	**2019**	2018
Interest on bank loans and overdrafts	**(2.0)**	(1.2)
Interest on bonds	**(21.0)**	(21.0)
Unwinding of discounts – property provisions	**(0.2)**	(0.2)
Unwinding of discounts – pension SPV loan	**(2.2)**	(2.1)
Amortisation of issue costs of bank loans*	**(2.9)**	(1.5)
Other interest	**(2.3)**	(0.7)
Other finance costs – pension scheme	**–**	(0.8)
Net loss on remeasurement of foreign exchange	**(3.3)**	–
Net loss on remeasurement of derivatives at fair value	**(1.3)**	–
Finance costs before lease interest	**(35.2)**	(27.5)
Interest on lease liabilities	**(57.0)**	–
Interest on obligations under finance leases	**–**	(0.4)
Finance costs	**(92.2)**	(27.9)
Net gain on remeasurement of derivatives at fair value	**–**	1.8
Net gain on remeasurement of foreign exchange	**–**	0.7
Other finance income – pension scheme	**2.4**	–
Interest receivable	**2.5**	1.7
Finance income	**4.9**	4.2
Net finance costs	**(87.3)**	(23.7)

* Includes a £1.5m accelerated charge recognised as the result of the replacement of the Group's previous banking agreement with a new £400m agreement in January 2019.

The charge caused by the unwinding of discounts relates to the property provisions and the pension scheme SPV loan (note 15).

	The Company	
£m	**2019**	2018
Interest on bank loans and overdrafts	**(3.2)**	(1.9)
Interest on bonds	**(21.0)**	(21.0)
Interest payable to Group companies	**(17.3)**	(23.3)
Amortisation of issue costs of bank loans	**(2.9)**	(1.5)
Other interest	**–**	(0.6)
Net loss on remeasurement of foreign exchange	**(3.3)**	–
Net loss on remeasurement of derivatives at fair value	**(1.3)**	–
Finance costs	**(49.0)**	(48.3)
Net gain on remeasurement of derivatives at fair value	**–**	1.8
Net gain on remeasurement of foreign exchange	**–**	0.7
Interest receivable	**2.3**	1.6
Finance income	**2.3**	4.1
Net finance costs	**(46.7)**	(44.2)

Notes to the financial statements continued
For the year ended 31 December 2019

6. Net finance costs continued
b. Interest for non-statutory measures

£m	The Group 2019	2018*
Interest on bank loans and overdrafts	**2.0**	1.2
Interest on bonds	**21.0**	21.0
Amortisation of issue costs of bank loans	**2.9**	1.5
Unwinding of discounts – liability to pension scheme	**2.2**	2.1
Interest for non-statutory measures	**28.1**	25.8

* Interest for non-statutory measures has been restated for 2018 to exclude interest on obligations under finance leases.

7. Tax
Accounting policy

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items which are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. This is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax laws and rates that have been enacted or substantially enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

a. Tax charge in income statement

	The Group		The Company	
£m	2019	2018	2019	2018
Current tax:				
Current year	**44.0**	47.1	**(12.4)**	(12.1)
Prior year	**(3.1)**	(10.4)	**(0.2)**	(1.2)
Total current tax	**40.9**	36.7	**(12.6)**	(13.3)
Deferred tax:				
Current year	**(12.1)**	(2.7)	**(0.8)**	0.4
Prior year	**29.2**	0.1	**0.1**	–
Total deferred tax	**17.1**	(2.6)	**(0.7)**	0.4
Total tax charge/(credit)	**58.0**	34.1	**(13.3)**	(12.9)

Prior year charge for deferred tax includes £27.1m in relation to the adjusting items, as described in note 3.

The differences between the total tax charge and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax for the Group and Company are as follows:

	The Group			
	2019		2018	
	£m	%	£m	%
Profit/(loss) before tax	180.8		(49.4)	
Tax at the UK corporation tax rate	34.4	19.0	(9.4)	19.0
Tax effect of expenses/credits that are not deductible/taxable	2.4		2.0	
Depreciation of non-qualifying property	3.0		3.0	
Impairment of goodwill	–		47.9	
Impairment of intangible fixed assets	–		0.8	
Share-based payments	(1.3)		3.8	
Deferred tax rate change	(0.7)		0.2	
Property sales	–		(5.0)	
Losses	1.9		1.1	
Gain on TSE acquisition	(7.8)		-	
Prior period adjustment	26.1		(10.3)	
Tax expense and effective tax rate for the year	58.0	32.1	34.1	(69.0)

	The Company			
	2019		2018	
	£m	%	£m	%
(Loss)/profit before tax	(9.4)		48.2	
Dividends from subsidiaries	(80.0)		(385.8)	
Loss before tax and dividends from subsidiaries	(89.4)		(337.6)	
Tax at the UK standard corporation tax rate	(17.0)	19.0	(64.1)	19.0
Tax effect of expenses/credits that are not deductible/taxable	3.6		0.1	
Impairment of investments	–		52.0	
Prior period adjustment	(0.1)		(1.2)	
Share-based payments	0.2		0.3	
Tax credit and effective tax rate for the year	(13.3)	19.0	(12.9)	3.8

b. Tax charge in the statement of comprehensive income

The following amounts relating to tax have been recognised in other comprehensive income:

	The Group		The Company	
£m	2019	2018	2019	2018
Items that may not be reclassified:				
Deferred tax charge on actuarial movement	8.3	(19.3)	1.7	–
Income tax relating to other comprehensive income	8.3	(19.3)	1.7	–

c. Tax credited directly to equity

The following amounts of tax have been recognised in equity:

	The Group		The Company	
£m	2019	2018	2019	2018
Current tax: Excess tax deductions for share-based payments on exercised options	0.4	0.1	–	0.1
Deferred tax: Share-based payments	4.1	(0.1)	–	(0.1)
	4.5	–	–	–

8. Goodwill and other intangible assets

a. Goodwill by reportable segment

Accounting policy

Goodwill arising on acquisition represents the excess of the cost of acquisition over the share of the aggregate fair value of identifiable net assets (including intangible assets) of a business or a subsidiary at the date of acquisition. All material intangible fixed assets obtained on acquisition have been recognised separately in the financial statements. Goodwill is initially recognised as an asset and allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination and is then reviewed at least annually for impairment. Any impairment is recognised immediately in the income statement and is not reversed. Goodwill is accordingly stated in the balance sheet at cost less any provisions for impairment in value.

Goodwill arising on acquisitions before the date of transition to IFRS (1 January 2004) has been retained at the previous UK GAAP carrying value subject to being tested for impairment at that date. Goodwill written off to reserves prior to 1998 under UK GAAP has not been reinstated and would not be included in determining any subsequent profit or loss on disposal.

	The Group				
£m	Merchanting	Retail	Toolstation	Plumbing & Heating	Total
At 1 January 2018	658.9	707.3	103.4	69.6	1,539.2
Recognised on acquisition	2.1	–	–	–	2.1
Impairment (note 29)	–	(252.1)	–	–	(252.1)
At 1 January 2019	**661.0**	**455.2**	**103.4**	**69.6**	**1,289.2**
Recognised on acquisitions (note 32)	**–**	**–**	**72.0**	**0.8**	**72.8**
Reclassified to assets held for sale (note 14)	**–**	**–**	**–**	**(2.9)**	**(2.9)**
At 31 December 2019	**661.0**	**455.2**	**175.4**	**67.5**	**1,359.1**

The Company has no goodwill.

b. Other intangible assets

Accounting policy

Intangible assets identified as part of the assets of an acquired business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition.

Intangible assets are amortised to the income statement on a straight-line basis over a maximum of 20 years except where they are considered to have an indefinite useful life. In the latter instance, they are reviewed annually for impairment.

The directly attributable costs incurred for the development of computer software controlled by and for use within the business are capitalised and written off over their estimated useful life, which ranges from three to ten years.

Interfaces are amortised over the lower of the remaining estimated useful lives of the systems they operate between. Costs relating to research, maintenance and training are expensed as they are incurred. No amortisation is charged on assets in the course of construction.

Amounts paid to third parties in respect of the development of assets not controlled by the Group are expensed over the period where the Group receives the benefit of the use of these assets. Licence fees for using third-party software are expensed over the period the software is in use.

Acquired customer relationships are amortised over their estimated useful lives, which range from 5 to 15 years. The remaining lives of amortised customer relationships range from one to seven years. No amortisation is charged on computer software under construction.

£m	The Group Brand	Computer software	Customer relationships	Assets under construction	Total
Cost or valuation					
At 1 January 2018	306.1	93.8	147.6	45.5	593.0
Additions	–	10.8	–	33.6	44.4
Transfers between categories	–	9.7	–	(9.7)	–
Reclassifications	–	–	–	(0.1)	(0.1)
Disposals	(4.2)	(1.4)	(5.8)	–	(11.4)
Derecognition	–	–	–	(11.2)	(11.2)
At 1 January 2019	**301.9**	**112.9**	**141.8**	**58.1**	**614.7**
Additions	–	6.4	–	2.0	**8.4**
Additions from acquired business (note 32)	16.8	–	3.4	–	**20.2**
Transfers between categories	–	7.2	–	(7.2)	**–**
Disposals	–	(0.3)	–	(0.1)	**(0.4)**
Derecognition (note 3)	–	–	–	(48.8)	**(48.8)**
At 31 December 2019	**318.7**	**126.2**	**145.2**	**4.0**	**594.1**
Amortisation					
At 1 January 2018	65.7	40.1	100.1	–	205.9
Charged on acquired intangibles	2.1	0.9	6.5	–	9.5
Charged on internally generated intangibles	–	15.5	–	–	15.5
Disposals	–	(0.2)	(4.1)	–	(4.3)
Impairment	–	2.7	–	–	2.7
At 1 January 2019	**67.8**	**59.0**	**102.5**	**–**	**229.3**
Charged on acquired intangibles	2.2	0.9	5.9	–	**9.0**
Charged on internally generated intangibles	–	19.4	–	–	**19.4**
Disposals	–	(0.3)	–	–	**(0.3)**
Impairment	–	4.1	–	–	**4.1**
At 31 December 2019	**70.0**	**83.1**	**108.4**	**–**	**261.5**
Net book value					
At 31 December 2018	234.1	53.9	39.3	58.1	385.4
At 31 December 2019	**248.7**	**43.1**	**36.8**	**4.0**	**332.6**

The Company has no intangible assets.

Where a brand has not been established for a significant period of time the Directors do not have sufficient evidence to support a contention that it will have an indefinite useful life. Accordingly for Toolstation, Plumbnation, Underfloor Heating and certain product-related brands the Directors have decided it is appropriate to amortise their brand costs over their estimated useful lives. The useful lives of those brands being amortised range from 10 to 20 years.The Directors consider that the other brands, which are also all leading brands in their sectors with significant histories and significant growth prospects, have an indefinite useful life. They are reviewed annually for impairment; details of impairment tests are shown in note 29.

Notes to the financial statements continued
For the year ended 31 December 2019

8. Goodwill and other intangible assets continued
c. Cash-generating units
The Directors consider that each branch or distribution network in the Group is an individual cash-generating unit ("CGU"). Goodwill and intangible fixed assets with indefinite useful lives have been allocated and monitored for impairment testing purposes to groups of individual CGUs within the same brand. The following table analyses goodwill and intangible fixed assets with indefinite useful lives by CGU grouping.

£m	2019			2018		
CGU grouping	Intangibles	Goodwill	Total	Intangibles	Goodwill	Total
Merchanting						
CCF	–	43.6	**43.6**	–	43.6	43.6
Keyline	–	100.2	**100.2**	–	100.2	100.2
BSS Industrial	49.3	26.8	**76.1**	49.3	26.8	76.1
TF Solutions	–	7.8	**7.8**	–	7.8	7.8
Travis Perkins	–	482.6	**482.6**	–	482.6	482.6
Retail						
Wickes	162.5	455.2	**617.7**	162.5	455.2	617.7
Toolstation						
Toolstation UK	–	103.4	**103.4**	–	103.4	103.4
Toolstation Europe	20.2	72.0	**92.2**	–	–	–
Plumbing & Heating						
City Plumbing Supplies	–	51.5	**51.5**	–	51.5	51.5
Plumbnation	–	1.7	**1.7**	–	1.7	1.7
PFP	–	2.9	**2.9**	–	2.9	2.9
Underfloor Heating Store	–	11.2	**11.2**	–	10.4	10.4
National Shower Spares	–	3.1	**3.1**	–	3.1	3.1
Reclassified to assets held for sale (note 14)	–	(2.9)	**(2.9)**	–	–	–
	232.0	**1,359.1**	**1,591.1**	211.8	1,289.2	1,501.0

9. Property, plant and equipment
Accounting policy
Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and any impairment in value. Assets are depreciated to their estimated residual value on a straight-line basis over their estimated useful lives as follows:
- Buildings – 50 years or, if lower, the estimated useful life of the building or the life of the lease
- Plant and equipment – 4 to 10 years
- Freehold land is not depreciated

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds net of expenses and the carrying amount of the asset in the balance sheet and is recognised in the income statement. Where appropriate, the attributable revaluation reserve remaining in respect of properties revalued prior to the adoption of IFRS is transferred directly to retained earnings.

£m	The Group Freehold	Long leasehold	Short leasehold	Plant and equipment	Total	The Company Plant and equipment
Cost or deemed cost						
At 1 January 2018	484.2	35.5	203.5	842.6	1,565.8	0.3
Additions	50.1	0.7	44.8	57.5	153.1	0.2
Disposals	(61.5)	(0.1)	(9.8)	(50.9)	(122.3)	–
Reclassifications from current assets	2.3	(0.1)	0.2	(0.2)	2.2	–
At 1 January 2019	**475.1**	**36.0**	**238.7**	**849.0**	**1,598.8**	**0.5**
Adjustment for change in accounting policy (note 38)	**–**	**(0.8)**	**(23.1)**	**(26.0)**	**(49.9)**	**–**
Adjusted balance at 1 January 2019	**475.1**	**35.2**	**215.6**	**823.0**	**1,548.9**	
Additions	21.6	0.8	36.1	75.9	**134.4**	**–**
Acquisition through business combinations (note 32)	–	–	4.4	4.0	**8.4**	**–**
Disposals	(42.9)	(1.5)	(18.2)	(43.6)	**(106.2)**	**(0.3)**
Reclassified to assets held for sale (note 14)	–	–	–	(6.6)	**(6.6)**	**–**
At 31 December 2019	**453.8**	**34.5**	**237.9**	**852.7**	**1,578.9**	**0.2**
Accumulated depreciation						
At 1 January 2018	47.4	13.6	90.8	482.0	633.8	0.1
Charged in the year	5.8	1.1	12.2	81.9	101.0	–
Disposals	(3.8)	(0.1)	(5.8)	(41.0)	(50.7)	–
Impairment charged in the year as an adjusting item	–	–	–	1.5	1.5	–
At 1 January 2019	**49.4**	**14.6**	**97.2**	**524.4**	**685.6**	**0.1**
Adjustment for change in accounting policy (note 38)	**–**	**(0.3)**	**(20.2)**	**(11.1)**	**(31.6)**	**–**
Adjusted balance at 1 January 2019	**49.4**	**14.3**	**77.0**	**513.3**	**654.0**	
Charged in the year	6.1	0.8	12.1	78.5	**97.5**	**–**
Disposals	(4.8)	(0.5)	(4.2)	(45.3)	**(54.8)**	**–**
Impairment charged in the year as an adjusting item	1.2	–	0.2	1.2	**2.6**	**–**
Reclassified to assets held for sale (note 14)	–	–	–	(2.4)	**(2.4)**	**–**
At 31 December 2019	**51.9**	**14.6**	**85.1**	**545.3**	**696.9**	**0.1**
Net book value						
At 31 December 2018	425.7	21.4	141.5	324.6	913.2	0.4
At 31 December 2019	**401.9**	**19.9**	**152.8**	**307.4**	**882.0**	**0.1**

The cost element of the tangible fixed assets carrying value is analysed as follows:

£m	The Group Freehold	Long leases	Short leases	Plant and equipment	Total	The Company Total
At deemed cost	21.5	3.6	-	-	**25.1**	**–**
At cost	432.3	30.9	237.9	852.7	**1,553.8**	**0.2**
	453.8	**34.5**	**237.9**	**852.7**	**1,578.9**	**0.2**

Included within freehold property is land with a value of £200m (2018: £205m) which is not depreciated. No assets are pledged as security for the Group's liabilities, other than 16 freehold properties, as disclosed in note 18.

Notes to the financial statements continued
For the year ended 31 December 2019

10. Leases

Accounting policy

Applicable from 1 January 2019

IFRS 16 – Leases establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

Identifying a lease

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the Group has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for fleet leases in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

For each lease or lease component, the Group follows the lease accounting model as per IFRS 16 – Leases, unless the recognition exceptions can be used.

