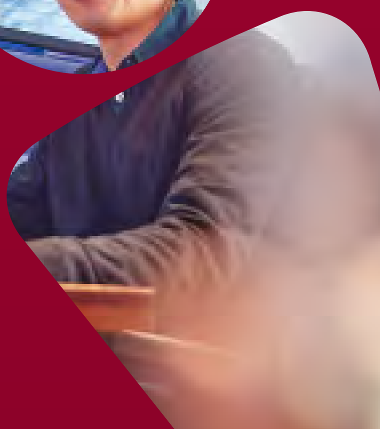
# Annual Report and Accounts

FOR THE YEAR ENDED 31 DECEMBER 2015

STRONGER
**TOGETHER**



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# Our strategy

SIG IS A **LEADING DISTRIBUTOR OF SPECIALIST BUILDING PRODUCTS** IN EUROPE, WITH STRONG POSITIONS IN ITS CORE MARKETS OF INSULATION AND ENERGY MANAGEMENT, INTERIORS AND EXTERIORS.

The Group plays an important role in the construction supply chain, both in the New Build, and Repairs, Maintenance and Improvement ("RMI") sectors, with its largest markets being the UK, France and Germany, which together account for 87% of sales.

**Our goal is to be the leading specialist solutions provider to the construction industry**

### CUSTOMERS

- Partner of choice for customers and suppliers
- Develop end-to-end solutions across the construction value chain
- Specialist with unique expertise, providing innovation, differentiated services, technical advice and eCommerce offering

### OPERATIONAL EFFICIENCY

- People with the right skills, ethics & pride in SIG are recognised and rewarded for high performance
- Leverage strength and scale of SIG through Procurement and Supply Chain
- Resilient, scalable and repeatable IT model driving value for the business
- Zero harm for employees and customers

### GROWTH

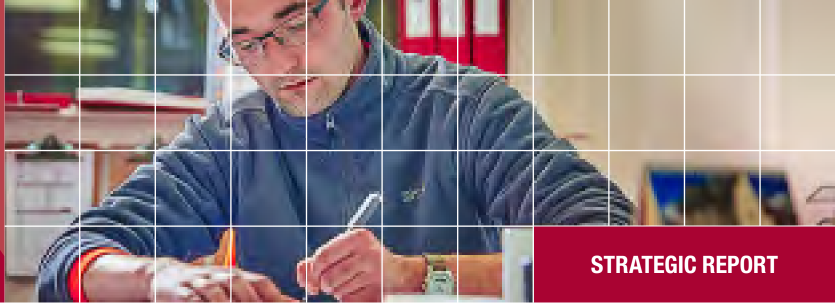
- Focus on synergistic specialist construction markets of Insulation and Energy Management, Interiors and Exteriors in existing territories
- Balanced portfolio of Residential / Non-residential and RMI / New Build
- Balanced mix of organic growth and infill acquisitions
- Develop value added sales offering, particularly Air Handling and Offsite Construction

### FINANCIALS

- Focus on gross margin, quality of earnings and cash flow
- Strong balance sheet
- Continuously increase ROCE
- ROCE as the primary financial hurdle for investment decisions

Read about our Strategic Priorities from page **13**

# Highlights










## WHAT'S IN OUR REPORT

**STRATEGIC REPORT**



**GOVERNANCE**



**FINANCIALS**



**Navigating this report**

For further information within this document and relevant page numbers

**Visit us online**

For more information on SIG plc's operations please visit our website at **www.sigplc.com**

SIG STRONGER TOGETHER

# SIG at a glance

## Our product and service areas

### INSULATION AND ENERGY MANAGEMENT


SIG is the largest supplier of insulation products in Europe. The Group is the market leader in the UK, Ireland, Germany and Poland and the leader in technical insulation in France. SIG is also the largest pure-play specialist distributor of air handling products in Europe.

| NUMBER OF TRADING SITES | 280 |
|---|---|

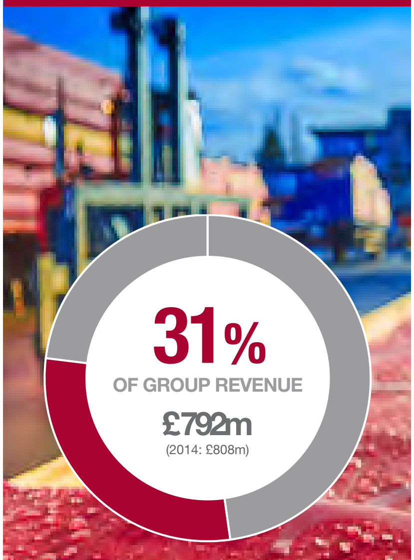
(of which 109 also supply interior fit out products)

**KEY PRODUCTS**

- Structural insulation
- Technical insulation
- Dry lining
- Construction accessories
- Fixings
- Air handling systems
- Insulated panels and modular housing systems

For a detailed list go to **www.siginsulation.co.uk**

### EXTERIORS




SIG is the largest and only national specialist supplier of roofing products in the UK and the largest specialist supplier in France.

| NUMBER OF TRADING SITES | 326 |
|---|---|

**KEY PRODUCTS**

- Tiles, slates, membranes and battens for pitched roofs
- Single-ply flat roofing systems
- Plastic building products including fascias, soffits and guttering
- Industrial roofing and cladding systems
- Room-in-roof panel systems

For a detailed list go to **www.sigroofing.co.uk**

### INTERIORS


SIG is a leading supplier of interior fit out products in Europe. It is the market leader in the UK and Germany, and the leading specialist in France.

| NUMBER OF TRADING SITES | 187 |
|---|---|

(of which 109 also supply insulation products)

**KEY PRODUCTS**

- Dry lining
- Ceiling tiles and grids
- Doorsets
- Partition walls
- Floor coverings
- Washrooms

For a detailed list go to **www.siginteriors.co.uk**




# Our locations

**TOTAL GROUP**

REVENUE **£2.6bn** BRANCHES **684**

## UK & IRELAND | MAINLAND EUROPE

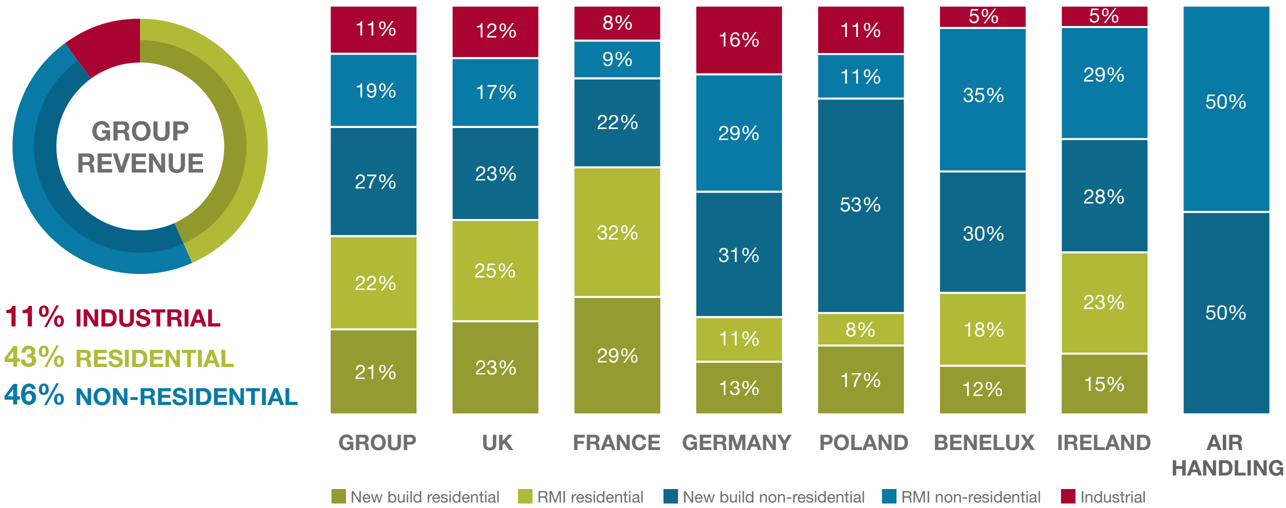
MAINLAND EUROPE: REVENUE £1.2bn BRANCHES 359

| | UK & IRELAND | GERMANY | FRANCE | BENELUX* | POLAND |
|---|---|---|---|---|---|
| REVENUE | £1.4bn | £368m | £517m | £164m | £104m |
| BRANCHES | 325 | 59 | 213 | 38 | 49 |

*includes Air Trade Centre

| | UK & IRELAND | GERMANY | FRANCE | BENELUX | POLAND |
|---|---|---|---|---|---|
| TECHNICAL INSULATION | No.1 | No.1 | No.1 | No.1 | No.1 |
| STRUCTURAL INSULATION | No.1 | No.3 | No.2 | N/A | No.1 |
| INTERIORS | No.1 | No.1 | No.1 SPECIALIST | No.1 | No.1 |
| EXTERIORS | No.1 SPECIALIST | N/A | No.1 SPECIALIST | N/A | LEADING NATIONAL SPECIALIST |

# Our marketplace




## NON-RESIDENTIAL SECTOR

The non-residential market accounts for 46% of Group sales and includes expenditure on:

- Commercial buildings
- Retail developments and warehouses
- Education, hospitals and leisure complexes

### United Kingdom

In 2015 the non-residential sector in the UK was broadly flat compared to prior year, mainly due to weakness in the retail and entertainment sectors.

Growth is expected to return in 2016, driven by stronger output in the new build commercial market, the largest component of the non-residential sector. For example, office vacancy rates in London are now at a 14 year low.

For 2016 the Construction Products Association ("CPA") is forecasting growth at a rate of 4.2% in the commercial sector and 3.2% for the UK non-residential market in total.

### Mainland Europe

The non-residential sector in SIG's major markets of operation in Mainland Europe performed poorly in 2015, particularly in Germany where the market declined by 1.8% according to Euroconstruct.

This impacted the performance of the Group's German business, which has a high degree of exposure to the non-residential sector, with 60% of sales being derived from this market.

The outlook for 2016 is more positive, with Euroconstruct forecasting growth rates of 3.2% in France and 1.2% in Germany. This is based on improved macroeconomic lead indicators and a reduction in government austerity measures.

## RESIDENTIAL SECTOR

The residential market accounts for 43% of Group sales and includes private and public sector expenditure on houses and apartments.

### United Kingdom

The UK new build residential sector performed well during 2015, led by strong growth in the private housing market, which increased by 7% compared to prior year.

This was driven by growth in the wider economy and government policies such as Help to Buy. In contrast, output in the public sector declined by 10% as activity was constrained by reduced grant funding and near-term uncertainty over the implementation of government housing policies.

The UK RMI market was weaker than anticipated, particularly in the third quarter, most probably due to a lagged effect from a slowdown in mortgage lending and property transactions in the second half of 2014.

In 2016 the Group expects the private new build housing market to continue to exhibit strong growth, albeit likely at a lower rate than in 2015.

RMI housing expenditure is expected to pick up later in 2016 as an improvement in lead indicators feeds through to higher activity in the sector.

### Mainland Europe

The residential construction market in France was challenging in 2015.

This weakness affected the performance of the Group's French business, which has a high degree


of exposure to the residential sector, with 61% of sales being derived from this market.

The German residential market performed better, and was up by 2.0% in 2015, although this only accounts for around a quarter of the Group's sales in this country.

For 2016 Euroconstruct are forecasting a recovery in the French housing market as housing permits have stabilised and government measures such as the extension of zero-interest loans and continued "Pinel" programme for rental investments boost growth.

## INDUSTRIAL

This market accounts for 11% of Group sales and typically includes products such as technical insulation which are supplied to the industrial sector; for example, power stations or petrochemical works, where heat is an important part of the process.

The industrial sector performed well in the UK in 2015, growing by 11.5% according to the CPA*, as it continued to recover from a historical low in 2013. The CPA expects growth of 7.8% in 2016.

In France the industrial sector is expected to recover during 2016 as the combined effect of a decrease in oil prices and weakening of the Euro stimulate demand.

The outlook in Germany is less positive due to lower corporate investment.

## MARKET DRIVERS

Economic growth is an important demand driver in all of SIG's markets as it stimulates building activity and industrial output.

In addition, the following specific factors are also relevant to each segment of the Group's business:

### Insulation and Energy Management

- Recognising that 40% of energy consumed relates to buildings, the European Union enacted the Energy Performance of Buildings Directive in 2003;
- This Directive requires all EU countries to improve energy efficiency and in the UK is covered under Part L of the Building Regulations; in France by the Réglementation Thermique ("RT") and in Germany by the Energy Saving Ordinance ("EnEV");
- These standards are typically tightened every three to four years, usually leading to increased use of insulation to cut energy consumption; and
- Furthermore, demand for offsite panelised systems and modular housing such as Insulshell is expanding significantly as customers increasingly desire complete managed solutions, which reduce build time, lower risk and help address skills shortages in the sector.

### Exteriors

- Replacement of old/damaged roofs gives rise to a core demand for RMI expenditure. In the UK, for example, around two-thirds of the housing stock is more than 40 years old;
- Product innovation to reduce construction and exterior maintenance costs;
- Growth of specialist distribution as the main supply route to market, gaining market share from the generalists and manufacturers; and
- Increasing demand for offsite roofing systems such as RoofSpace, which designs, manufactures and installs rooms-in-roofs in residential properties. Similarly to Insulshell, this solution reduces cost, build time and risk for contractors.

### Interiors

- Increasingly stringent regulation, for example with regard to fire and acoustics. As well as driving demand for new products, this also benefits the specialist who can provide the necessary technical expertise;
- Increased demand for integrated, manufactured offsite solutions; and
- Demand for higher standards of internal fit outs.

Sources:
* Construction Products Association ("CPA")
** Euroconstruct

# Chairman's Statement

*"Determined to get performance back on track by refocusing on sales, reducing our cost base and growing our value added businesses"*

**LESLIE VAN DE WALLE** Chairman

While 2015 was a challenging year for the Group, we made good progress on the Strategic Initiatives and our infill acquisition programme.

Going forward we are determined to get performance back on track by refocusing on sales, reducing our cost base and growing our value added businesses.

## STRATEGY

Our goal is to be the leading specialist solutions provider to the construction industry. To achieve this we are focused on three key strategic priorities.

First, we are seeking to continuously improve our procurement function. The Group has made excellent progress over the last two years, but there is much more to do. This initiative is also gathering additional impetus through the appointment of our new Group Procurement Director, Ruxandra Ispas, who is providing fresh thinking.

Second, we are reshaping our supply chain by adopting a two-step change strategy, with an ultimate goal of reducing our cost to serve by £50m.

Finally, we are continuing to grow our value added sales, which currently account for 18% of sales. Offsite Construction and Air Handling will be important growth drivers of this category.


## GOVERNANCE AND BOARD

As Chairman I am responsible for ensuring good corporate governance and that we continually aspire to meet the highest standards possible at SIG. Further details can be found in the Corporate Governance Report on pages 59 to 71.

Following the appointment of Andrea Abt as a Non-Executive Director on 12 March 2015, I am pleased to report that we achieved our aim to reach 25% female representation among the Board's membership.

As part of the Board succession plan, the Nominations Committee has reviewed the positions of Chris Geoghegan and Jonathan Nicholls.

Having noted their significant experience and contributions to the Board, the Committee concluded that they be invited to serve for a further term of office until the May 2017 AGM, prior to which a search for new Non-Executive Directors will take place.

## OUR PEOPLE

On behalf of the Board and Shareholders I would like to thank our employees for their dedication and continued hard work during the year.

I would also like to welcome Christian Horn to SIG as its new Group Operations Director, a role which sits on the Group's Executive Committee. Christian joined SIG in December 2015 and was previously Senior Vice President for Staples Europe.

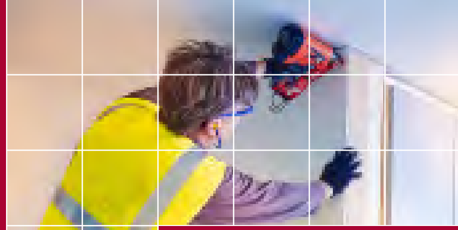
## DIVIDEND

The Board has proposed a final dividend of 2.91p per ordinary share. Taken together with the interim dividend of 1.69p per ordinary share, this provides a total dividend of 4.60p per ordinary share for the year (2014: 4.40p), an increase of 4.5%.

Going forward the Board remains committed to a progressive dividend policy while maintaining a dividend cover of 2-3x on an underlying basis over the medium-term.

**LESLIE VAN DE WALLE**
Chairman

# Chief Executive's Statement





> *"We continue to make good progress on our Strategic Initiatives to improve business performance"*
>
> **STUART MITCHELL** Chief Executive

## 2015 PERFORMANCE

Having been adversely affected by weak trading conditions in Mainland Europe and the UK RMI market, together with a significant deterioration in the Euro, we were disappointed in the Group's 2015 performance.

Group sales from continuing operations increased by 3.7% in constant currency but were down 1.4% in Sterling. With acquisitions contributing 3.4% to revenue growth, on a like-for-like ("LFL") basis, sales were marginally ahead, by 0.3%.

Underlying profit before tax decreased by 11.8% to £87.4m (2014: £99.1m), although on a constant currency basis was only down by 7.0%.

We continue to make good progress on our Strategic Initiatives to improve business performance, delivering an incremental net benefit after costs of £12.6m in 2015, mainly sourced from procurement.

SIG's post-tax Return on Capital Employed ("ROCE"), our key financial metric, decreased by 110bps to 9.3% (2014: 10.4%) in 2015 mainly due to weaker trading conditions.

Going forward SIG remains committed to increasing its returns on capital. As well as taking a disciplined approach to its capital management, SIG seeks to achieve this target through further improvements in its gross and operating margins.

## STRONGER TOGETHER

Historically SIG's businesses have tended to operate independently of one another, like a loose federation. In addition, following a period of underspend during the economic downturn, we also needed to reinvest in our asset base and people.

To address these challenges, and improve the way we work, two years ago the Group launched its Stronger Together culture change programme with the aim of making SIG's whole greater than the sum of the parts.

This programme also underpins the delivery of our Strategic Initiatives to improve business performance where we have targeted £30m of net savings to be achieved by 2016.

By working together more and better leveraging our buying power and Group synergies, we have delivered a total cumulative net saving of £22.7m from the Strategic Initiatives since the programme began, and are well ahead of our original schedule.

However, there is more to do and we are targeting to achieve at least another £10m incremental net benefit from the Strategic Initiatives in 2016.

## OUTLOOK

This year the Group continues to expect good growth in the UK new build construction market, primarily driven by the residential segment. Lead indicators also suggest that demand should pick up in the UK RMI sector as 2016 progresses.

In Mainland Europe, while the trajectory of any recovery at this stage remains uncertain, trading conditions in France have improved, with the housing market stabilising and a return to growth for SIG in Q4 2015.

Following an encouraging start to the year, with positive LFLs in both the UK & Ireland and Mainland Europe, the scope for further cost savings and growth opportunities within the Group mean that it expects to make progress in 2016.

**STUART MITCHELL**
Chief Executive

# Strategic Report

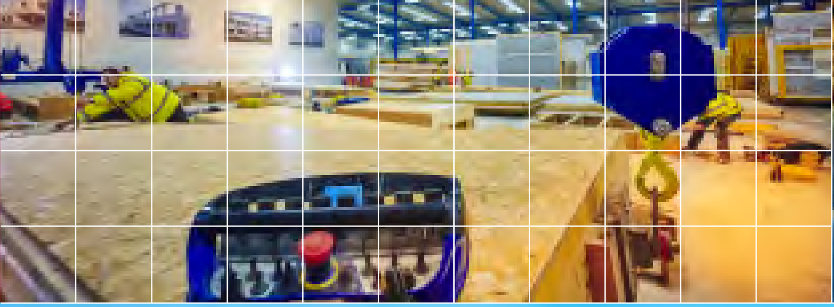
STRONGER
**TOGETHER**

# STRATEGIC REPORT



# Business model

SIG PLAYS A **CRITICAL ROLE** IN THE CONSTRUCTION INDUSTRY SUPPLY CHAIN, ENSURING THAT ITS CUSTOMERS RECEIVE THE **RIGHT PRODUCT** AT THE **RIGHT PLACE** AT THE **RIGHT TIME**.



The Group's position as a specialist means it is able to provide customers with a more comprehensive product range than a typical general builders' merchant. Furthermore, with environmental regulations becoming more complex and onerous, customers are increasingly reliant upon the expert advice only a specialist distributor such as SIG can provide.

## Value added sales

In addition to growing its core distribution businesses, SIG is increasingly focusing on developing its value added sales offering, which it defines as products that are own label or where SIG controls the design, fabrication or component assembly. These products are typically higher margin and are increasingly being demanded by customers, as they save them time, money and reduce risk. Value added sales now account for 18% of Group revenues, and are growing rapidly, up from 14% in 2014.

# Our Strategic Pillars

SIG HAS A CLEAR STRATEGY TO **GROW** IN ITS THREE CORE MARKETS OF INSULATION AND ENERGY MANAGEMENT, INTERIORS AND EXTERIORS BY COMBINING THE REPUTATIONAL STRENGTHS OF ITS **LOCAL BRANDS** WITH THE SCALE EFFICIENCIES AND KNOW-HOW OF A MULTINATIONAL GROUP.

Moreover, with its focus on specialist expertise and high customer service levels, SIG aims to continue to outperform its markets and thereby generate sustainable long-term growth in Shareholder value.

SIG's strategy is underpinned by the following six pillars which the Group is focused on to improve profitability, and these are supported by three key strategic priorities.

| STRATEGIC PILLAR | OBJECTIVES | LINK TO PRIORITIES |
|---|---|---|
| 1 OUTSTANDING CUSTOMER SERVICE | → Speed and reliability of service<br>→ Provision of technical advice<br>→ Availability and range of stock<br>→ Competitive pricing | |
| 2 SALES OUTPERFORMANCE | → Focus on core markets<br>→ Benefit from legislative change<br>→ UK national sales team<br>→ Expand network and product range | |
| 3 GROSS MARGIN ENHANCEMENT | → Category management<br>→ Improved IT systems<br>→ Price management programmes<br>→ Growth of higher margin businesses | |
| 4 OPERATIONAL EFFICIENCY | → Better leverage network<br>→ Improve fleet utilisation<br>→ Tight control of cost inflation | |
| 5 FINANCIAL RETURNS | → Rebuild ROCE<br>→ Focus on cash conversion<br>→ Target improvement in operating margin | |
| 6 EXCEPTIONAL PEOPLE | → Training and development<br>→ Improved communications<br>→ Employee engagement<br>→ Health and Safety | |




# Our Strategic Priorities

WHICH ARE BASED ON WORKING MORE CLOSELY TOGETHER AS A GROUP SO THAT SIG'S WHOLE IS GREATER THAN THE SUM OF THE PARTS.

## Procurement

CONTINUOUSLY IMPROVE OUR PROCUREMENT FUNCTION

- Category management now embedded within SIG and is business as usual
- Delivered £22.7m net cumulative savings from Strategic Initiatives to date, mainly sourced from procurement
- Targeting additional £10m efficiencies in 2016 and further savings thereafter
- Group Procurement Director appointed for the first time in the Group's history

Read more on page 14

## Supply Chain

RESHAPE SUPPLY CHAIN

- Appointed new team with experience of construction sector and other industries
- Reviewed current supply chain model
- Two-step strategy with ultimate goal of delivering £50m savings
- First step: move to regional hubs utilising existing network
- Second step: roll out Regional Distribution Centres across the Group

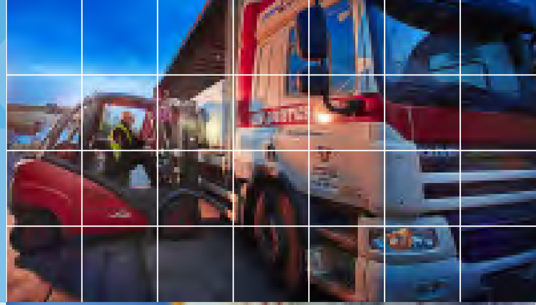
Read more on page 15

## Value Added Sales

GROW VALUE ADDED SALES

- Defined as products which are own label or where SIG controls the design, fabrication or component assembly
- Typically higher margin than SIG's distribution businesses
- Currently accounts for 18% of Group sales
- Target to double that proportion as a percentage of sales by 2018
- Air Handling and Offsite Construction are important growth drivers within this category

Read more on pages 16 and 17



STRATEGIC PRIORITIES:
# Procurement

SIG HAS CHANGED ITS APPROACH TO PROCUREMENT BY INCREASING CO-ORDINATION ACROSS THE GROUP, PROFESSIONALISING THE FUNCTION AND INVESTING IN TRAINING AND RESOURCES.



## HISTORICAL POSITION

Procurement was decentralised and conducted at multiple levels across the Group.

This meant that SIG was not fully leveraging its size in the marketplace and had a long tail of suppliers.

## PROGRESS

SIG has transformed its procurement function by increasing co-ordination across the Group and investing in people, training and resources.

Category management is now fully embedded in the Group and is business as usual. Purchasing is now the responsibility of procurement professionals and is conducted through six international category forums covering roofing, ceilings, technical insulation, structural insulation, air handling and dry lining.

This has enabled SIG to consolidate volumes and better leverage its size.

## BENEFITS

SIG has delivered a net cumulative saving of £22.7m from its Strategic Initiatives over the last two years, mainly sourced from procurement.

The Group has also reduced its supplier numbers by 48% since 2013, meaning that the Group has exceeded its target of a 33% reduction by the end of 2015.

SIG is also making good progress towards its target of growing sales of its own label products by 50% by the end of 2016, having increased its own-label sales by 42% since 2013.

## TARGETED SAVINGS

The Group is seeking an additional £10m net savings in 2016, with further efficiencies thereafter.

**Supplier base**
48% reduction

**Own label sales**
42% increase

# STRATEGIC PRIORITIES: Supply Chain

SIG HAS BEEN WORKING ON PLANS TO IMPROVE ITS SUPPLY CHAIN OVER THE PAST 12 MONTHS, HAVING IDENTIFIED IT AS THE NEXT AREA OF FOCUS AFTER PROCUREMENT.



## HISTORICAL POSITION

SIG's supply chain is reflective of the way it has historically operated as a loose federation of businesses, with responsibility for logistics and stock being held at a local level.

While this approach has served SIG well in the past, and met the majority of its customers' needs, the Group's operating practices are expensive and have become outdated.

Taking an 'all in cost', SIG spends around 11% of its sales on property, delivery, labour and warehousing.

Furthermore, the Group also needs to address changing demands of its customers, who are increasingly asking for a broader product range, often requiring deliveries from multiple locations.

## PROGRESS SO FAR

SIG has conducted a thorough review of its supply chain, concluding that its model would see a shift towards Regional Distribution Centres ("RDCs").

RDCs would manage the inbound supply of products and take ownership for co-ordinating the majority of our customer deliveries direct to site.

The role of the branch would change and become more focused on serving collect customers.

However, before moving to this model the Group needs to take into account the practical considerations of its existing network, such as existing property leases, and the availability and investment requirements of new RDCs.

Moving to a fully integrated RDC model requires careful planning and execution.

Therefore, SIG has decided to adopt a two-step supply chain strategy. This will maximise returns whilst minimising risk.

The first step is centred around utilising the Group's existing network and moving towards a hub and spoke model. The role of SIG's larger branches will be expanded, with logistics professionals co-ordinating stock and deliveries for the region.

The second step involves trialling RDCs in its main markets. This will enable the Group to get a better understanding of the key capabilities essential to underpinning its future supply chain.

## TARGETED SAVINGS

The Group is targeting annual savings of at least £20m from this first step of the programme by 2018.

Assuming the RDC trials are successful, SIG believes it could secure an additional £30m in savings from step two of this strategy.

## CASE STUDY — TILBURG

SIG has successfully been operating an RDC in Tilburg, The Netherlands for the last three years.

Suppliers deliver into this one location and customer deliveries are planned and executed using outsourced third-party hauliers.

Local branches therefore do not have to worry about checking that they have enough stock, transport or drivers to meet delivery requirements.

Instead they are able to focus on understanding their customers' needs and selling products.

This gives customers better service and a more consistent and reliable delivery experience.

In addition, this has enabled the Group to reduce its cost to serve by 2% and stock days by a third in The Netherlands.

The next step is to trial this model in the Group's larger markets.

**Targeted savings by 2018**
**£20m**

**Potential savings from RDC model**
**£30m**

STRATEGIC PRIORITIES:

# Value Added Sales

SIG IS FOCUSED ON GROWING ITS VALUE ADDED SALES OFFERING. THIS IS DEFINED AS PRODUCTS WHICH ARE OWN LABEL OR WHERE SIG CONTROLS THE DESIGN, FABRICATION OR COMPONENT ASSEMBLY.

They are higher margin than the Group's distribution businesses and are products that are increasingly being demanded by customers, as they save them time, money and reduce their risk. Value added sales now account for 18% of Group revenues, and are growing rapidly, up from 14% in 2014.

Air Handling and Offsite Construction are two examples of businesses that sell a high proportion of value added sales.