Recognition exceptions

The Group has elected to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following two types of leases:

i) leases with a lease term of 12 months or less and containing no purchase options – this election is made by class of underlying asset
ii) leases where the underlying asset has a low value when new – this election can be made on a lease-by-lease basis

For leases where the Group has taken short-term lease recognition exemption and there are any changes to the lease term or the lease is modified, the Group accounts for the lease as a new lease.

Lessee accounting

Upon lease commencement the Group recognises a right-of-use asset and a lease liability.

Initial measurement

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the Group uses the incremental borrowing rate.

Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability and are initially measured using the index or rate as at the commencement date. Amounts expected to be payable by the lessee under residual value guarantees are also included.

Variable lease payments that are not included in the measurement of the lease liability are recognised in profit or loss in the period in which the event or condition that triggers payment occurs, unless the costs are included in the carrying amount of another asset under another accounting standard.

Subsequent measurement

After lease commencement, the Group measures right-of-use assets using a cost model. Under the cost model a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment.

The lease liability is subsequently remeasured to reflect changes in:

- the lease term (using a revised discount rate)
- the assessment of a purchase option (using a revised discount rate)
- the amounts expected to be payable under residual value guarantees (using an unchanged discount rate)
- future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate)

The remeasurements are matched by adjustments to the right-of-use asset.

Lease modifications may also prompt remeasurement of the lease liability unless they are determined to be separate leases.

Depreciation
The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The payments related to leases are presented under cash flow from financing activities and cash flow from operating activities in the cash flow statement.

Lessor accounting
When the Group acts as a lessor, it determines at lease inception whether each lease is a finance or operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of an underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the recognition exemption, then it classifies the sub-lease as an operating lease.

If an arrangement contains a lease and non-lease components, the Group applies IFRS 15 – Revenue from Contracts with Customers to allocate the consideration in the contract.

The Group recognises operating lease payments as income on a straight-line basis over the lease term as part of "other income".
The Group recognises finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment.

Upon lease commencement, the Group recognises assets held under a finance lease as a receivable at an amount equal to the net investment in the lease.

Sale and leaseback transactions
To determine whether the transfer of an asset is accounted for as a sale an entity applies the requirements of IFRS 15 – Revenue from Contracts with Customers for determining when a performance obligation is satisfied.

If an asset transfer satisfies the requirements to be accounted for as a sale the seller measures the right-of-use asset at the proportion of the previous carrying amount that relates to the right-of-use retained. Accordingly, the seller only recognises the amount of gain or loss that relates to the rights transferred to the buyer.

If the fair value of the sale consideration does not equal the asset's fair value, or if the lease payments are not market rates, the sales proceeds are adjusted to fair value, either by accounting for prepayments or additional financing.

Applicable before 1 January 2019
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalised at the inception of the lease at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease rental payments are recognised as an expense in the income statement on a straight-line basis over the lease term.
Reverse lease premia and other incentives receivable for entering into a lease agreement are recognised in the income statement on a straight-line basis over the life of the lease.

A sale and leaseback transaction is one where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. The accounting treatment of the sale and leaseback depends upon the substance of the transaction (by applying the lease classification principles described above) and whether or not the sale was made at the asset's fair value. For sale and finance leasebacks, any profit from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately.

Notes to the financial statements continued
For the year ended 31 December 2019

10. Leases continued

a) Amounts recognised in the balance sheet

Right-of-use assets:

£m	Land and buildings	Plant and equipment	Total
At 1 January 2019*	1,326.9	79.1	**1,406.0**
Additions	54.5	23.0	**77.5**
Acquired through business combinations	14.9	–	**14.9**
Disposals	(19.7)	–	**(19.7)**
Impairment	(8.6)	–	**(8.6)**
Depreciation	(147.5)	(26.8)	**(174.3)**
Right-of-use assets reclassified as held for sale (note 14)	(16.7)	(2.3)	**(19.0)**
At 31 December 2019	**1,203.8**	**73.0**	**1,276.8**

Lease liabilities:

Maturity analysis – contractual undiscounted cash flows

	£m
Less than one year	275.7
One to five years	919.4
More than five years	1,020.6
Total undiscounted lease liabilities at 31 December	**2,215.7**

Lease liabilities included in the statement of financial position at 31 December:

	£m
Current	158.7
Non-current	1,253.6
Liabilities reclassified as held for sale (note 14)	19.6
	1,431.9

* In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as finance leases under IAS 17 – Leases. The assets were presented in property, plant and equipment and liabilities as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16 – Leases on 1 January refer to note 38.

b) Amounts recognised in the statement of profit and loss

The statement of profit and loss shows the following amounts relating to leases:

	2019 £m
Depreciation of right-of-use assets	**174.3**
Interest expense (included in finance costs)	**57.0**
Expense relating to short-term leases	**3.3**
Expense relating to leases of low-value assets	**3.4**
Impairment of right-of-use assets	**8.6**

The total cash outflow for leases in 2019 was £232.6m.

c) The Group's leasing activities and how these are accounted for

The Group leases various properties, motor vehicles and equipment. Rental contracts are typically made for fixed periods but 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.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases 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 with 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 payments that are based on an index or a rate
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- Payments of penalties for terminating the lease if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being 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
- 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. Low-value assets comprise mainly IT equipment, vending machines and paint-mixing machines.

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.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal options and break clauses. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which can significantly affect the amount of lease liabilities and right-of-use assets recognised.

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).

For property leases the following factors are normally the most relevant:

- The profitability of the leased store/warehouse and future plans for the business
- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).

Most termination options on leases with impaired right-of-use assets are considered as reasonably certain to be exercised and therefore the lease liabilities were calculated only to the break-clause date.

The Group as lessor

The Group leases a number of ex-trading properties and surplus units in trade parks owned by the Group to third parties. Property rental income earned during the year in respect of these properties was £6.4m (2018: £6.1m).

At the balance sheet date, the Group had contracts with lessees for the following future minimum lease payments:

£m	2019	2018
Within one year	**4.8**	6.1
In the second to fifth years inclusive	**14.1**	16.0
After five years	**13.4**	14.0
	32.3	36.1

Notes to the financial statements continued
For the year ended 31 December 2019

11. Inventories

Accounting policy

Inventories, which consist of goods for resale, are stated at the lower of average weighted cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price less the estimated costs of disposal.

£m	2019	2018
Inventories	**937.8**	855.3

Key estimate – Cost of inventories

In determining the cost of inventories the Directors have to make estimates to arrive at cost and net realisable value.

The Group has entered into a large number of rebate and fixed price discount agreements, the effects of which are offset against the gross invoice price paid for goods. As explained in note 12 setting out the estimates made in respect of supplier income, the calculation of the value deferred into stock is complicated due to the number, nature and structure of the agreements in place. However, the Group has a well tested methodology that is consistently applied. The Directors believe that the £305m deduction from the gross invoice cost of stock (2018: £260m) is appropriate.

Furthermore, determining the net realisable value of the wide range of products held in many locations requires judgement to be applied to determine the likely saleability of the product and the potential price that can be achieved. In arriving at any provisions for net realisable value the Directors take into account the age, condition and quality of the product stocked and the recent trend in sales.

12. Supplier income

Accounting policy

Supplier income comprises fixed price discounts, volume rebates and customer sales support.

Fixed price discounts and volume rebates received and receivable in respect of goods which have been sold are initially deducted from the cost of inventory and therefore reduce cost of sales in the income statement when the goods are sold. Where goods on which the fixed price discount or volume rebate has been earned remain in inventory at the year end, the cost of that inventory reflects those discounts and rebates.

The Group receives customer sales support payments that are made entirely at the supplier's option, that are requested by the Group when a specific product is about to be sold to a specific customer and for which payment is only received after the sale has been completed.

All customer sales support receipts received and receivable are deducted from cost of sales when the sale to the third party has been completed, ie when the customer sales support payment has been earned.

Supplier income receivable is netted off against trade payables when there is a legally binding arrangement in place and it is management's intention to do so, otherwise amounts are included in other receivables in the balance sheet.

Other supplier income relates to customer sales support received in respect of sales of specific products to specific customers which is included in the income statement when the relevant sale occurs, ie when all conditions for it to be earned have been met.

Supplier income balances included within the Group balance sheet are as follows:

£m	2019	2018
Other receivables and trade payables	**428.0**	381.0
Inventories	**(305.0)**	(260.0)
Net balance sheet position	**123.0**	121.0

Key estimate – Calculation of supplier income

The overwhelming majority of supplier income, in excess of 85% (2018: 85%) by value, is determined by reference to fixed price discounts on actual purchases with approximately 7% (2018: 4%) being volume rebates that are subject to stepped rebate targets, the rebate percentage increasing as values or volumes purchased reach pre-agreed targets. However, because the agreements with suppliers are almost entirely coterminous with the Group's financial year end, by the year end the Group knows whether those targets were reached.

Approximately 75% (2018: 80%) of supplier income is receivable during the year as it is earned and settled monthly, although some agreements may also stipulate quarterly, bi-annual or annual payments, with only two of the arrangements not being coterminous with the Group's statutory year end.

Therefore the key estimates relate to the total value of rebates and fixed price discounts still to be received at the year end and the amount to be set against the gross value of inventory. These are determined using established methodologies and in the case of collectability, management's knowledge of the parties involved and historical collection trends. Changes in the assessment of the collectability of outstanding balances may result in adjustments to receivables and stock in the next financial year, however these would not be expected to be material.

13. Trade and other receivables

Accounting policy

Trade and other receivables

The Group's trade and other receivables at the balance sheet date comprise principally of amounts receivable from the sale of goods, amounts due in respect of rebates in relation to unbilled work in progress and sundry prepayments.

Impairment of financial assets

Trade receivables are subject to the expected credit loss model in IFRS 9 – Financial Instruments.

The Group applies the IFRS 9 – Financial Instruments simplified approach to measuring expected credit losses.

This uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the failure of a debtor to engage in a repayment plan with the Group and the commencement of legal proceedings.

	The Group		The Company	
£m	**2019**	2018	**2019**	2018
Current:				
Trade receivables	**743.0**	824.6	**–**	–
Allowance for doubtful debts	**(20.0)**	(18.7)	**–**	–
	723.0	805.9	**–**	–
Amounts owed by subsidiaries	**–**	–	**655.3**	614.3
Other receivables	**444.4**	356.6	**76.0**	1.1
Prepayments and accrued income	**72.3**	91.3	**–**	–
	1,239.7	1,253.8	**731.3**	615.4
Non-current:				
Prepayments	**–**	43.3	**–**	–
Trade and other receivables	**1,239.7**	1,297.1	**731.3**	615.4

The Directors consider that the only class of asset containing material credit risk is trade receivables. The average credit term taken for sales of goods is 57 days (2018: 60 days). No interest is charged on the trade receivable from the date of the invoice until the date the invoice is classified as overdue according to the trading terms agreed between the Group and the customer. Thereafter, the Group retains the right to charge interest at 4% pa above the clearing bank base rate on the outstanding balance.

Non-current prepayments in 2018 represented capitalised licence fees in relation to the new ERP programme. As discussed in note 3 they were written off as adjusting items during the year.

Notes to the financial statements continued
For the year ended 31 December 2019

13. Trade and other receivables continued
Movement in the allowance for doubtful debts

£m	2019	2018
At 1 January	**18.7**	17.2
Opening IFRS 9 – Transition Adjustment	**–**	2.4
Amounts written off during the year	**(19.3)**	(16.9)
Charge in the year	**20.6**	16.0
At 31 December	**20.0**	18.7

Expected credit loss assessment
The following table provides information about the exposure to credit risk and expected credit losses for trade receivables as at 31 December 2019.

£m	Gross carrying amount	Weighted average loss rate	Loss allowance	Credit impaired
Current (not past due)	**673.7**	**0.4%**	**(2.4)**	**No**
Days overdue:				
1–30	**35.0**	**4.2%**	**(1.5)**	**No**
31–60	**13.6**	**7.8%**	**(1.1)**	**No**
61–90	**3.5**	**17.9%**	**(0.6)**	**No**
91–120	**2.1**	**31.4%**	**(0.6)**	**No**
More than 120	**15.1**	**91.4%**	**(13.8)**	**Yes**
	743.0		**(20.0)**	

Loss rates are based on actual credit loss experience over the past four years.

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables as at 31 December 2018.

£m	Gross carrying amount	Weighted average loss rate	Loss allowance	Credit impaired
Current (not past due)	692.5	0.3%	(2.2)	No
Days overdue:				
1–30	78.1	2.1%	(1.6)	No
31–60	19.5	6.8%	(1.3)	No
61–90	10.0	13.5%	(1.4)	No
91–120	3.6	32.2%	(1.2)	No
More than 120	20.9	52.6%	(11.0)	Yes
	824.6		(18.7)	

14. Non-current assets held for sale
The Primaflow F&P wholesale business, which formed part of the Plumbing & Heating segment, was sold on 31 January 2020 for cash consideration of £50.1m. In accordance with IFRS 5 – Non-current Assets Held For Sale and Discontinued Operations, the assets and liabilities of this business have been classified as held for sale in the balance sheet as at 31 December 2019.

Assets of disposal group classified as held for sale

	£m
Goodwill (note 8)	2.9
Property, plant and equipment (note 9)	4.2
Right-of-use assets (note 10)	19.0
Inventories	35.7
Trade and other receivables	76.2
Total assets	**138.0**

Liabilities of disposal group classified as held for sale

	£m
Non-current lease liability (note 10)	17.5
Current lease liability (note 10)	2.1
Trade and other payables	71.9
Total liabilities	**91.5**

No adjustment was made to write down the assets and liabilities held for sale to their fair value less cost to sell as this was in excess of their carrying value. The Group has not presented Primaflow F&P's operations as discontinued as this business was not a major line of business or geographical area of operations, contributing £301.5m of the Group's revenue.

15. Provisions

Accounting policy

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation because of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet dates, and are discounted to present value.

Should a provision ultimately prove to be unnecessary then it is credited back into the income statement. Where the provision was originally established as an adjusting item, any release is shown as an adjusting credit.

The Group has a number of vacant and partly sublet leased properties. Where necessary a provision has been made for the residual commitments for rates and other payments after taking into account existing and anticipated subtenant arrangements.

It is Group policy to self insure using policies with a high excess against claims arising in respect of damage to assets, or due to employers or public liability claims. The nature of insurance claims means they may take some time to be settled.

The insurance claims provision represents management's best estimate, based upon external advice of the value of outstanding claims against it where the final settlement date is uncertain, in line with IAS 37.

	The Group			
£m	Property	Insurance	Restructuring	**Total**
At 1 January 2018	28.5	29.0	12.2	**69.7**
Charge to income statement	11.1	9.0	17.5	**37.6**
Utilisation of provisions	(10.0)	(6.7)	(12.4)	**(29.1)**
Unwinding of discount	0.2	–	–	**0.2**
At 1 January 2019	**29.8**	**31.3**	**17.3**	**78.4**
Adjustment for change in accounting policy (note 38)	(12.4)	–	–	**(12.4)**
At 1 January 2019 (adjusted)	**17.4**	**31.3**	**17.3**	**66.0**
Charge to income statement	8.0	7.8	20.3	**36.1**
Utilisation of provision	(4.3)	(6.4)	(23.1)	**(33.8)**
Unwinding of discount	0.1	–	–	**0.1**
At 31 December 2019	**21.2**	**32.7**	**14.5**	**68.4**
Included in current liabilities	13.2	32.7	14.5	**60.4**
Included in non-current liabilities	8.0	–	–	**8.0**
	21.2	**32.7**	**14.5**	**68.4**

The Company has no provisions.

As set out in note 3, the Group recognised an adjusting charge relating to the Wickes' separation and supply chain restructuring. The restructuring provision relates to these items. It excludes property-related provisions and inventory and trade creditor amounts which are separately classified.

Should a provision ultimately prove to be unnecessary then it is credited back to the income statement. Where the provision was originally established as an adjusting item, any release is disclosed as an adjusting credit. The 2019 charge to property provisions of £12.6m is presented after a credit of £2.1m relating to the release of property provisions originally created through adjusting items.

15. Provisions continued

The following table details the Group's liquidity analysis of its provisions, based on the undiscounted net cash outflows.

£m	0–1 year	1–2 years	2–5 years	5+ years	Total
2019:					
Property	10.5	5.1	5.6	0.5	**21.7**
Insurance	32.7	–	–	–	**32.7**
Restructuring	14.5	–	–	–	**14.5**
	57.7	**5.1**	**5.6**	**0.5**	**68.9**
2018:					
Property	11.4	8.7	7.4	2.9	30.4
Insurance	31.3	–	–	–	31.3
Restructuring	17.3	–	–	–	17.3
	60.0	8.7	7.4	2.9	79.0

In December 2018 one of the Group's subsidiaries, Travis Perkins (Properties) Limited, commenced proceedings against Roxhill (Tilbury) Limited and Roxhill Developments Limited in the Technology and Construction Court in respect of defective external hardstanding at the Group's Tilbury Range Centre. The Group expects to reach a settlement with the developers in 2020 that includes the remediation of the defective hardstanding.

Key estimate – Claims in respect of the merchant ERP programme

Following the change in approach to the replacement of the Group's merchant ERP system announced in July 2019, the Group terminated its relationship with Infor (the software provider) in October 2019 and formally set out its damages claim.

There is a contingent liability in respect of the Group's possible obligations under the relevant contracts, which include break clauses limiting the Group's maximum possible contractual exposure to c.£65m.

In the view of the Directors, it is probable that the Group will be able to successfully resolve this matter without making any payments to the software provider. Accordingly no provision has been made in respect of these contracts. The Directors expect this matter to resolve in the next 48 months.

16. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting periods.

	The Group									
£m (Asset)/liability	At 1 Jan 2018	Recognised in income	Recognised in equity	Recognised in other comprehensive income	**At 1 Jan 2019**	Acquisitions	Recognised in income	Recognised in equity	Recognised in other comprehensive income	**At 31 Dec 2019**
Capital allowances	0.7	(2.9)	–	–	**(2.2)**	–	1.3	–	–	**(0.9)**
Trading losses	–	–	–	–	**–**	(1.9)	–	–	–	**(1.9)**
Revaluation of property	7.6	–	–	–	**7.6**	–	–	–	–	**7.6**
Share-based payments	(3.8)	1.7	0.1	–	**(2.0)**	–	(3.6)	(4.1)	–	**(9.7)**
Provisions	5.5	0.5	–	–	**6.0**	–	(4.5)	–	–	**1.5**
Property assets acquired in business combinations	6.1	(0.6)	–	–	**5.5**	–	(0.6)	–	–	**4.9**
Brand	50.3	(2.8)	–	–	**47.5**	3.4	(2.5)	–	–	**48.4**
Pension scheme asset (note 18)	(5.4)	1.5	–	19.3	**15.4**	–	1.8	–	(8.3)	**8.9**
Adjusting items – deferred tax (note 3)	–	–	–	–	**–**	–	27.1	–	–	**27.1**
Leases *	–	–	–	–	**(21.3)**	–	(1.9)	–	–	**(23.2)**
Deferred tax	61.0	(2.6)	0.1	19.3	**56.5**	**1.5**	**17.1**	**(4.1)**	**(8.3)**	**62.7**

* The balance at 1 January 2019 includes the effect of initially applying IFRS 16 (see note 38)

At 31 December 2019, the Group had unused capital losses of £40.6m (2018: £40.6m) available for offset against future capital profits. No deferred tax asset has been recognised because it is improbable that future taxable profits will be available against which the Group can utilise the losses. £38.7m arose prior to the Group acquiring Wickes and the remainder arose in PTS in 2015. Those businesses own no assets that may generate a future capital gain against which the losses can be offset. Other than disclosed above, no deferred tax assets and liabilities have been offset.

The Group also has unused trading losses of £50.5m in relation to its Toolstation Europe business. of these, no deferred tax asset has been recognised on £39.3m as it is considered, at the balance sheet date, improbable that sufficient taxable profits will be generated in a time frame suitable to allow for recognition. £21m of these losses are also subject to restricted carry forward rules reducing their likelihood of being utilised further. This position will be reviewed annually.

The Group's deferred tax provision is measured at a rate of 17%, which is the current enacted statutory corporation tax rate for 2020 onwards (rate reducing from 19% to 17% in April 2020). However, the UK Government has indicated that the reduction in rate planned for April 2020 will not now go ahead and should this become formal policy, the Group's current deferred tax provision would increase to £70m. If the rate change to 19% does become substantively enacted then an increase in provision of £7.4m to that shown above will be reflected as an opening balance rate change adjustment in the Group's 2020 Annual Report and Accounts.

£m Liability/(asset):	The Company At 1 Jan 2018	Recognised in income	Recognised in equity	**At 1 Jan 2019**	Recognised in income	Recognised in equity	**At 31 Dec 2019**
Share-based payments	1.5	(0.4)	–	**1.1**	0.7	1.7	**3.5**
Other timing differences	0.4	–	–	**0.4**	–	–	**0.4**
	1.9	(0.4)	–	**1.5**	**0.7**	**1.7**	**3.9**

17. Trade payables and other liabilities

Accounting policy

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs and are measured at amortised cost. The Directors consider that the carrying amount of trade payables approximates to their fair value. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

	The Group		The Company	
£m	**2019**	2018	**2019**	2018
Trade payables	**1,143.4**	1,136.6	**–**	–
Other taxation and social security	**74.2**	62.4	**–**	–
Other payables	**227.5**	201.8	**20.5**	20.9
Accruals and deferred income	**168.8**	202.4	**0.9**	0.9
Trade and other payables	**1,613.9**	1,603.2	**21.4**	21.8

Included in trade payables at 31 December 2019 are amounts of £177.9m (2018: £161.1m) which are due for settlement under supplier financing arrangements with third-party banks. Suppliers choose to enter into these arrangements which provide access to the option of early settlement of invoices at interest rates based on Travis Perkins' credit rating. If suppliers do not elect for early payment, invoices are settled on the date agreed in the existing payment terms. In some cases, Travis Perkins has agreed extensions to payment terms with suppliers who regularly access the scheme, with the longest payment terms in place of 93 days, and extension of 31 days.

The total net amount outstanding where terms have been extended at 31 December 2019 was £14.4m (2018: £14.5m). These arrangements do not provide the Group with a significant benefit of additional financing and have been put in place for the benefit of the Group's suppliers, providing them with access to cost-efficient third-party funding. As such outstanding balances are classified as trade payables and form part of the operating cash flows movement in the Consolidated cash flow statement.. There are no significant judgements applied in the calculation of supplier finance balances.

18. Pension arrangements

Accounting policy

Payments to defined contribution retirement benefit schemes are recognised as an expense when colleagues have rendered services entitling them to the contributions.

For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effects of asset ceilings and minimum funding payments and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income. Remeasurement recorded in the statement of comprehensive income is not recycled.

Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Net interest expense or income is recognised within finance costs.

Where the Group is committed to pay additional contributions under a minimum funding arrangement and it has no unconditional right to receive any surplus in a winding up of the scheme, the pension obligation recognised in the financial statements is the higher of the IAS 19 (revised 2011) obligation or the net present value of future minimum funding payments to which the Group is unconditionally committed, discounted using the IAS 19 (revised 2011) discount rate.

Notes to the financial statements continued
For the year ended 31 December 2019

18. Pension arrangements continued

Defined benefit schemes

The Group operates four final salary schemes being The Travis Perkins Pensions and Dependants' Benefit Scheme ("the TP DB scheme") and the immaterial Platinum pension scheme ("the TP Schemes") and the "BSS Schemes" being the BSS Defined Benefit Scheme ("the BSS DB Scheme") and the immaterial BSS Ireland Defined Benefit Scheme. All defined benefit schemes are closed to new members and future accrual.

The assets of the TP DB schemes are held separately from those of the Group under the control of the schemes' trustees. Colleagues are entitled to start drawing a pension, based on their membership of a scheme, on their normal retirement date. If colleagues choose to retire early and draw their pension, or late and defer drawing their pension, then the amount they receive is scaled down or up accordingly.

A full actuarial valuation of the TP DB scheme was carried out as at 30 September 2017. The IAS 19 valuation has been based upon the results of the 30 September 2017 valuation and then updated to 31 December 2019 by a qualified actuary. The present values of the defined benefit obligations, the related current service costs and the past service costs for the TP Schemes were measured using the projected unit method.

The assets of the BSS Schemes are held separately from those of the Group in funds under the control of the schemes' trustees. The most recent actuarial valuations of the BSS schemes' assets and the present value of the defined benefit obligations were carried out as at 30 September 2017. The present value of the defined benefit obligation and the related current service cost and past service cost were measured using the projected unit method.

In June 2010, an agreement was reached with the Trustees of the TP DB scheme to fund £34.7m of the funding deficit using a Group-controlled special purpose vehicle ("SPV"). The pension scheme is entitled to receive the income of the SPV for a period of up to 20 years. This entitlement was previously contingent and subject to funding levels, which resulted in a restriction in the amount recognised as a scheme asset. These payments were guaranteed in December 2018, which is the primary reason an additional £25.1m was recognised as a scheme asset in 2018. This income is backed by the security of 16 Travis Perkins' freehold properties. As the SPV is consolidated into the Travis Perkins plc Group accounts, advantage has been taken of Regulation 7 of The Partnership (Accounts) Regulations 2008 and accounts for the SPV will neither be audited or filed.

The TP Schemes and the BSS Schemes expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk. A summary of the risks and the management of those risks is given below and continued overleaf.

Investment risk	The present value of the defined benefit liabilities of the schemes is calculated using a discount rate predetermined by reference to high-quality corporate bond yields. If the return on scheme assets is below this rate it may create a plan deficit. Following a review of the investment strategy, a derisking exercise is currently being undertaken with a higher proportion of the largest two pension schemes' assets being invested in gilts and corporate bonds ("liability driven investments"). Currently the schemes have investments in equity securities, secured finance assets, bonds, debt instruments and real estate. Due to the long-term nature of the scheme liabilities the trustees of the pension funds previously considered it appropriate that a reasonable portion of the scheme assets should be invested in equities.
Interest risk	A decrease in corporate bond yields will increase the schemes' liabilities, but the effect will be partially offset by an increase in the return on the schemes' bond and gilt assets.
Longevity risk	The present value of the liabilities of the schemes is calculated by reference to the best estimate of mortality of pension scheme members both during and after their employment. An increase in the life expectancy of the schemes' members will increase the schemes' liabilities.

The investment strategy for the UK scheme is controlled by the trustee in consultation with the Company. The scheme assets do not include any of the Group's own financial instruments.

All fair values are provided by the fund managers. Where available, the fair values are quoted prices (eg listed equity, sovereign debt and corporate bonds). Unlisted investments (eg private equity) are included at values provided by the fund manager in accordance with relevant guidance. Other significant assets are valued based on observable inputs such as yield curves.

The liability driven investments, which comprise fixed interest and index-linked gilts, futures, interest and inflation rate swaps, repurchase agreements and liquidity funds, are all daily priced and traded.

The Directors have agreed with the BSS Schemes' Trustees to make contributions of £8.8m in 2020 and £4.1m in 2021 with the aim of eliminating the deficit in the BSS Schemes by September 2021. In addition the Company has agreed to make contributions of £0.8m pa to the TP DB Schemes until 30 September 2022 with the aim of eliminating the deficit in these schemes by that date. The Group has also agreed to make monthly contributions to cover the ongoing management and administrative expenses of the BSS Schemes and the TP DB Schemes.

a. Major actuarial assumptions

	At 31 December 2019	At 31 December 2018
Rate of increase in pensionable salaries	**n/a**	n/a
Rate of increase of pensions in payment post 2006	**2.05%**	2.10%
Rate of increase of pensions in payment 1997–2006	**2.95%**	3.10%
Discount rate	**2.00%**	2.90%
Inflation assumption – RPI	**3.05%**	3.25%
Inflation assumption – CPI	**2.05%**	2.25%

The yield curve used in setting the discount rate, which includes bonds with an average AA rating and excludes bonds which are sub-sovereign or issued by universities to reflect the credit risk of the defined benefit schemes.

In respect of longevity, the valuation adopts the S2PA year of birth tables with improvements in life expectancy to continue in the medium term, with base year appropriate to the member's date of birth. This results in the following life expectancies at illustrative ages:

Weighted average life expectancy at age 65 for mortality tables used to determine pension liabilities at 31 December 2019:

Current member age	Sex	Life expectancy
45	Male	23.4
45	Female	26.2
65	Male	22.0
65	Female	24.7

b. Amounts recognised in income

	2019			2018		
£m	TP Schemes	BSS Schemes	Group	TP Schemes	BSS Schemes	Group
Current service costs and administration expenses	(0.9)	(0.5)	**(1.4)**	(4.4)	(2.1)	(6.5)
Past service costs – GMP equalisation	–	–	**–**	(7.5)	(2.1)	(9.6)
Past service costs – curtailment gains	–	–	**–**	3.1	1.6	4.7
Net interest income/(expense)	2.3	0.1	**2.4**	1.2	(0.8)	0.4
Total pension charge	**1.4**	**(0.4)**	**1.0**	(7.6)	(3.4)	(11.0)

Guaranteed Minimum Payments ("GMP") are a special tranche of pension for contracted-out service prior to 6 April 1997, intended to replace a sacrificed part of the state pension. On 26 October 2018 the High Court issued a ruling on GMP equalisation clarifying that pension scheme trustees are under a duty to equalise for GMPs between members of different sexes and setting out a number of different lawful methods for equalisation. The Group recognised a past service cost of £9.6m for the impact of this ruling, which was been calculated by qualified actuaries.

The £4.7m pension curtailment gain, recognised in 2018 as a result of the closure of the Travis Perkins Pensions and Dependants' Benefit Scheme and the BSS Defined Benefit Scheme to future accrual, is stated net of £0.5m of associated administrative expenses.

The curtailment gain and the charge for GMP equalisation were recognised as adjusting items in 2018.

c. Amounts included in the balance sheet

The amount included in the balance sheet arising from the Group's obligations in respect of all of its defined benefit schemes and the movements during the year:

	2019			2018		
£m	TP Schemes	BSS Schemes	Group	TP Schemes	BSS Schemes	Group
Fair value of plan assets	1,220.4	361.6	**1,582.0**	1,103.8	322.8	1,426.6
Present value of defined benefit obligations	(1,165.4)	(364.0)	**(1,529.4)**	(1,021.5)	(323.9)	(1,345.4)
Gross actuarial surplus/(deficit)	55.0	(2.4)	**52.6**	82.3	(1.1)	81.2
Gross pension asset/(liability) at 31 December	55.0	(2.4)	**52.6**	82.3	(1.1)	81.2
Deferred tax liability (note 16)			**(8.9)**			(15.4)
Net pension asset at 31 December			**43.7**			65.8

Notes to the financial statements continued
For the year ended 31 December 2019

18. Pension arrangements continued
Defined benefit schemes continued

The deferred tax liability of £8.9m (2018: £15.4m) has been recognised at the standard rate of corporation tax and not the 35% rate applicable for refunds from pension schemes, as this rate best reflects the rate at which the liability will unwind.