Value Added Sales

## Air Handling

Air Handling covers the Ventilation section of the Heating, Ventilation and Air Conditioning ("HVAC") market.

It is an attractive market which suits specialist distribution, is worth an estimated €6–8bn and is growing at c.3-5% per annum, outperforming the general construction sector.

There are strong demand drivers which are similar to the Group's Insulation and Energy Management business such as energy efficiency and legislation, leading to higher value products and systems, increasing focus on indoor air quality to improve comfort and health, and better fire protection and smoke control.

There is also a trend towards the design and supply of complete system solutions, which a specialist like SIG is well positioned to fulfil, particularly through its recent acquisition of HC Groep.

There are three elements to SIG's air handling proposition:

**Distribution**, where SIG is a 'one stop shop' for the specialist contractor, with a broad product range and the provision of technical advice;

**Projects**, where SIG designs and delivers complete system solutions based on customer specifications, taking into account the latest environmental regulations; and

**Services**, which is the smallest of the three strands and is related to Projects. Following the commissioning of the installed equipment, SIG will provide maintenance and repair services.

SIG Air Handling has grown rapidly over recent years and on a pro forma basis including full year contributions from recently acquired businesses, now has sales of c.€250m.

CASE STUDY | HC GROEP

To support this strategy, in September 2015, SIG acquired the HC Groep B.V., a specialist Air Handling systems provider based in The Netherlands with annual revenues of c.€45m. This acquisition will enhance SIG's customer proposition by extending its product and system offering, including climate ceilings, car park and tunnel ventilation, plus adding new service capabilities.

### The Group's vision for its Air Handling business is:

1. to build a leading position in Europe by growing organically and by consolidating a fragmented market;
2. to achieve €400m of sales by 2018, increasing project offering and own-label sales components; and
3. to further increase current operating margin of 7-8%.

# Offsite Construction

Offsite Construction is the pre-assembly of building products in a factory environment for onsite installation. It is generally a faster, cheaper and lower risk alternative to traditional building methods.

This market is rapidly growing in response to customer demand, with a compound annual growth rate of 16% per annum since 2008.

SIG has three businesses which together provide a single offsite construction proposition. They are:

- **Insulshell**, which designs, assembles and installs insulated panels and, increasingly, complete modular units;
- **RoofSpace**, which designs, assembles and installs panelised roofing systems for residential properties; and
- **Metechno***, which designs and assembles modular and flat-pack washroom solutions.

Offsite Construction shares a common customer base and end markets with the Group's distribution businesses, and uses products that are supplied by other SIG businesses.

*acquired in 2016

To be successful in this market, businesses need to be able to provide a full service offering and have strong customer relationships, all of which SIG already has in place.

It also requires significant technological and design expertise, in which each of SIG's offsite businesses have invested heavily.

Offsite Construction enhances the Group's value added proposition and provides the Group with a higher margin and return on capital than its distribution businesses.

SIG has set demanding goals for this business and is targeting to grow sales to at least £150m by 2018, and beyond that in future years.

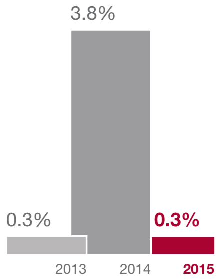
**Offsite target market worth**
**£1.1bn per annum**
**Grow sales to**
**£150m by 2018**

OUR KPIs:
# How we measure performance

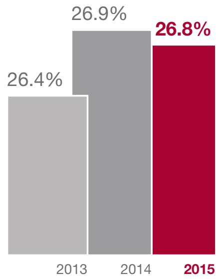
## Key performance indicators

IN ORDER TO EVALUATE **SUCCESS** AGAINST THE GROUP'S FINANCIAL AND STRATEGIC OBJECTIVES, THE BOARD HAS IDENTIFIED SIX KEY PERFORMANCE INDICATORS AGAINST WHICH IT MONITORS AND ASSESSES THE GROUP'S **PERFORMANCE**.

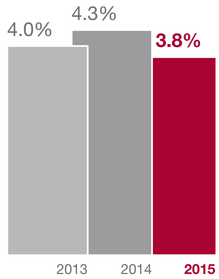
### LIKE-FOR-LIKE SALES




### UNDERLYING GROSS MARGIN




### UNDERLYING OPERATING MARGIN




| | LIKE-FOR-LIKE SALES | UNDERLYING GROSS MARGIN | UNDERLYING OPERATING MARGIN |
|---|---|---|---|
| DEFINITION | The percentage growth/(decline) in the Group's sales per day (in constant currency) excluding any current and prior year acquisitions and disposals. Sales are not adjusted for organic branch openings and closures. | The ratio of underlying gross profit to underlying sales (excluding divested businesses). | The ratio of underlying operating profit to underlying sales (excluding divested businesses). |
| 2015 PERFORMANCE | SIG's sales were adversely affected by weak trading conditions in Mainland Europe and the UK RMI sector. As a result, SIG estimates that overall its markets declined by c.1.3% in 2015.<br>Like-for-like sales grew by 0.3% when compared to the prior year, which equates to a market outperformance of c.1.6%.<br>Increased competition, particularly in the UK, resulted in a slight shortfall to the 2.0%-3.0% market outperformance target set for 2015. | Although the Strategic Initiatives added 50bps to SIG's gross margin in 2015, weak trading conditions, which particularly impacted the Group's higher margin UK Exteriors business, changes in product mix and competitive pressures offset this improvement, resulting in the Group's gross margin declining by 10bps to 26.8% (2014: 26.9%).<br>Despite the protective measures undertaken, gross margin being 10bps lower than the prior year fell slightly short of the continuous improvement target set for 2015. | The operating margin for the Group decreased by 50bps when compared to the prior year.<br>This was due to an 11.2% decline in operating profit as a result of the weak trading conditions and the impact of adverse foreign exchange rate movements.<br>In order to provide the required infrastructure to support the continued organic growth of the business, the Group has invested in a number of initiatives and new branch openings, which increased the Group's operating costs by £5.0m year-on-year.<br>On a statutory basis, the Group's operating margin increased by 60bps to 2.6% (2014: 2.0%). |
| 2016 TARGET | → Market outperformance of c.1.0%-2.0% | → Continuous improvement | → Continuous improvement |
| STRATEGIC FOCUS | 1 2 6 | 1 2 3 5 6 | 1 2 3 4 5 6 |
| PRINCIPAL RISKS | → Market conditions<br>→ Government legislation<br>→ Commercial relationships | → Competitors and margin management<br>→ Commercial relationships | → IT infrastructure and cybersecurity |



Their relevance to our strategy and our performance against these measures are explained below:

**Links to our Strategic Pillars**

1 Outstanding customer service
2 Sales outperformance
3 Gross margin enhancement
4 Operational efficiency
5 Financial returns
6 Exceptional people

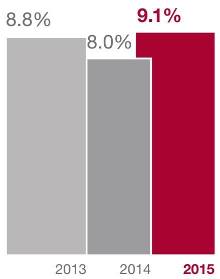
Read more about our Strategic Pillars on page 12

**Remuneration**

Certain KPIs are used as a measure in the incentives plans for the remuneration of executives.

For 2015 this includes Return on Capital Employed, identified below with the symbol Ⓡ.

## LIKE-FOR-LIKE WORKING CAPITAL TO SALES




Working capital to sales is defined as the ratio of closing working capital (including provisions but excluding pension scheme obligations) to annualised sales (after adjusting for any acquisitions and disposals in the current and prior year) on a constant currency basis.

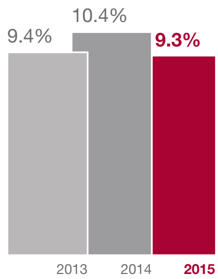
The Group recorded a working capital to sales ratio of 9.1% in 2015 (2014: 8.0%). The ratio was slightly in excess of the target of no more than 9% due to the lower overall sales volumes in the third quarter combined with a relatively strong final quarter.

→ Working capital to sales of no more than 9%

4 5 6

→ Working capital and credit management

## RETURN ON CAPITAL EMPLOYED®




The ratio of underlying operating profit less taxation divided by average capital employed (average net assets plus average net debt).

ROCE is then compared to the Weighted Average Cost of Capital ("WACC"). The difference between ROCE and WACC determines whether the Company is creating an economic profit for its Shareholders.

The Group recorded a post-tax ROCE of 9.3% in 2015, 110bps below prior year (10.4%) and 170bps below the 2015 target (11.0%) but 220bps above WACC (7.1%).

Assuming a full year contribution from acquisitions completed in the year, ROCE would have been 40bps higher.

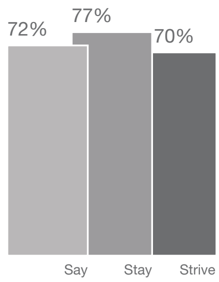
Going forward SIG is committed to increasing ROCE. SIG seeks to achieve this by taking a disciplined approach to capital management and by further improvements in gross and operating margins.

→ To drive improvements in the Group's ROCE

1 2 3 4 5 6

→ Market conditions
→ Competitors and margin management
→ Working capital and credit management

## EMPLOYEE ENGAGEMENT




OVERALL ENGAGEMENT
**2015:**
**73%**

The delivery of SIG's strategy depends on our people and their level of engagement is a key measure of the Group's performance.

Engagement is measured by considering what our people say about SIG, their commitment to stay in SIG and whether they strive to go the extra mile.

SIG performed its second Group-wide employee engagement survey during 2015. Overall, 78% of employees took part in the survey (81% in 2014), with 76% participation in UK & Ireland and 80% in Mainland Europe.

Of the responses, 73% of all employees reported as "being engaged" (2014: 74%), which aligns to industry benchmarks, although slightly below the prior year target of maintaining the overall level of engagement. In a year of significant change for SIG, this is a positive result.

Following the survey, working groups have been established at Group and local level. Group-wide actions are focusing on the key areas of connecting our people with the Group's strategy and goals, and communicating successes as part of recognising people's achievements. Local teams are acting to improve employee engagement within their respective branches and departments by responding to local drivers of engagement.

→ Continuous improvement in overall engagement

6

→ Availability and quality of key resource

# Principal Risks and Uncertainties

Risk management involves the identification and evaluation of risks and is the responsibility of the Group Board. The Group's ability to manage risk is continually improving through the focus on risk management capability to ensure that it remains robust and that emerging risks are identified, assessed and managed effectively.

The risk management process incorporates both top-down and bottom-up elements to the identification, evaluation and management of risks, and all risks evaluated are referenced to the achievement of the Group's Strategic Initiatives. Risks are continually evaluated using consistent measurement criteria. Mitigating controls are identified and opportunities for the enhancement of the Group's control environment are implemented.

Further information on the Group's risk management procedures is included in the Corporate Governance section on pages 64 to 66.

There are a number of potential risks and uncertainties which could have a material impact on SIG's long-term performance. The risk identification, monitoring and reporting framework together with the key risks and uncertainties identified as part of the Group's risk management process are as follows:

## RISK IDENTIFICATION, MONITORING AND REPORTING FRAMEWORK

Responsibility for implementing

Accountability for monitoring

**The Board**

- Sets strategic objectives
- Approves risk governance structure and agrees risk appetite
- Sets delegation of authority
- Receives and reviews Group Risk Register
- Receives and reviews Audit Committee reports on risk governance and internal controls

**Audit Committee**

- Considers adequacy of risk management and internal control framework
- Receives and reviews reports from the Group Risk Function
- Receives and reviews reports from independent assurance providers
- Sets Audit Programme

**Group Executive Committee**

- Ensures risk management is embedded into all processes
- Reviews Group Risk Profile

**Operating Company Management**

- Management and employees are responsible for the identification, management and reporting of local risks
- Maintenance of local risk registers
- Implementation of control framework and risk mitigation plans

**Group Risk Function**

- Conducts continual review of risks and risk controls
- Concludes on treatment of risks
- Reviews and reports on risk to the Audit Committee and Board
- Formulation of strategy & policy
- Tracks risk management activity in the operating companies

**Central Support**

- Provides targeted expertise and support to risk owners
- Develops and maintains risk specific controls

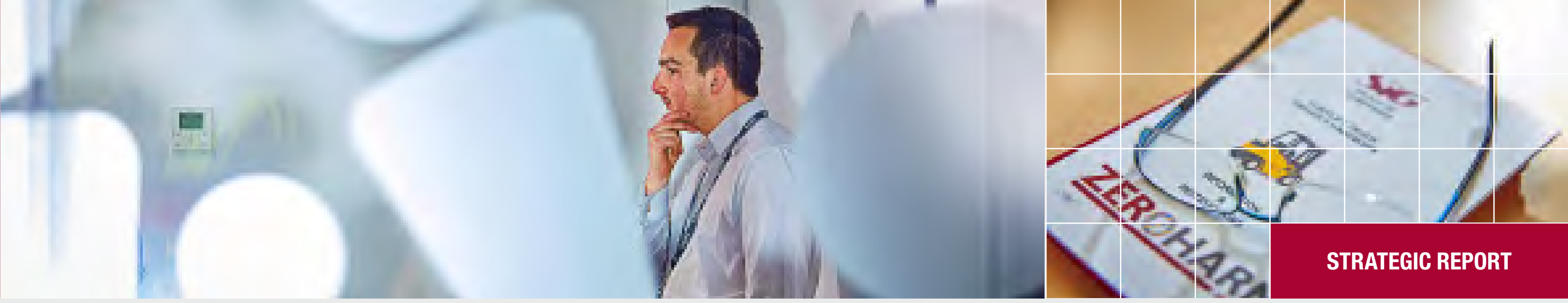
**Independent Assurance**

- Internal audit
- External audit
- Quality standards audit
- Insurer and property risk surveyors
- Audit Committee and Board

## 2015 DEVELOPMENTS

Throughout 2015 SIG has continued to develop an integrated approach to its risk and assurance activities. Specifically, the following improvements have been implemented:

- continued review of the internal control and risk framework;
- review of risk management software to help improve risk identification and drive consistency;
- external review of fraud risk management framework including fraud awareness policies and controls;
- delivery of risk management and fraud awareness training across the Group to help confirm a consistent approach in embedding risk and fraud awareness practices throughout the business as well as educating employees on the importance of these disciplines;
- review of self-certification processes;
- extended participation with external risk and fraud forums;
- continued development of Group-wide control framework forums to identify and drive best practice; and
- development of a multifunctional information security council to enhance the Group's cyber security structure in order to ensure that it remains resilient and able to evolve to counter the increasing complexity and volume of information security threats to the wider business community.





**Links to our Strategic Pillars**

1 Outstanding customer service
2 Sales outperformance
3 Gross margin enhancement
4 Operational efficiency
5 Financial returns
6 Exceptional people

**Understanding movements in business risk:**

- Increase
- No change
- Decrease

Read more about our Strategic Pillars on page 12

## PLANNED IMPROVEMENTS FOR 2016

SIG will continue to improve its risk management processes with a number of initiatives:

- introduction of data warehousing, reporting of financial analysis and other tools which will improve data security, and the control framework, allowing for improved disaster recovery and better quality of reporting;
- extend scope of risk management and fraud awareness training to help confirm a consistent approach in embedding risk and fraud awareness throughout the business;
- review of risk management framework to refresh risk architecture, strategy and protocols;
- enhancement of self-certification processes to ensure they remain consistent with the dynamic risk and fraud environment; and
- defining a complete cyber strategy framework for the Group with a programme of activity which includes "Cyber Essentials" certification and working closely with KPMG and other third-party security specialists, government and local law enforcement though CISP and UK CERT.

Throughout the year the risks that SIG faces have been critically reviewed and evaluated. The assessment of the most significant risks and uncertainties that could impact SIG's long-term performance are outlined in this section of the report. These risks are not set out in any order or priority and they do not comprise all the risks and the uncertainties that SIG faces. This list has the potential to change as some risks assume greater importance than others during the course of the year.

| RISK AND LINK TO STRATEGIC PILLARS | TREND | KEY MITIGATION ACTIVITIES INCLUDE: | OUR FOCUS IN 2015 |
|---|---|---|---|
| **MARKET CONDITIONS** 2 3 | | | |
| The Group is exposed to changes in the level of activity and therefore demand from the building, construction and civil engineering industries. Government policy and expenditure plans, private investor decisions, the general economic climate and both business and (to a lesser extent) consumer confidence are all factors which can influence the level of building activity and therefore the demand for many of the Group's products. | Increase | → Maintain a broad spread of markets, products and customers to limit risks within any given territory<br>→ The Group Board's portfolio review ensures that the Group's capital is appropriately allocated to the geographies and markets which remain core<br>→ Continual review of all available indicators of market activity and regular communication with key suppliers and customers to ensure that any change in market demand is anticipated as early as possible<br>→ Ensure the Group remains structured in a way that enables it to take prompt action in the event of a material change in the trading environment<br>→ Ensure the Group maintains a strong balance sheet and financial position | → Restructuring actions<br>→ Strategic Initiatives<br>→ Selected ROCE-enhancing acquisitions<br>→ Further diversification through investment in specialist niche markets<br>→ Rebranding |
| **COMPETITORS AND MARGIN MANAGEMENT** 2 3 5 | | | |
| Challenging market trading conditions mean that competition pressures from direct specialist competition and the overlap with general suppliers remain high, which in turn results in continued margin pressures being faced by the Group. | Increase | → Strong trading presence and positions in the majority of the markets in which the Group trades<br>→ Initiatives designed to improve the Group's core competencies surrounding customer service, sales support and training<br>→ Ongoing pricing and purchasing initiatives, including supplier rebates, designed to improve gross margin<br>→ Tight control of operating costs<br>→ Significant investment in the branch network and distribution capability, people, IT infrastructure and product offering<br>→ Diversified portfolio of products, customers and markets limits the risk from any single competitor | → Specialist training<br>→ Investment in IT<br>→ Professionalising procurement and pricing management<br>→ Development of category forums<br>→ Appointment of Group Operations Director, Group Supply Chain Director and Group Procurement Director |

# Principal Risks and Uncertainties CONTINUED

| RISK AND LINK TO STRATEGIC PILLARS | TREND | KEY MITIGATION ACTIVITIES INCLUDE: | OUR FOCUS IN 2015 |
|---|---|---|---|
| **COMMERCIAL RELATIONSHIPS** | | | |
| Failure to negotiate competitive terms of business with suppliers or failure to satisfy the needs of customers could harm the Group's business.<br><br>Customer or supplier consolidation and/or manufacturers dealing directly with customers. | | → Ongoing pricing and purchasing initiatives designed to improve gross margin<br>→ The Group has extensive and regular dialogue with all commercial partners to maintain strong relationships<br>→ Key supplier/customer harmonisation and national account strategy planning<br>→ The Group is not overly reliant on any one supplier and all businesses undergo alternative key supplier scenario planning<br>→ Strategically important suppliers are reviewed globally to assess their financial health<br>→ Monitoring of customer behaviour and performance | → Procurement Initiative<br>→ Commercial partner relationship and rationalisation<br>→ Appointment of Group Supply Chain Director and Group Procurement Director |
| **GOVERNMENT LEGISLATION** | | | |
| SIG operates in a number of countries, each with its own laws and regulations, encompassing environmental, legal, health and safety, employment and tax matters. Changes in these laws and regulations, including a potential "Brexit", could impact on SIG's ability to conduct its business, or make the conduct of such business more expensive. There is also the reputational and financial cost of being penalised for non-compliance. | | → Dedicated resource to monitor compliance with legal and regulatory matters<br>→ Active monitoring of relevant laws and regulations to ensure that any changes to the legal framework are identified and effects minimised<br>→ Review of policies and procedures with reference to changing legislative requirements and the provision of associated training<br>→ Affiliation with regulatory bodies and trade associations<br>→ Strong internal control framework, policies and culture supported by strong leadership, accountability and commitment throughout the organisation<br>→ Continuous monitoring of political environment<br>→ Continuous review of business plans in order to minimise SIG's exposure to potential changes in Government policy | → 'Zero Harm' programme<br>→ Training and development programmes<br>→ Anti-Bribery & Corruption and Competition Policies<br>→ Data protection audits and training |
| **DEBT** | | | |
| Group net debt at 31 December 2015 amounted to £235.9m. The Group has to manage the following risks relating to its net debt:<br>(1) future availability of funding;<br>(2) interest rate risk;<br>(3) foreign currency risk;<br>(4) compliance with debt covenants; and<br>(5) counterparty credit risk. | | → Comprehensive Treasury Policy (please see Treasury Risk Management section on pages 37 to 40)<br>→ Regular monitoring, including sensitivity analysis, to understand the impact of interest rate and exchange rate movements<br>→ Active hedging programme in place<br>→ Monitor performance against covenants on the Group's Revolving Credit Facility and private placement notes<br>→ Regular discussion with banking and private placement partners | → Regular meetings of the Tax and Treasury Committee<br>→ Integration of new acquisitions into SIG banking arrangements and cash management processes<br>→ Introduction of additional modelling and stress testing in relation to the longer-term viability reporting requirements<br>→ Early consideration of the refinancing of the 2016 private placement maturity of c.£130m (net of associated derivatives) |



**Links to our Strategic Pillars**

1. Outstanding customer service
2. Sales outperformance
3. Gross margin enhancement
4. Operational efficiency
5. Financial returns
6. Exceptional people

Read more about our Strategic Pillars on page 12

**Understanding movements in business risk:**

- Increase
- No change
- Decrease

| RISK AND LINK TO STRATEGIC PILLARS | TREND | KEY MITIGATION ACTIVITIES INCLUDE: | OUR FOCUS IN 2015 |
|---|---|---|---|
| **WORKING CAPITAL AND CASH MANAGEMENT** (1, 4, 5) | | | |
| Failure to manage working capital effectively may lead to a significant increase in the Group's net debt, thereby reducing the Group's funding headroom and liquidity. | No change | → Post-tax Return on Capital Employed is a Key Performance Indicator of the Group<br>→ Cash flow targets are agreed with each business unit as part of the annual budget process and reviewed on a monthly basis<br>→ Stringent authorisation procedures to control capital expenditure<br>→ Proactive credit management systems supported by daily customer monitoring systems | → Branch reviews<br>→ Strategic Initiatives<br>→ Credit management: UK roll out of unique customer finance and customer risk management tools to help customers<br>→ Investment in IT |
| **IT INFRASTRUCTURE AND CYBERSECURITY** (4, 5) | | | |
| SIG uses a range of computer systems across the Group. Outages and interruptions could affect the ability to conduct day-to-day operations, which could result in loss of sales and delays to cash flow.<br><br>Key systems are breached causing financial loss, data loss, disruption or damage.<br><br>A new ERP system is currently being implemented within the UK distribution businesses. | Increase | → Continual review of IT strategies to ensure they remain appropriate<br>→ Business continuity framework<br>→ Dedicated internal IT support team together with external support providers<br>→ Regular updates to technology, infrastructure, communications and application systems<br>→ The Group has advanced hardware and software security in place to ensure protection of commercial and sensitive data<br>→ For new IT projects, external consultants are utilised in conjunction with internal project management teams<br>→ Collaborative cross-functional risk group in place | → Roll out of the new ERP system for the UK distribution businesses has continued during the course of 2015 and this will be completed in 2016<br>→ Group Chief Information Officer ("CIO") appointed<br>→ Awareness of increased exposure to cyber crime and creation of Information Security Council<br>→ Appointment of Group IT Service Delivery Director, Group IT Systems Development Director and Group IT Commercial Director |
| **AVAILABILITY AND QUALITY OF KEY RESOURCES** (4, 6) | | | |
| Unavailability of key resources (e.g. assets such as property, stock and personnel) will impact on the ability of SIG to operate effectively and efficiently.<br><br>Failure to attract and retain key individuals, strong management and technical staff in the future could have an adverse effect upon the Group's business. | No change | → Strategic and budget reviews ensure all key resource requirements are identified and managed<br>→ Senior management succession planning<br>→ Continue to evolve a defined people strategy based on culture and engagement, talent management, training and reward recognition<br>→ Provision of channels for employees to raise concerns to promote an environment of honesty and trust | → Employee engagement survey<br>→ Increased employee communication and engagement<br>→ Appointed Group Head of Resourcing<br>→ Implemented detailed succession planning for senior management<br>→ Increased training through "Raising the Bar" programme for Senior Leadership Team |

# Our performance

> The Group continues to make good progress on its Strategic Initiatives to improve business performance.

**STUART MITCHELL** Chief Executive

Revenues from continuing operations decreased 1.4% to £2,566.4m (2014: £2,602.9m), having been adversely affected by foreign exchange translation, with the average Euro to Sterling exchange rate depreciating by 10.9% to €1.383 in 2015 from €1.247 in 2014. Group sales increased 3.7% in constant currency and were ahead by 0.3% on a like-for-like ("LFL") basis, with acquisitions contributing 3.4% to revenue growth.

SIG experienced product price inflation of 0.5% and a 0.2% volume decrease in 2015. SIG estimates that its overall market, weighted according to the sectors in which it operates, declined by 1.3% in the period, corresponding to an outperformance of 1.6% by the Group.

In UK & Ireland revenues from continuing operations increased 5.7% to £1,412.9m (2014: £1,336.2m), and were up 1.5% on a LFL basis, with the UK up 0.8% and Ireland ahead by 12.7%.

Sales in Mainland Europe from continuing operations decreased 8.9% to £1,153.5m (2014: £1,266.7m), mainly due to movements in foreign exchange rates. On a LFL basis sales in Mainland Europe fell by 0.9% for the year, but showed an improved performance in Q4, increasing by 1.8%.

The Group continues to make good progress on its Strategic Initiatives to improve business performance, delivering an incremental net benefit of £12.6m in 2015. This gives a total cumulative net saving of £22.7m since the programme began, mainly sourced from procurement, and is ahead of schedule. SIG continues to expect to achieve at least another £10m incremental net benefit in 2016.

Although the Strategic Initiatives added 50bps to SIG's gross margin in 2015, weak trading conditions, which particularly impacted the Group's higher margin UK Exteriors business, changes in product mix and competitive pressures offset this improvement, resulting in the Group's gross margin declining by 10bps to 26.8% (2014: 26.9%).

Underlying operating profit declined 11.2% to £98.7m (2014: £111.2m) having been impacted by movements in foreign exchange rates and weak trading conditions, with underlying operating margin declining 50bps to 3.8% (2014: 4.3%). Underlying net finance costs decreased slightly to £11.3m (2014: £12.1m), which together with the decline in operating profit resulted in underlying profit before tax decreasing 11.8% to £87.4m (2014: £99.1m). Despite benefiting from a lower tax rate underlying basic earnings per share from continuing operations declined by 6.7% to 11.2p (2014: 12.0p).

On a statutory basis profit before tax increased 31.5% to £51.3m (2014: £39.0m) mainly due to a reduction in amortisation of acquired intangibles, and the prior year including costs associated with the sale of businesses, offset by business termination costs. Basic earnings per share increased 8.9% to 6.1p (2014: 5.6p).

Net debt at 31 December 2015 increased to £235.9m (31 December 2014: £126.9m) following net acquisition expenditure of £75.3m (2014: £21.0m) and net capital expenditure (excluding one-off sale of land) of £46.3m (2014: £36.6m). Net capital expenditure was 1.8x depreciation of £26.0m (2014: £24.0m), as the Group reinvested in the business, particularly IT and fleet.


GROUP
SALES
£2,566.4m


GROSS
MARGIN
26.8%


PROFIT
BEFORE TAX
£87.4m

# Our performance CONTINUED

## ACQUISITIONS

In 2015 SIG acquired 12 infill businesses for a gross cash consideration of £78.1m, together with a contingent consideration of up to £14.2m providing future performance enhances Group returns.

Five of the acquisitions were regional infills in the UK roofing sector and one was a specialist in the UK technical insulation market. Five acquisitions were geographic and product infills in Mainland Europe, with activities in the air handling, interiors and insulation sectors. The Group also acquired an interiors business in the Middle East.

To date in 2016 SIG has acquired a further five infill businesses for a gross cash consideration of £14.6m in the air handling, exteriors and interiors sectors.

As previously stated going forward SIG is aiming to return leverage to c.1.5x in the medium-term by slowing the pace of acquisitions and moderating capital expenditure.

## RETURN ON CAPITAL EMPLOYED

Post-tax Return on Capital Employed ("ROCE") is the key metric for the Group and is calculated as underlying operating profit less tax, divided by average net assets plus average net debt.

In 2015 SIG's ROCE decreased by 110bps to 9.3% (2014: 10.4%) mainly due to weaker trading conditions. Assuming a full year contribution from acquisitions completed in the year, ROCE would have been 40bps higher.

Going forward SIG remains committed to increasing ROCE. As well as taking a disciplined approach to its capital management, SIG seeks to achieve this through further improvements in its gross and operating margins.

## STRATEGIC INITIATIVES

SIG continues to make good progress on its Strategic Initiatives to improve business performance, delivering gross cumulative savings of £33.6m in 2015, of which £18.8m was in the UK & Ireland and £14.8m was in Mainland Europe. These savings were almost all sourced from its procurement initiative and are ahead of the Group's original schedule.

The net cumulative benefit to the Group, after costs of £10.9m to deliver the programme, was £22.7m. Following a net benefit of £10.1m in 2014, the net incremental benefit to the Group of the Strategic Initiatives in 2015 was £12.6m. In constant currency the net benefit was £14.1m. SIG continues to expect to achieve at least another £10m incremental net benefit in 2016.

## SUPPLY CHAIN

One of the key themes of the Group's Capital Markets Day in November 2015 was the reshaping of SIG's supply chain by centralising supplier and customer deliveries to larger branches or Regional Distribution Centres ("RDCs").

In order to maximise returns whilst minimising risk to the business, SIG set out a two-step strategy to achieve these savings, with the first step involving a move to regional hubs utilising the Group's existing network where possible. SIG is targeting £20m savings from this first step, with a resulting exceptional charge of c.£10m.

In the UK, the Group's Exteriors business is currently rolling out its hub and spoke model with a target completion date of the end of Q2 2016. SIG Distribution is finalising plans to deliver the cultural and behavioural change programme that underpins its change plan and is rolling out improved functionality of the new K8 ERP system in forecasting, replenishment and warehouse management.

A Group-wide review of transport planning has also commenced to secure savings through improved vehicle scheduling and routing.

The second step of the Group's supply chain strategy is to trial RDCs, potentially working with third-party logistics providers. SIG is on track to open three new RDCs this year in the UK, France and Ireland.

Read more about our
Supply Chain on page 15



## AIR HANDLING

The Group's first significant move into air handling came through the acquisition of Air Trade Centre in 2007, with the rationale being that this is an adjacent specialist distribution market, with similar environmental drivers as SIG's insulation and energy management business.

The business has grown rapidly over recent years, and increased sales by 17% in 2015 to €214m. On a pro forma basis, including full year contributions from the infill acquisitions the Group made in H2 2015 and January 2016, sales in this division would be c.€250m.

SIG is targeting sales of at least €400m by 2018, mainly through organic growth, with an operating margin in the range of 7-8%. In doing so the Group is aiming to increase its project offering of designing and delivering complete system solutions to customers.

## OFFSITE CONSTRUCTION

The Group has three businesses, Insulshell, RoofSpace and Metechno (acquired 2016), which together provide a compelling single offsite construction proposition.

The segment of the offsite market which SIG is targeting is already worth over £1bn and is fast growing, having increased at a compound annual rate of 16% since 2008. This is due to strong customer demand drivers as traditional construction methods are displaced. Furthermore, it has the same customer base and end-markets as SIG's distribution businesses, and uses products that are supplied from the rest of the Group.

The Group is aiming to increase sales to at least £150m by 2018, with a double-digit operating margin, and is targeting a number one position in each of its markets.

## UK & IRELAND TRADING REVIEW

- → Sales from continuing operations increased 5.7% to £1,412.9m (2014: £1,336.2m)
- → Gross margin from continuing operations down 10bps to 26.6% (2014: 26.7%)
- → Underlying operating profit down 8.8% to £61.0m (2014: £66.9m)
- → Underlying operating margin declined 70bps to 4.3% (2014: 5.0%)
- → Statutory operating profit of £38.6m (2014: £18.8m)

| Continuing operations | 2015 Sales | Change | LFL change | Change in gross margin |
|---|---|---|---|---|
| United Kingdom | £1,340.8m | 6.0% | 0.8% | (20)bps |
| Ireland | £72.1m | 1.5% | 12.7% | 150bps |
| **UK & Ireland** | **£1,412.9m** | **5.7%** | **1.5%** | **(10)bps** |

Sales from continuing operations in the UK increased 6.0%, benefiting from acquisitions, which added £63.9m of revenues in the period. Excluding acquisitions, on a LFL basis sales were ahead 0.8%.

The private new build residential sector was the strongest segment of the UK construction market in 2015, up 7.0% compared to prior year according to the Construction Products Association ("CPA"). SIG continues to expect robust growth in this sector in 2016, although the rate of expansion is likely to slow somewhat compared to 2015, with the CPA forecasting a growth rate of 5.0%.

In contrast the UK Repairs, Maintenance and Improvement ("RMI") residential sector was challenging during 2015, particularly in the second half of the year. This adversely affected the Group's Exteriors business, which has a relatively high exposure to this segment of the market, recording a LFL sales decline of 2.9% in the year, and down by 4.3% in H2 2015.

SIG believes that the weakness in the UK RMI market is correlated, with a time lag, with housing transactions and mortgage approvals, which declined during 2014 and into the first quarter of 2015. Since then transactions and approval rates have begun to recover, suggesting that the UK RMI market is likely to pick up as 2016 progresses.

SIGD's LFL sales were up 2.1% despite increased competition in the UK insulation and interiors market during 2015, particularly in more commoditised product areas. In order to improve performance in this market the Group has taken a number of actions aimed at further increasing its customer focus, and is already benefiting from these changes.

The Group's outlook for the UK market in 2016 is positive, with growth expected to continue to be driven by the residential sector, particularly in new build. While trading conditions in the non-residential sector are improving, SIG has not yet benefited from this growth mainly due to its later cycle exposure. Assuming this continues, the Group anticipates that this should start to feed through into its sales performance during 2016. The CPA is forecasting an increase in UK building output of 2.9% in 2016.

SIG recorded a very strong performance in Ireland in 2015 with LFL sales up 12.7% and gross margin ahead by 150bps. However, having been adversely affected by the weakening Euro, sales in Sterling were only up 1.5%. The Group's growth was driven by a recovering Irish residential market, along with some more limited recovery in activity in the non-residential sector. Euroconstruct expects this strong recovery to continue in 2016.

## MAINLAND EUROPE TRADING REVIEW

- → Sales from continuing operations decreased 8.9% to £1,153.5m (2014: £1,266.7m)
- → Gross margin from continuing operations increased 10bps to 27.2% (2014: 27.1%)
- → Underlying operating profit declined 16.8% to £45.1m (2014: £54.2m)
- → Underlying operating margin down 40bps to 3.9% (2014: 4.3%)
- → Statutory operating profit of £34.7m (2014: £44.3m)

| Continuing operations | 2015 Sales | Change | LFL change | Change in gross margin |
|---|---|---|---|---|
| France | £517.3m | (11.7)% | (2.8)% | (20)bps |
| Germany & Austria | £368.3m | (10.7)% | (2.3)% | (10)bps |
| Benelux* | £164.3m | 5.1% | 7.8% | 120bps |
| Poland | £103.6m | (7.5)% | 2.3% | (30)bps |
| **Mainland Europe** | **£1,153.5m** | **(8.9)%** | **(0.9)%** | **10bps** |

* includes Air Trade Centre

### France

Although sales in France decreased by 2.8% on a LFL basis, and were down by 11.7% in Sterling due to movements in foreign exchange, SIG outperformed the market by 2.1%.

The French construction market remained challenging during 2015, with the residential market, to which the Group has a high exposure, accounting for 61% of revenues, particularly weak. Activity in the non-residential sector also continued to decline, although not to the same degree as the housing market.

There were signs that French market conditions were beginning to improve towards the end of 2015, with SIG recording LFL sales growth of 2.5% in Q4. This was the Group's first positive LFL quarterly performance in France since Q1 2014. Furthermore, new housing starts have stabilised at around 350,000 on a rolling twelve month basis, following double-digit declines earlier in the year.

Given the improving housing data and a return to growth for SIG, the outlook for France is more positive although the trajectory of any recovery remains uncertain at this early stage. Euroconstruct is forecasting a strong bounce back in the French construction market in 2016, with total building output expected to increase by 5.2%.


### Germany & Austria

Sales in Germany & Austria decreased by 2.3% on a LFL basis and were down 10.7% in Sterling.

While the new build residential sector was the strongest performing market in Germany, increasing by 5.5%, this sector only accounts for 13% of SIG's sales in the country.

SIG has a high exposure to the weaker non-residential and industrial sectors in Germany, which account for 76% of revenues. In particular SIG's technical insulation business, VTI, was adversely affected by the challenging trading conditions in the industrial sector, with LFL sales declining by 7.8%.

LFL sales in WeGo, the Group's interior and structural insulation business, decreased 1.5% in the year. This compares to a 1.8% decline in the non-residential market, according to Euroconstruct.

Looking ahead to 2016, Euroconstruct is forecasting a 1.9% increase in building output in Germany, with the residential sector (up 2.3%) again outperforming the non-residential market (up 1.2%).

### Benelux

Sales in Benelux (which includes Air Trade Centre) were up 5.1% and by 7.8% on a LFL basis. While the construction market in Belgium remains challenging in both the residential and non-residential sectors, The Netherlands continued to improve. This was led by growth in the residential sector, with the non-residential market, which had been in decline for a number of years, now stable.

For 2016 Euroconstruct is forecasting continued good growth in The Netherlands, with building output up by 4.8%, but Belgium continuing to be relatively weak, with output increasing by only 0.6%.

### Poland

In Poland, following a challenging 2014, when LFL sales decreased 5.7%, the construction market recovered in 2015, with SIG recording a LFL sales growth of 2.3% and by 4.2% in the second half of the year. However, following a 160bps improvement last year, gross margin fell back by 30bps mainly due to changes in sales mix.

Euroconstruct expect the recovery in the Polish market to continue in 2016 and is forecasting a growth rate of 3.6%.

## GROUP OUTLOOK

This year the Group continues to expect good growth in the UK new build construction market, primarily driven by the residential segment. Lead indicators also suggest that demand should pick up in the UK RMI sector as 2016 progresses.

In Mainland Europe, while the trajectory of any recovery at this stage remains uncertain, trading conditions in France have improved, with the housing market stabilising and a return to growth for SIG in Q4 2015.

Following an encouraging start to the year, with positive LFLs in both the UK & Ireland and Mainland Europe, the scope for further cost savings and growth opportunities within the Group mean that it expects to make progress in 2016.

# Financial Review

> *"The Group has exceeded its stated objective of delivering £20m of net benefit through its Strategic Initiatives programme"*

**DOUG ROBERTSON** FINANCE DIRECTOR

## GROUP PERFORMANCE

| | Underlying* | | | Statutory | | |
|---|---|---|---|---|---|---|
| | **2015 £m** | 2014 £m | Change | **2015 £m** | 2014 £m | Change |
| Sales | **2,566.4** | 2,602.9 | (1.4)% | **2,566.4** | 2,633.9 | (2.6)% |
| Gross margin | **26.8%** | 26.9% | (10)bps | **26.8%** | 26.7% | 10bps |
| Operating profit | **98.7** | 111.2 | (11.2)% | **65.9** | 53.2 | 23.9% |
| Profit before tax | **87.4** | 99.1 | (11.8)% | **51.3** | 39.0 | 31.5% |
| Basic earnings per share (pence) | **11.2p** | 12.0p | (0.8)p | **6.1p** | 5.6p | 0.5p |
| Total dividend per share (pence) | **n/a** | n/a | n/a | **4.60p** | 4.40p | 0.20p |
| Working capital to sales | **9.1%** | 8.0% | 110bps | **n/a** | n/a | n/a |
| ROCE | **9.3%** | 10.4% | (110)bps | **n/a** | n/a | n/a |

* Underlying is before the amortisation of acquired intangibles, restructuring costs, acquisition expenses and contingent consideration, other one-off items, profits and losses arising on the sale of businesses and associated impairment charges, trading profits and losses associated with disposed businesses, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, one-off recognition of deferred tax assets, the taxation effect of "Other items" and the effect of changes in taxation rates.

## OVERVIEW

The Group has made good progress in the delivery of its Strategic Initiatives despite difficult market conditions, and has continued to successfully implement its infill acquisition programme. The Group has exceeded its stated objective of delivering a cumulative net benefit of £20m through its Strategic Initiatives programme in 2015, and acquisitions in 2015 and 2014 added an additional £8.8m of operating profit compared to 2014.

In a year that saw challenging market conditions, particularly in the second half, a ROCE of 9.3% (2014: 10.4%) falls some way short of SIG's target, which was for ROCE to exceed 11% in 2015. However, ROCE remains comfortably ahead of SIG's Weighted Average Cost of Capital ("WACC"), which for the year ended 31 December 2015 was 7.1%, and therefore creates economic profit for Shareholders.

## REVENUE

Group sales from continuing operations fell in Sterling by 1.4%, but increased 3.7% on a constant currency basis. The incremental impact of acquisitions made in the current and prior year contributed 3.4% of this sales growth in the year; excluding 2015 and 2014 acquisitions the Group's sales on a constant currency basis were up 0.3%.

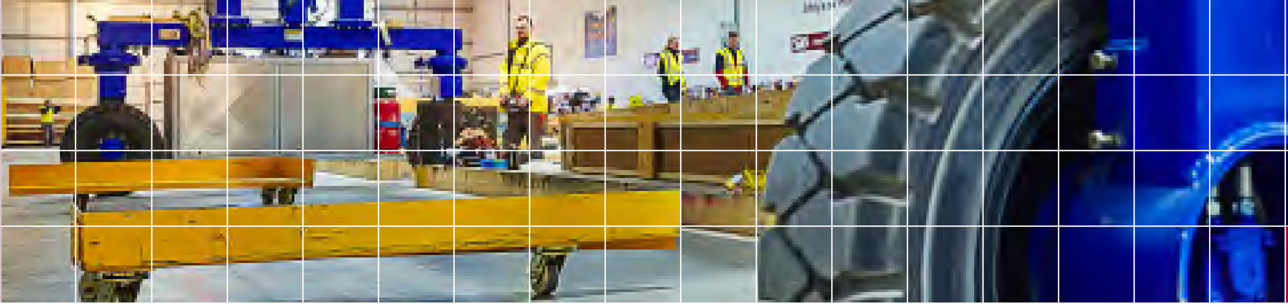
The weighted number of trading days in the year ended 31 December 2015 had no impact compared to the prior year.

Total Group sales in Sterling fell by 2.6% to £2,566.4m (2014: £2,633.9m).

| **Like-for-like constant currency sales performance^** | Group | UK & Ireland | Mainland Europe |
|---|---|---|---|
| First half | 0.6% | 2.8% | (1.5)% |
| Second half | 0.0% | 0.2% | (0.3)% |
| Full year | 0.3% | 1.5% | (0.9)% |

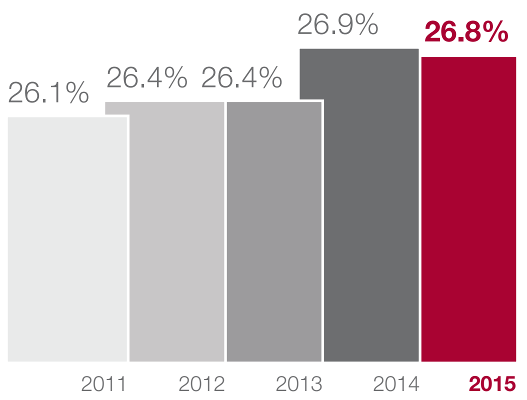
^ Like-for-like constant currency sales performance represents the growth/(decline) in the Group's sales per day excluding any acquisitions and disposals completed or agreed in the current and prior year. Sales are not adjusted for organic branch openings and closures.

SIG estimates that overall its markets contracted by c.1.3% in 2015. Given that the Group achieved a like-for-like constant currency sales growth of 0.3%, this equates to a market outperformance of c.1.6%. This has been achieved against a backdrop of strong competition in SIG's core markets in 2015. In delivering this outperformance, the Group has opened a further seven branches in high-potential locations (2014: nine openings), three in the UK & Ireland, two in Germany and one each in France and Belgium. As part of its Supply Chain initiative, the Group also closed 16 branches in 2015, ten in the UK, four in Germany and two in Poland.





## GROSS MARGIN

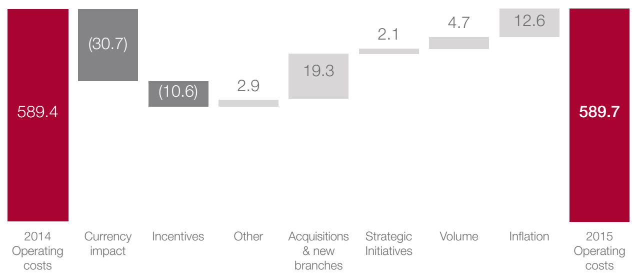



The Group's underlying gross profit margin at 26.8% was down 10bps on the prior year (2014: 26.9%), with the UK & Ireland down 10bps and Mainland Europe marginally ahead of prior year. The Group's Procurement Strategic Initiative delivered significant benefit in the year and was instrumental in protecting gross margins against strong pricing competition in many of SIG's core markets.

Maximising returns remains a fundamental component of SIG's strategy. SIG intends to continue to target gross margin improvement through further development of its Procurement Initiative, reshaping of its Supply Chain and greater focus on value added sales.

## OPERATING COSTS

### 2015 v 2014 Operating cost bridge (£m)




Underlying operating costs increased by £0.3m (0.1%) in 2015; on a constant currency basis, underlying operating costs increased by £31.0m (5.3%).

The biggest impact on operating costs in the year has come from the movement in foreign exchange rates, which have reduced costs in Sterling by £30.7m. During the year SIG has continued to invest in its branch network and other local initiatives (£5.0m), acquisitions (£14.3m) and Strategic Initiatives (£2.1m). The Group's incentive charge has fallen by £10.6m in 2015. The lower sales volumes experienced in 2015 have also reduced variable costs by £4.7m.

The Group has continued to review its operational efficiency in 2015, including a comprehensive review of its Supply Chain in the United Kingdom, France and Germany, and has initiated actions which are expected to deliver annualised cost savings of c.£5.4m with associated restructuring costs of £8.3m. Approximately £4.3m of these savings are expected to be realised in 2016.

The Group's bad debt charge on an underlying basis (being both bad debts written off and the movement in the allowance for bad and doubtful debts) was maintained at 0.3% of sales (2014: 0.3% of sales), an exceptional performance in difficult trading conditions. This is testament to the quality and strength of our credit control teams and the Group's credit control policies and procedures, supported by credit insurance policies where appropriate.

Taking into account the factors noted above, the Group experienced operating cost inflation in the year of 2.1%.

## OTHER ITEMS

In order to provide an indication of its continuing earnings, the Group separately identifies "Other items" on the face of its Consolidated Income Statement. These items are separately reported due to their non-recurring, significant or unusual nature.

| | **2015 £m** | 2014 £m |
|---|---|---|
| Underlying profit before tax | **87.4** | 99.1 |
| Other items | | |
| Amortisation of acquired intangibles | **(10.3)** | (19.6) |
| Profits and losses on sale of businesses and associated impairment charges | **-** | (14.0) |
| Net operating losses attributable to businesses divested in 2014 | **-** | (6.7) |
| Acquisition expenses and contingent consideration | **(14.3)** | (3.9) |
| Restructuring costs | **(8.3)** | (9.2) |
| Other one-off items | **0.1** | (4.6) |
| Fair value gains and losses on derivative financial instruments and unwinding of provision discounting | **(3.3)** | (2.1) |
| Total Other items | **(36.1)** | (60.1) |
| **Statutory profit before tax** | **51.3** | 39.0 |

Amounts reported in the "Other items" column of the Consolidated Income Statement, which in total amounted to a loss before tax of £36.1m (2014: £60.1m), are as follows:

- **Amortisation of acquired intangibles** – £10.3m (2014: £19.6m). Intangible amortisation is expected to vary significantly over time, and is dependent upon the number and value of acquisitions made by the Company over time. The Statement of Significant Accounting Policies section on page 108 and Note 12 to the Accounts on page 129 provide details of what is included within intangible assets and over what periods the assets are amortised;
- **Profits and losses on sale of businesses and associated impairment charges** – £nil (2014: £14.0m). The non-recurring charge in 2014 was recognised in respect of the divestment of the Group's German Roofing, Miller Pattison and Ice Energy operating businesses;
- **Net operating losses attributable to businesses divested in 2014** – £nil (2014: £6.7m). The 2014 results of German Roofing, Miller Pattison and Ice Energy were reported as "Other items" on the basis of their non-recurring nature;
- **Acquisition expenses (£1.9m) and contingent consideration (£12.4m)** - £14.3m (2014: £3.9m). Acquisition expenses and contingent consideration linked to employment contracts vary depending on the number, size and future profitability of acquisitions;
- **Restructuring costs** – £8.3m (2014: £9.2m). The Group has taken a number of actions during the year to improve the efficiency of its fixed cost base. These one-off actions have resulted in redundancy costs of £0.9m (2014: £3.9m), property closure costs of £4.6m (2014: £3.1m), rebranding of £0.2m (2014: £2.2m) and supply chain consultancy costs of £2.6m (2014: £nil);
- **Other one-off items** – credit of £0.1m (2014: charge of £4.6m). Other one-off items include operating losses and closure costs associated with the Group's operations in the Kingdom of Saudi Arabia of £3.6m (2014: £1.0m), fair value losses on fuel hedging contracts of £0.4m (2014: £nil), and income from the sale of land of £1.1m (following the related impairment charge in 2014 of £6.1m). They also include credits arising on the discounting of provisions of £nil (2014: £0.5m), the reversal of property provisions of £2.4m (2014: £1.6m) previously provided through "Other items" whereby the Group has negotiated the surrender of the leases in 2015, and other one-off credits of £0.6m (2014: £0.4m); and
- **Fair value gains and losses on derivative financial instruments and unwinding of provision discounting** – £3.3m (2014: £2.1m). The finance costs section below explains these items in more detail.

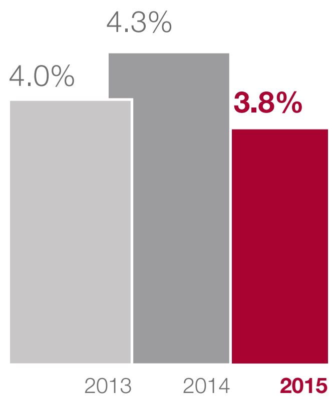
## OPERATING PROFIT AND OPERATING MARGIN

| Underlying | 2015 £m | 2014 £m | Change |
|---|---|---|---|
| UK & Ireland | **61.0** | 66.9 | (8.8)% |
| Mainland Europe | **45.1** | 54.2 | (16.8)% |
| Head office costs | **(7.4)** | (9.9) | 25.3% |
| Group | **98.7** | 111.2 | (11.2)% |

On an underlying basis, operating profit decreased by £12.5m (11.2%) to £98.7m (2014: £111.2m). Foreign exchange rate movements decreased the Group's operating profit by £5.1m year-on-year. Therefore, on a constant currency basis underlying operating profit decreased by £7.4m.

Acquisitions completed during 2015 and 2014 made a contribution of £10.4m to operating profit in the year (2014: £1.6m).

### Underlying operating margin




Overall, the Group's underlying operating profit margin at 3.8% was 50bps lower than the prior year (2014: 4.3%). Given the operational gearing of the business, with the majority of operating costs being fixed, it is envisaged that operating margins will improve as the Group's sales grow.

The Group recorded a statutory operating profit of £65.9m (2014: £53.2m) after recognising a number of "Other items" that are described above.

## FINANCE COSTS

Net finance costs on a statutory basis increased by £0.4m to £14.6m in 2015 (2014: £14.2m).

Net finance costs included in the "Other items" column of the Consolidated Income Statement amounted to £3.3m (2014: £2.1m).



Following the Group's equity issuance in H1 2009 and the subsequent reduction in the Group's level of net debt, SIG cancelled certain interest rate derivative contracts at a cash cost of £32.2m. This termination payment did not increase the Group's overall level of debt as this payment cancelled the mark-to-market liability already included in the Group's Consolidated Balance Sheet. The amounts previously recorded in reserves are being amortised through the Consolidated Income Statement over the life of the associated debt to 2018 in line with the relevant accounting standards. The amortisation included within the "Other items" column amounted to £1.9m (2014: £2.0m). The remaining balance recorded in reserves in relation to the settlement of interest rate derivative contracts, which is to be amortised in the Consolidated Income Statement over a period of three years, is £3.6m (2014: £5.5m).

In February 2014 the Group cancelled a further two interest rate derivative contracts that swapped floating rate debt into fixed rate debt at a cash cost of £2.0m. The amounts previously recorded in reserves are being amortised through the Consolidated Income Statement as an underlying item over the life of the associated debt to 2018 as this cancellation reflects the ongoing management of the Group's interest rate hedging policy. The amount amortised in 2015 was £0.4m (2014: £0.3m).

Also included within finance costs is a credit of less than £0.1m (2014: £0.1m) relating to hedge ineffectiveness incurred on the Group's financial instruments and a charge of £1.5m in respect of unwinding of provision discounting (2014: £0.2m). £1.4m of the unwinding of provision discounting has been included within "Other items" to reflect the fact that the related provisions are non-underlying in their nature.

Net finance costs before gains and losses on derivative financial instruments, unwinding of provision discounting and financing items relating to defined benefit pension schemes (i.e. net borrowing costs) decreased by £1.1m to £10.1m in 2015 (2014: £11.2m).

Further details of SIG's interest rate policies are provided in the interest rate risk section on page 37.

## PROFIT BEFORE TAX

Underlying profit before tax decreased by £11.7m, or 11.8%, to £87.4m (2014: £99.1m). On a constant currency basis, underlying profit before tax decreased by £6.9m to £92.2m.

On a statutory basis, profit before tax increased by £12.3m to £51.3m (2014: £39.0m).

## TAXATION

The Group's approach to tax matters is to comply with all relevant tax laws and regulations, wherever it operates, while managing its overall tax burden. The Group seeks to pay the correct amount of taxes due, both direct and indirect, in accordance with the laws of the territories in which it operates.

The Group takes appropriate advice from reputable professional advisers to ensure compliance with applicable rules and regulations, and to consider potential mitigating actions in order to manage tax risks. The Group seeks to be transparent in its dealings with local tax authorities; where differences of opinion do arise, these are dealt with in a professional, co-operative manner.

The Board has overall responsibility for managing and controlling risk, including tax risk, within the Group. The Group has a Tax and Treasury Committee that provides regular updates to the Board, and this enables the Board to consider the tax implications of significant strategic decisions on a timely basis.

The Group recorded an income tax charge on underlying profits from continuing operations amounting to £21.0m (2014: £27.8m), which represents an underlying effective rate of 24.0% (2014: 28.1%). Excluding the effect of prior year credits, the effective tax rate was 24.8%. On the statutory profit before tax of £51.3m (2014: £39.0m), the income tax charge of £15.0m (2014: £4.5m) represents an effective rate of 29.2% (2014: 11.5%). These differences arise as a result of amounts included in "Other items" in the year.

Cash tax payments amounted to £11.1m, £9.9m below the £21.0m income tax charge on underlying profits, primarily as a result of the restructuring costs incurred in the year included within "Other items" and also the utilisation of the Group's brought forward UK non-trading losses (c.£27m gross utilised in the year). The Group's underlying effective tax rate in 2016 will be determined by the mix of profits from different jurisdictions. It is anticipated that the underlying effective tax rate in 2016 (excluding any prior year effects) will be c.24%, due to the full year impact of the reduction in the UK domestic corporation tax headline rate to 20% from April 2015, and the removal of the surcharge applied to the French domestic corporation tax rate.

## EARNINGS PER SHARE ("EPS")

| | 2015 | 2014 | Change |
|---|---|---|---|
| Underlying basic EPS | **11.2p** | 12.0p | (0.8)p |
| Statutory basic EPS | **6.1p** | 5.6p | 0.5p |

Underlying basic EPS from continuing operations amounted to 11.2p (2014: 12.0p), which represents a decrease of 0.8p. Total basic EPS amounted to 6.1p (2014: 5.6p), taking into account a number of "Other items" as described on pages 31 and 32. The weighted average number of shares in issue in the period was 591.2m (2014: 591.1m).

## DIVIDENDS

The Board is committed to a progressive dividend policy while maintaining a dividend cover of 2x–3x (on an underlying basis) over the medium term. SIG continued to increase its dividend payments in 2015 with an interim dividend of 1.69p per share (2014: 1.42p). SIG has proposed a final dividend of 2.91p per share (2014: 2.98p), taking the 2015 full year dividend to 4.60p per share (2014: 4.40p), representing a 4.5% increase in total dividend year on year. A total dividend of 4.60p represents a dividend cover of 2.43x in 2015 on an underlying basis.

The Company has sufficient distributable reserves to pay dividends for a number of years, and when required the Company can receive dividends from its subsidiaries to further increase distributable reserves.