£m	2019 TP Schemes	2019 BSS Schemes	2019 Group	2018 TP Schemes	2018 BSS Schemes	2018 Group
At 1 January actuarial asset/(deficit)	82.3	(1.1)	**81.2**	6.6	(25.7)	(19.1)
Additional liability recognised for minimum funding requirements	–	–	**–**	–	(9.2)	(9.2)
	82.3	(1.1)	**81.2**	6.6	(34.9)	(28.3)
Current service costs and administration expenses charged to the income statement	(0.9)	(0.5)	**(1.4)**	(4.4)	(2.1)	(6.5)
Past service costs	–	–	**–**	(4.4)	(0.5)	(4.9)
Net interest income/(expense)	2.3	0.1	**2.4**	1.2	(0.8)	0.4
Contributions from sponsoring companies	2.1	11.3	**13.4**	5.1	13.4	18.5
Return on plan assets (excluding amounts included in net interest)	127.1	34.7	**161.8**	(15.7)	(10.1)	(25.8)
Actuarial (loss)/gain arising from changes in demographic assumptions	(0.9)	(0.3)	**(1.2)**	3.3	(7.3)	(4.0)
Actuarial gain/(loss) arising from changes in financial assumptions	(161.5)	(48.3)	**(209.8)**	74.5	25.0	99.5
Actuarial gain arising from experience adjustments	4.5	1.7	**6.2**	16.1	7.0	23.1
Reduction in minimum funding requirement liability	–	–	**–**	–	9.2	9.2
Gross pension asset/(liability) at 31 December	**55.0**	**(2.4)**	**52.6**	82.3	(1.1)	81.2

d. Major categories and fair value of scheme assets
The major categories and fair values of scheme assets at the end of the reporting period for each category are as follows:

£m	At 31 December 2019 TP Schemes	At 31 December 2019 BSS Schemes	At 31 December 2018 TP Schemes	At 31 December 2018 BSS Schemes
Level 1:				
Cash	**3.7**	**3.2**	2.0	1.3
Level 2:				
Equities	**65.0**	**20.6**	104.4	36.6
Secured finance	**172.8**	**48.9**	109.0	28.8
Corporate bonds	**336.5**	**105.6**	319.6	98.8
Diversified growth fund	**119.6**	**34.7**	108.7	31.5
Liability driven investments	**1,040.1**	**323.0**	712.9	267.0
Repurchase agreements	**(656.7)**	**(203.5)**	(388.3)	(169.6)
Property	**100.5**	**29.1**	98.9	28.4
Level 3:				
SPV asset	**38.9**	**–**	36.6	–
Other	**–**	**–**	–	–
	1,220.4	**361.6**	1,103.8	322.8

e. Actual return on scheme assets

	2019 £m	2019 %	2018 £m	2018 %
TP Schemes	**158.3**	**14.3%**	13.8	1.2
BSS Schemes	**43.7**	**13.5%**	(1.5)	(0.5)

f. Movements in the fair value of scheme assets

£m	2019 TP Schemes	2019 BSS Schemes	2019 Group	2018 TP Schemes	2018 BSS Schemes	2018 Group
At 1 January	1,103.8	322.8	**1,426.6**	1,128.9	324.3	1,453.2
Interest on scheme assets	31.2	9.1	**40.3**	29.5	8.6	38.1
Return on scheme assets not including interest	127.1	34.7	**161.8**	(15.7)	(10.1)	(25.8)
Foreign exchange	–	(0.6)	**(0.6)**	–	0.2	0.2
Administration expenses	(0.7)	(0.5)	**(1.2)**	(1.5)	(0.7)	(2.2)
Contributions from sponsoring companies	2.1	11.3	**13.4**	5.1	13.4	18.5
Contributions from members	–	–	**–**	0.2	0.1	0.3
Benefits paid	(43.1)	(15.2)	**(58.3)**	(42.7)	(13.0)	(55.7)
At 31 December	**1,220.4**	**361.6**	**1,582.0**	1,103.8	322.8	1,426.6

g. Movements in the present value of defined benefit obligations

£m	2019 TP Schemes	2019 BSS Schemes	2019 Group	2018 TP Schemes	2018 BSS Schemes	2018 Group
At 1 January	(1,021.5)	(323.9)	**(1,345.4)**	(1,122.3)	(350.0)	(1,472.3)
Service cost	(0.2)	–	**(0.2)**	(3.4)	(1.5)	(4.9)
Past service costs	–	–	**–**	(3.9)	(0.5)	(4.4)
Interest cost	(28.9)	(9.0)	**(37.9)**	(28.3)	(9.4)	(37.7)
Foreign exchange	–	0.6	**0.6**	–	(0.1)	(0.1)
Contributions from members	–	–	**–**	(0.2)	(0.1)	(0.3)
Experience adjustments	4.5	1.7	**6.2**	16.1	7.0	23.1
Actuarial (loss)/gain arising from changes in demographic assumptions	(0.9)	(0.3)	**(1.2)**	3.3	(7.3)	(4.0)
Actuarial (loss)/gain arising from changes in financial assumptions	(161.5)	(48.3)	**(209.8)**	74.5	25.0	99.5
Benefits paid	43.1	15.2	**58.3**	42.7	13.0	55.7
At 31 December	**(1,165.4)**	**(364.0)**	**(1,529.4)**	(1,021.5)	(323.9)	(1,345.4)

h. Amounts recognised in the statement of other comprehensive income

£m	2019 TP Schemes	2019 BSS Schemes	2019 Group	2018 TP Schemes	2018 BSS Schemes	2018 Group
Return on scheme assets (excluding amounts included in net interest)	127.1	34.7	**161.8**	(15.7)	(10.1)	(25.8)
Actuarial (loss)/gain arising from changes in demographic assumptions	(0.9)	(0.3)	**(1.2)**	3.3	(7.3)	(4.0)
Actuarial (loss)/gain arising from changes in financial assumptions	(161.5)	(48.3)	**(209.8)**	74.5	25.0	99.5
Actuarial gain arising from experience adjustments	4.5	1.7	**6.2**	16.1	7.0	23.1
Reduction in minimum funding requirement liability	–	–	**–**	–	9.2	9.2
Remeasurement of net defined pension liability	**(30.8)**	**(12.2)**	**(43.0)**	78.2	23.8	102.0

18. Pension arrangements continued

Defined benefit schemes continued

i. Maturity profile of obligations

The maturity profile and weighted average duration of the defined benefit obligations for the schemes are as follows:

	2019	
	TP Schemes	BSS Schemes
2019–2028	**20.1%**	**19.7%**
2029–2038	**26.4%**	**26.9%**
2039–2048	**24.5%**	**24.8%**
2049–2058	**18.1%**	**18.1%**
2059–2068	**8.6%**	**8.6%**
2069–2078	**2.1%**	**1.8%**
2079–2088	**0.2%**	**0.1%**
Weighted average duration	**19.2 years**	**19.2 years**

	2018	
	TP Schemes	BSS Schemes
2018–2027	18.0%	18.5%
2028–2037	25.8%	25.5%
2038–2047	25.0%	24.5%
2048–2057	19.0%	18.9%
2058–2067	9.7%	9.7%
2068–2077	2.3%	2.6%
2078–2087	0.2%	0.3%
Weighted average duration	18.5 years	18.7 years

j. Sensitivities

The estimated effects of changing the key assumptions (discount rate, inflation and life expectancy) on the IAS 19 – Employee Benefits (revised 2011) balance sheet position as at 31 December 2019 is given below.

£m Assumption		TP Schemes	BSS Schemes
Discount rate	Increase of 0.1%	(22)	(7)
	Decrease of 0.1%	23	7
Inflation	Increase of 0.1%	14	6
	Decrease of 0.1%	(13)	(6)
Longevity	Increase of 1 year	50	16
	Decrease of 1 year	(53)	(17)

k. Defined contribution schemes

The Group operates two defined contribution schemes for all qualifying colleagues. The pension cost, which represents contributions payable by the Group, amounted to £20.7m (2018: £17.0m).

l. Pension scheme contributions for year

The total charge to the income statement disclosed in note 4 of £25.0m (2018: £23.5m) comprises defined benefit scheme current service costs of £1.4m (2018: £6.5m) and £23.6m (2018: £17.0m) of contributions payable to the defined contribution schemes.

m. Reassessment of right to refund

In 2018 the Group reassessed its conclusion on its right to receive any surplus in a winding up of the BSS DB Scheme following legal advice. Based on an analysis of the operation of law in the event of a winding up of the scheme on the resulting trust, the Directors concluded that the Group has an unconditional right to receive any surplus in a winding up of the scheme following a gradual settlement which has triggered a reassessment of the IAS 19 obligation. There is an unconditional right to receive any surplus in a winding up of the TP DB Scheme.

The impact of this reassessed judgement is a remeasurement credit of the net defined benefit pension liability of £9.2m in the statement of other comprehensive income in 2018 and a consequential reduction in the obligation recognised.

Key estimate over pension assumptions
The Group has chosen to adopt assumptions that the Directors believe are generally in line with comparable companies. If the difference between actual inflation and the actual increase in pensionable salaries is greater than that assumed, or if long-term interest rates are lower than assumed, or if the average life expectancy of pensioners increases, then the pension deficit could be greater than currently stated in the balance sheet. Where the pension obligation is included in the balance sheet at the net present value of the minimum funding payments then the impact on the balance sheet of changes in these assumptions is reduced.

The sensitivity of the balance sheet position to changes in key assumptions is disclosed in note 18(j).

19. Share capital and reserves

Accounting policy
Equity instruments represent the ordinary share capital of the Group and are recorded at the proceeds received, net of directly attributable incremental issue costs.

Consideration paid by the Group for its own shares is deducted from total shareholders' equity. Where such shares vest to colleagues under the terms of the Group's share incentive schemes or the Group's Sharesave schemes or are sold, any consideration received is included in shareholders' equity.

a. Share capital

Ordinary shares of 10p	The Group and the Company authorised, Issued and fully paid No.	£m
At 1 January 2018	251,994,708	25.2
Allotted under share option schemes	149,215	–
At 1 January 2019	252,143,923	25.2
Allotted under share option schemes	–	–
At 31 December 2019	**252,143,923**	**25.2**

The Company has one class of ordinary share that carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

b. Own shares

	The Group and the Company	
No.	**2019**	2018
At 1 January	**3,803,831**	1,216,331
Acquired	**1,000,000**	3,503,378
Reissued	**(859,687)**	(915,878)
At 31 December	**3,944,144**	3,803,831

None of the own shares have been allocated to grants of executive options. The own shares are stated at cost and held by the Employee Share Ownership Trust to satisfy options under the Group's share option schemes. All rights attaching to own shares are suspended until the shares are reissued.

Details of all movements in reserves for both the Group and Company are shown in their respective Statement of Changes in Equity.

The cumulative total of goodwill written off directly to reserves for acquisitions from December 1989 to December 1998 is £40.1m. The aggregate information for the accounting periods prior to this period is not available.

Notes to the financial statements continued
For the year ended 31 December 2019

19. Share capital and reserves continued
c. Reserves

A description of the nature and purpose of each reserve is given below:
- The share premium represents the amounts above the nominal value received for shares sold
- The merger reserve represents the premium on equity instruments issued as consideration for the acquisition of BSS
- The revaluation reserve represents the revaluation surplus that arose from property revaluations in 1999 and prior years
- The own shares reserve represents the cost of shares purchased in the market and held by the Employee Share Ownership Trust to satisfy options under the Group's share option schemes
- Foreign exchange reserve represents the exchange differences recognised on translation of the assets and liabilities of the foreign operations that have a functional currency different from the Group
- The other reserve represents anticipated gross outflow on the potential exercise of the put options held over the non-controlled shareholdings in TF Solutions and Toolstation Europe.

20. Earnings per share
a. Basic and diluted earnings per share

£m	2019	2018
Earnings for the purposes of earnings per share	**121.1**	(85.6)
Weighted average number of shares for the purposes of basic earnings per share	**247,957,050**	248,681,183
Dilutive effect of share options on potential ordinary shares	**2,293,525**	345,820
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**250,250,575**	249,027,003
Earnings/(loss) per share	**48.9p**	(34.4)p
Diluted earnings/(loss) per share	**48.4p**	(34.4)p

1,878,458 share options (2018: 5,284,836 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.

b. Adjusted earnings per share

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

£m	2019	2018
Earnings for the purposes of earnings per share	**121.1**	(85.6)
Adjusting items	**160.1**	386.7
Amortisation of acquired intangible assets	**9.0**	9.5
Tax on adjusting items	**(36.3)**	(24.2)
Adjusting deferred tax	**27.1**	-
Tax on amortisation of acquired intangible assets	**(1.6)**	(1.6)
Adjusted earnings	**279.4**	284.8
Adjusted earnings per share	**112.7p**	114.5p
Adjusted diluted earnings per share	**111.6p**	114.4p

21. Dividends
Accounting policy

Dividends proposed by the Board of Directors and unpaid at the period end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting.

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

£m	2019	2018
Final dividend for the year ended 31 December 2018 of 31.50 pence (2017: 30.50 pence) per ordinary share	**78.2**	75.6
Interim dividend for the year ended 31 December 2019 of 15.50 pence (2018: 15.50 pence) per ordinary share	**38.0**	38.5
Total dividend recognised during the year	**116.2**	114.1

The Directors are recommending a final dividend of 33.0 pence in respect of the year ended 31 December 2019. The anticipated cash payment in respect of the proposed final dividend is £83.2m (2018: £79.4m).

There are no income tax consequences in respect of the dividends declared, but not recognised in the financial statements. The dividends for 2019 and for 2018 were as follows:

Pence	2019	2018
Interim paid	15.5	15.5
Final proposed	33.0	31.5
Total dividend for the year	48.5	47.0

Distributable reserves

The distributable reserves of the Company approximate to the accumulated profits of £620.4m (2018: £693.4m). When required the Company can receive dividends from its subsidiaries to further increase distributable reserves. In 2019 the Company received £80.0m of dividends from its subsidiaries (2018: £385.8m). A corporate restructuring exercise was undertaken in 2018 to maximise the Company's ability to receive dividends from its subsidiaries.

22. Borrowings

Accounting policy

Interest-bearing bank loans and overdrafts, loan notes and other loans are recognised in the balance sheet at amortised cost. Finance charges associated with arranging non-equity funding are recognised in the income statement over the life of the facility. All other borrowing costs are recognised in the income statement in accordance with the effective interest rate method.

A summary of the Group's objectives, policies' procedures and strategies with regard to financial instruments and capital management can be found in the Strategic Report on pages 34 to 39. At 31 December 2019 all borrowings were denominated in sterling (2018: sterling).

a. Summary

	The Group		The Company	
£m	2019	2018	2019	2018
Liability to pension scheme	31.5	32.8	–	–
Sterling bonds	555.8	559.2	555.8	559.2
Finance leases	–	21.0	–	–
Finance charges netted off borrowings	(4.0)	(4.0)	(4.0)	(4.0)
	583.3	609.0	551.8	555.2
Current liabilities	–	3.8	–	–
Non-current liabilities	583.3	605.2	551.8	555.2
	583.3	609.0	551.8	555.2

b. Analysis of other borrowings

	The Group	
£m	2019	2018
Borrowings repayable:		
On demand or within one year	–	3.8
More than one year, but not more than five years	555.8	572.8
More than five years	31.5	36.4
Gross borrowings	587.3	613.0
Unamortised fees	(4.0)	(4.0)
	583.3	609.0

	The Company	
£m	2019	2018
Borrowings repayable:		
More than one year, but not more than five years	555.8	559.2
Unamortised fees	(4.0)	(4.0)
	551.8	555.2

Notes to the financial statements continued
For the year ended 31 December 2019

22. Borrowings continued

c. Facilities

At 31 December 2019, the following facilities were available:

£m	The Group 2019	The Group 2018	The Company 2019	The Company 2018
Drawn facilities:				
£250m sterling bond	**255.8**	259.2	**255.8**	259.2
£300m sterling bond	**300.0**	300.0	**300.0**	300.0
	555.8	559.2	**555.8**	559.2
Undrawn facilities:				
Five year committed revolving credit facility	**400.0**	550.0	**400.0**	550.0
Bank overdrafts	**30.0**	30.0	**30.0**	30.0
	430.0	580.0	**430.0**	580.0

The Group's £550m banking agreement with a syndicate of banks was replaced in January 2019 with a new £400m agreement that runs until January 2024. The disclosures in note 22(c) do not include leases, loan notes or the effect of finance charges netted off bank debt.

d. Interest

The weighted average interest rates received on assets and paid on liabilities were as follows:

%	2019	2018
Assets:		
Short-term deposits	**0.8**	0.7
Liabilities:		
£250m sterling bond	**3.0**	3.0
£300m sterling bond	**4.5**	4.5
Bank loans and overdrafts	**1.6**	1.8

In respect of income earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date.

	The Group and the Company 2019 Effective interest rate	2019 £m	2018 Effective interest rate	2018 £m
Assets:				
Short-term deposits	**0.8%**	**140.0**	0.7%	190.0
Liabilities:				
£250m sterling bond	**4.4%**	**255.8**	4.4%	259.2
£300m sterling bond	**4.5%**	**300.0**	4.5%	300.0
		555.8		559.2

e. Fair values

For both the Group and the Company the fair values of financial assets and liabilities have been determined based on the market prices at 31 December. There were no material differences between book and fair values on this basis and therefore no further information is disclosed.

Details of the fair values of derivatives are given in note 28.

f. Guarantees and security

There are cross guarantees on the overdrafts between Group companies.

Travis Perkins Trading Company Limited, Wickes Building Supplies Limited, Travis Perkins (Properties) Limited, Keyline Civils Specialist Limited, Toolstation Limited, The BSS Group Limited and City Plumbing Supplies Holdings Limited are guarantors of the following facilities advanced to Travis Perkins plc:

- £250m sterling bond
- £300m sterling bond
- £400m revolving credit facility
- Currency derivatives (note 28)

The Group companies have entered into other guarantee and counter-indemnity arrangements in respect of guarantees issued in favour of Group companies by several banks amounting to approximately £25m (2018: £25m).