## SHAREHOLDERS' FUNDS

Shareholders' funds decreased by £15.0m to £648.7m (2014: £663.7m). The decrease comprised the following elements:

| | £m |
|---|---|
| Profit after tax attributable to equity holders of the Company | 36.0 |
| Exchange differences on assets and liabilities after tax | (22.1) |
| Gains and losses on cash flow hedges | (1.9) |
| Movements attributable to share options | (0.5) |
| Issue of share capital | 0.1 |
| Actuarial gain on pensions schemes (net of deferred tax) | 1.7 |
| Effect of change in tax rates on deferred tax | (0.7) |
| Dividends paid to equity holders of the Company | (27.6) |
| Decrease in Shareholders' funds | (15.0) |

## CASH FLOW AND FINANCIAL POSITION

In 2015, the Group generated £61.6m of cash flow from operating activities to help support its strategy of investment in both organic and acquisition-based growth, and progressive dividend policy. The following table explains the movement in SIG's net debt:

| | 2015 £m | 2014 £m |
|---|---|---|
| Cash generated from operating activities | **61.6** | 95.6 |
| Interest and tax | **(20.6)** | (28.5) |
| Maintenance capital expenditure* | **(26.0)** | (24.0) |
| Free cash flow available for investment | **15.0** | 43.1 |
| Investment capital expenditure | **(20.3)** | (12.6) |
| Sale of land | **1.1** | 8.1 |
| Acquisition investment (including deferred consideration) | **(75.3)** | (19.0) |
| Movements relating to the sales of businesses | **-** | (2.6) |
| Foreign exchange gains | **0.8** | 0.2 |
| Issue of shares | **0.1** | - |
| Dividends paid to equity holders of the Company | **(27.6)** | (22.6) |
| Other items (including fair value movements) | **(2.8)** | (0.3) |
| Movement in net debt | **(109.0)** | (5.7) |
| Opening net debt | **(126.9)** | (121.2) |
| **Closing net debt** | **(235.9)** | (126.9) |

* Where net capital expenditure is equal to or less than depreciation (including amortisation of computer software), all such net capital expenditure is assumed to be maintenance capital expenditure. To the extent that net capital expenditure exceeds depreciation, the balance is considered to be investment capital expenditure.

### Working capital

The key working capital measures are set out below on a constant currency basis (continuing operations):

| | 2015 £m | 2014 £m |
|---|---|---|
| Inventory days | **46** | 43 |
| Trade receivable days | **45** | 43 |
| Trade payable days | **39** | 36 |
| Working capital to sales | **9.1%** | 8.0% |

The Group's working capital to sales ratio (on a constant currency basis for continuing operations) at 31 December 2015 was 9.1% (2014: 8.0%), 10bps above the Group's target. Working capital days increased by two days to 52 days (2014: 50 days). In part, this increase arises as a result of a stronger sales performance in the final quarter compared to the prior year.

### Fixed assets

Net capital expenditure (including computer software) increased in the year by £16.7m to £45.2m (2014: £28.5m), representing a capex to depreciation ratio of 1.74x (2014: 1.19x). Capital expenditure includes new vehicles, new brownfield sites, investment in plant and machinery and in the new UK IT platform.

It is anticipated that the level of capital expenditure will be in the region of 1.0x-1.5x of depreciation in 2016, reflecting the Group's continuing investment in the business.



## FOREIGN CURRENCY TRANSLATION

Overseas earnings streams are translated at the average rate of exchange for the year while balance sheets are translated using closing rates. The table below sets out the principal exchange rates used:

| | Average rate | | Closing rate | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Euro | **1.38** | 1.25 | **1.36** | 1.28 |
| Polish Zloty | **5.78** | 5.23 | **5.82** | 5.54 |

The impact of exchange rate movements on the translation of the Group's overseas earning streams, net assets and net debt can be summarised as follows:

| | Impact of currency movements in 2015 | |
|---|---|---|
| | £m | % |
| Continuing sales | (131.6) | (5.1)% |
| Underlying operating profit | (5.1) | (5.2)% |
| Underlying PBT | (4.8) | (5.5)% |
| Consolidated net assets | (22.1) | (3.4)% |
| Net debt | (0.8) | (0.3)% |

As demonstrated above, fluctuations in exchange rates give rise to translation differences on overseas earnings streams when translated into Sterling. Further details of SIG's foreign exchange policies are detailed in the foreign currency risk section on pages 37 and 38.

## PENSION SCHEMES

In total, the Group operates six (2014: six) defined benefit pension schemes, the largest of which is a funded scheme held in the UK. The remaining five defined benefit pension schemes are unfunded book reserve schemes held in the Group's Mainland European businesses. Together the UK defined benefit scheme and the five book reserve schemes are referred to as "defined benefit pension schemes".

The overall gross defined benefit pension schemes' liability decreased during the year by £4.9m to £23.8m (31 December 2014: £28.7m). This can be broken down as follows:

| | Decrease/ (increase) in pension scheme liability £m |
|---|---|
| Actual return below expected return on assets | (2.7) |
| Change in financial and demographic assumptions in all schemes | 4.6 |
| Amounts recognised in the Income Statement | (2.2) |
| Cash contributions to the schemes and other movements | 4.7 |
| Effect of change in exchange rates | 0.5 |
| Decrease in pension scheme liability | 4.9 |

In addition to the defined benefit pension schemes, the Group also operates a number of defined contribution pension schemes. Further details of the pension schemes operated by SIG are set out in Note 28c to the Accounts on pages 148 to 152.

# Financial Review CONTINUED

## ACQUISITIONS

Acquisitions are a key component of SIG's growth strategy, supplementing organic growth. A total of twelve acquisitions were completed in the year for a net consideration of £68.5m. Six of those acquisitions were in the United Kingdom, two were in The Netherlands and there were also acquisitions in France, Germany, Switzerland and Qatar. Consideration of £4.1m was paid during the year in respect of prior period acquisitions.

Contingent and deferred consideration relating to the 2015 acquisitions not specific to employment criteria of £8.9m has been recognised and included within goodwill. Contingent consideration of £12.4m, which is in part conditional on the continued employment of specific individuals, has not been recognised as an investment cost but instead is accounted for as an employment cost in the Consolidated Income Statement as earned.

Acquisitions remain subject to strict financial return criteria, with all acquisitions required to achieve a post-tax ROCE of at least 300 basis points in excess of the Group's WACC in the first full year of ownership. Recently acquired infill businesses are performing well and meeting their targets, and collectively are delivering returns that are higher than the Group's ROCE.

Further details of the Group's acquisitions can be found in Note 13 to the Accounts on pages 130 to 132.

## CAPITAL STRUCTURE

The Group manages its capital structure to ensure that entities in the Group will be able to continue as going concerns while maximising the return to Shareholders through the optimisation of the debt and equity balance.

The main measure used to assess the appropriateness of the Group's capital structure is its net debt to EBITDA ratio (i.e. leverage), thus ensuring that the Group's capital structure is aligned to the Group's debt covenants. The Group's long term target is to manage its leverage ratio within the range of 1.0x–1.5x. The Group's leverage position at 31 December 2015 was 1.78x (31 December 2014: 0.98x). Gearing, being net debt divided by net assets, increased during the year from 19.1% to 36.3%.

As at 8 March 2016, SIG's share price closed at 144.7p per share, representing a market capitalisation of £855.7m at that date. SIG monitors relative Total Shareholder Return ("TSR") for assessing relative financial performance. This has been detailed in the Directors' Remuneration Report on page 96.

## OUTLOOK

The Directors' view of the outlook and prospects for the Group is set out in the Chief Executive's Statement on page 7.

# Treasury risk management



## TREASURY RISK – INTRODUCTION

SIG's Finance and Treasury Policies set out the Group's approach to managing treasury risk. These policies are reviewed and approved by the Group Board on a regular basis. It is Group policy that no trading in financial instruments or speculative transactions be undertaken.

## FUNDING OF OPERATIONS

SIG finances its operations through a mixture of retained profits, Shareholders' equity, bank funding, private placement and other borrowings. A small proportion of SIG's assets are funded using fixed rate finance lease contracts.

The Group's net debt is made up of the following categories:

| | 2015 £m | 2014 £m |
|---|---|---|
| Obligations under finance lease contracts | **10.0** | 10.5 |
| Bank overdrafts | **2.3** | 4.4 |
| Bank loans | **91.3** | 1.3 |
| Private placement notes | **255.9** | 254.3 |
| Loan notes and deferred consideration | **3.0** | 1.9 |
| Derivative financial instruments (liabilities) | **2.0** | 1.1 |
| **Total** | **364.5** | 273.5 |
| Derivative financial instruments (assets) | **(36.8)** | (33.9) |
| **Gross debt (after derivative financial assets)** | **327.7** | 239.6 |
| Cash on deposit | **(89.0)** | (110.3) |
| Other financial assets | **(1.3)** | (0.9) |
| Deferred consideration | **(1.5)** | (1.5) |
| **Net debt** | **235.9** | 126.9 |

The Group's gross financial liabilities can be further analysed as follows:

| | 2015 £m | 2015 % | 2014 £m | 2014 % |
|---|---|---|---|---|
| Gross financial liabilities with a maturity profile of greater than five years | **52.0** | **16%** | 78.8 | 33% |
| Gross financial liabilities held on an unsecured basis | **314.9** | **96%** | 227.5 | 95% |

Details of derivative financial instruments are shown in Note 18 to the Accounts on pages 136 to 139.

## MANAGEMENT OF TREASURY RISKS

Treasury risk management incorporates liquidity risk, interest rate risk, foreign currency risk, commodity risk, counterparty credit risk and the risk of breaching debt covenants. These specific risks, and the Group's management of them, are detailed below.

### Liquidity risk and debt facilities

Liquidity risk is the risk that SIG is unable to meet its financial obligations as they fall due.

In order to mitigate the risk of not being able to meet its financial obligations, SIG seeks a balance between certainty of funding and a flexible, cost-effective borrowing structure, using a mixture of sources of funding in order to prevent over-reliance on any single provider. The key sources of finance are private placement note investors, being mainly US-based funds, and principal bank debt.

The maturity profile of the Group's debt facilities at 31 December 2015 is as follows:

| | Facility amount £m | Amount drawn £m | Amount undrawn £m | Date of expiry |
|---|---|---|---|---|
| Bank debt | 250.0 | 90.0 | 160.0 | October 2019 |
| Private placement loan notes | 130.6 | 130.6 | — | November 2016 |
| Private placement loan notes | 20.0 | 20.0 | — | November 2018 |
| Private placement loan notes | 22.0 | 22.0 | — | October 2020 |
| Private placement loan notes | 14.7 | 14.7 | — | October 2021 |
| Private placement loan notes | 36.7 | 36.7 | — | October 2023 |
| | 474.0 | 314.0 | 160.0 | |

The Group has in place a £250m committed Revolving Credit Facility ("RCF") provided by its five key relationship banks, which matures in October 2019. This facility was just over one-third drawn at 31 December 2015 and represents the committed funding headroom of the Group. Maturing in November 2016 is c.£130.6m of the private placement notes. The Group considers it has a number of options with regard to the refinancing of these notes, and is confident that this will be achieved on similar terms to existing facilities.

### Interest rate risk

The Group's interest costs in respect of its borrowings will increase in the event of rising interest rates. To reduce this risk the Group monitors its mix of fixed and floating rate debt and enters into derivative financial instruments to manage this mix where appropriate. SIG has a policy of aiming to fix between 50% and 75% of its average net debt over the medium-term.

In order to manage its interest exposure within this policy, £30m of floating to fixed interest rate swaps were entered into in August 2015. The percentage of net debt at fixed rates of interest at 31 December 2015 is 57% (2014: 72%) and on a gross debt basis is 55% (2014: 64%), which is within the Group's targeted medium-term range.

### Foreign currency risk

#### Income Statement

SIG has a number of overseas businesses whose revenues and costs are denominated in the currencies of the countries in which the operations are located. 48% of SIG's 2015 continuing revenues (2014: 51%) were in foreign currencies, being primarily Euros and Polish Zloty.

Less than 2% of SIG's sales and purchases are cross-currency. When cross-currency transactions occur, it is SIG's policy to eliminate currency exposure at that time through forward currency contracts, if the exposure is considered to be material.

SIG faces a translation risk in respect of the local currencies of its primary foreign operations, principally being Euro and Polish Zloty sales and profits. SIG does not hedge the income statement translational risk arising from these income streams.

SIG also faces a translation risk from the US Dollar in respect of interest on its private placement borrowings. This risk has been eliminated through the use of cross currency swaps, which swap the US dollar private placement debt into Sterling.

### Balance Sheet

The Consolidated Balance Sheet of the Group is inherently at risk from movements in the Sterling value of its net investments in foreign businesses and the Sterling value of its foreign currency net debt.

For currencies where the Group has significant balance sheet translational risk, SIG seeks to mitigate this risk by holding financial liabilities and derivatives in the same currency to partially hedge the net investment values. The Group's policy is that for currencies where a material balance sheet translational exposure exists, the Group will hold financial liabilities in that particular currency in proportion to the overall Group ratio of net debt to capital employed.

SIG had the following net debt denominated in foreign currencies, held partially to hedge the assets of overseas businesses (including cash and cash equivalents):

| | 2015 Local currency net borrowings/ (cash) LCm | 2015 Sterling equivalent borrowings/ (cash) £m | 2014 Sterling equivalent borrowings/ (cash) £m |
|---|---|---|---|
| Euro | **135.4** | **99.4** | 61.0 |
| PLN | **(62.2)** | **(10.7)** | (11.5) |
| Other currencies | | **(1.6)** | (1.9) |
| Total | | **87.1** | 47.6 |
| % of net debt | | **37%** | 38% |

Euro net debt at 31 December 2015 represented 42% of Group net debt (2014: 48%).

### Impact of foreign currency movements in 2015

The overall impact of foreign exchange rate movements on the Group's Consolidated Income Statement and Consolidated Balance Sheet is disclosed on page 35 of this Strategic Report.

## Commodity risk

The nature of the Group's operations creates an ongoing demand for fuel and therefore the Group is exposed to movements in market fuel prices. The Group enters into commodity derivative instruments to hedge such exposure where it makes commercial and economic sense to do so.

In Q1 2015 the Group entered into four commodity derivative instruments to hedge a portion of the UK, Polish and French fuel requirements for 2015 and 2016. At 31 December 2015 two of these commodity derivative instruments had matured and two remain outstanding, hedging c.59% of the Group's 2016 anticipated variable fuel cost. There were no commodity instruments outstanding at 31 December 2014.

## Counterparty credit risk

SIG holds significant investment assets, being principally cash deposits and derivative assets. Strict policies are in place in order to minimise counterparty credit risk associated with these assets.

A list of approved deposit counterparties is maintained. Counterparty credit limits, based on published credit ratings and CDS spreads, are in place. These limits, and the position against these limits, are reviewed and reported on a monthly basis.

Sovereign credit ratings are also monitored, and country limits for investment assets are in place. If necessary, funds are repatriated to the UK.

## Debt covenants

The Company's debt facilities in place at 31 December 2015 contained a number of covenants to which the Group must adhere. The Group's debt covenants are tested at 30 June and 31 December each year, with the key financial covenants being leverage and interest cover.

The ratio for each of the debt covenants is set out below:

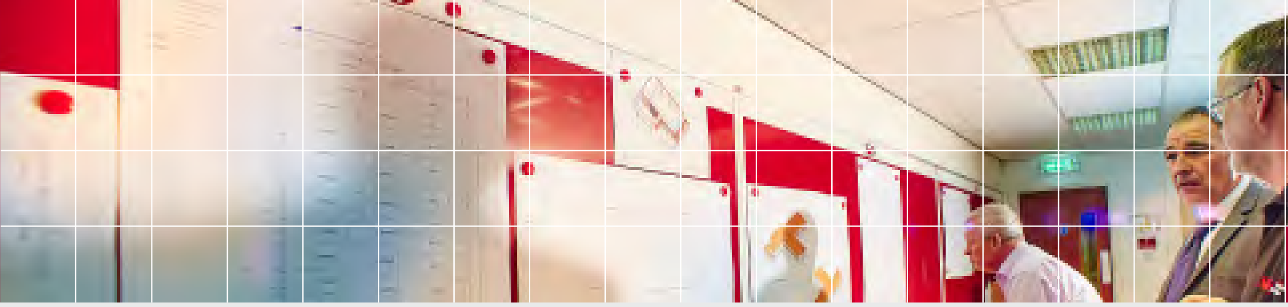
| | Requirement | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|
| Interest cover ratio* | >3.0x | **8.1x** | 8.9x |
| Leverage ratio^ | <3.0x | **1.78x** | 0.98x |

* Covenant interest cover is the ratio of the previous twelve months' underlying operating profit (including the trading losses and profits associated with divested businesses) to net financing costs (excluding pension scheme finance income and finance costs).

^ Covenant leverage is the ratio of closing net debt (at average exchange rates) to the underlying operating profit before depreciation, adjusted if applicable for the impact of acquisitions and disposals during the previous twelve months ("EBITDA").

As can be seen in the table above, the Group is in compliance with its financial covenants and is forecast to maintain a comfortable headroom.

The 2015 year-end leverage ratio has increased following net acquisition expenditure of £75.3m and as a result of the weaker than anticipated trading conditions during the year. Excluding acquisitions, leverage would have been less than 1.5x. Going forward SIG is aiming to return leverage to its target range of 1.0-1.5× by slowing the pace of its acquisition expenditure and moderating capital expenditure.





## VIABILITY STATEMENT

In accordance with the requirements of the 2014 amendments to the UK Corporate Governance Code ("the Code"), the Directors have performed a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Details of the risk identification and management processes and a description of the principal risks and uncertainties facing the Group are included in this Strategic Report on pages 20 to 23. The Group's control processes are included in the Corporate Governance report on pages 64 to 66.

While the Board has no reason to believe the Group will not be viable over a longer period, it has determined that the three years to 31 December 2018 is the most appropriate time period for its viability review. This period reflects the forecast period for the Group's strategic plans and industry forecasts. This gives the Board sufficient visibility of the future to make a realistic and reasonable assessment of longer-term viability.

As part of the Group's strategic planning process a three year business model was produced covering the period to December 2018. In order to assess the resilience of the Group to risks in severe but plausible scenarios, the model was subject to thorough multi-variant stress and sensitivity analysis, together with an assessment of potential mitigating actions. The resulting impact on key metrics, such as debt headroom and covenants, was considered.

In making this statement the Directors have also made the following key assumptions:

- The Group will be required to refinance at least a portion of the c.£130m of private placement notes that mature in November 2016, in order to provide the appropriate funding headroom. The Directors have concluded that they will be able to successfully refinance, on the basis of recent successful refinancing processes and the current and forecast position of bank debt and debt capital markets in 2016;
- There will be no severe prolonged downturn in the markets in which the Group operates; and
- In the event that the UK votes to leave the European Union, given the nature of SIG's operations, it would not be expected to have a direct, material adverse effect on performance.

After conducting their viability review, 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 to December 2018.

## GOING CONCERN BASIS

In determining whether the Group's 2015 Annual Report and Accounts can be prepared on a going concern basis, the Directors have considered all factors likely to affect its future development, performance and financial position, including cash flows, liquidity position and borrowing facilities and the risks and uncertainties relating to its business activities. These are set out in the Strategic Report on pages 1 to 40 and in the Notes to the Consolidated Financial Statements.

The key factors considered by the Directors were as follows:

- the implications of the challenging economic environment and the continuing weak levels of market demand in the building and construction markets on the Group's revenues and profits;
- projections of working capital requirements;
- the impact of the competitive environment within which the Group's businesses operate;
- the availability and market prices of the goods that the Group sells;
- the credit risk associated with the Group's trade receivable balances;
- the potential actions that could be taken in the event that revenues are worse than expected, to ensure that operating profit and cash flows are protected; and
- the committed finance facilities available to the Group and the ability of the Group to refinance the c.£130m of maturing private placement notes, as set out in the Viability Statement.

Having considered all the factors above, including downside sensitivities, the Directors are satisfied that the Group will be able to operate within the terms and conditions of the Group's financing facilities, and have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing the Group's 2015 Annual Report and Accounts.

# Treasury risk management CONTINUED

## CAUTIONARY STATEMENT

This Strategic Report has been prepared to provide the Company's Shareholders with a fair review of the business of the Group and a description of the principal risks and uncertainties it faces. It may not be relied upon by anyone, including the Company's Shareholders, for any other purpose.

This Strategic Report and other sections of this report contain forward-looking statements that are subject to risk factors including the economic and business circumstances occurring from time to time in countries and markets in which the Group operates and risk factors associated with the building and construction sectors. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions because they relate to events and/or depend on circumstances that may or may not occur in the future and could cause actual results and outcomes to differ materially from those expressed in or implied by the forward-looking statements. No assurance can be given that the forward-looking statements in this Strategic Report will be realised. Statements about the Directors' expectations, beliefs, hopes, plans, intentions and strategies are inherently subject to change and they are based on expectations and assumptions as to future events, circumstances and other factors which are in some cases outside the Group's control. Actual results could differ materially from the Group's current expectations.

It is believed that the expectations set out in these forward-looking statements are reasonable but they may be affected by a wide range of variables which could cause actual results or trends to differ materially, including but not limited to, changes in risks associated with the level of market demand, fluctuations in product pricing and changes in foreign exchange and interest rates.

The forward-looking statements should be read in particular in the context of the specific risk factors for the Group identified on pages 20 to 23 of this Strategic Report. The Company's Shareholders are cautioned not to place undue reliance on the forward-looking statements. This Strategic Report has not been audited or otherwise independently verified. The information contained in this Strategic Report has been prepared on the basis of the knowledge and information available to Directors at the date of its preparation and the Company does not undertake any obligation to update or revise this Strategic Report during the financial year ahead.

The Strategic Report set out on pages 1 to 52 was approved by the Board of Directors on 8 March 2016 and signed on its behalf by Stuart Mitchell and Doug Robertson.

**STUART MITCHELL**
Chief Executive
8 March 2016

**DOUG ROBERTSON**
Group Finance Director
8 March 2016

# Corporate Responsibility



SIG RECOGNISES ITS CORPORATE RESPONSIBILITIES TOWARDS ITS SHAREHOLDERS, EMPLOYEES, CUSTOMERS AND SUPPLIERS AND IS COMMITTED TO SOCIALLY RESPONSIBLE BUSINESS PRACTICE. IN 2015 SIG CONTINUED TO INTEGRATE CORPORATE RESPONSIBILITY ("CR") ACROSS THE GROUP.

The Group implements policies that include social and environmental issues in our decision-making process, and is investing in the development and wellbeing of its people and communities. SIG believes this approach supports the Group in achieving its business goals as well as growing shareholder value. As a constituent of the FTSE4Good Index of socially responsible companies, SIG is pleased to inform stakeholders of the measures it is taking to continually develop its approach to CR, including how it monitors and improves performance reporting.

## BUSINESS PRINCIPLES AND CODE OF ETHICS

The Group has in place Group-wide Ethics, Anti-Bribery & Corruption and Ethical Trading & Human Rights policies. These policies, which are regularly reviewed, underpin the Group's CR programme and support its business integrity.

### Ethics Policy

SIG issues to all employees a Group-wide Ethics Policy which sets out the standards and behaviours that are expected throughout the Group's operations. The policy is designed to ensure that the business conforms to the highest ethical standards. The policy can be viewed on the Company's website (**www.sigplc.com**).

The policy sets out the following key principles:

- To abide by the laws applicable to each country of operation;
- Not to tolerate any kind of discrimination or harassment;
- To be a responsible partner within local communities;
- To take into account the legal and moral rights of others in business transactions;
- To maintain a safe and healthy working environment;
- To be proactive in managing responsibilities to the environment;
- Not to knowingly make misrepresentations;
- Not to make political donations;
- Not to give or receive bribes;
- To avoid, and in all cases report conflicts of interest; and
- Encourage employees to report any suspected wrongdoing.

A confidential and independent hotline service is available to all employees so that they can raise any concerns they have about how the Group conducts its business. SIG believes this is an important resource which supports a culture of openness throughout the Group. The service is provided by an independent third party with a full investigation being carried out on all matters raised and a report prepared for feedback to the concerned party.

### Ethical Trading & Human Rights Policy

The Ethical Trading & Human Rights Policy covers the main issues that may be encountered in relation to product sourcing and sets out the standards of professionalism and integrity which should be maintained by employees in all Group operations worldwide.

The policy expresses the standards concerning: safe and fair working conditions for employees; responsible management of social and environmental issues within the Group; and the international supply chain.

SIG promotes human rights through its employment policies and practices, through its supply chain and through the responsible use of its products and services.

There is no separate policy in place which deals specifically with human rights; however, SIG will keep under review the need for a specific human rights policy over and above its existing policies.

### Anti-Bribery & Corruption Policy

SIG has a number of fundamental principles and values that it believes are the foundation of sound and fair business practice, one of which is a zero tolerance position on bribery and corruption. The Group's Anti-Bribery & Corruption Policy clearly sets out the ethical values required to ensure compliance with legal requirements within countries in which SIG and its subsidiary companies operate.

Anti-bribery and corruption training is provided across the Group to all senior management through to branch managers and external salespeople. This training is provided via our online training resource, and also includes modules on competition law.

SIG values its reputation for ethical behaviour, financial probity and reliability. It recognises that over and above the commission of any crime, any involvement in bribery will also reflect adversely on its image and reputation.

Its aim therefore is to limit its exposure to bribery and corruption by:

- → Setting out a clear policy on anti-bribery and corruption;
- → Training all employees so that they can recognise and avoid the use of bribery by themselves and others;
- → Encouraging employees to be vigilant and to report any suspicion of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately;
- → Rigorously investigating instances of alleged bribery and assisting the police and other appropriate authorities in any resultant prosecution; and
- → Taking firm and vigorous action against any individual(s) involved in bribery or corruption.

A copy of the Anti-Bribery & Corruption Policy is available to view on the Company's website (**www.sigplc.com**).

### Modern Slavery Act 2015

The Modern Slavery Act came into force in 2015 and the requirement to publish an anti-slavery statement applies to companies with financial years ending on or after 31 March 2016. SIG plc is subject to these new disclosure requirements for its 2016 financial year end and will therefore publish its anti-slavery statement in respect of 2016 on its website (**www.sigplc.com**) within six months of the year ending 31 December 2016.

## ENVIRONMENT

### Environmental management

SIG's Environmental Policy and management system is combined with the Health and Safety management system to maximise the opportunities for continual improvement that an integrated system provides. The programme optimises resources to ensure that communication and auditing programmes are focused and targeted to support the business.

The Chief Executive is the Board Director responsible for implementation of the Policy and is the signatory on the Group's Health, Safety & Environment Policy, which is displayed at each location throughout the Group in the local language.

SIG's management system is in its tenth year of accreditation with the international environment standard ISO14001 within SIG's UK operations. Registration to the standard was successfully renewed in 2015. Having an externally verified management system provides the Group with a continuous programme of review and improvement for its businesses with a roll-out programme for new business within three months of acquisition and a target of full accreditation within twelve months.

The key elements of the management system standard are at the heart of SIG's approach to its Group-wide strategy for environmental matters which demonstrates the Group's commitment to environmental management and best practice.

SIG maintains its Environmental Aspects and Impacts Register and Corporate Environmental Risk Assessment to record and assess the principal environmental hazards within the Group. These evaluations formed part of the 2015 Management Review process for each business.

The Group has continued its excellent record of legal compliance and environmentally sound operations throughout 2015 with no prosecutions or actions from the authorities.

The emphasis for the Group's environmental objectives for 2015 are derived from its Low Carbon Business Policy, which sets out its aim to reduce the amount of fuel, energy and water consumption as well as reduce the waste it produces. The progress made by the business is covered in this report.

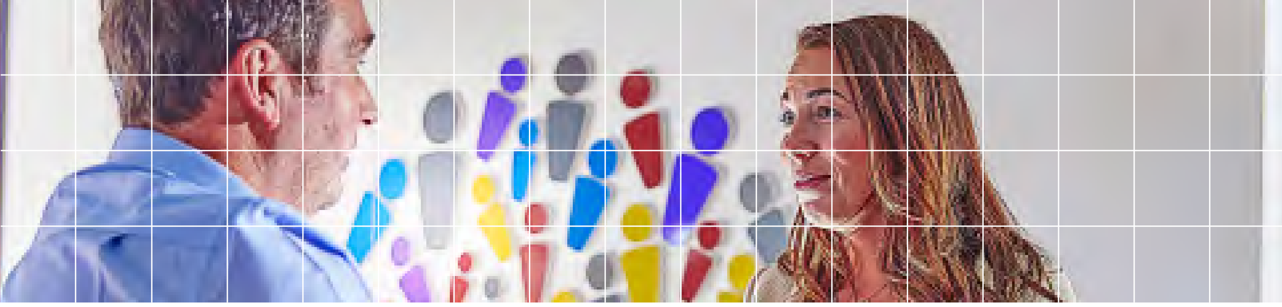
### Carbon management

The Chief Executive is responsible for the Group's environmental performance and for the Group's Low Carbon Policy.

SIG's carbon footprint accounting process has been verified since 2009 through the achievement of the Carbon Trust Standard ("CTS") and independent auditing on behalf of the Environment Agency for the CRC Energy Efficiency Scheme ("CRC"). SIG is no longer included in the CRC and made its final submission in 2014. The Group however continues to publish its carbon footprint through the Carbon Disclosure Project ("CDP").

In order to broaden the scope of its verification to all Group activities, SIG set an objective for 2015 to achieve an internationally recognised verification standard. The Group's partnership with Carbon Credentials culminated in the achievement of "limited verification" to ISO 14064-3. This accreditation has been achieved through a detailed assessment, both qualitative and quantitative, of the Group's Greenhouse Gas ("GHG") emissions assertions. SIG is committed to maintaining the ISO standard and as such the Carbon Trust Standard accreditation was allowed to lapse at the end of 2015.