23. Net debt

Accounting policy

Cash and cash equivalents comprise cash balances and cash deposits with an original maturity of three months or less held by the Group and Company, net of overdrafts. The carrying amount of these assets approximates to their fair value.

a. Movement in net debt

	The Group					
£m	Cash and cash equivalents	Leases	Term loan and revolving credit facility and loan notes	Unsecured senior US$ notes and sterling bonds	Liability to pension scheme	**Total**
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)
At 1 January 2019	**(255.4)**	**21.0**	**(1.4)**	**556.6**	**32.8**	**353.6**
Recognition of lease liability	**–**	**1,566.9**	**–**	**–**	**–**	**1,566.9**
Cash flow	**47.5**	**(232.6)**	**(2.9)**	**–**	**(3.4)**	**(191.4)**
Finance charges movement	**–**	**–**	**2.2**	**0.7**	**–**	**2.9**
Amortisation of swap cancellation receipt	**–**	**–**	**–**	**(3.4)**	**–**	**(3.4)**
Discount unwind on liability to pension scheme	**–**	**–**	**–**	**–**	**2.1**	**2.1**
Discount unwind on lease liabilities	**–**	**57.0**	**–**	**–**	**–**	**57.0**
31 December 2019	**(207.9)**	**1,412.3**	**(2.1)**	**553.9**	**31.5**	**1,787.7**

b. Covenant net debt

Following the implementation of IFRS 16 – Leases, the Group has started reporting covenant net debt, a new KPI that matches the definition of net debt in the Group's banking and bond covenants. The Group has stopped reporting lease adjusted net debt as the implementation of IFRS 16 – Leases means that the effect of leases is already reflected in net debt.

	The Group	
£m	**2019**	2018
Cash and cash equivalents	**207.9**	255.4
Non-current interest-bearing loans and borrowings	**(583.3)**	(588.0)
Non-current lease liabilities (note 10a)	**(1,253.6)**	(17.2)
Current lease liabilities (note 10a)	**(158.7)**	(3.8)
Net debt	**(1,787.7)**	(353.6)
Less: Liability to pension scheme	**31.5**	32.8
Less: Lease liabilities	**1,412.3**	21.0
Covenant net debt	**(343.9)**	(299.8)

24. Free cash flow

	The Group	
£m	**2019**	2018 (restated*)
Adjusted operating profit	**441.5**	374.5
Less: Profit on disposal of properties	**(20.6)**	(26.8)
Adjusted operating profit excluding property profit	**420.9**	347.7
Depreciation of property, plant and equipment	**97.5**	101.0
Amortisation and impairment of internally generated intangibles	**23.5**	15.5
Share-based payments	**19.9**	19.6
Movement on working capital	**(128.7)**	(106.1)
Other net interest paid	**(26.2)**	(25.5)
Interest on lease liabilities	**(57.0)**	–
Income tax paid	**(52.9)**	(55.1)
Capital expenditure excluding freehold purchase	**(120.9)**	(143.1)
Disposal of plant and equipment	**19.4**	13.8
Free cash flow	**195.5**	167.8

* The Group's definition of free cash flow has been revised and is now defined as net cash flow before dividends, capital expenditure and disposal proceeds on freehold property, pension deficit repair contributions, adjusting cash flows and financing cash flows. Compared to the previous definition, free cash flow now excludes all freehold property related cash flows and includes growth capital expenditure. In the Directors' view this revised metric better reflects the cash the Group needs in order to invest and expand its operations, pay dividends to shareholders and access the best property locations.

25. Net debt to adjusted EBITDA

Due to the impact of the adoption of IFRS 16 – Leases on 1 January 2019, net debt and adjusted EBITDA are not prepared on a consistent basis to previous years. The Group previously presented lease adjusted net debt to adjusted earnings before interest, tax, depreciation, amortisation and operating lease rentals ("EBITDAR"). This is shown below for the comparative year.

	The Group	
£m	2019	2018
Operating profit	**232.1**	(21.7)
Depreciation and amortisation	**300.2**	126.0
EBITDA	**532.3**	104.3
Adjusting operating items (note 3)	**200.4**	386.7
Share of associates' results	**(4.3)**	(4.0)
Adjusted EBITDA	**728.4**	487.0
Net debt (note 23b)	**1,787.7**	353.6
Net debt to adjusted EBITDA	**2.5x**	0.7x
Lease adjusted net debt to adjusted EBITDAR	**n/a**	2.7x

26. Fixed charge cover

	The Group	
£m	2019	2018
Adjusted EBITDA	**728.4**	487.0
Adjusted EBITDAR	**n/a**	675.9
Property operating lease rentals	**n/a**	184.9
Depreciation of property right-of-use assets	**147.5**	n/a
Interest for fixed charge cover (note 6b)	**28.1**	25.8
Interest on lease liabilities/finance leases	**57.0**	0.4
	232.6	211.1
Fixed charge cover	**3.1x**	3.2x

27. Return on capital ratios

Group return on capital employed is calculated as follows:

£m	2019	2018
Operating profit	232.1	(21.7)
Amortisation of acquired intangible assets	9.0	9.5
Adjusting items	200.4	386.7
Adjusted operating profit	441.5	374.5
Opening net assets	2,611.6	2,860.3
Net pension (surplus)/deficit	(65.8)	22.9
Net debt, including opening adjustment for change in accounting policy (note 38)	1,876.9	341.5
Goodwill amortisation and impairment	–	(252.1)
Opening capital employed	4,422.7	2,972.6
Closing net assets	2,587.1	2,717.7
Net pension surplus	(43.7)	(65.8)
Net debt	1,787.7	353.6
Closing capital employed	4,331.1	3,005.5
Average capital employed	4,376.9	2,989.0

Group return on capital employed is calculated as follows:

£m	2019	2018
Adjusted operating profit	441.5	374.5
Average capital employed	4,376.9	2,989.0
Return on capital employed	10.1%	12.5%

28. Financial instruments

Accounting policy

Investments and other financial assets classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through Other Comprehensive Income "FVOCI", or through profit or loss "FVTPL")
- Those to be measured at amortised cost.

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTPL or at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

28. Financial instruments continued

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in finance income or finance costs, together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the income statement.
- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in finance income or finance costs in the income statement as applicable. Impairment losses (and the reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Put options on non-controlling interests

Put options on non-controlling interests are initially recognised directly in equity at the present value of the redemption liability. Subsequent movements in fair value are recognised directly in equity.

Impairment

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9 – Financial Instruments, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange risks arising from financing activities. The Group does not enter into speculative financial instruments. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for derivative trading purposes.

Derivative financial instruments are stated at fair value. The fair value of derivative financial instruments is the estimated amount the Group would receive or pay to transfer to a market participant the derivative at the balance sheet date, taking into account current interest and exchange rates and the current creditworthiness of the counterparties.

Foreign currency forward contracts are marked-to-market at the balance sheet date, with any gains or losses being taken through the income statement.

Derivatives embedded in commercial contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the underlying contracts, with unrealised gains or losses being reported in the income statement.

a. Impact of adoption of IFRS 9 – Financial instruments

As at 1 January 2018 (the date of initial application of IFRS 9 – Financial Instruments) the Group's management assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 – Financial Instruments categories. The main effects resulting from this reclassification are as follows:

	Note	Original classification	New classification under IFRS 9 – Financial Instruments
Financial assets:			
Derivative financial instruments	a	Designated as FVTPL	Mandatorily at FVTPL
Cash and cash equivalents		Available-for-sale	Amortised cost
Trade and other receivables	b	Loans and receivables	Amortised cost
Available-for-sale investments	c	Available-for-sale	Designated instrument by instrument as either FVOCI or FVTPL
Financial liabilities:			
Derivative financial instruments	a	Designated as FVTPL	Mandatorily at FVTPL

a Under IAS 39 – Financial Instruments: Recognition and Measurement, these foreign currency forward contracts were designated FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9 – Financial Instruments.

b Trade and other receivables that were classified as loans and receivables under IAS 39 – Financial Instruments: Recognition and Measurement are now classified at amortised cost as the business model is to hold the financial asset to collect contractual cash flows which represent solely the payment of principal and interest. An increase of £2.4m in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9 – Financial Instruments.

c These equity securities represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9 – Financial Instruments, the Group has designated these investments on an instrument by instrument basis as either fair value through other comprehensive income ("FVTOCI") or FVTPL.

b. The carrying value of categories of financial instruments

	The Group		The Company	
£m	**2019**	2018	**2019**	2018
Financial assets:				
Mandatorily at FVTPL	**–**	0.6	**–**	0.6
Loans and receivables (including cash and cash equivalents) at amortised cost	**1,320.7**	1,422.3	**100.0**	195.3
Designated instrument-by-instrument as either FVTPL or FVOCI	**2.2**	2.2	**1.0**	1.0
	1,322.9	1,425.1	**101.0**	196.9
Financial liabilities:				
Mandatorily at FVTPL	**0.7**	–	**0.7**	–
Borrowings (note 22a)	**583.3**	609.0	**551.8**	555.2
Put options on non-controlling interests	**1.8**	5.6	**1.8**	5.6
Trade and other payables at amortised cost (note 17)	**1,293.9**	1,343.1	**20.5**	–
	1,879.7	1,957.7	**574.8**	560.8

Loans and receivables exclude prepayments of £54.3m (2018: £134.6m). Trade and other payables exclude taxation and social security and accruals and deferred income totalling £243.0m (2018: £290.7m). The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The Group has considered the impact of credit risk on its financial instruments and because the counterparties are banks with strong credit ratings considers its impact to be immaterial.

c. Fair value of financial instruments

Financial assets and financial liabilities designated as FVTPL comprise foreign currency forward contracts and are measured using quoted forward exchange rates.

Notes to the financial statements continued
For the year ended 31 December 2019

28. Financial instruments continued

Derivative financial instruments and hedge accounting continued

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (ie as prices) or indirectly (ie derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

There were no transfers between levels during the year.

	The Group		The Company	
£m	**2019**	2018	**2019**	2018
Included in liabilities:				
Level 2				
Foreign currency forward contracts at fair value through profit and loss	**0.7**	–	**0.7**	–
Level 3				
Deferred consideration at fair value through equity	**1.8**	5.6	**1.8**	5.6
	2.5	5.6	**2.5**	5.6

d. Interest risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts and forward interest rate contracts when appropriate. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles. At 31 December 2019 no interest rate risks were hedged (2018: none).

e. Currency forward contracts

The Group acquires goods for sale from overseas, which when not denominated in sterling are paid for principally in US dollars. The Group has entered into forward foreign exchange contracts (all of which are less than one year in duration) to buy US dollars to hedge the exchange rate risk arising from these anticipated future purchases. At the balance sheet date the total notional value of contracts to which the Group was committed was US$35.0m (2018: US$41.1m). The fair value of these derivatives was £0.7m liability (2018: £0.6m asset). These contracts are not designated cash flow hedges and accordingly the fair value movement has been reflected in the income statement.

f. Interest rate sensitivity analysis

A sensitivity analysis has been determined based on the exposure to interest rates for both derivatives and non-derivative financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming that the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 1.0% increase or decrease is used when reporting interest rate risk internally to key management personnel.

At the 31 December 2019 the Group had no floating rate liabilities. There was £140m on short-term deposit at 31 December 2019. A 1.0% increase/decrease in interest rates, with all other variables held constant, would have the following impact on:

- Profit before taxation for the year ended 31 December 2019 would have increased/decreased by £1.4m (2018: increased/decreased by £1.9m) due to the short-term deposits
- Net equity would have increased/decreased by £1.1m (2018: increased/decreased by £1.5m)

g. Liquidity analysis

The following table details the Group's liquidity analysis for its derivative financial instruments and other financial liabilities. The table has been drawn up based on the undiscounted net cash flows on the derivative instruments that settle on a net basis and the undiscounted gross cash flows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and foreign currency rates as illustrated by the yield curves existing at the reporting date.

	2019				
£m	0–1 year	1–2 years	2–5 years	5+ years	Total
Total gross settled: foreign exchange forward contracts	(32.0)	–	–	–	**(32.0)**
Net settled: Put options on non-controlling interests	(1.8)	–	–	–	**(1.8)**
Total derivative financial instruments	(33.8)	–	–	–	**(33.8)**
Net settled:					
Borrowings	–	–	(555.8)	(31.5)	**(587.3)**
Trade and other payables at amortised cost (note 28b)	(1,293.9)	–	–	–	**(1,293.9)**
Leases (note 10a)	(275.7)	(259.5)	(659.9)	(1,020.6)	**(2,215.7)**
Total financial instruments	(1,603.4)	(259.5)	(1,215.7)	(1,052.1)	**(4,130.7)**

	2018				
£m	0–1 year	1–2 years	2–5 years	5+ years	Total
Total gross settled: foreign exchange forward contracts	(31.5)	–	–	–	(31.5)
Net settled:					
Put options on non-controlling interests	–	(5.6)	–	–	(5.6)
Total derivative financial instruments	(31.5)	(5.6)	–	–	(37.1)
Net settled:					
Borrowings	–	–	(559.2)	(32.8)	(592.0)
Trade and other payables at amortised cost (note 28b)	(1,343.1)	–	–	–	(1,343.1)
Finance leases	(4.4)	(4.3)	(10.6)	(6.7)	(26.0)
Total financial instruments	(1,379.0)	(9.9)	(569.8)	(39.5)	(1,998.2)

29. Impairment

Accounting policy

Impairment of tangible and intangible assets

The carrying amounts of the Group's tangible and intangible assets with a definite useful life are reviewed at each balance sheet date to determine whether there is any indication of impairment to their value. If such an indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount of an asset is the greater of its fair value less disposal cost and its value-in-use (the present value of the future cash flows that the asset is expected to generate). In determining value in use the present value of future cash flows is discounted using a pre-tax discount rate that reflects current market assessments of the time value-of-money in relation to the period of the investment and the risks specific to the asset concerned.

Where the carrying value exceeds the recoverable amount a provision for the impairment loss is established with a charge being made to the income statement. When the reasons for a write down no longer exist the write down is reversed in the income statement up to the net book value that the relevant asset would have had if it had not been written down and if it had been depreciated.

For intangible assets that have an indefinite useful life the recoverable amount is estimated at each annual balance sheet date.

Measuring recoverable amounts

The Group tests goodwill and other non-monetary assets with indefinite useful lives for impairment annually or more frequently if there are indications that an impairment may have occurred. The recoverable amounts of the goodwill and other non-monetary assets with indefinite useful lives are determined from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and like-for-like market volume changes which impact sales and therefore cash flow projections and maintenance capital expenditure. Management estimates pre-tax discount rates that reflect current market assessments of the time value of money and the risks specific to the CGU groupings that are not reflected in the cash flow projections.

Notes to the financial statements continued
For the year ended 31 December 2019

29. Impairment continued

At the end of the financial year the recoverable amount of goodwill and intangible assets with indefinite useful lives in all segments was in excess of their book value. In the absence of a binding agreement to sell the assets and active reference market on which fair value can be determined, the recoverable amount of the goodwill and intangible assets with indefinite useful lives was determined according to value-in-use. The value-in-use calculations require the use of assumptions.

Key assumptions

The key financial assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of current market conditions and future trends and have been based on historical data from both external and internal sources.

	2019	2018
Pre-tax discount rate	7.4–9.3%	8.5–9.3%
Long-term growth rate	1.6%	1.5%

Management determined the values assigned to these financial assumptions as follows:

- Pre-tax discount rates: these are calculated by reference to the weighted average cost of capital ("WACC") of the Group and reflect specific risks relating to the Group's industries and the countries in which the Group operates
- Long-term growth rate: This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. This represents the forecast GDP growth for the final year considered in the Office for Budget Responsibility's most recent Economic and Fiscal Outlook report.

Cash flow forecasts are derived from the most recent Board-approved corporate plans updated for changes in current trading conditions and adjusted for risks relevant to the cash flows. The key operating assumptions used in the estimation of future cash flows are:

- Sales market volume growth on which the approved corporate plans are based are derived from a variety of sources including construction and consumer outlook reports, current and forecast housing market transaction numbers and mortgage approval levels. The Directors consider this to be the principal operating assumption as it determines management's approach to the interlinked factors underlying the operating margin percentage.
- Operating margin percentage is forecast in the context of the sales market volume assumptions and is based on historical experience of operating margins, adjusted for the impact of changes to product costs and cost-saving initiatives.

For Wickes' impairment review cash flows were based on the Board-approved cash flow model used for the preparation of the documents for Wickes demerger for years 2020 and 2021. Wickes' cash flows beyond 2022 and all other impairment reviews cash flows beyond the corporate plan period (2023 and beyond) have been determined using the long-term growth rate.

Impairment charge

At the end of 2019 financial year the recoverable amount of goodwill and intangible assets with indefinite useful lives in all segments was in excess of their book value and therefore no impairment has been recognised.

In June 2018 the Group recognised an impairment charge in respect of the Wickes CGU of £246.3m due to Wickes underperforming its forecasts. No further impairment of the Wickes CGU was required in December 2018. In December 2018 the Group recognised an impairment charge of £5.8m in relation to the Tile Giant CGU.