Adoption of this standard has provided the Group with a renewed framework for its energy reduction programme. The achievement and the continuous strive towards





improving carbon emissions has resulted in a significant improvement in the business' standing in the Carbon Disclosure Project from 73 and "C" in 2014 to 95 and "C" in 2015. SIG also discloses its Carbon Footprint and emissions annually in this report.

The continued reduction in the Group's GHG emissions has been brought about by investment in energy efficient technology installations across the property portfolio, including refurbishment of existing buildings along with the fit-out of new sites. This has been supplemented with the continued consolidation and upgrade of the Group's road vehicle fleet.

## ROAD RISK POLICY

SIG recognises that driving is among the most hazardous tasks performed by its employees and that its vehicles and drivers represent SIG and its values whilst they are on the road. The Group also recognises the potential impact that driving has on the local and global environment. Because of this, SIG has worked hard to drive the Occupational Road Risk Policy across the Group, with strong local focus on key elements of the Policy.

This process resulted in SIG being "Highly Commended" in the Safe Vehicles Award section at the Brake Fleet Safety Awards in 2015.

The Occupational Road Risk Policy is a key element of the accident review process across the Group, with Accident Review Panels ("ARPs") meeting regularly throughout the year in each country. In the UK this is carried out in partnership with the Group's insurers and brokers. The purpose of the ARPs is to reduce the risk of accidents and minimise the cost to the business. This is achieved by: raising awareness across the Group of the outcomes of accidents; targeting improvements in the speed of reporting; improving the quality of investigations to identify the causes of specific accidents or trends; and recommending action and further training where appropriate.

The Fleet Operator Recognition Scheme ("FORS") is an over-arching scheme that encompasses all aspects of safety, fuel efficiency, economical operations and vehicle emissions. FORS is a voluntary scheme for commercial vehicle operators, which is designed to help improve operators' performance in each of these areas. SIG has adopted the scheme across its UK businesses. In 2015, SIG was awarded Whole Fleet Accreditation status, one of the first large fleets in the UK to do so. The branch network has a combination of Gold, Silver and Bronze accreditation statuses nationwide for sites operating commercial vehicles.

Work continued in 2015 to minimise the risk to vulnerable road users such as cyclists and pedestrians. SIG are active champions of the Construction Logistics and Cyclist Safety ("CLOCS") group. SIG also initiated an "Exchanging Places" campaign in which employees exhibited a commercial vehicle at various cycling events and invited cyclists and other members of the public to sit in the vehicle to gain an understanding of the driver's field of vision. The work in this field led to SIG being part of Transport for London's finalised bid in the Partnership Award at the Motor Transport Awards in 2015.

Continuing this work on safety with vulnerable roads users in mind, SIG has designed a new Urban Delivery Vehicle with features designed to greatly enhance the driver's primary vision of critical areas of the vehicle and to reduce blind spots. The vehicle was launched at the CLOCS progress event in February 2015 and is believed to be the first of its kind in its sector. Following the success of the first vehicle, a second Urban Delivery Vehicle went into operation at one of SIG's London locations in November 2015.

The work carried out on these vehicles resulted in SIG winning the Fleet Innovation Award at the Brake Fleet Safety Awards in 2015.

## TRANSPORT

Along with electricity, road vehicle fuel consumption makes up 89.8% of the Group's total carbon footprint emissions (2014: 90.5%). SIG has targeted an absolute reduction year-on-year in fuel consumption since the base year of 2010. Due to the growth of the business through acquisition, the number of vehicles and delivery miles has increased in 2015 compared to 2014. However, the business has maintained an overall reduction in its fuel consumption against the base year of 2010 of 16.5%.

Early gains were made largely through: greater efficiency in journey planning and the replacement of older vehicles with new vehicles; the introduction of vehicles fitted with energy reducing features; the introduction of the driver eco training programmes; and accurate efficiency measurement through the Masternaught telematics programme. These have enabled the business to maintain the downward trend during a period of expansion.

SIG continued in 2015 to measure absolute consumption and target reductions across the core business. This was achieved through further consolidation of its branches and sharing of its fleet, whilst targeting efficiencies across the broader business in terms of improved km per litre ratios to take account of the impact of SIG's plans for business growth.

The Driver Certificate of Professional Competence ("CPC") training programme continued in 2015 across the UK & Ireland and similar programmes are in place across the Mainland European businesses in compliance with EU Legislation. The Group maintains its policy to purchase commercial vehicles to the latest Euro standard, and low emissions vehicles to facilitate deliveries into "Low Emission" zones across Europe.

In order to further improve the efficiency of vehicle routing, fuel consumption and enable accurate mileage measurement, the programme to install Telematics in commercial vehicles has now been completed in all commercial vehicles under operational control across the Group.

SIG is keen to promote driver efficiency and driver safety across its fleet. In support of its EKO efficient driving programme, SIG Poland has continued to deliver its comprehensive in-vehicle driver training programme for both commercial and business drivers. SIG France delivered a "Twelve Actions in Twelve Months" information and instruction programme over 2015, including topics such as Access to Vehicle, Load Security and Tachographs.

SIG UK continued to deliver the CPC training programme to its workforce in partnership with Mercedes and bolstered its support for drivers with an auditing and advice programme through its Fleet Management Trainers. The highlight of this year's programme was the Driver of the Year competition which reached its conclusion in June 2015. Awards were issued in several categories and the overall winner was Michal Paszt from SIGD Croydon.

## ENERGY

Emissions from electricity consumption account for 14.7% of the Group's Scope 1 and 2 emissions (2014: 14.8%). SIG is committed to taking action to improve the efficiency of its properties through the capital projects scheme for replacing inefficient lighting with energy efficient daylight and movement sensored systems. SIG has invested over £750,000 in capital projects since the base year of 2010. This has not only improved the efficiency of the building stock, but has also provided a safer working environment.

A key element of the Group's compliance with the Energy Saving Opportunities Scheme ("ESOS") scheme in 2015 was the reintroduction of the buildings energy audit, which has identified a range of opportunities to improve energy efficiency which will feed into the objectives for 2016 and beyond. These initiatives along with the earlier "Switch Off" campaigns and printer/copier/fax consolidation have enabled the Group to achieve a further absolute reduction of 4.4% in 2015.

The projects completed under the Low Carbon Policy since the base year of 2010 have generated annual savings in excess of 1.85 million kWh of electricity, and 850 tonnes of $CO_2$ emissions, with a payback period for the capital projects of less than four years.

In 2016 the business will continue with its programme for replacing inefficient lighting with low energy systems, installing energy efficient hand dryers and providing water heaters to replace inefficient kettles.

## GREENHOUSE GAS EMISSIONS

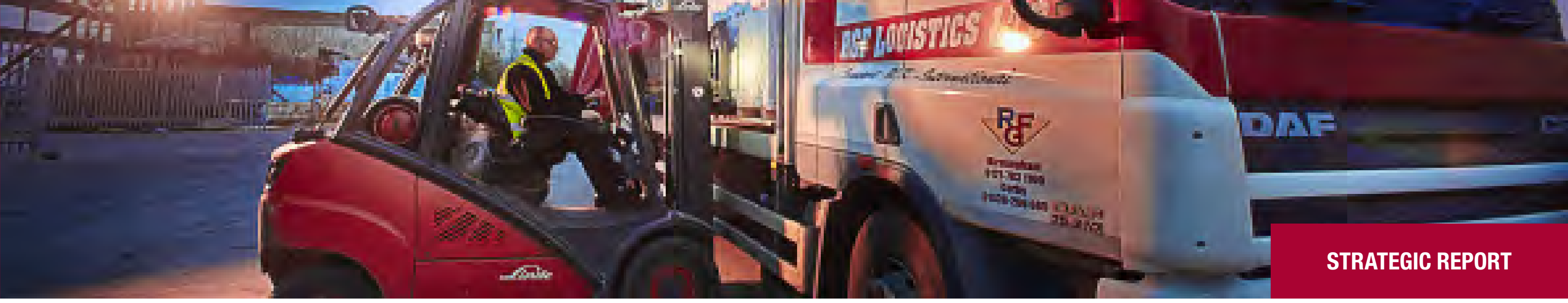
SIG is committed to providing full and accurate data for its carbon footprint across all of its operational businesses. SIG reports on all emission sources as required under the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. The achievement and maintenance of this objective is evident by the achievement of the ISO 14064-3 standard in 2015.

SIG uses the emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2014 to calculate its GHG disclosures.

In order to provide for auditing and assessment of the Group's carbon footprint accounting process, SIG has used a period non-coterminous with the Group's financial year, with current year data reflecting the year to 30 September 2015. The adoption of this process enables more accurate carbon reporting, enabling actual data to be used as opposed to estimates. In 2015, 95.2% of calculations are based on actual data. Estimates are prepared on the basis of applying equivalent emission rates to the remainder of the Group's footprint.

The comparatives prior to 2013 are also for a twelve month period, but are based on the calendar year. However, the method of collecting data on $CO_2$ emissions has not changed; therefore the prior year numbers have been included within this report as the Group feels that they provide meaningful comparison. The method of collection for each component of $CO_2$ emissions has been disclosed in the footnotes to each table.

The Group's carbon footprint includes Scope 1 $CO_2$ emissions, for which businesses are directly responsible, and Scope 2 $CO_2$ emissions from the generation of electricity by a third party resulting in indirect emissions. The Group has also disclosed Scope 3 $CO_2$ emissions over which the business has limited control, being third party air and rail transportation.





In 2015 the processes and procedures used in the UK have been audited and assessed by Carbon Credentials who have provided a "limited verification" to ISO 14064-3. Previously the accounting process was audited by the Carbon Trust with the achievement of the Carbon Trust Standard for the UK element only. The achievement of the ISO standard is for the full Group footprint.

As a result, the Group's carbon footprint for the year ended 30 September 2015 has been externally audited by Carbon Credentials, to ISO 14064-3 at a level of limited assurance. This process has highlighted the continuous improvement in systems and procedures related to carbon management and reporting along with identifying areas where further improvements can be made.

SIG is a participant in the statutory ESOS, which is the UK Government's approach to implementing Article 8 of the EU Energy Efficiency Directive (2012/27/EU). Through its work to gain ISO 14064-3 verification and its energy audit process, SIG achieved full compliance with ESOS ahead of the December deadline. This achievement is testimony to the Group's self-auditing programme and Low Carbon Policy.

The Group achieved an absolute reduction of 3.5% in Scope 1 and 2 emissions combined year-on-year, with an overall reduction of 16.7% compared to the base year (2010).

The overall footprint of the business for Scope 1, 2 and 3 emissions improved, with a reduction of 3.6% year-on-year. The figures represent an overall reduction of 1.7% in emissions per £m of revenue in 2015 compared to 2014 as a result of the measures taken to reduce road vehicle fuel and energy consumption.

## $CO_2$ EMISSIONS – SCOPE 1 – DIRECT

| | **Metric tonnes 2015** | Metric tonnes 2014 | Metric tonnes 2013 | Metric tonnes 2012 |
|---|---|---|---|---|
| Road vehicle fuel emissions[1] | **63,352** | 65,686 | 68,560 | 72,223 |
| Plant vehicle fuel emissions[2] | **4,562** | 4,993 | 4,934 | 5,369 |
| Natural gas[3] | **2,772** | 2,452 | 3,372 | 2,999 |
| Coal/coke for heating[4] | **45** | 55 | 52 | 70 |
| Heating fuels (Kerosene & LPG)[5] | **801** | 832 | 1,313 | 943 |
| Total | **71,532** | 74,018 | 78,231 | 81,604 |

Data source and collection methods

1. Fuel cards and direct purchase records in litres converted according to Defra guidelines.
2. Direct purchase records in litres converted according to Defra guidelines.
3. Consumption in kWh converted according to Defra guidelines.
4. Purchases in tonnes converted according to Defra guidelines.
5. Purchases in litres converted according to Defra guidelines.

## $CO_2$ EMISSIONS – SCOPE 2 – INDIRECT

| | **Metric tonnes 2015** | Metric tonnes 2014 | Metric tonnes 2013 | Metric tonnes 2012 |
|---|---|---|---|---|
| Electricity[1] | **12,307** | 12,870 | 13,142 | 14,346 |

Data source and collection methods

1. Consumption in kWh converted according to Defra guidelines.

## $CO_2$ EMISSIONS – SCOPE 3 – OTHER INDIRECT

| | **Metric tonnes 2015** | Metric tonnes 2014 | Metric tonnes 2013 | Metric tonnes 2012 |
|---|---|---|---|---|
| Third-party provided transport (air and rail)[1] | **352** | 405 | 308 | 349 |

Data source and collection methods

1. Distance travelled converted according to Defra guidelines.

| Emission per £m of revenue | **Metric tonnes 2015** | Metric tonnes 2014 | Metric tonnes 2013 | Metric tonnes 2012 |
|---|---|---|---|---|
| Scope 1 | **27.9** | 28.0 | 28.8 | 31.2 |
| Scope 2 | **4.8** | 4.9 | 4.8 | 5.5 |
| **Scopes 1 & 2 as required by GHG Protocol** | **32.7** | 32.9 | 33.6 | 36.7 |
| Scope 3 | **0.1** | 0.2 | 0.1 | 0.2 |
| **Scopes 1, 2 & 3** | **32.8** | 33.1 | 33.7 | 36.9 |

The data relating to $CO_2$ emissions has been collected from all of the Group's material operations and is based on a combination of actual and estimated results where actual data is not available. The data excludes the impact of businesses divested during 2014.

## WATER CONSUMPTION

The Group uses an estimated 1% of its water consumption for manufacturing processes with the remainder used for welfare purposes. However, SIG does recognise that potable water is a precious resource and continues to maintain its water recycling and reuse practices for the processes in Southport (UK) and Alizay (France).

SIG continues to identify significant opportunities for water consumption efficiencies through the branch audit and bill validation process. Water efficiency is a key element of the specification for new and refurbished properties and facilities. All Group companies now report their water consumption.

| | **Litres ('000) 2015** | Litres ('000) 2014 | Litres ('000) 2013 | Litres ('000) 2012 |
|---|---|---|---|---|
| Third-party provided water supply from national network for processes and welfare | **104,999** | 106,546 | 107,604 | 108,201 |

The above data is based on a combination of actual and estimated data.

## WASTE MANAGEMENT

The Group continues its programme to reduce the amount of waste generated, with the introduction of paperless delivery processes, online activity reports and the consolidation of photocopying facilities. However, SIG's key measurement of performance for waste management is the percentage of waste diverted from landfill. Each business within the Group partners with a waste management provider to provide waste segregation and recycling facilities. These are monitored centrally and through the health, safety and environmental audit and inspections process. To maximise opportunities and minimise storage and welfare risks, waste bailers and compactors are provided where practicable.

SIG has partnered with its suppliers to provide for waste take-back schemes for its customers for materials including: plasterboard and plaster products, uPVC windows, fibre ceiling tiles, vinyl floor covering materials and batteries. This enables the business to comply with their Producer Responsibility Obligations under waste management legislation.

As a break bulk supplier of products, the greatest potential for waste production is packaging materials. By re-using opened packaging products, purchasing second-hand pallets and bearers, and the operation of packaging return schemes for items like pallets and bearers, branches actively minimise their backdoor waste.

Given the difficulty in measuring the amount of waste produced, SIG ensures wherever possible that the data is accurate by working with its waste management recycling provider in order to produce its best estimates.

SIG is a member of the Valpak compliance scheme and continues to comply with its commitments under the Producer Responsibility Obligations (Packaging Waste) Regulations.

### Hazardous waste

| | Absolute tonnes* 2015 | Absolute tonnes 2014 | Absolute tonnes 2013 | Absolute tonnes 2012 |
|---|---|---|---|---|
| Landfill | **2** | 60 | 13 | 21 |
| Recycled | **28** | 41 | 139 | 279 |
| Incinerated | **—** | — | 65 | 72 |
| **Total** | **30** | 101 | 217 | 372 |

| | Absolute tonnes* 2015 | Absolute tonnes 2014 | Absolute tonnes 2013 | Absolute tonnes 2012 |
|---|---|---|---|---|
| **Hazardous waste per £m of revenue** | **0.01** | 0.04 | 0.08 | 0.14 |

### Non-hazardous waste

| | Absolute tonnes* 2015 | Absolute tonnes 2014 | Absolute tonnes 2013 | Absolute tonnes 2012 |
|---|---|---|---|---|
| Landfill | **4,469** | 5,626 | 4,283 | 8,743 |
| Incinerated | **15** | 12 | 12 | — |
| **Total** | **4,484** | 5,638 | 4,295 | 8,743 |

### Other waste diverted from landfill

| | Absolute tonnes* 2015 | Absolute tonnes 2014 | Absolute tonnes 2013 | Absolute tonnes 2012 |
|---|---|---|---|---|
| WEEE (Waste, Electrical and Electronic Equipment) | **2** | 8 | 5 | 3 |
| Glass | **1** | 3 | 3 | 3 |
| Wood | **1,145** | 904 | 1,324 | 2,058 |
| Metal | **1,249** | 1,098 | 977 | 1,234 |
| Plasterboard+ | **973** | 2,502 | 1,258 | 390 |
| Paper/cardboard | **747** | 588 | 1,024 | 1,165 |
| Plastic | **353** | 383 | 440 | 762 |
| Other | **8,284** | 6,573 | 10,860 | 8,250 |
| **Total** | **12,754** | 12,059 | 15,891 | 13,865 |

| | Absolute tonnes* 2015 | Absolute tonnes 2014 | Absolute tonnes 2013 | Absolute tonnes 2012 |
|---|---|---|---|---|
| **Non-hazardous and other waste per £m of revenue** | **5.0** | 6.7 | 7.4 | 8.7 |

* Volume per annum converted to tonnes.

+Recycling facility withdrawn in 2015.

The above data is based on a combination of actual and estimated data.

## HEALTH, SAFETY AND ENVIRONMENT

The Chief Executive is the Board member responsible for health and safety and is signatory to the Group's Health, Safety and Environmental Policy, which is displayed in the local language at each operating branch.

The Zero Harm health and safety programme, which was launched in 2014 and headed by the Chief Executive, is now fully embedded in the business' structure. The initial aim of the programme was to provide management with a renewed understanding of the programme and their responsibilities, and to provide them with the tools to enable them to achieve the objective of the programme, being "the health, safety and wellbeing of employees and others is the primary consideration for management at all levels in the development, growth and day-to-day operation of the business, products and services."




The aim was re-emphasised at the 2015 Annual Senior Leadership Conference, where the Chief Executive gave a clear instruction that the Zero Harm message must be cascaded to all employees and that managers must take personal ownership and accountability for health and safety and in creating a safe working environment.

The success of Zero Harm is endorsed by SIG's achievement for the first time of the Gold RoSPA Occupational Health & Safety award in 2015. The award recognises SIG's ongoing commitment to raising the standards for health and safety management across the Group. Despite this being a UK award scheme, the submission represents the Group's Health & Safety programme and the achievement reflects on the hard work and dedication of the Health & Safety Team across the Group as well as the leadership of management at all levels in taking ownership of health and safety and driving the key initiatives.

The "Safety Walks" programme for 2015 continued with Senior Leaders led by the Chief Executive carrying out 420 formal branch inspections and support visits with branch managers. This initiative supported the cascade and accountability element of Zero Harm. The programme will continue in 2016 with a move away from the check-list, tick-box process to an emphasis on engagement with operational personnel to support the drive for a safe culture.

In recognition of the level of risk posed by road travel and deliveries, the Safety Walk programme in 2015 was broadened to include the accompanying of commercial vehicle drivers on scheduled delivery runs.

A range of local initiatives were delivered in 2015 in support of the Zero Harm programme, including:

- → Branch Safety Days including interactive toolbox talks and "listening" programmes delivered by Regional management in the UK and "Safety Walls" which were Zero Harm branded focal points for Health & Safety information and advice.
- → Safety information, Personal Protective Equipment dispenser and restricted access stations made from stock products in SIG France along with a Twelve Actions in Twelve Months programme dedicated to improving safety on "Loading and Deliveries".
- → A Safety Week in SIG Poland in collaboration with the construction industry's "Agreement for Safety in Construction" project and a "Perfect Warehouse" safety performance competition with the award presented by the business' Managing Director.
- → SIG Germany & Austria's targeted actions to improve access onto vehicles to reduce the accident rate for drivers.

The RoSPA accredited SIG Certificate in Health, Safety and Environmental Management programme continues to be delivered across the business, with regionally based training events provided across the UK in 2015 including managers new to the business. The Zero Harm programme is managed and supported by the Group HS&E Manager and a team of directly employed Health, Safety and Environment professionals in each part of the Group. The Group's Health & Safety management system is modelled on the internationally recognised Health & Safety Standard BS-OHSAS 18001:2007, with the SIG UK businesses enjoying their tenth year of certification following a three year renewal by its partner Intertek in 2015.

The provision of dedicated HS&E professionals enables the implementation of a robust Risk Assessment and Management Review process through which the key health and safety risks have been identified. The Risk Profile of the Group is reviewed annually to inform the Group's Health & Safety Plan. For 2016 the principal risk areas in terms of numbers of incidents and potential severity of the risk remain: Occupational Road Risk, Traffic Management, Loading and Unloading and Storage Operations.

Although an area for growth, manufacturing sites make up less than 5% of the business' locations. However, SIG recognises the potential for serious harm and a suitably qualified dedicated Health & Safety Manager remains a key post to provide advice and support to the businesses and to manage the plan for continuous improvement.

SIG's offsite activities continued to expand in 2015 and were successfully supported by the existing HS&E Team. This included the achievement of industry accreditations to: Achilles, CHAS, and BOPAS and SIG's offsite business, RoofSpace receiving the Health & Safety achievement award from housebuilding contractor Barratt Homes at their Partners Awards Event.

There continues to be significant improvement in the Accident Incident Rate for SIG in both major accidents and lost time accidents (both "over three day" accidents and RIDDOR (or equivalent)). Unfortunately, there was an increase in the UK & Ireland's "over three day" accident incident rate. This increase was due to an unusually high number of incidents occurring in December 2015. Some caution is advised when comparing RIDDOR rates as the data for 2012 has not been adjusted for the revised "over seven day incapacity" definition.

The Group has a Zero Tolerance to any employee being unfit for work due to drugs or alcohol. In 2015 the UK & Ireland business revised its Alcohol & Substance Misuse Policy. Although the Company already had in place a procedure for "for cause" testing, the revised policy now provided for random testing of employees and sub-contractors engaged in safety critical roles. The purpose of the policy is to minimise the risk of injury due to alcohol and substance misuse. In order to support this, an information and education programme was cascaded to all employees in the second half of the year and the random testing programme commenced in January 2016. A number of tests have already been carried out.

## ACCIDENTS AND INCIDENTS

### UK & Ireland

| | Rate per 1,000 employees | | | |
|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 |
| Major injury | **2.3** | 2.8 | 3.6 | 2.7 |
| Injury resulting in over three absence days from work | **10.8** | 12.0 | 11.2 | 11.2 |
| All RIDDORs | **10.6** | 11.4 | 13.4 | 14.1 |
| Average UK & Ireland headcount | **5,174** | 4,984 | 5,070 | 5,261 |
| Lost work day rate – number of work days per 100 employees | **26.8** | 35.8 | 23.3 | 29.6 |

### Group

| | Rate per 1,000 employees | | | |
|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 |
| Major injury | **2.2** | 2.2 | 2.8 | 2.2 |
| Injury resulting in over three absence days from work | **12.0** | 15.0 | 16.7 | 17.1 |
| All RIDDORs (equivalent)* | **12.0** | 13.3 | 16.5 | 17.9 |
| Average Group headcount | **9,641** | 9,454 | 9,806 | 10,228 |

* This includes accidents in non-UK businesses that would meet the criteria for reporting in the UK under RIDDOR.

## QUALITY ASSURANCE AND MANAGEMENT SYSTEMS

The Group's management systems are maintained to a high standard through management review and internal auditing. A supplier audit programme is in place, conducted by way of a questionnaire, and includes questions regarding the health, safety and environmental credentials of the supplier. Where it is commercially advantageous the quality and chain of custody management systems are externally certificated to ISO 9001, with Sitaco Poland and certificated branches in the UK achieving continued certification in 2015.

## COMMUNITY

As a large organisation employing thousands of people across hundreds of local communities, we recognise that we have a duty to actively support those communities.

In Poland, for example, SIG colleagues took part in the Topacz Kids City project, which helps educate children at risk of social exclusion about how to function in a community and be a good citizen. Working closely with Caparol, a leading producer of building paints, our volunteers taught the children how to be "professional" painters so they could earn virtual money to spend in the city shop.

In the UK, we facilitate our community work through our membership of Business in the Community ("BITC"). We have worked with BITC for a number of years and the partnership enables us to ensure we are adopting best practice in all our community interactions.

Through BITC, we partner with Fir Vale School in Sheffield. During the 2014/15 academic year, we delivered 310 volunteer hours that reached a total of nearly 700 pupils through a variety of activities, providing them with vital business skills for life beyond school. As a result, over 80% of the students involved said they understood more about the subjects and skills needed to follow different career paths and were better equipped to complete an application form or write a CV.

Also in 2015, one of our Roofing and Roofline businesses took part in the well-known UK TV programme DIY SOS: The Big Build. The one hour programme sees the DIY SOS team enlist the help of local tradesmen, suppliers and the wider community to support deserving families. One episode featured a family living with the consequences of a stroke, and we helped by providing roofing products for a much needed extension to the family's home.

## CHARITABLE DONATIONS

SIG employees take part in a wide range of charitable activities to support both local communities and national charities. During the year, employees across the Group raised more than £45,000 through a wide range of events, from bake sales to cycle rides across Europe. Particularly notable examples include: an employee in the UK who ran 13 marathons and raised over £3,000 for a local hospice; colleagues in France who took part in the Odyssea race,



raising money for leading cancer research organisation Institut Gustave Roussy; and two of our senior leaders in Germany who dyed their beards to raise almost €5,000 for a Hamburg Children's Hospice. As a Group, we operate a matched funding scheme, which matches up to £500 (or equivalent) raised by employees through charitable efforts like these. We also support our people in their activities in other ways, like hosting charity dress-down days at work or helping to publicise employee's fundraising through notice boards.

We also make charitable donations as an organisation. In Poland, as well as our people giving their time to the Topacz Kids City project, we donated 5,000 PLN to the cause (see the "Community" section for more information about this project). At a Group level, meanwhile, we continued with an initiative we started last year, donating either £1 or €1 to the British Red Cross and UNICEF for every completed response to our employee engagement survey, SIG Listens. Our 78% response rate meant that, in October, we were able to donate £6,222 to the charities. In light of the crisis in Syria, we decided to add a further £10,000 to this amount, requesting that the two charities put the total funds towards their Syrian refugee appeals.

In 2015, the Group made total charitable donations of £99,451 (2014: £111,000), including through our matched funding scheme.

It is the Group's policy not to make political donations and no such donations were made in the year (2014: £nil).

Employees in the UK can also make charitable donations through our payroll giving scheme.

## OUR PEOPLE

One of the key strategic areas of focus across SIG is improving the performance, engagement and well-being of all our people.

## SIG VALUES

Our values are: Trust, Respect, Integrity, Commitment, Teamwork and Fun.

These values were developed by our people and are the guiding principles by which we work with our customers, our suppliers, our communities and each other. They are the bedrock of our Stronger Together vision and we bring them to life in everything we do.

## DEVELOPING OUR PEOPLE

The skill and expertise of our people is one of our key differentiators in the marketplace; developing employees is therefore a core part of our strategy.

We want our new joiners to learn as much about SIG as possible from the moment they arrive. This year, we have created a Group Induction Programme that will give new employees a consistent view of our values, our business and our strategy, regardless of where in the world they are based. It is part of embedding our Stronger Together ethos across the Group.

Throughout people's careers, the Performance Development Review ("PDR") process, launched in 2013, ensures all managers and employees know what is expected of them in their roles and that performance is measured and managed. It also provides an opportunity for employees to discuss their career aspirations with their manager, set development plans and take action on those plans during the year. In 2015, we trained almost 450 managers in how to run effective performance reviews, and 79% of our people had a PDR discussion (compared to 65% in 2014). Our goal is to make sure all employees have this opportunity.

We recognise that developing our leaders is important, too. Throughout 2015, our Senior Leadership Team ("SLT") participated in the "Raising the Bar" programme. The programme addresses key topics, and, through facilitated training sessions, enables our leaders to learn, share knowledge and shape action-planning. Topics covered to date include PDRs, Maximising Finance Performance and Leading Change.

Some development initiatives are locally focused. In the UK, for example, our partnership with Sheffield Hallam University continues to give our leaders the opportunity to develop their management skills while also gaining an academic accreditation, either at advanced Diploma or Bachelor Degree level. In Poland, courses to grow managers' coaching capability have been developed, as has training to improve knowledge-sharing. In Germany, a programme of leadership and management training is ongoing, with modules including leading self, leading others and leading change. In France, the introduction of a new Learning Management System as part of the Group-wide training and development strategy is helping employees to manage their development and grow in their career. Similarly, the Learning Management System in the UK & Ireland has been updated, giving people access to more training and introducing self-enrolment so that people have more control of their personal development.