Sensitivity to changes in assumptions

Whilst the Directors believe the assumptions are realistic, there are reasonably possible changes in key assumptions that would cause the recoverable amount of the Wickes CGU to be lower than the carrying amount. The key variables applied to the value-in-use calculations for Wickes and the value at which the recoverable amount would be equal to the carrying amount of £564.3m, including the effect of lease liabilities £102.6m in excess of right-of-use assets, were:

	2019		2018	
	Value	Sensitivity	Value	Sensitivity
Pre-tax discount rate	**9.3%**	**10.7%**	8.7%	8.8%
Long-term growth rate	**1.6%**	**0.3%**	1.5%	1.4%
Sales market volume growth	**1.0%**	**(0.1%)**	1.5%	1.4%
Operating margin	**5.1%**	**4.3%**	4.3%	4.2%

All other variables have been held equal.

The forecast sales market volume growth take into account the reduction of the impact of the significant market distortion and uncertainty caused by the acquisition of Homebase by the Australian retailer Bunnings in January 2016 for £340m and subsequent sale in May 2018 for £1. The forecast sales market volume growth and its impact on Wickes also takes into account the annualisation of the impact of competitor withdrawal from the installed kitchens' market.

In determining the operating margin assumption for the Wickes CGU as at 31 December 2019, the Directors took into account the continued benefits of the intensive overhead cost reduction activity carried out in the first half of 2018.

The Directors assessed whether, as a result of estimation uncertainty in the key assumptions used in the impairment reviews, there is a significant risk of a material adjustment to the carrying amount of the Wickes CGU or any other CGU in 2020 and concluded that this is not the case.

Sensitivity of June 2018 impairment to changes in assumptions

It is possible that a materially different impairment would have been identified in the impairment review undertaken as at 30 June 2018 if any of the key assumptions were changed significantly in the value-in-use calculations for the Wickes CGU. The impact on the impairment charge recognised a change in each assumption, all other assumptions remaining the same are shown in the table below.

Assumption	Change in assumption	Decrease in the carrying value of the Wickes CGU (£m)
Discount rate	100bps increase	119
Terminal value	5% reduction	30
Long-term growth rate	50bps reduction	54

Proposed Wickes demerger

In July 2019 the Group announced its intention to demerge the Wickes business. This proposed activity remains on track and, if shareholders approve this demerger at the Extraordinary General Meeting, likely to be scheduled for 28 April 2020, the Wickes business will be distributed to the shareholders of the Group. Should this happen then, in accordance with IFRIC 17 – Distributions of Non-cash Assets to Owners, the Group will recognise the distribution at the fair value of the business. Any difference between the fair value of the Wickes business and the carrying amount of the assets distributed will be recognised in profit or loss.

This is a different valuation basis from that applied in the impairment test, which compares the carrying amount to the higher of value-in-use and fair value less costs of disposal.

Other CGU groupings

For all other material CGU groupings, given the prudence already built into the Group's corporate plan and the level of headroom they show, the Directors do not envisage reasonably possible changes to the key operating assumptions that are sufficient to generate a different outcome from the impairment calculations undertaken.

Key estimates over assumptions used in value-in-use calculations

In testing for impairment, the recoverable amount of goodwill and intangible assets is determined by reference to the value-in-use of the CGU grouping to which they are attributed. In addition the Directors have made certain estimates concerning discount rates, future cash flows and the future development of the business that are consistent with its corporate plan. Whilst the Directors consider their assumptions to be realistic, should actual results, including those for market volume changes, be different from expectations, for instance due to a worsening of the UK economy, then it is possible that the value of goodwill and other intangible assets included in the balance sheet could become impaired.

The pre-tax discount rate is derived from the Group's WACC. The WACC is based upon the risk-free rate for twenty-year UK gilts, adjusted for the UK market risk premium, which reflects the increased risk of investing in UK equities and the relative volatilities of the equity of the Group compared to the market as a whole. The Directors have applied risk-based adjustments to cash flows to reflect their view of the relative risk of the Group's operations.

Key judgement over cash-generating unit

In the Directors' judgement individual assets do not generate cash flows that are largely independent of those from other assets. Consequently each branch or distribution network in the Group is a cash-generating unit for the purposes of impairment testing of property, plant and equipment. Goodwill and other intangibles' impairment testing is carried out at brand level as described in note 8. Different judgements on the definition of the Group's CGUs and the levels at which impairment testing should be performed could result in material differences in the conclusions of the Group's impairment testing.

30. Capital commitments

	The Group		The Company	
£m	**2019**	2018	**2019**	2018
Contracted for but not provided in the accounts	**37.2**	20.7	**–**	–

31. Investments

a. Interest in associates

The reconciliation of the Group's interest in associates is given below:

£m	The Group 2019	2018
At 1 January	**34.2**	20.3
Additions to investments	**20.6**	21.0
Disposal of investments	**(0.7)**	(0.6)
Impairment of investments	**(0.3)**	(2.5)
Derecognised following step acquisition (note 32)	**(47.6)**	–
Share of losses	**(4.3)**	(4.0)
At 31 December	**1.9**	34.2

Travis Perkins plc holds a 34% investment in The Mosaic Tile Company Limited. During the year the Group has disposed of its 49% investment in Toriga Limited and following the step acquisition of Toolstation Europe Limited (see note 32) the Group now owns 97.1% of the business and this is now accounted for as a subsidiary.

The interest in associates includes £nil (2018: £44.9m) of loans and preference shares.

The Group's share of associates' assets and liabilities are as follows:

£m	The Group 2019	2018
Current assets	**13.5**	25.6
Current liabilities	**(8.4)**	(14.6)
Non-current assets	**0.3**	6.1
Non-current liabilities	**–**	–
Net assets	**5.4**	17.1
Group share of net assets	**1.8**	7.8
Goodwill	**0.1**	26.4
Carrying amount of investment in associates	**1.9**	34.2

The Group's share of associates' income and expenses are as follows:

£m	The Group 2019	2018
Income	**66.4**	53.9
Expense	**(77.4)**	(63.6)
Net expense of equity accounted investments	**(11.0)**	(9.7)
Group share of revenue	**27.0**	22.2
Group share of net expense	**(31.3)**	(26.2)

b. Investment in subsidiaries

£m Cost	The Company 2019	2018
At 1 January	**3,894.9**	3,875.2
Additions	**79.4**	19.7
Disposals	**(28.6)**	–
At 31 December	**3,945.7**	3,894.9
Provision for impairment	**(356.2)**	(336.6)
Net book value at 31 December	**3,589.5**	3,558.3

The additions to investments in 2019 represent the increase in the share capital held in National Shower Spares Limited, The Underfloor Heating Store Limited and Toolstation Europe Limited, as discussed in note 32.

During 2019 the Company sold its investments in National Shower Spares Limited, KA Venture Limited and the Underfloor Heating Store Limited to other Group companies at book value for consideration left as intercompany balance.

During 2019 the Company has recognised an impairment of £19.6m in respect of investments in dormant entities as part of its ongoing project to simplify the Group's legal structure.

The Company's investment in Wickes Building Supplies Limited is subject to the same estimates and sensitivities as apply to the Wickes CGU in the Group's consolidated accounts. See note 29 for details of these.

In 2018 the Group recognised an impairment charge in respect of Wickes and Tile Giant (note 29). The associated impairment was recognised on the Company's investments.

A full listing of all related undertakings is provided in note 33.

c. *Investments*

	The Group		The Company	
£m	**2019**	2018	**2019**	2018
Equity investments designated as FVTPL:				
Investment in property entity	**1.2**	1.2	**–**	–
Shares held in invested entities	**1.0**	1.0	**1.0**	1.0
Loans receivable at amortised cost:				
Loans to property entities	**0.8**	0.8	**–**	–
Loans to invested entities	**3.7**	3.6	**3.7**	3.6
	6.7	6.6	**4.7**	4.6

The investment in property entity represents a minority holding in a property-owning entity that acquired properties from the Group in 2006 and 2015. This investment presents the Group with an opportunity to generate returns through both income and capital gains. The Directors consider that the carrying amount of these investments approximates to their fair value. The Group provides loans to this entity totalling £0.8m (2018: £0.8m) and charges interest at rates of between 10% and 12%.

32. Business combinations

Accounting policy

All business combinations are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement
- fair value of any pre-existing equity interest in the subsidiary

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 – Business Combinations are recognised at their fair value at the acquisition date except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 – Income Taxes and IAS 19 – Employee Benefits respectively
- Liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 – Share-based Payments

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill.

The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

Where a business combination is achieved in stages, the Group's previously held interest in the acquired entity is remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognised in the income statement.

Liabilities for contingent consideration are classified as fair value through profit and loss.

a) Acquisition of Toolstation Europe Ltd

On 30 September 2019 the Group acquired an additional 49.5% of the ordinary share capital of Toolstation Europe Limited for transferred cash consideration of £21.9m, giving the Group a controlling 97.1% share of the business. This investment will enable the Group to accelerate the expansion of the Toolstation network in Europe.

In accordance with the requirements of the acquisition accounting method, the existing 47.5% investment in associate has been remeasured to fair value. This fair value has been calculated based on the amount paid for the additional 49% acquired, creating a gain of £40.3m that has been credited to the consolidated income statement as an adjusting item (see note 3).

32. Business combinations continued

Consideration and assets and liabilities acquired

The consideration is as follows:

	£m
Consideration transferred: cash paid	21.9
Fair value of pre-existing equity investment	21.0
Settlement of pre-existing loans and preference shares	66.7
Total consideration	109.6

Fair values ascribed to the identifiable assets and liabilities acquired and the goodwill recognised are:

	£m
Property, plant and equipment (note 9)	8.4
Intangible assets – trade name (note 8)	16.8
Intangible assets – customer relationships (note 8)	3.4
Deferred tax liability (note 16)	(1.5)
Right-of-use assets (note 10)	14.9
Inventory	14.3
Trade and other receivables	4.0
Cash	1.4
Trade and other payables	(9.1)
Lease liabilities (note 10)	(14.9)
Net identifiable assets acquired	37.7
Less: non-controlling interest	(0.6)
Goodwill (note 8)	72.0
Net assets acquired	109.1

The goodwill recognised is principally made up of the value of the assembled workforce and the value to be derived from recently-opened stores that have not yet reached maturity. It will not be deductible for tax purposes.

Measurement of non-controlling interest

The Group has elected to recognise the non-controlling interest in Toolstation Europe Limited at its proportionate share of the acquired identifiable assets and liabilities.

Revenue and profit contribution

The acquired business contributed revenue of £11.2m and a net loss of £4.6m to the Group for the period from 1 October to 31 December 2019. If the acquisition had occurred on 1 January 2019, the Group revenue for the year ended 31 December 2019 would have been £38.8m higher and the Group profit would have been £18.5m lower. These amounts have been calculated using the subsidiary's results. No material adjustments were required as a result of differences in accounting policies or the effect of the fair value adjustments to the identified assets and liabilities, and no fair value gain or loss was recognised on settlement of previously advanced funds.

Outflow of cash to acquire subsidiary, net of cash acquired:

	£m
Cash consideration	21.9
Less: cash acquired	(1.4)
Net outflow of cash – investing activities	20.5

Acquisition-related costs

Acquisition-related costs of £0.2m in relation to stamp duty and legal costs are included in administrative expenses in the consolidated statement of profit or loss and in investing cash flows in the consolidated statement of cash flows.

b) Other business combinations and investment activity

On 2 January 2019 the Group acquired the remaining 25% of the issued share capital of National Shower Spares Limited for cash consideration of £1.3m. National Shower Spares Limited is now a wholly-owned subsidiary.

On 17 May 2019 the Group acquired an additional 35% of the issued share capital of the Underfloor Heating Store Limited for cash consideration of £18.5m. The Group now owns 90% of the issued share capital of this subsidiary. As a result of this transaction, the amount of non-controlling interest recognised in the Group's equity was reduced by £6.8m.

On 15 January 2019 the Group acquired the trade and assets of Ambient Electrical Limited, an online retailer of electric underfloor heating products, for cash consideration of £1.0m, generating goodwill of £0.8m.

On 30 September 2018 the Group sold the trade and assets of Birchwood Price Tools business for the 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 Group's intangible fixed assets were derecognised.

33. Related undertakings

The registered office of all subsidiary undertakings is Lodge Way House, Lodge Way, Harlestone Road, Northampton NN5 7UG except for companies with a superscript where the registered office is given after the list of subsidiary companies and investments.

Active subsidiary companies (100% ownership and UK registered)

Benchmarx Kitchens and Joinery Limited
Built For Trade Limited
CCF Limited
City Plumbing Supplies Holdings Limited
Connections (AML) Limited
E. East & Son Limited[13]
Hunter Estates Limited
IJM Enterprises Limited
Keyline Civils Specialist Limited[1]
National Shower Spares Limited[1]
Primaflow Limited
PTS Group Limited
Rudridge Limited
Solfex Limited
The Cobtree Scottish Limited Partnership[1]
Tile Giant Limited
Toolstation Limited
TP Property Company Limited
Travis Perkins (Properties) Limited
Travis Perkins (PSL2015) Limited
Travis Perkins Acquisitions Company Limited
Travis Perkins Finance Company Limited
Travis Perkins Financing Company No.2 Limited
Travis Perkins Leasing Company Limited
Travis Perkins Merchant Holdings Limited
Travis Perkins P&H Holdings Limited
Travis Perkins P&H Partner Limited
Travis Perkins Plumbing & Heating LLP
Travis Perkins Trading Company Limited
Wickes Building Supplies Limited[9]
Wickes Developments Limited
Wickes Group Holdings Limited[9]
Wickes Group Limited[9]
Wickes Properties Limited

Dormant & non-trading subsidiary companies (100% ownership and UK registered)

A. Warren & Sons Limited
A.M. Supplies (Pumps And Controls) Limited
Actionbridge Limited
Ahed Limited
Angelery Limited
B. & G. (Heating & Plumbing) Limited Baird Lindsay Limited[1]
Basic Partition Systems Limited
Basildon Heating Services Limited
Blandford Builders & Decorators Merchants Limited
Blyth & Taylor (Hants) Limited
BMSS Limited
Bondco 909 Limited
Bonham Lilley Timber Limited
Border Building Supplies Limited
Boston (2011) Limited
Boxbrook Holdings Limited
Brasscapri Limited
Brassware Sales Limited
British Steam Specialties (International) Limited(The)
British Steam Specialties Limited(The)
Broombys Limited
Bss (UK) Limited
BSS GPS Trustee Limited
Builders Mate Limited
Builders Traders Limited
Bulwell Timber Company Limited
Burt Boulton (Timber) Limited
Buywell Building Supplies Limited
C & C Building Supplies (Marple) Limited
C & G Building Supplies Limited
C.H. Crees and Son Limited
Carmichael Browne Associates Limited
Central England Supplies Ltd
Chandler Forest Products Limited
Chinnor Plumbing Supplies Limited
Christie & Vesey Limited
City Plumbing Supplies (Poole) Limited
City Plumbing Supplies (Salisbury) Limited
City Plumbing Supplies (Scotland) Limited
City Plumbing Supplies Limited
Cobtree Nominees Limited
Commercial Ceiling Factors (Midlands) Limited
Commercial Ceiling Factors Limited
Contract Supplies (North East) Limited
Coppas Controls (Uk) Limited
County Hire Services (Wollaton) Limited
County Landscape Products Limited
Curran Sawmills Limited – The[5]
D.W. Archer Limited
Direct Building Supplies Truro Limited
Direct Heating Spares Limited
Domestic Heating Supplies (Warrington) Limited
Downpatrick Timber Slate and Coal Company Limited[5]
Dyfed Building and Plastic Supplies Limited
E Fletcher (Timber) Limited
E. Salisbury Limited
Edward Henthorne and Company Limited
Edward Jones (Crowthorne) Limited
Edwards & Company (Longfield) Limited
Elecnation Limited
Elias Wild & Sons Limited
F W Darby & Co (Tunbridge Wells) Limited
Fishguard Building Supplies Limited
Floorsystems Limited
Flortek Limited
Four Oaks Timber and Joinery Supplies Limited
Fry & Pollard Limited
Gammon & Smith Limited
Garratt Timber Supplies Limited
Gestion Toolstation inc.[12]
Gisowatt Uk Limited
Graylin Limited
Greenwell Building Supplies Limited
Grundy & Pilling Limited
Hardleys Timber & Building Supplies Ltd.
Harris of Stirchley Limited
Harrison Trenery Limited
Harvey Building Supplies (Scotland) Limited
Heatek Labone Cadel Limited
HT (1995) Limited
HTG (1996) Limited
Hunter Limited
IJM Holdings Limited
Index Timber & Building Supplies Limited[1]
Instox Limited
Ivco Process Valves Limited
J & B. Labone Limited
J T Stanton & Co. Limited

Notes to the financial statements continued
For the year ended 31 December 2019

33. Related undertakings continued

J.H. Walker & Co. (York) Limited
James Ladd & Sons (Property) Limited
James Ladd & Sons Limited
Jayhard Holdings Limited
Jayhard Ltd
John Clements (Builders Merchants) Limited
John Dove & Co. Limited
John H. Turner & Lisney Limited
Joseph Spark & Son Limited
K X Company Limited
KA Venture Limited
Kelmar (Plumbing & Heating Supplies) Limited
Keyline (CML) Limited
Kisling Limited
Lord Street Building Supplies (Leigh) Limited
M & H (North East) Limited
M G Bailey (Building Materials) Limited
Malden Timber (West) Limited
Manor Building & Plumbing Supplies Limited
Manor Copper Supplies Limited
May & Hassell (Cumbria) Limited
May & Hassell (North West) Limited
May & Hassell (Scotland) Limited[1]
May & Hassell Limited
Mayalls Limited
MD (1995) Group Limited[1]
MD (1995) Limited
MD (Park Street) Limited
MD-DOR3 Limited
MD-DOR4 Limited
Monteith Building Services Limited[1]
NAGS Building Supplies Limited
Nailnole Limited
Neptronik Controls Ltd
Newcastle Tile Centre Limited
Norman Mackenzie (Building Supplies) Limited[1]
O J Williams (Merchants) Limited
P.C.P. Harris (Builders Merchants) Limited
P.C.P. Harris (Holdings) Limited
P.T.S. Plumbing Trade Supplies Limited
Passmore Drywall & Insulation Limited
Peck & Goodwin Limited
Peckham Timber and Builders Merchants Limited
Plasterers & Builders Merchants Limited
Plumbing Parts Limited
Price & Brown (Heating) Limited
Price Tool Sales Limited
Primaflow (Birmingham) Limited
Property Newco Two Limited
R A Thomas (Joinery) Limited
Renpye Limited
S & M Bathrooms Limited
S & M Builders Merchant (Batley) Limited
Sandell Perkins + Newmans Limited
Seales McLean Limited
Ses Southern Limited
Sharpe & Fisher (1989) Limited
Sharpe & Fisher (Building Supplies) Limited
Sharpe & Fisher (Properties) Limited
Sharpe & Fisher Limited
Shires Timber Co. Ltd
Simmons of Stoke-On-Trent Limited
SLBM Systems Limited
Smiths Building Supplies Limited
Spendlove C. Jebb[7]
Spendlove C. Jebb Holdings Limited
Stearns (Shipton Green) Limited
T & T (Sussex) Plant Hire Limited
T Butt & Son Limited
T J Willets (Timber) Limited
Tavistock Building Supplies Limited
Taylor Building Supplies Ltd
Terant Supplies Limited
The BSS EBT Company Limited
THE BSS GROUP LIMITED
The Yard Building Supplies Limited
Tile Beta Limited
Tile Delta Limited
Tile Giant Holdings Limited
Tile HQ Limited
Tile It All (UK) Limited
Tile Magic Holdings Limited
Tile Magic Limited
Toolstation Holdings Limited
TP Directors Ltd
TP General Partner (Scotland) Limited[1]
TP Shelfco No.2 Limited
TP Shelfco No.3 Limited
TPG Management Services Limited
Travis & Arnold Limited
Travis Perkins Bridge Properties LLP
Travis Perkins Capital Partner Limited
Travis Perkins Financing Company No.3 Limited
Travis Perkins Installation Services Limited
Travis Perkins Quest Trustees Limited
Tricom Group Limited
Tricom Supplies Limited
UGS Limited
UGS South East Limited
Vaner Holdings Limited
W. Gaunt Limited
W.A. Hawke & Son Limited
W.H. Newson & Sons Limited
W.H. Newson Holding Limited
W.S. Shuttleworth (Maidenhead) Limited
W.S. Shuttleworth (Slough) Limited
W.S. Shuttleworth (Timber) Limited
Water Street Home Improvements Limited
Whittaker & Co. (Builders Merchants) Limited
Wickes Group Trustees Limited
Wickes Holdings Limited[9]
Wickes Limited[9]
Wickes Retail Sourcing Limited
William Bird Holdings Limited
William Bloore & Son Limited
Zenith Plumbpoint Limited

Other subsidiary companies

Company Name	Registered	% Ownership	Status
BSS (Ireland) Limited[3]	Ireland	100	Active
City Investments Limited[4]	Jersey	100	Active
TFS Holdings Limited	United Kingdom	90	Active
The Underfloor Heating Store Limited	United Kingdom	90	Active
Toolexpert Benelux BV[8]	Netherlands	97	Active
Toolstation BV[8]	Netherlands	97	Dormant
Tools & Fastener Solutions Limited	United Kingdom	90	Active
Toolstation	Belgium	97	Active
Toolstation Europe BV[8]	Netherlands	97	Active
Toolstation Europe Limited	United Kingdom	97	Active
Toolstation GmbH[14]	Germany	97	Active
Toolstation Netherlands BV[8]	Netherlands	97	Active
Toolstation SAS[15]	France	97	Active
Travis Perkins Hong Kong Limited[10]	Hong Kong	100	Active
Travis Perkins Sourcing (Shanghai) Ltd[11]	China	100	Active

Investments

Company Name	Registered	% Ownership	Status
Bombala Limited[2]	United Kingdom	49	Active
The Mosaic Tile Company Limited[2]	United Kingdom	34	Active
Independent Construction Technologies Limited[6]	United Kingdom	15	Active
P H Properties Limited[6]	United Kingdom	15	Active
Staircraft Group Limited[6]	United Kingdom	15	Active
Staircraft Integrated Solutions Limited[6]	United Kingdom	15	Active

Registered offices (not Lodge Way House)

1 Suite S3, 8 Strathkelvin Place, Kirkintilloch, Scotland, G66 1XT, United Kingdom
2 Project House, Armley Road, Leeds, England and Wales, LS12 2DR, United Kingdom
3 White Heather Industrial Estate, South Circular Road, Dublin, 8, Ireland
4 Ogier House, The Esplanade, St Helier, JE4 9WG, Jersey
5 Tughans, Marlborough House, 30 Victoria Street, Belfast, BT1 3GS, United Kingdom
6 Staircraft Building, Dunns Close, Nuneaton, Warwickshire, CV11 4NF, United Kingdom
7 107–127 Grosvenor Road, Belfast, BT12 4GT, United Kingdom
8 Touwbaan 40, 2352CZ Leiderdorp, Netherlands
9 Vision House, 19 Colonial Way, Watford, United Kingdom, WD24 4JL
10 Suite 2401, 24/F, China Insurance Group Building, 141 Des Voeux Road, Central, Hong Kong
11 Building No.17, No. 800 Changde Road, JingAn District, Shanghai 200040
12 5303 boul. Saint-Laurent, Montréal Québec H2T1S5, Canada
13 43–45 Chiltern Avenue, Woodside Road, Amersham, Bucks, HP6 5AF
14 Regus Building, Kranhaus 1, Business Centre GmbH Co KG, Im Zollhafen 18, 50678 Koln, Germany
15 61 Route de Grenoble, 69800 Saint Priest, Lyon, France

34. Staff costs

a. *Average number of persons employed*

The average monthly number of persons employed (including Executive Directors):

	The Group		The Company	
No.	**2019**	2018*	**2019**	2018*
Sales and distribution	**28,544**	28,114	**-**	–
Administration	**1,515**	1,634	**52**	65
	30,059	29,748	**52**	65

*The average number of persons employed for 2018 has been restated from the average full-tme equivalent number for comparability.

b. *Aggregate remuneration*

	The Group		The Company	
£m	**2019**	2018	**2019**	2018
Staff costs – wages and salaries	**790.0**	759.6	**7.1**	7.1
Staff costs – social security costs	**66.7**	62.6	**0.9**	1.0
Staff costs – other pension costs (note 18)	**25.0**	23.5	**0.1**	0.1
Share-based payments (note 35)	**23.0**	19.6	**10.7**	6.5
	904.7	865.3	**18.8**	14.7

Notes to the financial statements continued
For the year ended 31 December 2019

35. Share-based payments

Accounting policy

The Group issues equity-settled share-based payments to colleagues (long-term incentives, executive share options and Save As You Earn). These payments are measured at fair value at the date of grant using the Black Scholes option-pricing model taking into account the terms and conditions upon which the options were granted. The cost of equity-settled awards is recognised on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

a. Fair value of options

The Black-Scholes option-pricing model is used to calculate the fair value of the options and the amount to be expensed. The probability of the performance conditions being achieved was included in the fair-value calculations. The inputs into the model for options granted in the year expressed as weighted averages are as follows:

	2019			2018		
	Executive options	**SAYE**	**Nil price options**	Executive options	SAYE	Nil price options
Share price at grant date (pence)	**1,294.0**	**–**	**1,249.2**	1,272.0	1,089.0	1,295.0
Option exercise price (pence)	**1,405.5**	**–**	**–**	1,300.0	909.0	-
Volatility (%)	**32.2%**	**–**	**31.8%**	29.2%	30.2%	29.3%
Option life (years)	**2.2**	**–**	**2.3**	2.2	3.3	2.2
Risk-free interest rate (%)	**0.7%**	**–**	**0.7%**	1.2%	1.2%	1.2%
Expected dividends as a dividend yield (%)	**3.7%**	**–**	**3.7%**	3.3%	3.8%	3.2%

Volatility is based on historic share prices over a period equal to the vesting period. Option life used in the model has been based on options being exercised in accordance with historical patterns. For executive share options the vesting period is three years.

If options remain unexercised after a period of ten years from the date of grant, these options expire. Options are forfeited if the colleague leaves the Group before options vest. SAYE options vest after three or five years and expire three and a half or five and a half years after the date of grant.

The risk-free interest rate of return is the yield on zero-coupon UK Government bonds on a term consistent with the vesting period. Dividends used are based on actual dividends where data is known and future dividends estimated using a dividend cover of three times (within the Board's target range).

The expected life of options used in the model has been adjusted, based upon management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

b. Income statement charge and shares granted

A description of the share schemes operated by the Group is contained in the remuneration report on pages 89 to 91. The estimated fair values of the shares under option granted under the Group's share schemes in 2019 are as follows:

Share scheme	Grant date	Fair value for the Group £m	Fair value for the Company £m
Co-investment plan	1 April 2019 14 August 2019	5.4	1.5
Performance share plan	12 March 2019 14 August 2019 30 August 2019	8.6	2.1
Deferred share bonus plan	12 March 2019	2.1	0.9
Executive retention plan	12 March 2019	0.3	0.3

The Group charged £23.0m (2018: £19.7m) and the Company charged £10.7m (2018: £6.9m) to the income statement in respect of equity-settled share-based payment transactions.

c. Share options for the Group

The number and weighted average exercise price of share options is as follows:

	The Group					
	2019			2018		
In thousands of options	Weighted average exercise price (pence)	Number of options	Number of nil price options	Weighted average exercise price (pence)	Number of options	Number of nil price options
Outstanding at the beginning of the year	**1,152**	**6,221**	**3,508**	1,486	5,580	3,330
Forfeited during the year	**1,225**	**(1,462)**	**(467)**	1,467	(3,011)	(574)
Exercised during the year	**1,499**	**(522)**	**(619)**	1,274	(179)	(746)
Granted during the year	**1,407**	**119**	**1,176**	918	3,831	1,498
Outstanding at the end of the year	**1,092**	**4,356**	**3,598**	1,152	6,221	3,508
Exercisable at the end of the year	**1,401**	**162**	**163**	1,809	322	191

Details of the options outstanding at 31 December 2019 are as follows:

	The Group					
	2019			2018		
	Executive options	SAYE	Nil price options	Executive options	SAYE	Nil price options
Range of exercise prices (pence)	**473–1,958**	**909–1,616**	**–**	473–1,958	818–1,616	–
Weighted average exercise price (pence)	**1,420**	**1,069**	**–**	1,512	1,136	–
Number of shares (thousands)	**291**	**4,054**	**3,737**	262	5,958	3,654
Weighted average expected remaining life (years)	**1.2**	**1.9**	**1.6**	1.1	2.6	1.3
Weighted average contractual remaining life (years)	**8.0**	**2.4**	**8.2**	8.0	3.0	6.9

d. Impact of vesting and exercise

If all 0.3m outstanding executive options vest and then are exercised on the date of vesting, or in the case of SAYE all 0.3m shares are acquired on the first possible day 3.9m of shares will be issued for a consideration of £44.9m in the years below:

	2020		2021		2022		2023		2024	
	No. m	Value £m	No. m	Value £m	No. m	Value £m	No. m	Value £m	No. m	Value £m
Options	0.1	1.2	0.1	1.0	0.1	1.5	–	–	–	–
SAYE	0.8	11.7	2.4	22.1	0.1	1.8	0.6	5.6	–	–

The table above shows theoretical amounts. For the Company to receive the cash indicated in the periods shown, the following must occur:

- All performance conditions on executive share options must be fully met
- Options must be exercised on the day they vest (option holders generally have a seven year period post vesting to exercise the option)
- The share price at the exercise date for SAYE options must exceed the exercise price and every holder must exercise
- All option/SAYE holders must remain with the Company, or leave on good terms

If none of the requirements are met then the Company will receive no consideration.

e. Share options for the Company

The number and weighted average exercise price of share options is as follows:

	The Company					
	2019			2018		
In thousands of options	Weighted average exercise price (pence)	Number of options	Number of nil price options	Weighted average exercise price (pence)	Number of options	Number of nil price options
Outstanding at the beginning of the year	**1,158**	**76**	**1,525**	1,412	64	1,337
Forfeited during the year	**1,034**	**(35)**	**(300)**	1,436	(19)	(109)
Exercised during the year	**1,336**	**(5)**	**(247)**	–	–	(268)
Transferred from other Group companies	**–**	**–**	**–**	–	–	–
Granted during the year	**1,419**	**4**	**378**	951	31	565
Outstanding at the end of the year	**1,398**	**40**	**1,356**	1,158	76	1,525
Exercisable at the end of the year	**1,958**	**–**	**–**	1,533	3	1

35. Share-based payments continued

Details of the options outstanding at 31 December 2019 as follows:

	The Company					
	2019			2018		
	Executive options	SAYE	Nil price options	Executive options	SAYE	Nil price options
Range of exercise prices (pence)	**1,113-1,958**	**909-1,616**	**–**	1,300-1,958	909-1,616	–
Weighted average exercise price (pence)	**1,398**	**997**	**–**	1,477	1,058	–
Number of shares (thousands)	**18**	**22**	**1,338**	14	46	1,448
Weighted average expected remaining life (years)	**2.2**	**2.0**	**1.5**	1.3	2.5	1.4
Weighted average contractual remaining life (years)	**7.1**	**3.0**	**6.0**	8.3	3.5	8.4

36. Key management personnel

The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24 – Related Party Disclosures.

£m	2019	2018
Short-term employee benefits	**12.5**	15.8
Post-employment benefits	**0.3**	0.4
Share-based payments	**14.1**	8.4
	26.9	24.6

37. Related party transactions

The Group has a related party relationship with its subsidiaries, its Directors and with its pension schemes (note 18). Transactions between Group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed below. In addition the remuneration of the Directors, and the details of their interests in the share capital of the Company are provided in the audited part of the remuneration report on pages 89 to 91.

The Company undertakes the following transactions with its active subsidiaries:

- Providing day-to-day funding from its UK banking facilities
- Paying interest to members of the Group totalling £17.2m (2018: £23.3m)
- Receiving annual dividends totalling £80m (2018: £385.8m)

Details of balances outstanding with subsidiary companies are shown in note 13 and in the balance sheet on pages 159 and 160. Other than the payment of remuneration there have been no related party transactions with Directors.

The Group advanced a total of £20.6m (2018: £21.0m) to all the Group's associate companies in 2019. Operating transactions with the associates during the year were not significant.

38. Adoption of IFRS 16 – Leases

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.

The Group has adopted IFRS 16 – Leases using the modified retrospective approach as described in paragraph C5(b) of the standard. Therefore the cumulative effect of adopting IFRS 16 – Leases was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019 with no restatement of comparative information. Comparative information continues to be reported under IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement Contains a Lease.

Practical expedients applied

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

- the use of a single discount rate for portfolios of leases with reasonably similar characteristics
- reliance on previous assessments of whether leases are onerous instead of performing an impairment review
- accounting for low-value operating leases and operating leases with a remaining lease term of less than 12 months as at 1 January 2019 on straight-line basis as an expense without recognising a right-of-use asset or a lease liability
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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 – Leases and IFRIC 4 – Determining whether an Arrangement contains a Lease.

For the details of changes in accounting policies please see note 10.