Developing high-potential individuals for succession planning purposes is vital to our future growth. Early in 2015, we conducted a review of successors for Executive and Senior Leader levels across the business. A further review, started later in 2015, is helping to identify high-potential people at other levels. From the reviews conducted, new development programmes have been designed and new talent pipeline programmes – including Graduates and Apprentices – have been implemented.

Through these programmes, we will not only be able to create a recruitment pipeline of talented individuals entering the business, but we will also be able to accelerate the development and progression of those already with us.

## RECOGNISING OUTSTANDING PERFORMANCE

We remain committed to recognising excellent performance and celebrating the success of our people.

One way we do this is through the annual, Group-wide SIG Awards. These awards give our leaders the chance to nominate employees at all levels for ideas, actions and behaviours that help us live our values as well as delivering financial results. Shortlisted nominees attend an awards dinner at the Senior Leadership Conference. During the ceremony, awards are presented in several categories, and a special Chief Executive's Award for Excellence is given to one outstanding individual who embodies our values, has shown consistently excellent personal performance and has had a transformational effect on their business area or function.

## ENGAGED EMPLOYEES

During September 2015, we ran our employee engagement survey, SIG Listens, for the second time (the first was in March 2014). The survey gives our people the chance to tell us what we are doing well and how we can improve to make SIG a great place to work.

78% of employees responded and our overall engagement score, at 73%, remained stable compared with the 2014 survey. It was also in line with the global benchmark for private enterprises.

This year saw a marked rise in scores across a number of areas. These increases show that our people are feeling even more positive about:

- the importance we place on health and safety (up four percentage-points)
- our approach to caring for their well-being (up five percentage-points)
- receiving regular and constructive feedback on their performance (up seven percentage-points)
- how fairly their performance is reviewed (up five percentage-points)

This improvement is testament to the actions we have taken since the last survey, particularly in relation to our Zero Harm initiatives for health and safety and the training we have given to managers about running effective Performance Development Reviews (see the section "Developing our people" for more about these reviews). We are also delighted to see a three percentage-point rise in the "management index". This a measure of the way our people view the effectiveness of their managers in areas like delivering feedback, recognising good work, encouraging innovation and handling poor performance.

Of course, there are areas for improvement. The results show that we need to do more to convince our employees that we will act on their feedback from the survey. Our aim, therefore, is to make sure that all our managers share the results of the survey with their teams and that action planning and implementation at a Group and local level continues throughout the year. The results also indicate that we need to: provide greater clarity on our vision and strategy; keep helping our people to develop and progress in their careers; maintain focus on customer service; and improve the way we recognise our people's performance and celebrate success. You can read about how we are addressing these needs in the "Internal communications", "Developing our people" and "Recognising outstanding performance" sections of this report.

## INTERNAL COMMUNICATIONS

Communicating with our people is a key priority for us. We want to make sure everyone understands our vision for SIG and our strategy for realising that vision. We are also keen for our people to share their views and opinions, so two-way communication is very important.

Our communications normally start with our senior leaders. Our channels for reaching them currently include email bulletins, web broadcasts, conference calls and face-to-face briefings. Often, we then ask our leaders to cascade the messages to their teams via emails and team meetings. To support this cascade, we provide briefing packs for leaders and managers, which help them share news and also gather feedback. Where appropriate, we also use intranet articles and updates, posters and desk drops to keep employees informed.

As our organisation develops, we are continually evaluating our communications and looking for more innovative ways to reach our people. We are currently exploring new electronic channels, such as instant messenger, internal social media and other collaboration tools. We are also increasing face-to-face contact between our operational employees and our leaders through "Meet the COMEX" events and our annual programme of roadshows. In addition, we have introduced new communication guidelines that will help bring consistency to the way our communications look, read and sound. This is part of how we are helping employees to feel stronger together, wherever they are.



Finally, our employee engagement survey and our performance review process for employees both facilitate meaningful two-way communication between us and our people. There is more information about both of these elsewhere in this report (see "Developing our people" and "Engaged employees").

## EMPLOYEE BENEFITS

We aim to attract and retain the best talent with a fair and consistent approach to both fixed and variable pay, which is regularly benchmarked, both externally and internally. Reward and benefits play a key role in supporting employee engagement and performance.

Our bonus schemes are designed to reward exceptional performance. For our Senior Leadership population, the bonus operates to an aligned framework across the Group, specifically focusing on Group-wide deliverables and outcomes. Bonus awards are also made in the local operating businesses aligned to local performance results. These are key in driving and rewarding performance at this level.

We also encourage our employees to become Shareholders in the Company. At the senior level, we operate a Long Term Incentive Plan for our leaders and across our whole business we operate a Share Incentive Plan (SIP). This gives one matching share for each share purchased by the employee up to a maximum of £20 per month. As at 31 December 2015, there were 971 employees participating in the SIP.

SIG will implement the UK Government's National Living Wage from 1 April 2016, going beyond the legal requirement and adopting the rate for all employees from age 21 to enhance our Employee Value Proposition. In SIG, we feel that it is important to properly reward our people for helping to support our customers and ensuring the success of our business. Our decision to go beyond the legal requirement on the National Living Wage reinforces our commitment to do this.

## GROWING OUR TALENT

The growth and development of talent is key to our future success. Throughout 2015, we have remained committed, across the Group, to recruiting and developing people who are starting their careers, whether they are apprentices or university graduates.

### Apprenticeships

Our apprenticeship programmes are going from strength to strength. In Germany, 25 new apprentices joined us in 2015, across two of our Group companies. These high-calibre individuals were selected from around 1,500 applicants. Fourteen of them are fulfilling roles as management assistants, while the rest are working as warehouse/logistics specialists. All receive advanced training, including a new eLearning module focusing on workplace safety training.

As in previous years, we ran the annual Apprentice Forum in 2015. Attended by representatives from our industrial partner, Rockwool, the forum enabled all the apprentices in Germany to gather together for networking, knowledge sharing and technical presentations.

We have also created a new training programme in the past year, entitled Handel Trifft Handwerk ("Retail Meets Trade"). It gives our apprentices the chance to spend two to four weeks at a construction site, learning about our products and the way they are used by our industrial partners and customers.

As well as investing in our apprentices, we have spent time developing our apprenticeship supervisors in Germany. The inaugural Apprenticeship Conference for Supervisors was held in 2015, with a range of workshops, presentations and discussion sessions focusing on how SIG, the apprentices and those supervising them can derive the most benefit from the apprenticeship programme.

In the UK, our apprenticeship offering has been running for three years and 2015 saw the continuation of the Apprenticeship Development Programme, which brings the apprentices together to develop their key skills and business understanding. Twenty-five new apprentices joined through the 2015 intake. Apprentices who have completed this programme in the past are now employed in various roles across our head office, central services and branch network.

### Graduates

In 2015, we launched our new International Graduate Programme. While we continue to recruit graduates into specific functional areas on a country-by-country basis, the new programme provides successful applicants with insight and exposure across our UK, Ireland and Mainland European businesses. As our first Group-wide talent initiative, the programme focuses on attracting, developing and deploying high-calibre people who are capable of developing into SIG's future leaders. During the two-year programme, graduates will undertake four rotations of six months, and attend five extensive development modules. Each module will concentrate on different leadership attributes such as understanding self, emotional intelligence, understanding the business and key financial skills.

The first cohort of nine graduates joined us in September 2015 through a re-designed recruitment and selection process. Application criteria included a requirement for a specific degree background, such as business studies or international business, and a second language. The selection process involved video interviews, psychometric assessments and an extensive assessment centre encompassing case studies, group presentations and competency-based interviews. Key stakeholders from across SIG internationally were invited to attend the assessment centres to help select the successful applicants. The programme's next cohort is due to arrive in September 2016.

Alongside our internal work with graduates, we continue to support Enactus, as a Gold Sponsor. Enactus is a community of students, academics and business leaders that develops outreach projects to improve the lives of people across the world. In 2015, we were again involved in the judging process for the Enactus UK National Competition, with more representatives from SIG than ever before taking part in the judging. Furthermore, we have established a network of business advisors throughout SIG in the UK who support individual Enactus teams. These advisors act as mentors for the teams' projects during the year. In 2016, we will continue to build our group of business advisors to support more Enactus university teams and, over time, we hope to establish relationships with the Enactus programme in other SIG countries.

We will also continue our support for the Association of Graduate Recruiters ("AGR") in 2016, having been members for the last several years. In 2015, we were involved in sharing best practice ideas across the AGR membership, and we attended AGR events and discussion groups. A number of SIG representatives from the Talent and Resourcing teams were also invited to be part of the judging panel for the AGR Awards.

## EQUAL OPPORTUNITIES

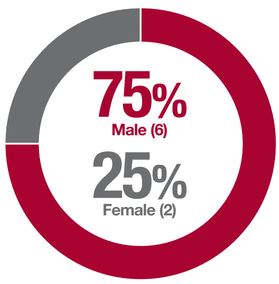
Our policy is to provide equal opportunities to all existing and prospective employees. Across the Group, we recognise that our reputation is dependent upon fair and equitable treatment of all our employees and we prohibit discrimination on the grounds of race, religion, gender, disability, sexual orientation, age, nationality or ethnic origin. Employment opportunities are equally available to all.

We value diversity of thinking and see this as critical in generating new ideas and innovative solutions for our customers. Employment opportunities are available to disabled persons in accordance with their abilities and aptitudes on equal terms with other employees. If an employee becomes disabled during employment, we at SIG make every effort to enable them to continue in employment by making reasonable adjustments in the workplace and providing retraining for alternative work where necessary.

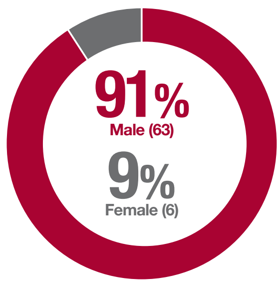
## GENDER DIVERSITY

At 31 December 2015, across the total workforce, 2,036 (21%) of all employees are female and 7,787 (79%) are male. Two Board members (25%) are female and six (75%) Board members are male. Six senior managers (9%) are female and 63 senior managers (91%) are male. SIG continues to work towards improving its workforce diversity and this will be an ongoing area of focus in 2016.

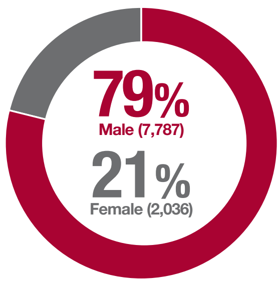
**DIRECTORS**



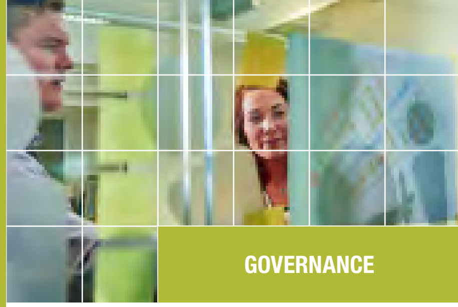

**SENIOR MANAGERS**




**ALL EMPLOYEES**



# Governance



# GOVERNANCE



SiG
STRONGER TOGETHER

# Board of Directors

## LESLIE VAN DE WALLE HEC
**Non-Executive Chairman (59)**

Became a Non-Executive Director in October 2010 and became Non-Executive Chairman on 1 February 2011.

### External roles
Leslie is Non-Executive Chairman of Robert Walters plc and a Non-Executive Director of DCC plc.

### Experience and past roles
Previously, Leslie was Chief Executive Officer of Rexam plc, Executive Vice President of Global Retail, (a division of Royal Dutch Shell plc) and a Non-Executive Director of Aegis Group plc, Aviva plc and Cape plc. He formerly held a number of senior management positions with Cadbury Schweppes plc and United Biscuits Limited.

### Key strengths
Extensive board and general management experience.

## STUART MITCHELL BSC (HONS)
**Chief Executive (55)**

Joined SIG on 1 December 2012 as Chief Executive Designate, was appointed a Director of the Company on 10 December 2012 and became Chief Executive on 1 March 2013

### External roles
Stuart is a Non-Executive Director of Enactus UK (formerly SIFE - Students in Free Enterprise UK).

### Experience and past roles
Most recently, Stuart was Chief Executive of Wilkinsons Hardware Stores from 2006 to 2012. He was previously Managing Director of the Taiwan arm of the Asian retail giant AS Watson. He joined Sainsbury plc as a graduate trainee in 1984, rising up the ranks to become Managing Director of Sainsbury's Supermarkets in 2003.

### Key strengths
Extensive operational and general management experience in retail.

## DOUG ROBERTSON BA (HONS), FCA
**Finance Director (62)**

Joined the Group in November 2011 and was appointed Finance Director on 1 December 2011.

### External roles
Doug is a Non-Executive Director of HSS Hire Group plc.

### Experience and past roles
Doug was previously Finance Director of Umeco plc from 2007 until 2011 and Finance Director of Seton House Group Limited from 2002 until 2007. From 1994 to 2000 he held a variety of Divisional Finance Director roles within Williams plc and, in 2000, became Managing Director of Tesa Group, Chubb's hotel security division.

### Key strengths
Extensive financial management experience.

## BOARD COMMITTEES

### Audit Committee
Mr J. C. Nicholls – Chairman
Ms J. E. Ashdown
Mr C. V. Geoghegan
Mr M. Ewell
Ms A. Abt

### Remuneration Committee
Mr C. V. Geoghegan – Chairman
Ms J. E. Ashdown
Mr M. Ewell
Mr J. C. Nicholls
Ms A. Abt

### Nominations Committee
Mr L. Van de Walle – Chairman
Ms J. E. Ashdown
Mr C. V. Geoghegan
Mr M. Ewell
Mr J. C. Nicholls
Ms A. Abt
Mr S. R. Mitchell



## CHRIS GEOGHEGAN BA (HONS), FRAES

### Senior Independent Non-Executive Director (61)

Became a Non-Executive Director in July 2009.

### External roles

Chris is a Non-Executive Director of Lakehouse plc. He is a Fellow of the Royal Aeronautical Society.

### Experience and past roles

Previously and prior to his retirement, Chris was Chief Operating Officer of BAE Systems plc with responsibility for all European joint ventures and UK defence electronics assets. He is past President of the Society of British Aerospace companies.

### Key strengths

Considerable commercial European business experience.

## JANET ASHDOWN BSC (HONS)

### Non-Executive Director (56)

Became a Non-Executive Director in July 2011.

### External roles

Janet is a Non-Executive Director of Coventry Building Society, the Nuclear Decommissioning Authority and Marshalls plc. She is also Chair of the charity 'Hope in Tottenham'.

### Experience and past roles

Previously and until the end of 2012, Janet was the Chief Executive Officer of Harvest Energy Limited and Blue Ocean Oil Trading Limited. She previously worked for BP p.l.c. for 30 years where her last role was as Head of BP's Retail and Commercial Fuels business in the UK.

### Key strengths

Strong commercial experience within global businesses.

## MEL EWELL BSC (HONS)

### Non-Executive Director (57)

Became a Non-Executive Director on 1 August 2011.

### External roles

Mel is currently Chief Executive and an Executive Director of Amey Plc, one of the UK's leading infrastructure services providers. Mel will retire as Chief Executive of Amey plc at the end of March 2016.

### Experience and past roles

Mel previously held a number of senior management positions for TNT International, Xerox and ADI Group.

### Key strengths

Considerable executive management experience.

## JONATHAN NICHOLLS BA, ACA, FCT

### Non-Executive Director (58)

Became a Non-Executive Director in November 2009.

### External roles

Jonathan is a Non-Executive Director of DS Smith Plc, Great Portland Estates plc and Ibstock plc.

### Experience and past roles

Previously and most recently, Jonathan was Group Financial Director of Old Mutual plc. Prior to that he was Group Finance Director of Hanson plc.

### Key strengths

Extensive financial management experience (including recent financial experience).

## ANDREA ABT MBA

### Non-Executive Director (55)

Became a Non-Executive Director on 12 March 2015.

### External roles

Andrea is a Non-Executive Director of Brammer plc and is a member of the supervisory board of Gerresheimer AG. Andrea is to be appointed a Non-Executive Director of Petrofac Limited on 19 May 2016.

### Experience and past roles

Previously, Andrea has been Head of Supply Chain Management and Chief Procurement Officer of the Siemens sector for Infrastructure & Cities from 2011 to 2014. Since joining Siemens in 1997, she held numerous positions of Finance, Productivity and Supply Chain Management in Germany and internationally. Andrea started her career in industry in the Daimler Benz Group where she was responsible for different teams in aircraft and postal automation service sales.

### Key strengths

Specialist knowledge of the European market, together with considerable knowledge of supply chain and procurement.

# Introduction to Governance

*"The Group supports the highest standards of corporate governance."*

**LESLIE VAN DE WALLE** Chairman

## DEAR SHAREHOLDER

SIG is committed to business integrity, high ethical values and professionalism in all of its activities. At SIG, we believe that good governance comes from an effective Board which provides strong leadership to the Group and engages well with both management and stakeholders. As an essential part of this commitment, the Group supports the highest standards in corporate governance. This section of our report outlines how the Board ensures that high standards of corporate governance are maintained.

### Compliance with the UK Corporate Governance Code

The Board considers that, throughout the year under review, the Company has complied with the governance rules and best practice provisions applying to UK listed companies as contained in the UK Corporate Governance Code ("the Code") of September 2014 issued by the Financial Reporting Council ("FRC").

The Code can be accessed at www.frc.org.uk.

### Board evaluation

The Board is required, under the Code, to undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. In December 2015 the Board conducted an internally facilitated evaluation. Details of the process concerning this evaluation and its outcome are covered on page 64 of this Corporate Governance Report.

### Board diversity

The Board of SIG acknowledges the importance of diversity in its broadest sense in the Boardroom as a driver of Board effectiveness. Diversity encompasses diversity of perspective, experience, background, psychological type and personal attributes. The Board recognises that gender diversity is a significant aspect of diversity and acknowledges the role that women with the right skills and experience can play in contributing to diversity of perspective in the Boardroom. The Board Diversity Policy is published on the Company's website (**www.sigplc.com**).

In last year's Annual Report I reported that the Board had discussed in December 2013 the matter of women on Boards and had set out the aim of achieving at least 25% female representation among the Board's membership by 2015. I am pleased to be able to report that, following the appointment of Ms A. Abt on 12 March 2015, that female representation on the Board has risen to 25%.

All appointments to the Board will continue to be made on merit, however, differences in background, skills, experience and other qualities as well as gender will be considered in determining the optimum composition of the Board and the aim will be to balance them appropriately.

## GOVERNANCE WITHIN SIG

As Chairman, I take responsibility for ensuring that good governance is operated at SIG in order that we can maintain the highest standards of corporate governance to which we continually aspire. The Board is accountable to the Company's Shareholders for good governance and this Report, the Directors' Remuneration Report on pages 80 to 98, the Audit Committee Report on pages 72 to 77 and the Nominations Committee Report on pages 78 to 79 describe how the principles of good governance set out in the Code are applied within SIG.

The Company's Auditor, Deloitte LLP, is required to review whether the above statement reflects the Company's compliance with the ten provisions of the Code specified for their review by the Listing Rules of the UK Listing Authority and to report if it does not reflect such compliance. No such report has been made.

**LESLIE VAN DE WALLE**
Chairman
8 March 2016

# Corporate Governance



## LEADERSHIP

### The Board

At 31 December 2015, the Board was made up of eight members comprising the Chairman, two Executive Directors and five Non-Executive Directors. The Directors who held office during the year were:

| | |
|---|---|
| **MR L. VAN DE WALLE** | Non-Executive Chairman |
| **MR S. R. MITCHELL** | Chief Executive |
| **MR D. G. ROBERTSON** | Group Finance Director |
| **MS A. ABT** | Independent Non-Executive Director (appointed 12 March 2015) |
| **MS J. E. ASHDOWN** | Independent Non-Executive Director |
| **MR M. EWELL** | Independent Non-Executive Director |
| **MR C. V. GEOGHEGAN** | Senior Independent Non-Executive Director |
| **MR J. C. NICHOLLS** | Independent Non-Executive Director |

Biographical details of the Directors holding office at the date of this report appear on pages 56 and 57. Details of Committee memberships are set out on page 63.

At 31 December 2015, SIG had two female Board members, equating to 25% female representation of its Directors.

The Non-Executive Directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgment. The Board has satisfied itself that there is no compromise to the independence of those Directors who have other appointments in outside entities. The Board considers that each of the Non-Executive Directors bring their own senior level of experience and expertise and that the balance between Non-Executive and Executive representation encourages healthy independent challenge to the Executive Directors and senior management.

The Non-Executive Directors have been appointed for their specific areas of expertise and knowledge. Their wide-ranging experience and backgrounds ensure that they can debate matters constructively in relation to both the development of strategy and performance of SIG against objectives set out by the Board. Biographical details of each of the Directors, which illustrate their range of experience, are set out on pages 56 and 57.

The Company's policy relating to the terms of appointment and remuneration of both the Executive and Non-Executive Directors is detailed in the Directors' Remuneration Report on pages 80 to 98.

The roles of the Chairman and Chief Executive are separate and clearly defined. The division of responsibilities is set out in writing, reviewed by the Company Secretary and agreed by the Board on a regular basis. The Board approves any necessary changes to reflect changes in legislation, policy and practices. The Chairman leads the Board and sets its agenda, ensuring that all Directors, particularly the Non-Executive Directors, are able to make an effective contribution. He also ensures that there is a constructive relationship between the Executive and Non-Executive Directors. The Chief Executive has responsibility for all operational matters which include the implementation of the Group's Strategy and policies approved by the Board.

The roles for the Chairman, Chief Executive and the Senior Independent Director are agreed and set out in writing; a summary of their roles and division of responsibility is set out below:

### Chairman

- Responsible for overall leadership and governance of the Board (including induction, development and performance evaluation);
- Ensures that the Directors have an understanding of the views of the Company's major shareholders; and
- Ensures a healthy culture of challenge and debate at Board and Committee meetings.

The Chairman, at the time of his appointment, met and continues to meet the independence criteria set out in the Code.

### Chief Executive

- Responsible for the effective leadership of the Group;
- Strong and focused management and development of the Group's operations;
- Implementation of the Group's objectives and strategy as agreed by the Board;
- Maintains good relationships and communications with investors;
- Works closely with the Group Finance Director to ensure appropriate financial controls are in place; and
- Develops and implements policies integral to improving the business, including in relation to Health & Safety and Corporate Responsibility.

### Senior Independent Director

- Available for approach by (or representations from) investors and Shareholders, where communications through the Chairman or Executive Directors may not seem appropriate;
- A sounding board for the Chairman and an intermediary for the other Directors when necessary; and
- Available to chair the Board in the absence of the Chairman.

The Senior Independent Director is Mr C. V. Geoghegan.

There is no maximum number of Directors but there shall at no time be less than two. Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board shall hold office only until the next Annual General Meeting ("AGM") and shall then be eligible for re-appointment by the Shareholders. The Board may, from time to time, appoint one or more Directors as Managing Director or to fulfil any other executive function within the Company for such term, remuneration and other conditions of appointment as it may determine, and it may revoke such appointment (subject to the provisions of the Companies Act).

## ELECTION AND RE-ELECTION OF DIRECTORS

Under the Articles of Association, all Directors are subject to election at the AGM immediately following their appointment and to re-election every three years. However, in accordance with the Code, all Directors will seek election or re-election at the Company's AGM each year. To enable Shareholders to make an informed decision, the 2016 Notice of AGM includes biographical details and a statement as to why the Company believes that the Directors should be re-elected.

It is the view of the Board that each of the Non-Executive Directors standing for re-election brings considerable management experience and an independent perspective to the Board's discussions and is considered to be independent of management and free from any relationship or circumstance that could affect, or appear to affect, the exercise of their independent judgment.

The Chairman intends to confirm at the AGM that the performance of each individual continues to be effective and demonstrates commitment to the role.

The terms of the Directors' service contracts are disclosed in the Directors' Remuneration Report on pages 85 to 86. Full details of Directors' remuneration, interests in the share capital of the Company and of share options held are set out on pages 90 to 98 in the Directors' Remuneration Report.

Directors' service contracts and the letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office and will be available at the AGM which is scheduled to take place on 12 May 2016.

## BOARD PROCEDURES AND RESPONSIBILITIES

The Board meets regularly during the year, as well as on an adhoc basis as required by time-critical business needs. The Board met formally on ten occasions during the year and individual attendance at those and the Board Committee meetings is set out in the table on page 62. All Board members are supplied with information in a form and of a quality appropriate to enable them to discharge their duties. Board and Committee papers are sent out seven days before meetings take place. The Directors are provided with opportunities for training to ensure that they are kept up-to-date on relevant new legislation and regulation changes, corporate governance developments and changing commercial risks. There is an agreed schedule of matters reserved for the Board for collective decision (which can be viewed on the Company's website, **www.sigplc.com**). These matters include:

- Determining the strategy and control of the Group;
- Amendments to the structure and capital of the Company and Group;
- Approval of financial reporting;
- Oversight of the Group's internal controls;
- Approval of capital and revenue expenditure of a significant size;
- Board membership and appointments;
- Acquisitions and disposals above a prescribed limit;
- Corporate governance matters; and
- Approval of Group policies and risk management strategies.

The Board has formally delegated specific responsibilities to Board Committees, including the Nominations, Audit and Remuneration Committees. The Board also appoints Committees to approve specific processes as deemed necessary. For example, during the year, Board Committees were established to approve bank documentation, share allotments, and the preliminary and interim results announcements.

The Terms of Reference for each of the Board Committees are available on request from the Company Secretary or on the SIG website (**www.sigplc.com**).

To enable the Board to perform its duties effectively, all Directors have full access to all relevant information and to the services of the Company Secretary, whose responsibility it is for ensuring that Board procedures are followed. The appointment and removal of the Company Secretary is a matter reserved for the Board. There is an agreed procedure whereby Directors wishing to take independent legal advice in the furtherance of their duties may do so at the Company's expense.

The Company Secretary is responsible for ensuring that Board procedures are followed including the formal minuting of any unresolved concerns that any Director may have in connection with the operation of the Company. During the year there were no such unresolved issues. Further, on resignation, if a Non-Executive Director had any such concerns, the Chairman would invite him/her to provide a written statement for circulation to the Board.

All Board Committees are provided with sufficient resources to undertake their duties. Appropriate training is available to all Directors on appointment and on an ongoing basis as required.

Following the implementation of BoardPad, a secure iPad paperless meeting system in 2012, its successful roll-out has progressively resulted in the replacement of hard copy packs with electronic versions. Paperless meetings are now the norm, not only for the Board but also its Committees and the Group Executive Committee. This supports our online drive across the Group and is consistent with reducing the impact of our operations on the environment.

## DIRECTORS' CONFLICTS OF INTERESTS

Each Director has a duty under the Companies Act 2006 ("CA 2006") to avoid any situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. This duty is in addition to the obligation that they owe to the Company to disclose to the Board any transaction or arrangement under consideration by the Company in which they have, or can have, a direct or indirect interest. Directors of public companies may authorise conflicts and potential conflicts, where appropriate, if a company's Articles of Association permit and Shareholders have approved appropriate amendments.

Procedures have been put in place for the disclosure by Directors of any such conflicts and also for the consideration and authorisation of any conflicts by the Board. These procedures allow for the imposition of limits or conditions by the Board when authorising any conflict, if they think this is appropriate. These procedures have been applied during the year and are now included as a regular item for consideration by the Board at its meetings. The Board believes that the procedures established to deal with conflicts of interest are operating effectively.

The Board is aware of the other commitments of its Directors and is satisfied that these do not conflict with their duties as Directors of the Company.

## ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The following table shows the attendance of Directors at meetings of the Board, Audit, Remuneration and Nominations Committees during the year to 31 December 2015:

| | Board Meetings eligible to attend (10 maximum)[2] | Audit Committee Meetings eligible to attend (5 maximum) | Remuneration Committee Meetings eligible to attend (4 maximum) | Nominations Committee Meetings eligible to attend (4 maximum) |
|---|---|---|---|---|
| Ms A. Abt[1] | 8 | 4 | 3 | 2 |
| Ms J. E. Ashdown | 10 | 5 | 4 | 4 |
| Mr M. Ewell | 10 | 5 | 4 | 4 |
| Mr C. V. Geoghegan | 10 | 5 | 4 | 4 |
| Mr S. R. Mitchell | 10 | N/A | N/A | 4 |
| Mr J. C. Nicholls | 10 | 5 | 4 | 4 |
| Mr D. G. Robertson | 10 | N/A | N/A | N/A |
| Mr L. Van de Walle | 10 | N/A | N/A | 4 |

1. Ms A. Abt was appointed to the Board on 12 March 2015 and attended all meetings to which she was entitled to attend.
2. There were two unscheduled Board meetings in 2015 relating to the consideration of acquisitions and consideration of trading conditions.