Measurement of lease liabilities

On adoption of IFRS 16 – Leases, the group recognised 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 the lessee's incremental borrowing rate as of 1 January 2019. The incremental borrowing rate represents the rate of interest that the entity within the Travis Perkins Group that entered into the lease would have to pay to borrow over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The weighted average incremental borrowing rate applied to the property leases on 1 January 2019 was 4.4% and for fleet and other leases was 1.8%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and the lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at 1 January 2019.

The reconciliation of differences between the operating lease commitments disclosed under the prior standard and the additional lease liabilities recognised on the balance sheet at 1 January 2019 is as follows:

£m	
Operating lease commitments disclosed as at 31 December 2018	1,797.7
Additional lease commitments not included in the 2018 Annual Report & Accounts	95.0
Restated operating lease commitments	1,892.7
Impact of discounting	(398.5)
Finance lease liabilities as at 31 December 2018	21.0
Adjustments as a result of a different treatment of extension and termination options	8.1
Lease liability recognised as at 1 January 2019	1,523.3
Comprising:	
Current lease liabilities	170.5
Non-current lease liabilities	1,352.8
	1,523.3

Measurement of right-of-use assets

Right of use assets are measured at either:

- Their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted by the lessees' incremental borrowing rate as at 1 January 2019. The Group has applied this methodology to the Group's 330 most material property leases where sufficient historical information has been available to facilitate this and the majority of plant and equipment leases.
- At amounts equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised on the balance sheet as at 31 December 2018. This has been applied to the remaining portfolio of leases.

An impairment adjustment to the right-of-use assets of £11.3m in relation to previous onerous lease provisions was recognised at the date of initial application.
The recognised right-of-use assets relate to the following types of assets:

£m	1 January 2019
Properties	1,326.9
Plant and equipment	79.1
Total right-of-use assets	1406.0

Notes to the financial statements continued
For the year ended 31 December 2019

38. Adoption of IFRS 16 – Leases continued
Adjustments to balance sheet items
The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

£m	1 January 2019
Property, plant and equipment	(18.3)
Prepayments	(35.2)
Right-of-use assets	1,406.0
Deferred tax asset	21.3
Onerous lease and rent review provisions	17.0
Accruals	5.4
Finance lease creditor	21.0
Lease liabilities	(1,523.3)
Net impact on retained earnings	(106.1)

Impact on segment disclosures
Segment assets and segment liabilities for December 2019 increased as a result of the adoption of IFRS 16 – Leases. Lease liabilities are now included in segment liabilities, whereas finance lease liabilities were previously excluded from segment liabilities. Segment assets and liabilities as at 1 January 2019 were affected as follows:

£m	Segment assets	Segment liabilities
Merchanting	390.4	(399.4)
Retail	745.4	(861.4)
Toolstation	90.7	(93.0)
P&H	118.3	(118.8)
Unallocated	29.0	(7.3)
Total	1,373.8	(1,479.9)

Impact on the Group's basic and diluted earnings per share
If Group has applied IFRS 16 – Leases from 1 Janauary 2018 using the same transition options and accounting policy choices, and calculated using the same lease data and lease accounting system, then the Group's basic and diluted earnings per share and adjusted earnings per share would have been lower by approximately 9 pence for the year ended 31 December 2018.

39. Impact of new standards and interpretations
A number of new or amended standards became applicable for the current reporting period and as a result the Group has applied the following standards:
- IFRS 16 – Leases
- IFRIC 23 – Uncertainty over Income Tax Treatments
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards

The new standards, other than IFRS 16 – Leases described in note 38, did not have a material impact on the Group and have been adopted without restating comparative information.

At the date of the approval of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue, but not yet effective:
- Amendments to References to Conceptual Framework in IFRS Standards.
- IFRS 17 – Insurance Contracts.
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Definition of a Business (Amendments to IFRS 3)
- Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)

Based on the initial assessment, the Directors anticipate that adoption of these standards and interpretations in future periods will not have a material impact on the financial statements of the Group.

Shareholder information

Five year summary +

Shareholder information

The **right data**

Five-year summary

Consolidated income statement

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Revenue	**6,955.7**	6,740.5	6,433.1	6,217.2	5,941.6
Operating profit before amortisation and exceptional items	**441.5**	374.5	380.1	409.0	412.6
Amortisation	**(9.0)**	(9.5)	(12.3)	(16.6)	(18.0)
Exceptional items	**(200.4)**	(386.7)	(40.9)	(292.0)	(140.6)
Operating profit	**232.1**	(21.7)	326.9	100.4	254.0
Adjusting items – business acquisitions	**40.3**	–	–	–	–
Share of associates' results	**(4.3)**	(4.0)	(2.2)	–	–
Net finance costs	**(87.3)**	(23.7)	(35.0)	(27.7)	(30.5)
Profit before tax	**180.8**	(49.4)	289.7	72.7	223.5
Adjusting items – deferred tax	**(27.1)**	–	–	–	–
Income tax expense	**(30.9)**	(34.1)	(55.7)	(58.6)	(55.8)
Net profit	**122.8**	(83.5)	234.0	14.1	167.7
Basic earnings per share	**48.9**	(34.4p)	93.1p	5.1p	67.8p
Adjusted earnings per share	**112.7p**	(114.5p)	92.2p	120.4p	124.1p
Dividend declared per ordinary share	**48.5p**	47.0p	46.0p	45p	44p
Number of branches at 31 December (includes branches of associates)	**2,154**	2,091	2,076	2,053	2,028
Average number of colleagues	**30,059**	29,748	30,251	29,814	29,368

Consolidated free cash flow statement

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Adjusted operating profit	**441.5**	374.5	380.1	409.0	412.6
Less: Profit on disposal of properties	**(20.6)**	(26.8)	(29.4)	(17.0)	(23.9)
Adjusted operating profit excluding property profit	**420.9**	347.7	350.7	392.0	388.7
Depreciation of property, plant and equipment	**97.5**	102.0	102.0	97.6	83.0
Amortisation of internally generated intangibles	**23.5**	15.5	12.6	7.5	3.1
Share-based payments	**19.9**	19.6	15.6	17.5	13.7
Movement on working capital	**(128.7)**	(107.1)	(76.5)	4.9	(95.9)
Other net interest paid	**(26.2)**	(25.5)	(27.1)	(22.2)	(19.7)
Interest on lease liabilities	**(57.0)**	–	–	–	–
Income tax paid	**(52.9)**	(55.1)	(57.2)	(104.7)	(47.8)
Capital expenditure excluding freehold purchase	**(120.9)**	(143.1)	(166.0)	(161.0)	(169.0)
Disposal of plant and equipment	**19.4**	13.8	–	–	–
Free cash flow	**195.5**	167.8	154.1	231.6	156.1

Consolidated balance sheet

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Assets					
Non-current assets					
Property, plant and equipment	**882.0**	913.2	932.0	929.5	849.5
Goodwill and other intangible assets	**1,691.7**	1,674.6	1,926.3	1,889.1	2,111.9
Right-of-use assets	**1,276.8**	–	–	–	–
Derivative financial instruments	**–**	–	–	–	22.5
Interest in associates	**1.9**	34.2	20.3	11.5	7.9
Other receivables	**–**	43.3	30.4	8.3	–
Retirement benefit asset	**57.5**	81.2	–	–	–
Investment property and other investments	**6.7**	6.6	9.5	9.1	7.8
Current assets					
Inventories	**937.8**	855.3	816.3	768.0	761.8
Trade and other receivables	**1,239.7**	1,253.8	1,130.2	1,059.3	986.9
Derivative financial instruments	**–**	–	–	1.7	–
Cash and cash equivalents	**207.9**	255.4	276.8	250.5	83.8
Assets held for sale	**138.0**	–	–	–	–
Total assets	**6,440.0**	**5,117.6**	**5,141.8**	**4,927.0**	**4,832.1**
Capital and reserves					
Issued capital	**25.2**	25.2	25.2	25.1	25.0
Share premium account	**545.6**	545.4	543.4	528.5	518.9
Merger reserve	**326.5**	326.5	326.5	326.5	326.5
Own shares	**(50.8)**	(47.8)	(15.3)	(8.7)	(15.5)
Other reserves	**13.6**	9.1	10.8	16.8	16.9
Accumulated profits	**1,722.6**	1,847.5	1,958.0	1,760.1	1,918.1
Equity attributable to owners of the Company	**2,582.7**	2,705.9	2,848.6	2,648.3	2,789.9
Non-controlling interests	**4.4**	11.8	11.7	7.3	5.9
Total equity	**2,587.1**	**2,717.7**	**2,860.3**	**2,655.6**	**2,795.8**
Non-current liabilities					
Interest-bearing loans and borrowings	**583.3**	605.2	612.1	621.1	411.4
Lease liability	**1,253.6**	–	–	–	–
Derivative financial instruments	**–**	0.9	4.9	–	–
Retirement benefit obligations	**4.9**	–	28.3	127.3	52.2
Long-term provisions and other payables	**8.0**	18.4	17.1	21.2	7.4
Deferred tax liabilities	**62.7**	77.8	61.0	45.8	61.3
Current liabilities					
Interest-bearing loans and borrowings	**–**	3.8	6.2	6.9	139.8
Lease liability	**158.7**				
Derivative financial instruments	**2.5**	4.7	1.2	–	–
Trade and other payables	**1,613.9**	1,603.2	1,453.6	1,348.3	1,235.5
Tax liabilities	**13.4**	25.9	44.5	43.8	90.2
Short-term provisions	**60.4**	60.0	52.6	57.0	38.5
Total liabilities	**3,761.4**	**2,399.9**	**2,281.5**	**2,271.4**	**2,036.3**
Liabilities held for sale	**91.5**	–	–	–	–
Total equity and liabilities	**6,440.0**	**5,117.6**	**5,141.8**	**4,927.0**	**4,832.1**

Other shareholder information

Financial diary

Ex-dividend date	2 April 2020
Record date	3 April 2020
Annual General Meeting	28 April 2020
Trading statement	28 April 2020
Payment of final dividend	13 May 2020

Annual General Meeting ("AGM")
The AGM will be held on Tuesday 28 April 2020 at 9:30 at:

Northampton Rugby Football Club
Franklin's Gardens
Weedon Road
Northampton
NN5 5BG

Registrars
For information about shareholdings and dividends and to report changes to your address, bank details or any other account information please contact the Company's registrars:

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Email: enquiries@linkgroup.co.uk
Telephone: +44 (0) 371 664 0300[1]

You can view and manage your shareholder account online via the shareholder portal (www.travisperkins-shares.com). You will need to register to use this service and to do so you will require your unique investor code ("IVC"), which can be found on your share certificate or dividend confirmation.

Dividends
It is more secure to have your dividends paid directly into your bank account than by cheque. If you do not already have your dividends paid directly into your account and would like to do so, you can do this on the shareholder portal or you can contact Link Asset Services and they will send you the relevant form to complete.

Shareholder communications
Company website
Travis Perkins plc Annual and Interim Reports, results announcements and presentations are available on the Investor Relations section of our website (www.travisperkinsplc.co.uk). The website also carries a range of information about the Group and its principal brands, products and services which can be accessed via the "Our Businesses" section.

1 Calls will be charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate; lines are open 9.00am to 5.30pm, Monday to Friday with the exception of share-dealing lines which are open from 8.00am to 4.30pm.

Annual Report
The Annual Report is published on our website and a hard copy will be posted to shareholders who have requested it. All other shareholders will be notified of its availability on the website, either in writing or by email. A paper copy is available by writing to the Company Secretary at the registered office:

Lodge Way House
Lodge Way
Harlestone Road
Northampton
NN5 7UG

Email: cosec@travisperkins.co.uk

Electronic shareholder communications
The Company prefers that you receive your shareholder communications electronically. This is a faster, more environmentally-friendly and more effective way to communicate with you. If you have received a hard copy of this report or notification of its availability by post and would like to receive fully electronic communication, please register your preference on the shareholder portal.

Shareholder services
The Company's registrars provide a number of other services that, as a shareholder, might be useful to you:

Duplicate share register accounts
If you are receiving more than one copy of our report, it may be that your shares are registered in two or more accounts on our register of members. If that is not your intention you may wish to consider merging the accounts into one single entry. Please contact Link Asset Services who will be pleased to help you.

Dividend Re-Investment Plan ("DRIP")
This is a scheme which allows you to use your dividends to buy shares in Travis Perkins. For any shareholders who wish to re-invest dividend payments in the Company, a facility is provided by Link Market Services Trustees Limited in conjunction with the Company's Registrar. Full details are available by calling Link Asset Services on +44 (0) 371 664 0381.[1] Alternatively, you can sign up for this service on the shareholder portal (by clicking on "Manage your account" followed by "Dividend payments" and following the on-screen instructions).

Share-dealing services
Share-dealing services are available from the Company's Registrar:
On-line dealing: www.linksharedeal.com
Telephone dealing: +44 (0) 371 664 0445

These services are only available to private shareholders resident in the EEA, the Channel Islands and the Isle of Man.

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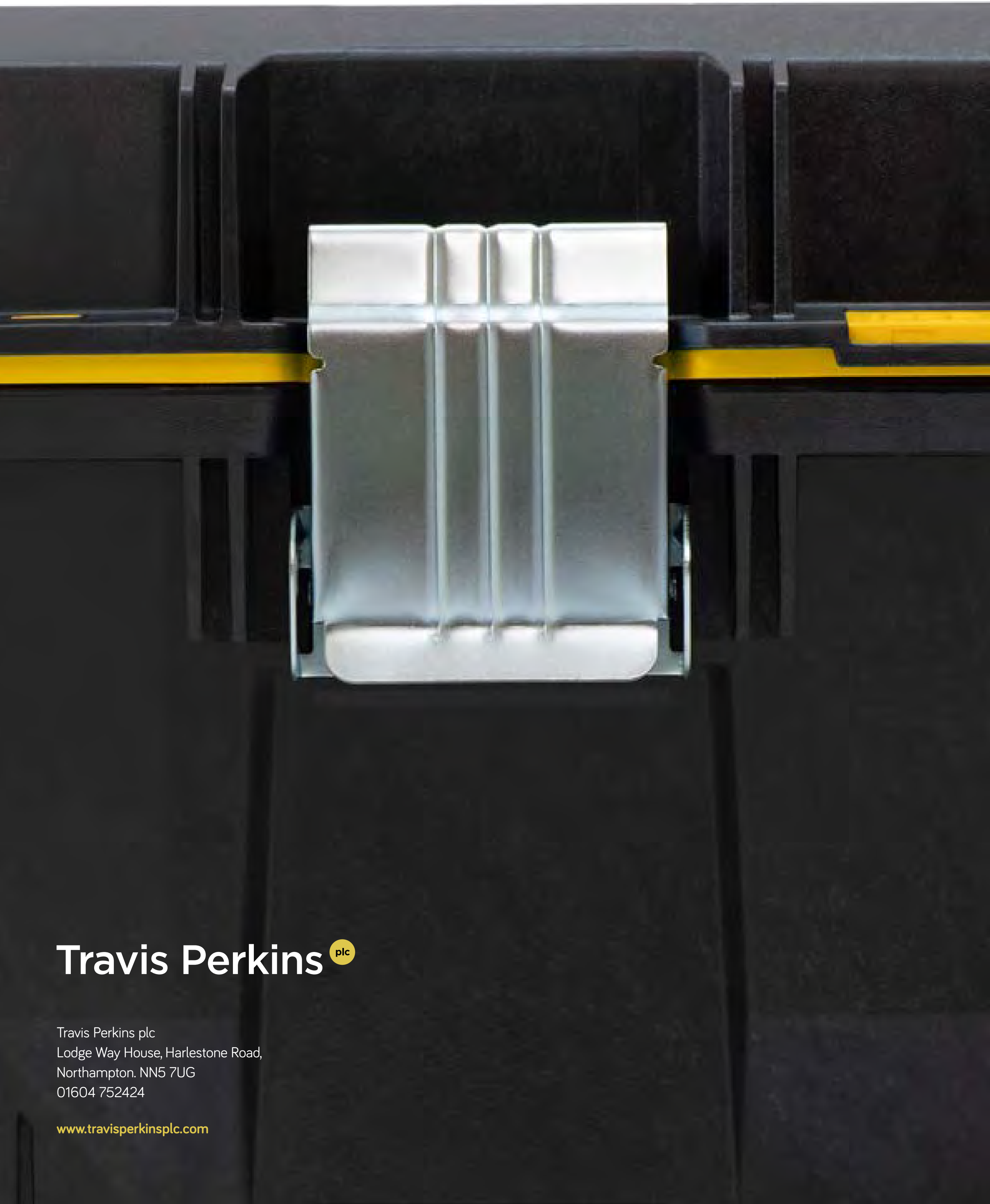

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