Of the ten Board meetings held in 2015, two were held by telephone conference call.

This table only shows those meetings which each Director attended as a member rather than as an invitee. Where “N/A” appears in the table the Director listed is not a member of the Committee. All of the Directors in office at the date of the AGM were in attendance at that meeting. Directors do not participate in meetings when matters relating to them are discussed.

The Chairman also holds meetings with the Non-Executive Directors without the Executive Directors present. The Senior Independent Director also meets with the other Independent Non-Executive Directors without the Chairman present.

In general, the Board endeavours to hold at least two Board meetings each year at Group business locations both in the UK & Ireland and Mainland Europe to help all Board members gain a deeper understanding of the business. This also provides senior managers from across the Group with the opportunity to present to the Board as well as to meet the Directors on more informal occasions. Board members also attend divisional and Group management conferences whenever possible.

All Directors attended the 2015 AGM and were available to answer any questions raised by the Shareholders.

# GROUP BOARD

## AUDIT COMMITTEE

The Audit Committee operates under written Terms of Reference, which are consistent with current best practice. The Committee comprises only Independent Non-Executive Directors. The Chairman of the Committee attends the AGM to respond to any Shareholder questions that might be raised on the Committee's activities. The Committee's report is set out on pages 72 to 77.

The Group operates an outsourced Internal Audit function, undertaken by KPMG LLP. The Board annually reviews the need for such a function and the effectiveness of the outsourced Internal Audit Function.

### Delegated authorities:

Monitors the integrity of financial reporting, the performance of the external Auditor and reviews the effectiveness of the Group's systems of internal control and related compliance activities.

### Members:

Mr J. C. Nicholls (Chairman)
Ms A. Abt
Ms J. E. Ashdown
Mr M. Ewell
Mr C. V. Geoghegan

## NOMINATIONS COMMITTEE

The Nominations Committee operates under written Terms of Reference, which are consistent with current best practice. The Committee comprises the Chairman, the Chief Executive and the Independent Non-Executive Directors. The meetings of the Committee are chaired by the Non-Executive Chairman. The Chairman of the Committee attends the AGM to respond to any Shareholder questions that might be raised on the Committee's activities. The Committee's report is set out on pages 78 to 79.

### Delegated authorities:

Ensures that the Board and its Committees have the optimum balance of skills, knowledge and experience by nominating suitable candidates for approval by the Board to fill Executive and Non-Executive vacancies.

### Members:

Mr L. Van de Walle (Chairman)
Ms A. Abt
Ms J. E. Ashdown
Mr M. Ewell
Mr C. V. Geoghegan
Mr S. R. Mitchell
Mr J. C. Nicholls

## REMUNERATION COMMITTEE

The Remuneration Committee operates under written Terms of Reference, which are consistent with current best practice. The Committee comprises only Independent Non-Executive Directors. The Chairman of the Committee attends the AGM to respond to any Shareholder questions that might be raised on the Committee's activities. The Committee's report is set out on pages 80 to 98.

### Delegated authorities:

Sets remuneration and incentives for the Executive Directors; approves and monitors remuneration and incentive plans for the Group; and assesses and makes recommendations to the Board on the policy of Executive remuneration.

### Members:

Mr C. V. Geoghegan (Chairman)
Ms A. Abt
Ms J. E. Ashdown
Mr M. Ewell
Mr J. C. Nicholls

## GROUP EXECUTIVE COMMITTEE

The Executive Committee operates under written Terms of Reference. The Committee addresses operational issues and is responsible for implementing Group strategy and policies, day-to-day management and monitoring performance. The Committee met eleven times during the year.

### Members:

**Mr S. R. Mitchell (Chairman)**
Chief Executive

**Mr D. G. Robertson**
Group Finance Director

**Mrs L. H. Kennedy-McCarthy**
Group Human Resources Director

**Mr L. Lvovich**
Corporate Development Director
(from 1 January 2015)

**Mr M. Pearson**
Group Chief Information Officer

**Mr C. Horn**
Group Operations Director
(from 1 December 2015)

**Mr R. T. Barclay**
Managing Director, UK & Ireland

**Mr P. Denece**
Managing Director, France
(from 1 March 2016)

**Mr M. Hamori**
Managing Director, Germany
(from 1 March 2016)

## GROUP TAX AND TREASURY COMMITTEE

The Treasury Committee operates under the terms set out in the written Treasury Policy Manual. The Committee considers liquidity and funding, interest rate risk management, foreign exchange risk management, counterparty credit risk management and any other current Group Treasury issues.

### Members:

**Mr I. Jackson (Chairman)**
Group Financial Controller

**Mr D. G. Robertson**
Group Finance Director

**Mr R. C. Monro**
Company Secretary

**Mrs S. Clarke**
Group Treasurer

**Mr I. Norris**
Risk & Financial Controller

## EFFECTIVENESS AND EVALUATION

### Board effectiveness and performance evaluation

The effectiveness of the Board and its Committees is vital to the success of the Company. During the year the Board continued its ongoing evaluation process to assess its performance and that of its three principal Committees (Audit, Remuneration and Nominations).

In December 2014, as part of this programme, the Board commissioned Equity Communications Limited, an independent third party with no other connection to the Company, to prepare a tailored Board Evaluation process. This was facilitated by way of a questionnaire process with the emphasis, in addition to the evaluation of the performance of the Board and its Committees, being targeted at identifying the future needs of the Board, including Board succession planning and performance, strategy development and delivery, and Board skills and composition. Each Director completed their questionnaire and these were then evaluated by the independent facilitator who then prepared a report for the Chairman.

The Chairman and the facilitator presented the results of the evaluation to the Board, which discussed the results of the evaluation in detail at its January 2015 meeting. The discussions then focused on how the actions and improvements identified through the process should be implemented. The Board was satisfied that the evaluation of its performance was a worthwhile exercise and that the Directors had participated on an open and frank basis.

In December 2015, by way of follow up to the formal evaluation process completed in December 2014, an effectiveness survey of the Board and its Committees (Audit, Remuneration and Nominations) was undertaken. The surveys were internally facilitated and carried out by questionnaire. Each Director (including the Chairman) was asked to place a score against a variety of questions and to make additional comments where appropriate. The surveys also sought to identify the extent to which the issues raised in the previous evaluation process had been addressed. The summary report and response analysis for the December 2015 survey were presented to the Board in January 2016, with suggested improvement actions.

Whilst concluding that the Board and its Committees continue to improve their effectiveness and are perceived to be working well, the evaluation identified a number of areas for improvement in connection with Board succession planning and further sharing of best practices between the Directors. There is also scope to improve the monitoring, testing and adaptation of business performance and strategy implementation. With regard to markets, areas for improvement are to better understand the development of the market and benchmarking against key competitors, together with identification of market trends and forecasting.

The proposed Board priorities for 2016 will cover:

- → Closely monitoring performance and delivery against 2016 to 2018 targets and performance of its competitors;
- → Obtaining a better understanding and anticipating more actively the development of the market, customers and competitors;
- → Improving cost management culture and driving the structural costs review;
- → Continuing focus and progress on the Company's Health & Safety Zero Harm campaign; and
- → Progressing an enhanced people agenda, including succession planning, strengthening front line management and reviewing organisational effectiveness.

The Board notes that the Code requires FTSE 350 companies to carry out an externally facilitated Board evaluation at least every three years. Having last conducted such an evaluation in December 2014, the Board intends to conduct a formal externally facilitated effectiveness and evaluation process in 2017.

The Chairman regularly reviews and agrees with each Director their training and development needs. During the year a number of the Directors attended training courses and seminars on various subjects, including those that the Chairman had identified as being areas where training would increase the knowledge and effectiveness of the Director. The Board as a whole received training on Corporate Governance developments in relation to revisions to the 2014 UK Corporate Governance Code, the Longer-Term Viability Statement and Auditor reporting requirements. Further training is programmed for 2016.

The Non-Executive Directors, chaired by the Senior Independent Director, meet once a year without the Chairman present to assess his performance, taking into account the views of the Executive Directors.

### Risk management and internal control

The Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. It is the role of management to implement the Board's policies on risk and control through the design and operation of appropriate internal control systems. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve the business objectives and can therefore only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee monitors and reviews the effectiveness of the Group's internal control systems, accounting policies and practices, standards of risk management and risk management procedures and compliance controls.

The key elements of the existing systems of internal control, which accord with the FRC's Guidance on Risk Management and Internal Control and Related Financial and Business Reporting (the "Risk Guidance"), are as follows:

### Open culture

The Board considers that the Group operates a risk-aware culture with an open style of communication. This facilitates the early identification of problems and issues, so that appropriate action is taken quickly to minimise any impact on the business.

### Ongoing process for risk identification, evaluation and management

This process includes the following:

- The Group Board maintains an overall corporate risk register, the content of which is determined by regular discussions between senior management, the Group Board and the Audit Committee. This is also formally reviewed twice yearly by the Audit Committee and discussed with the Board. The risk register contains the significant risks faced by the Group and identifies the potential impact and likelihood at both a gross level (before consideration of mitigating controls) and net level (after consideration of mitigating controls). This provides the Board with the opportunity to review the level of risk that the business is prepared to accept. The register also contains the assurance provided over current key mitigating controls. Where further actions have been identified to mitigate risks to a level deemed acceptable, these are agreed with specific timelines for delivery and are monitored closely until fully implemented. This is summarised in the Strategic Report on pages 20 to 23;
- The risk management process is cascaded throughout the Group, with operating subsidiary boards responsible for maintaining their own risk registers and assessing their internal control systems;
- A defined organisation structure with appropriate delegation of authority;
- Formal authorisation procedures for all investments with clear guidelines on appraisal techniques and success criteria;
- Clear responsibilities on the part of financial management for the maintenance of good financial controls and the production and review of detailed, accurate and timely financial management information;
- A comprehensive system of financial reporting. An annual budget for each operating company is prepared in detail and approved by the Chief Executive. The Board approves the overall Group's budget and plans. Monthly actual results are reported against budget and prior year and the forecast for the year is revised where necessary. Any significant changes and adverse variances are questioned by the Board with remedial action taken where appropriate. There is also regular cash and treasury reporting to the Group Finance Director and periodic reporting to the Board on the Group's tax and treasury position;
- Provision to management and the Board of relevant, accurate and timely information including relevant key performance indicators, based on reliable management information systems which are continually being improved and updated;
- Monthly reports to the Board from the Chief Executive and Group Finance Director;
- Regular business unit management board meetings (periodically attended by the Chief Executive or Group Finance Director), Executive Board meetings and the Company Board meetings at which existing, new and evolving operational, financial and other risks are discussed, and appropriate actions to manage these risks are agreed and followed up;
- Discussion of any significant issues or control weaknesses identified and, if considered necessary, their inclusion in reports to the Executive Board and the Company Board;
- Operating units, both trading sites and central functions, complete comprehensive Control Self Assessment ("CSA") questionnaires every six months. These questionnaires require managers to respond to questions about procedures and controls in the unit for which they have responsibility. These are analysed by local and Group management and all potential risks or control failure issues which are raised by the CSA process are classed in terms of escalation levels with any significant Group level issues being reported to the Audit Committee; and
- A structured and approved programme of Internal Audit visits with the implementation of recommendations made being monitored as part of a continuous programme of improvement.

### Financial reporting

In addition to the general internal controls and risk management processes described on pages 64 to 66, the Group also has specific systems and controls to govern the financial reporting process and preparation of the Annual Report and Accounts. These systems include clear policies and the procedures for ensuring that the Group's financial reporting processes and the preparation of its Consolidated Accounts comply with all relevant regulatory reporting requirements. These are comprehensively detailed in the Group Finance Manual, which is used by the businesses in the preparation of their results. Financial control requirements are also set out in the Group Finance Manual.

### Annual assessment of the effectiveness of systems of internal control

During 2015 the Board conducted a review of the effectiveness of the Group's system of internal control. This review covered all controls including operational, compliance and risk management procedures, as well as financial controls.

The Board and Audit Committee requested, received and reviewed reports from senior management, its advisers, the outsourced Internal Audit function and our external Auditor in order to assist the Board with their annual assessment of the effectiveness of the Group's systems of internal control. Through the ongoing processes outlined on pages 64 to 66, improvements in internal controls are continuously identified and action plans are devised. Progress towards completion of actions is regularly monitored by management and the Board. The Board considers that none of the areas of improvement identified constitute a significant failing or weakness. The Board considers that the information that it receives is sufficient to enable it to review the effectiveness of the Group's internal controls in accordance with the internal control guidance for Directors on the Code issued by the FRC.

### Whistleblowing

The Group has in place a Whistleblowing Policy under which employees may, in confidence, raise concerns about possible wrongdoing in financial reporting or other matters. A copy of this policy is available on the Company's website (**www.sigplc.com**).

The Company also has in place a confidential hotline which is available to all of the Group's employees and provides a facility for them to bring matters to management's attention on a confidential basis. The hotline is provided by an independent third party. During 2015 these systems were operational throughout the Group. A full investigation is carried out on all matters raised and a report is prepared for feedback to the complainant.

The Company Secretary is required to report to the Audit Committee semi-annually on the integrity of these procedures, the state of ongoing investigations and conclusions reached. During 2015 Group employees used this system to raise concerns about a number of separate issues, all of which were appropriately responded to.

### Overall assessment

The risk framework, as outlined above, gives reasonable assurance that the structure of controls in operation is appropriate to the Group's situation and that there is an acceptable level of risk throughout the business.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and that this has been in place for the year under review and up to the date of approval of the Annual Report and Accounts.

## RELATIONS WITH SHAREHOLDERS

The Company recognises the importance of communicating with its Shareholders, including its employee Shareholders, to ensure that its strategy and performance is understood. This is achieved principally through the Annual Report and Accounts and the AGM. The Group's annual and interim results, as well as all announcements issued to the London Stock Exchange, are published on the Company's website. The Company issues regular trading updates to the market and these, together with copies of the presentations made to analysts, can also be found on the Company's website. In addition, a range of other corporate information is available to investors on the Company's website (**www.sigplc.com**).

The Chief Executive, Group Finance Director and Head of Investor Relations are primarily responsible for direct investor relations. The Board is kept informed of investors' views through distribution and regular discussion of analysts' and brokers' briefings and a summary of investor opinion feedback. In addition, feedback from major Shareholders is reported to the Board by the Chairman and the Group Finance Director and discussed at its meetings. Formal presentations are made to institutional Shareholders following the announcement of the Company's annual and interim results.

The Company hosted a Capital Markets Day in London on 16 November 2015. The presentation can be viewed at **www.sigplc.com**.

Contact is also maintained, where appropriate, with Shareholders to discuss overall remuneration plans and policies. The Chairman and the Senior Independent Director are available to discuss governance and strategy with major Shareholders if requested, and both are prepared to contact individual Shareholders should any specific areas of concern or enquiry be raised. The Chairman also offers to meet with major Shareholders each year.

Throughout the year, the Company responds to correspondence received from Shareholders on a wide range of issues and also participates in a number of surveys and questionnaires submitted by a variety of investor research bodies. Although the other Non-Executive Directors are not at present asked to meet the Company's Shareholders, they regularly review the presentations of the annual and interim results.

The Board recognises that the AGM is the principal forum for dialogue with private Shareholders and all Shareholders are invited to attend. All Directors attend the AGM and are available to answer any questions that Shareholders may wish to raise.

The Notice of Meeting is sent to Shareholders at least 20 working days before the meeting. The Company provides a facility for Shareholders to vote electronically and the Form of Proxy provides Shareholders with the option of withholding their vote on a resolution if they so wish. Shareholders vote on a show of hands, unless a poll is validly called and, after each such vote, the number of Proxy votes received for or against the resolution together with the number of abstentions is announced. The Company Secretary ensures that votes are properly received and recorded. Details of the Proxies lodged on all resolutions are published on the Company's website immediately after the AGM.

## SUBSTANTIAL SHAREHOLDINGS

At the date of approval of the 2015 Annual Report and Accounts, the Company had received notification of the following shareholdings in excess of 3% of its issued share capital pursuant to the Disclosure and Transparency Rules of the Financial Conduct Authority as at 31 December 2015 and 8 March 2016:

| Shareholder | Voting Rights as at 31 December 2015 | % | Voting Rights as at 8 March 2016 | % |
|---|---|---|---|---|
| BlackRock, Inc. | 45,618,814 | 7.71% | Below 5% | N/A |
| Aviva plc | 36,299,012 | 6.14% | 36,299,012 | 6.14% |
| Schroder Investment Management Limited | 33,016,449 | 5.58% | 33,016,449 | 5.58% |
| Massachusetts Financial Services Company | - | - | 29,984,285 | 5.07% |
| Lancaster Investment Management LLP | 29,975,100 | 5.07% | 29,975,100 | 5.07% |
| IKO Enterprises Limited | 25,760,891 | 4.36% | 25,760,891 | 4.36% |
| Tameside MBC re Greater Manchester Pension Fund | 17,765,599 | 3.00% | 17,765,599 | 3.00% |

### Statement of the Directors on the disclosure of information to the Auditor

The Directors who held office at the date of approval of this Statutory Information confirm that:

- So far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- Each Director has taken all steps that he/she ought to have taken as a Director to make himself/herself 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 Section 418 of the Companies Act 2006.

### Going Concern Statement

The Going Concern Statement can be found on page 39 of the Strategic Report.

### Viability Statement

The Viability Statement can be found on page 39 of the Strategic Report.

### Independent Auditor

On the recommendation of the Audit Committee, in accordance with Section 489 of the Companies Act 2006, resolutions are to be proposed at the AGM for the reappointment of Deloitte LLP as Auditor of the Company and to authorise the Audit Committee to fix its remuneration. The remuneration of the Auditor for the year ended 31 December 2015 is fully disclosed in Note 4 to the Consolidated Financial Statements on page 120.

### Publication of Annual Report and Notice of AGM

Shareholders are to note that the SIG plc Annual Report 2015, together with the Notice convening the AGM have been published on the Company's website (**www.sigplc.com**). If Shareholders have elected to receive Shareholder correspondence in hard copy, then the Annual Report and Notice convening the AGM will be distributed to them.

## Annual General Meeting

The Notice convening the AGM, which is to be held at the Mercure Sheffield Parkway Hotel, Britannia Way, Catcliffe, Sheffield S60 5BD at 12 noon on Thursday 12 May 2016, together with explanatory notes on the resolutions to be proposed and full details of the deadlines for exercising voting rights, will be circulated to all Shareholders that have elected to receive Shareholder correspondence in hard copy at least 20 working days before the meeting along with this Report. This document will also be available on the SIG plc website (**www.sigplc.com**). All Shareholders are invited to the Company's AGM, at which they will have the opportunity to put questions to the Board.

## OTHER STATUTORY DISCLOSURES

### Principal activity and business review

The principal activity of the Group is the supply of specialist products to construction and related markets in the UK, Ireland and Mainland Europe. The main product sectors supplied are Insulation and Energy Management, Exteriors and Interiors.

The Chairman's Statement and Strategic Report on pages 1 to 52 contain a review of these activities and comment on the future outlook and developments. The financial risk management objectives, policies and key performance indicators of the Company are also set out in the Strategic Report.

As at the date of this report, there have been no important events affecting the business of the Company, or any of its subsidiaries, which have occurred since the end of the financial year.

Details of the Group's policies in relation to employees (including disabled employees) and information on charitable donations are disclosed in the Corporate Responsibility Report on pages 41 to 52 . It is the Group's policy not to make political donations and no political donations were made during the year (2014: £nil).

Details of the Group's policies in relation to Corporate Governance are disclosed on pages 59 to 71.

### Group results and dividends

The Consolidated Income Statement for the year ended 31 December 2015 is shown on page 102. The movement in Group reserves during the year is shown on page 106 in the Consolidated Statement of Changes in Equity. Segmental information is set out in Note 1 to the Consolidated Financial Statements on pages 115 to 117.

The Board is recommending a final dividend of 2.91p per share (2014: 2.98p) which, together with the interim dividend of 1.69p per share (2014:1.42p), makes a total for the year ended 31 December 2015 of 4.60p (2014: 4.40p). Payment of the final dividend, if approved at the AGM, will be made on 27 May 2016 to Shareholders registered at the close of business on 29 April 2016.

### Greenhouse gases

Details of the Group's greenhouse gas emissions are detailed on pages 44 to 45 of the Corporate Responsibility Report.

### Employees

Details of the Group's policies relating to employees are detailed on pages 41 to 52 of the Corporate Responsibility Report.

### Post balance sheet events

Details of post balance sheet events (including details of any acquisitions and disposals in the year) are included in Note 13 on pages 130 to 132 of the Consolidated Financial Statements.

### Related party transactions

Save as disclosed in Note 29 to the Consolidated Financial Statements on page 152 and except for Directors' service contracts, the Company did not have any material transactions or transactions of an unusual nature with, and did not make loans to, related parties in the periods in which any Director is or was materially interested.

### Directors' and Officers' liability insurance and indemnities

The Company purchases liability insurance cover for Directors and Officers of the Company and its subsidiaries which gives appropriate cover for any legal action brought against them. The Company has also provided an indemnity which was in force during the financial year for its Directors to the extent permitted by the law in respect of liabilities incurred as a result of their office. The indemnity would not provide any coverage to the extent that a Director is proved to have acted fraudulently or dishonestly.

No claims or qualifying indemnity provisions and no qualifying pension scheme indemnity provisions have been made either during the year or by the time of approval of this Directors' Report.

### Financial instruments

Information on the Group's financial risk management objectives and policies on the exposure of the Group to relevant risks arising from financial instruments is set out on pages 37 and 38 and in Note 18 to the Consolidated Financial Statements on pages 136 to 139.

### Acquisitions and disposals

Details of acquisitions made and businesses sold during the year and subsequently are covered in Note 13 to the Consolidated Financial Statements on pages 130 to 132.

### Group Companies

A full list of Group Companies is disclosed on pages 170 to 172.

### Share capital

The Company has a single class of share capital which is divided into ordinary shares of 10p each. At 31 December 2015, the Company had a called up share capital of 591,347,148 ordinary shares of 10p each (2014: 591,137,803).

During the year ended 31 December 2015, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 209,345 new ordinary shares. No new ordinary shares have been allotted under these schemes since the end of the financial year to the date of this Report. Details of outstanding options under the Group's Employee and Executive Schemes are set out in Note 9 on pages 124 to 126 which also contains details of options granted over unissued share capital.

### Rights attaching to shares

The rights attaching to the ordinary shares are defined in the Company's Articles of Association. The Articles of Association may be changed by special resolution of the Company. A Shareholder whose name appears on the Company's Register of Members can choose whether his shares are evidenced by share certificates (i.e. in certificated form) or held in electronic (i.e. uncertificated) form in CREST (the electronic settlement system in the UK).

Subject to any restrictions below, Shareholders may attend any general meeting of the Company and, on a show of hands, every Shareholder (or his representative) who is present at a general meeting has one vote on each resolution and, on a poll, every Shareholder (or his representative) who is present has one vote on each resolution for every ordinary share of which they are the registered Shareholder.

A resolution put to the vote of a general meeting is decided on a show of hands unless before or on the declaration of the result of a vote on a show of hands, a poll is demanded by the Chairman of the meeting, or by at least five Shareholders (or their representatives) present in person and having the right to vote, or by any Shareholders (or their representatives) present in person having at least 10% of the total voting rights of all Shareholders, or by any Shareholders (or their representatives) present in person holding ordinary shares in which an aggregate sum has been paid up of at least one-tenth of the total sum paid up on all ordinary shares.

Shareholders can declare final dividends by passing an ordinary resolution but the amount of such dividends cannot exceed the amount recommended by the Board. The Board can pay interim dividends on any class of shares of the amounts and on the dates and for the periods they decide provided the distributable profits of the Company justify such payment. The Board may, if authorised by an ordinary resolution of the Shareholders, offer any Shareholder the right to elect to receive new ordinary shares, which will be credited as fully paid, instead of their cash dividend.

Any dividend which has not been claimed for twelve years after it became due for payment will be forfeited and will then belong to the Company, unless the Directors decide otherwise.

If the Company is wound up, the liquidator can, with the sanction of an extraordinary resolution passed by the Shareholders, divide among the Shareholders all or any part of the assets of the Company and he/she can value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator can also transfer the whole or any part of the assets to trustees upon any trusts for the benefit of the members. No Shareholders can be compelled to accept any asset which would give them a liability.

### Voting at general meetings

Any Form of Proxy sent by the Company to Shareholders in relation to any general meeting must be delivered to the Company, whether in written form or in electronic form, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote.

The Board may determine that the Shareholder is not entitled to exercise any right conferred by being a Shareholder if he/she or any person with an interest in shares has been sent a Notice under Section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) and he/she or any interested person failed to supply the Company with the information requested within 14 days after delivery of that Notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered.

These restrictions end seven days after receipt by the Company of a Notice of an approved transfer of the shares or all the information required by the relevant Section 793 Notice, whichever is the earlier.

### Transfer of shares

The Board may refuse to register a transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register a transfer of a certificated share unless: (i) the instrument of transfer is lodged, duly stamped (if stampable), at the registered office of the Company or any other place decided by the Board accompanied by a certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of only one class of shares; and (iii) is in favour of not more than four transferees.

Transfer of uncertificated shares must be carried out using CREST and the Board can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

### Variation of rights

If at any time the capital of the Company is divided into different classes of shares, the special rights attaching to any class may be varied or revoked either:

(i) with the written consent of the holders of at least 75% in nominal value of the issued shares of the class; or

(ii) with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class.

The Company can issue new shares and attach any rights to them. If there is no restriction by special rights attaching to existing shares, rights attaching to new shares can take priority over the rights of existing shares, or the new shares and the existing shares are deemed to be varied (unless the rights expressly allow it) by a reduction of paid up capital, or if another share of that same class is issued and ranks in priority for payment of dividend, or in respect of capital or more favourable voting rights.

### Election and re-election of Directors

The Company may, by ordinary resolution, of which special notice has been given in accordance with the Companies Act, remove any Director before the expiration of his/her period of office. The office of a Director shall be vacated if:

(i) He/she ceases to be a Director by virtue of any provision of law or is removed pursuant to the Company's Articles of Association or he/she becomes prohibited by law from being a Director;

(ii) He/she becomes bankrupt or compounds with his/her creditors generally;

(iii) He/she becomes of unsound mind or a patient for any purpose of any statute relating to mental health and the Board resolves that his/her office is vacated;

(iv) He/she resigns;

(v) He/she fails to attend Board meetings for six consecutive months without leave of absence from the Board and the Board resolves that his/her office is vacated;

(vi) His/her appointment terminates in accordance with the provisions of the Company's Articles;

(vii) He/she is dismissed from Executive office;

(viii) He/she is convicted of an indictable offence and the Directors resolve that it is undesirable in the interests of the Company that he/she remains a Director; or

(ix) The conduct of the Director is the subject of an investigation and the Directors resolve that it is undesirable in the interests of the Company that he/she remains a Director.

### Agreements with employees and significant agreements (contracts of significance)

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

The Company's banking arrangements are terminable upon a change of control of the Company. Certain other indebtedness becomes repayable if a change of control leads to a downgrade in the credit rating of the Company.

### Fixed assets

In the opinion of the Directors, there is no material difference between the book value and the current open market value of the Group's interests in land and buildings.

### CREST

The Company's ordinary shares are in CREST, the settlement system for stocks and shares.

### 2016 Interim Report

Current regulations permit the Company not to send hard copies of its Interim Reports to Shareholders and therefore the Company intends to publish its Interim Report only on its website at **www.sigplc.com**.

### Acquisition by the Company of its own ordinary shares

Shareholders' authority for the purchase by the Company of 59,113,780 of its own shares existed at the end of the year. The Company has made no purchases of its own ordinary shares pursuant to this authority. The Company will seek to renew this authority at the 2016 AGM.

### Authority to allot ordinary shares

Shareholders' authority to allot ordinary shares up to an aggregate nominal amount of £19,704,593 existed at the end of the year. The Company has not issued any ordinary shares pursuant to this authority. The Company will seek to renew this authority at the 2016 AGM.

During the year ended 31 December 2015, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 209,345 new ordinary shares. No new ordinary shares have been allotted under these schemes since the end of the financial year to the date of this Report. Details of outstanding options under the Group's Employee and Executive Schemes are set out in Note 9 on pages 124 to 126 which also contains details of options granted over unissued share capital.

### Fair, balanced and understandable

The Directors have a responsibility for preparing the 2015 Annual Report and Accounts and for making certain confirmations concerning it. In accordance with C.1 of the Code, the Board has reviewed the contents of this year's Annual Report and Accounts and it considers that the Annual Report and Accounts, taken as a whole is fair, balanced and understandable, and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy. More information can be found in the Audit Committee Report on page 77.

### Cautionary statement

The cautionary statement can be found on page 40 of the Strategic Report.

### Content of Directors' Report

The Corporate Governance Report (including the Board biographies), which can be found on pages 56 to 71, the Audit Committee Report on pages 72 to 77, the Nominations Committee Report on pages 78 to 79, and the Directors' Responsibility Statement on page 99 are incorporated by reference and form part of this Directors' Report.

The Board has prepared a Strategic Report (including the Chief Executive's Statement) which provides an overview of the development and performance of the Company's business in the year ended 31 December 2015 and its position at the end of the year, and which covers likely future developments in the business of the Company and Group. The Corporate Responsibility Report forms part of the Strategic Report.

For the purposes of compliance with DTR 4.1.8R, the required content of the "Management Report" can be found in the Strategic Report and this Directors' Report, including the sections of the Annual Report and Accounts incorporated by reference.

For the purposes of LR 9.8.4C R, the information required to be disclosed by LR 9.8.4R can be found in the following locations:

| Section | Topic | Location |
|---|---|---|
| (1) | Interest capitalised | Financial Statements, page 129, Note 12 |
| (2) | Publication of unaudited financial information | Not applicable |
| (4) | Details of long-term incentive schemes | Directors' Remuneration Report, pages 91 to 93 |
| (5) | Waiver of emoluments by a director | Not applicable |
| (6) | Waiver of future emoluments by a director | Not applicable |
| (7) | Non pre-emptive issues of equity for cash | Not applicable |
| (8) | Item (7) in relation to major subsidiary undertakings | Not applicable |
| (9) | Parent participation in a placing by a listed subsidiary | Not applicable |
| (10) | Contracts of significance | Corporate Governance Report, page 70 |
| (11) | Provision of services by a controlling shareholder | Not applicable |
| (12) | Shareholder waivers of dividends | Not applicable |
| (13) | Shareholder waivers of future dividends | Not applicable |
| (14) | Agreements with controlling shareholders | Not applicable |

SIG has been mindful of the best practice guidance published by Defra and other bodies in relation to environmental, community and social KPIs when drafting the Strategic Report. The Board has also considered social, environmental and ethical risks, in line with the best practice recommendations of the Association of British Insurers. Management, led by the Chief Executive, has responsibility for identifying and managing such risks, which are discussed extensively in this Annual Report and Accounts.

All the information cross-referenced is hereby incorporated by reference into this Directors' Report.

### Approval of the Directors' Report

The Directors' Report set out on pages 56 to 99 was approved by the Board of Directors on 8 March 2016 and signed on its behalf by Richard Monro.

**RICHARD MONRO**
Company Secretary
8 March 2016

# Audit Committee Report

*The Committee aims to ensure high standards of corporate and regulatory reporting, an appropriate control environment, risk management framework and compliance monitoring.*

**JONATHAN NICHOLLS**
Chairman of the Audit Committee

## DEAR SHAREHOLDER,

On behalf of the Board I am pleased to present the Audit Committee Report for 2015.

KPMG LLP was appointed as the Group's outsourced Internal Audit function with effect from 1 January 2014, and their work continues to provide a fresh focus to key areas of risk and control.

KPMG's Internal Control Review undertaken in December 2014 supports the view that the Group has an effective system of internal financial control. Management actions continued to be taken to improve controls and bring efficiencies across the business in 2015. In 2014 KPMG performed an implementation review and there has been further focus this year on IT, in particular a post implementation review of the ERP system in the UK. Reviews were undertaken in IT performance management and Group IT strategy, to identify improvements to the control environment. As a result of the creation of the new role of Chief Information Officer in 2014 (giving further focus to IT strategy and controls across the Group), IT and cyber security will continue to be a key area of focus in 2016.

Although going concern is a matter for the whole Board (see page 39), a review is made by the Audit Committee of the Group's headroom under its covenants and undrawn facilities in relation to the Group's financial forecasts and sensitivity analyses.

The Committee has again considered the issue of external Auditor rotation and, although continuing to keep this under review, currently intends to next tender the Audit in 2018. Further detail is provided in this Report.

The Company has complied during the financial year ended 31 December 2015 with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 that are applicable to it.

**JONATHAN NICHOLLS**
Chairman of the Audit Committee
8 March 2016

## PURPOSE AND AIM

The purpose of the Audit Committee ("the Committee") is to make recommendations on the reporting, control, risk management and compliance aspects of the Directors' and the Group's responsibilities, providing independent monitoring, guidance and challenge to Executive Management in these areas.

Through this process the Committee's aim is to ensure high standards of corporate and regulatory reporting, an appropriate control environment, risk management framework and compliance monitoring. The Committee believes that excellence in these areas enhances the effectiveness and reduces the risks of the business.

## KEY RESPONSIBILITIES

- The accounting policies applied in, and the integrity of, the Group's accounts;
- The effectiveness of the internal control and risk management systems;
- The effectiveness of Whistleblowing procedures;
- The effectiveness of the Group's outsourced Internal Audit function;
- The appointment, independence, remuneration and effectiveness of the Group's external Auditor; and
- The supervision of any tender process for the Group's internal and external Auditor.

The Audit Committee's Terms of Reference are available on the Company's website (**www.sigplc.com**).

## AUDIT COMMITTEE MEMBERSHIP

As at 31 December 2015, the Committee comprised the five independent Non-Executive Directors of the Company.

| Chairman of the Committee | Members |
|---|---|
| Mr J.C. Nicholls | Ms J.E. Ashdown, Mr M. Ewell, Mr C.V. Geoghegan and Ms A. Abt |

The Board considers that each member of the Committee is independent within the definition set out in the Code. The combined relevant commercial and financial knowledge and experience of the Committee members satisfies compliance with the UK Corporate Governance Code ("the Code") provision C.3.1.

## AUDIT COMMITTEE STRUCTURE

The Committee operates under Terms of Reference which can be found on the Company's website. They are reviewed annually by the Committee, including comparison against the Code, and changes are recommended to the Board for approval.

The Committee has in its Terms of Reference the power to engage outside advisors and to obtain its own independent external advice at the Company's expense, should it be deemed necessary. During 2015 no member of the Committee, nor the Committee collectively, found it necessary to obtain such separate advice beyond the advice that is directly provided to the Committee by the external Auditor, Deloitte LLP or from KPMG LLP, who operate the Group's outsourced Internal Audit function.

As part of Corporate Governance the Committee reviews its own performance annually and considers where improvements can be made. The Committee reviewed its own performance in December 2015 and the results of this review were reported to the Board.

The Chairman of the Committee reports to the subsequent meeting of the Board on the key issues covered by the Committee, identifying any matters on which it considers that action or improvement is needed, and makes recommendations on the steps to be taken.

## MEETINGS

The Committee meets regularly throughout the year, with five meetings being held during 2015. Its agenda is linked to events in the Company's financial calendar.

Attendance by individual members of the Committee is disclosed in the table on page 62. The Committee Chairman regularly invites senior Company executives to attend meetings of the Committee to discuss or present specific items, and in particular the Group Finance Director, Mr D.G. Robertson, attended all five of the meetings in 2015. The external Auditor attended meetings of the Committee on four occasions and has direct access to the Committee Chairman. The external Auditor meets periodically, and in between Committee meetings, with members of the Committee without the Chairman of the Board and the Executive Directors being present. KPMG LLP, who provides an outsourced Internal Audit function for the Group, attends meetings to present its reports. The Committee also meets with KPMG without the Executive Directors being present, and the Committee Chairman meets regularly with KPMG outside of the formal meetings.

The Committee addressed the following key agenda items during its five meetings in 2015:

| 6 March 2015 | 1 June 2015 | 29 June 2015 | 5 August 2015 | 10 December 2015 |
|---|---|---|---|---|
| → Internal Audit update<br>→ Review of Going Concern basis of accounting<br>→ Goodwill and intangible assets impairment review<br>→ Consideration of the risk management review process<br>→ Internal control review<br>→ Review of 2014 audit process and results, and discussion of significant accounting matters<br>→ Review of the 2014 external Auditor report<br>→ Review of the 2014 Annual Report (including fair, balanced and understandable) and Preliminary Results Announcement | → Review of the Internal Audit report<br>→ Risk Register update<br>→ Review of the Committee's Terms of Reference<br>→ Review of whistleblowing and non-audit services policies<br>→ Discussion of the 2014 Annual Report compared to best and emerging practice<br>→ Review of performance of Committee and identification of training requirements | → Consideration of 2015 Interim results (including Goodwill and Going Concern)<br>→ Review programme for 2015 Interim Audit review<br>→ Updates on Audit Quality and external Auditor rotation | → Review of the Internal Audit report<br>→ Review of 2015 Interim results<br>→ Goodwill and intangible assets impairment review<br>→ Review of Going Concern basis of accounting<br>→ Review of the external Auditor's interim work and report<br>→ Review of the external Auditor's year end audit plan<br>→ Assessment of performance of external Auditor<br>→ Corporate Governance update by external Auditor (including updates on risk management and the Longer-Term Viability Statement) | → Review of the internal control report<br>→ Consideration of the risk management review process<br>→ Review and approve the 2016 Internal Audit report<br>→ Review of audit pre-close accounting and reporting issues<br>→ Review of the updated year end external audit planning report<br>→ Agreement of 2015 audit fee and review of Auditor independence<br>→ Discussions regarding Going Concern and the Longer-Term Viability Statement<br>→ Review of paper regarding disclosure of distributable reserves |

## FINANCIAL REPORTING AND SIGNIFICANT ACCOUNTING MATTERS

The Committee considered the following financial reporting and key accounting issues with regard to the financial statements:

### Recognition and measurement of supplier rebate income

The Committee examined the procedures and controls in place to ensure that the reporting, reviewing and accounting for supplier rebate income is properly managed and that supplier rebates are recognised appropriately in the Group financial statements.

### Carrying value of goodwill and intangible assets

The carrying value of goodwill is systematically reviewed at each mid-year point and at year end. A consistent methodology is applied to the individual cash generating units, taking account of market outlook, risk-adjusted discounted future cash flows, sensitivities, and other factors which may have a bearing on impairment considerations.

### Disclosure of "Other items"

The Committee gave careful consideration to the judgments made in the separate disclosure of "Other items". In particular, the Committee sought to ensure that the treatment followed consistent principles and that reporting in the Group financial statements is suitably clear and understandable.

### Recognition and measurement of trade receivables

Methodologies and judgments applied in establishing provisions for trade receivables were examined to ensure consistent application and appropriateness to the trading position of the Group.

## OVERSIGHT OF INTERNAL AUDIT

The Internal Audit function provides independent assurance to senior management and the Board on the adequacy and effectiveness of SIG's risk management framework. Internal Audit forms an independent and objective assessment as to whether: risks have been adequately identified; adequate internal controls are in place to manage those risks; and those controls are working effectively. The results of all assignments have been reported to the Audit Committee during the year. Areas of weakness that were identified during the year prompted a detailed action plan and a follow-up audit check to establish that actions had been completed. No failings or weaknesses were identified during the year which had a material effect on the Company's financial performance.

The Audit Committee notes that the Company operates a Control Self Assessment ("CSA") internal control process to support the internal audit process. This process is summarised in the Corporate Governance Report on pages 65 and 66.

KPMG LLP was appointed on 1 January 2014 in place of EY LLP to provide the outsourced Internal Audit function. The appointment followed a full review process which involved tenders being made by five accountancy firms leading to a shortlist of three firms from which a candidate was recommended. The process was carried out by the Group Finance Director and the Chairman of the Audit Committee who then recommended KPMG to the Audit Committee as the selected internal audit provider. Their appointment was then recommended by the Audit Committee to the Board, and was approved by the Board.

## OVERSIGHT OF EXTERNAL AUDITOR

The Board is aware of the need to maintain an appropriate degree of independence and objectivity on the part of the Group's external Auditor. The external Auditor reports to the Committee on the actions taken to comply with both professional and regulatory requirements and with best practice designed to ensure its independence.

The Group has an agreed policy with regard to the provision of audit and non-audit services by the external Auditor, which was operated throughout 2015. The policy is based on the principles that they should undertake non-audit services only where they are the most appropriate and cost-effective provider of the service, and where the provision of non-audit services does not impair, or is not perceived to impair, the external Auditor's independence and objectivity. It categorises such services as Auditor-permitted services, Auditor-excluded services and Auditor-authorised services. The policy, which can be viewed on the Company's website (**www.sigplc.com**), defines the types of services falling under each category and sets out the criteria to be met and the internal approvals required prior to the commencement of any Auditor-authorised services.

The external Auditor cannot be engaged to perform any assignment where the output is then subject to their review as external Auditor. The Committee regularly reviews an analysis of all services provided by the external Auditor. The policy and the external Auditor's fees are reviewed and set annually by the Committee and are approved by the Board.

The total sum invoiced to the Group by its external Auditor for non-audit services in 2015 was £0.1m, primarily the Interim Review (2014: £0.1m). The total sum invoiced by them for audit services in respect of the same period was £1.4m (2014: £1.3m). A full breakdown of Auditor fees are disclosed in Note 4 to the Consolidated Financial Statements on page 120.

The external Auditor reports to the Committee each year on the actions taken to comply with professional and regulatory requirements and best practice designed to ensure its independence, including the rotation of key members of the external audit team. Deloitte LLP has formally confirmed its independence to the Board in respect of the period covered by these financial statements.

In August 2015, the Committee undertook its annual review of the effectiveness of the external Auditor and considered the reappointment of Deloitte LLP. A questionnaire was sent to the Finance Directors of each of the Group's operating companies, which provided the Committee with an overall view across the Group. From this questionnaire and further discussions, the Committee is satisfied that Deloitte LLP continues to provide an effective audit service.

## AUDIT TENDER

During the year, the Committee considered the Group's position on its Auditor services, taking into account the UK Corporate Governance Code, together with the EU Audit Directive and Regulation and the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Having previously acted as Auditor to parts of the Group since 2003, Deloitte LLP was invited to tender for the entire Group audit in 2005 and this resulted in their appointment as the Group's external Auditor.

As noted previously, the Committee continues to review the performance of the external Auditor and has been satisfied with the independence, objectivity, expertise, resources and general effectiveness of Deloitte LLP, and that the Group is subjected to a rigorous audit process. The Committee does not consider it necessary to conduct a tender process for the appointment of the Company's Auditor at this time, although the Committee will continue to keep this under review.

The current lead audit partner took over the audit for the year ended 31 December 2013. The Committee is currently of the view that it is potentially more effective to align the tender of the external Auditor with the rotation of the current lead audit partner, which is due in 2018, by making use of the transition arrangements outlined by the Financial Reporting Council in relation to the Code and retaining the Company's existing audit firm until conclusion of the term of its current lead partner.

The Committee recommends, and the Board agrees, that a resolution for the reappointment of Deloitte LLP as Auditor of the Company for a further year will be proposed at the forthcoming Annual General Meeting. The Committee intends that the audit contract will be put out to tender in 2017, in order that a decision can be taken and communicated to Shareholders at the 2018 AGM, with the new audit contract being effective for the 2018 Interim Review and final audit.

## FAIR, BALANCED AND UNDERSTANDABLE

The Committee has reviewed the contents of this year's Annual Report and Accounts and advised the Board that, in its view, the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information to enable Shareholders to assess the position and performance, strategy and business model of the Company.

In reaching this conclusion the Committee has considered the following:

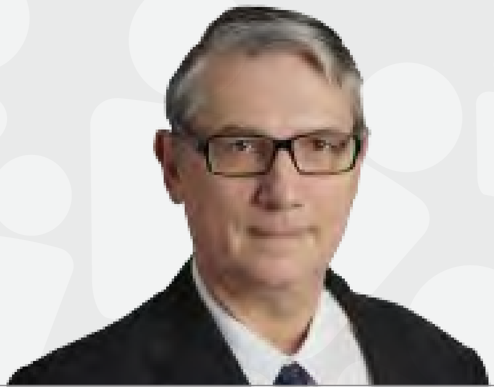
- → The preparation of the Annual Report is a collaborative process between Finance, Legal, Human Resources, Investor Relations and Communications functions within SIG, ensuring the appropriate professional input to each section. External guidance and advice is sought where appropriate;
- → The coordination and project management is undertaken by a central team to ensure consistency and completeness of the document;
- → An extensive review process is undertaken, both internally and through the use of external advisors; and
- → A final draft is reviewed by the Audit Committee members prior to consideration by the Board.

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its Terms of Reference and has ensured the independence and objectivity of the external Auditor.

On behalf of the Board

**JONATHAN NICHOLLS**
Chairman of the Audit Committee
8 March 2016

# Nominations Committee Report



## PURPOSE AND AIM

The Nominations Committee has an important role to play in ensuring that the Board has the right balance of experience and skills to support the Group's strategy. Its principal duty is the nomination of suitable candidates for the approval of the Board to fill Executive and Non-Executive vacancies on the Board. Members of the Committee are not involved in matters affecting their own positions.

The Committee keeps under review and evaluates the composition of the Board and its Committees to maintain the appropriate balance of skills, knowledge, experience and independence to ensure their continued effectiveness. Appropriate succession plans for the Non-Executive Directors, Executive Directors and the Group's Senior Management are also kept under review.

## MEETINGS AND MEMBERSHIP

During the year the Committee met on four occasions. A quorum is three members, the majority of whom shall be independent Non-Executive Directors. The Committee operates under written Terms of Reference, which are consistent with current best practice and are available on the Company's website (**www.sigplc.com**).

As at 31 December 2015, the Committee comprised the Chairman, the Chief Executive and the five independent Non-Executive Directors of the Company.

| Chairman of the Committee | Members |
|---|---|
| Mr L. Van de Walle | Ms J.E. Ashdown, Mr M. Ewell, Mr C.V. Geoghegan, Mr J.C. Nicholls, Ms A. Abt and Mr S.R. Mitchell |

## RESPONSIBILITIES AND ACTIVITIES DURING THE YEAR

The Committee reviews the structure, size, diversity and composition of the Board and makes recommendations concerning the reappointment of any Non-Executive Director at the conclusion of their specified term of office and in the identification and nomination of new Directors. During the year, the Committee (in recognising the impact of the Davies Report) ensured that skills, experience, potential and overall balance of the Board, as well as diversity including gender, were fully considered in relation to the Board appointments made during the year. The Committee retains external search and selection consultants as appropriate. The Committee also advises the Board on succession planning for Executive Board appointments although the Board itself is responsible for succession generally. All appointments to the Board will continue to be made on merit, however differences in background, skills, experience and other qualities as well as gender are considered in determining the optimum composition of the Board, with the aim to balance them appropriately.

## BOARD SUCCESSION PLANNING

In accordance with best practice and The Financial Reporting Council's ("FRC") discussion paper entitled 'UK Board Succession Planning', the Committee continues to review and monitor its Board succession planning process, in particular by rigorously reviewing and taking into account the need for progressive refreshing of the Board. The Committee carefully reviews and makes recommendations to the Board concerning the re-appointment of any Non-Executive Director at the conclusion of their specified terms of office.

The Committee considered the positions of Mr C.V. Geoghegan and Mr J.C. Nicholls, both of whom completed their second three year periods of office in July and November 2015 respectively, and both of whom were appointed to serve for a further term of office expiring at the May 2016 Annual General Meeting. It was the Committee's view that, noting the experience and tenure of the Non-Executive Directors, together with the Company's ongoing implementation of its strategic initiatives and the focus on achieving a strong recovery in 2016, it would be in the best interests of the Company's Shareholders, subject to careful and rigorous review, for Mr Geoghegan and Mr Nicholls to offer themselves for re-election at the 2016 Annual General Meeting. In the Committee's view, Mr Geoghegan and Mr Nicholls bring considerable management experience and an independent perspective to the Board's discussions and are considered to be independent of management and free from relationship or circumstance that could affect or appear to affect, the exercise of their independent judgment, thereby providing continued valuable support.

Therefore, Mr Geoghegan and Mr Nicholls have, subject to their re-election by Shareholders at the Annual General Meeting in May 2016, been invited to serve for a further term of office expiring at the May 2017 Annual General Meeting.

As part of the Board succession planning process, which was discussed at the Committee's December 2015 meeting, a search and selection procedure for Independent Non-Executive Directors would be undertaken prior to the 2017 Annual General Meeting.

In June 2015, the Committee undertook a Talent & Succession Review which encompassed the Group's senior management. This was undertaken in conjunction with the Group Human Resources Director and was intended to support the Group's strategy and growth plans. The review covered: purpose and focus; bench strength and pipeline assessment; and workforce profile assessment and actions. This review forms part of the Committee's annual agenda.

## GENERAL

In general terms, when considering candidates for appointment as Directors of the Company, the Nominations Committee, in conjunction with the Board, drafts a detailed job specification and candidate profile. In drafting this, consideration would be given to the existing experience, knowledge and background of Board members as well as the strategic and business objectives of the Group.

Once a detailed specification has been agreed with the Board, the Committee would then work with an appropriate external search and selection agency to identify candidates of the appropriate calibre and with whom an initial candidate shortlist could be agreed. The consultants are required to work to a specification that includes the strong desirability of producing a full list of candidates who meet the essential criteria, whilst reflecting the benefits of diversity. The Board will only engage such consultants who are signed up to the voluntary code of conduct on gender diversity on corporate boards. The policy on Board Diversity is available on the Company's website (**www.sigplc.com**).

Shortlisted candidates would then be invited to interview with members of the Committee and, if recommended by the Committee, would be invited to meet the entire Board before any decision is taken relating to the appointment.

During the year under review, in connection with the appointment of Ms A. Abt, the Committee used the services of Ridgeway Partners (who have no other connection with the Company).

This process was followed in respect of the appointment of Ms Abt as a Non-Executive Director with effect from 12 March 2015.

Following the appointment of a new Director, the Chairman, in conjunction with the Company Secretary, is responsible for ensuring that a full, formal and tailored induction to the Company is given. Although not an exhaustive list, the induction includes one-to-one meetings with key management (including HR, Finance, Risk, Investor Relations and Corporate Development) and an overview of the Group's structure and strategy (including site visits and an overview of operations).

The Committee also carefully reviews and makes recommendations concerning the reappointment of any Non-Executive Director at the conclusion of their specified terms of office.

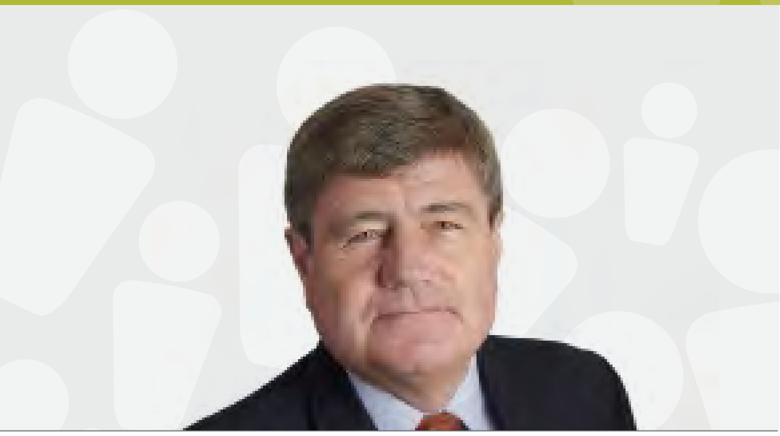
In December 2013, the Board had discussed the matter of women on boards, and had set out the aim of achieving at least 25% female representation among the Board's membership by 2015. Following the appointment of Ms A. Abt on 12 March 2015, female representation on the Board has risen to 25%. The Committee will continue to consider gender diversity when recommending any future Board appointments. Final appointments will always be made on merit.

As part of corporate governance, the Committee reviews its own performance annually and considers where improvements can be made. The Committee reviewed its own performance in December 2015 and the results of this review were reported to the Board.

The proposed activities for the Committee in 2016 will be to continue to monitor and assess the Board's composition and diversity, longer-term succession planning and potential further recruitment of Non-Executive Directors, in conjunction with The FRC's discussion paper on UK Board Succession Planning.

**LESLIE VAN DE WALLE**
Chairman of the Nominations Committee
8 March 2016

# Directors' Remuneration Report
## Remuneration Report – Annual Statement



### DEAR SHAREHOLDER,
On behalf of the Board, I am pleased to present the Remuneration Committee's ("the Committee") Directors' Remuneration Report for 2015.

Similarly to last year, this report is split into three sections: the Annual Statement; the Directors' Remuneration Policy; and the Annual Report on Remuneration (with the Annual Statement and Annual Report on Remuneration being subject to an advisory Shareholder vote at the 2016 AGM). Our Remuneration Policy, detailed on pages 81 to 88, remains consistent with that approved by Shareholders at the 2014 AGM, and is reproduced in full for both ease of reference and in order to provide context to the decisions taken by the Committee during the year.

SIG's strategy over 2015 has been to focus on seeking to grow our three core markets of Insulation and Energy Management, Exteriors and Interiors by combining the reputational strengths of our local brands with the scale efficiencies and know-how of a multinational group. Moreover, with its focus on specialist expertise and high customer service levels, SIG aims to continue to outperform its markets and thereby generate sustainable long-term growth in Shareholder value. SIG's goal is to be the leading specialist solutions provider to the construction industry.

### KEY ACTIVITIES
The activities of the Committee and key decisions taken in 2015 are set out on page 89 and are summarised below. During the year, the Committee considered SIG's Remuneration Policy and concluded that the current structure – made up of base salary and benefits, an annual bonus plan and a single long-term incentive plan – continues to be appropriate.

#### Review of base salaries
Towards the end of the year the Committee reviewed the salaries of our Executive Directors. This review took into account a number of factors including an assessment of individual experience and performance, pay conditions across the Group, economic factors and the Group's environment. Following this review, the Committee agreed that base salaries for the Chief Executive, Group Finance Director and members of the Senior Leadership Team would not increase for 2016, whilst the average increase across the remainder of the Group, effective 1 January 2016 was 1.5%.

#### Annual bonus
For the year ended 31 December 2015, underlying profit before tax ("PBT") was £87.4m and Return on Capital Employed ("ROCE") was 9.3%. The objective linked to savings from the Group Strategic Initiatives was partially achieved and the Health & Safety target was achieved. The resulting annual bonus outcome was therefore 17.7%of salary for both the Chief Executive and Group Finance Director. However, in the context of the challenging operating conditions and the Group's performance in 2015, both the Chief Executive and Group Finance Director have taken the decision to waive their entitlement to the 2015 annual bonuses.

Following a review of the annual bonus in 2014, the Committee made an evolutionary change to the mix of performance measures to better support the Company ethos of "Stronger Together", as reflected in the 2015 bonus metrics. The metrics for the 2016 annual bonus will remain unchanged from 2015, and will be linked 55% to Group underlying PBT, 20% to ROCE, 15% to savings from the Group Strategic Initiatives and 10% to Health & Safety.

#### LTIP
Awards granted in 2013 under the Long-Term Incentive Plan ("LTIP") will vest in early 2016 based on performance to 31 December 2015. These awards were based two-thirds on ROCE and one-third on underlying earnings per share ("EPS"); the performance conditions were partially met to the extent that 19.5% of the awards will vest.

For 2016, the LTIP will continue to be linked to ROCE and EPS, have a three year performance period plus a two year holding period on vested shares, and remain subject to clawback and malus provisions.

#### Malus and clawback
Last year, the Committee noted the requirement for both malus and clawback provisions to be included in incentives under the updated UK Corporate Governance Code. I am pleased to report that the Committee took action in 2015 in order to implement clawback provisions in the Company's incentive schemes. Malus and clawback provisions are in place for awards made in or after September 2015 in respect of the LTIP, and for awards made on or after 1 January 2016 in respect of the Deferred Share Bonus Plan ("DSBP") and annual bonus.

The Committee reviewed the Remuneration Policy during the year, and determined that it remained appropriately aligned with strategy and fit for purpose. The policy will be reviewed comprehensively later in the year, ahead of the 2017 AGM.

The Annual Report on Remuneration will be subject to an advisory vote at the forthcoming AGM. We continue to value any feedback from Shareholders and hope to receive your support at the AGM.

**CHRIS GEOGHEGAN**
Chairman of the Remuneration Committee
8 March 2016

# Directors' Remuneration Report
## Directors' Remuneration Policy

### COMPLIANCE STATEMENT

This report, prepared by the Committee on behalf of the Board, takes full account of the UK Corporate Governance Code ("the Code") and the latest ABI/PLSA guidelines and has been prepared in accordance with the provisions of the Companies Act 2006 ("the Act"), the Listing Rules of the Financial Conduct Authority and the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Act requires the Auditor to report to the Company's Shareholders on the audited information within this report and to state whether in their opinion those parts of the report have been prepared in accordance with the Act. The Auditor's opinion is set out on pages 153 to 157 and those aspects of the report that have been subject to audit are clearly marked.

It is considered that throughout the year under review the Company has complied with the governance rules and best practice provisions applying to UK-listed companies.

This section of the report sets out the Remuneration Policy for Executive Directors in accordance with Section 439A of the Act. The Remuneration Policy was approved by Shareholders at the AGM on 16 May 2014, and took effect from that date. The report that follows is as disclosed in the 2013 Directors' Remuneration Report save a number of non-significant changes (as permitted by the terms of the Remuneration Policy approved by Shareholders) as follows:

- References to financial years have been updated where appropriate;
- Pay-for-performance scenario charts have been updated to reflect 2016 salaries;
- Current Non-Executive Director appointment expiry dates have been updated; and
- Malus provisions have been clarified with respect to incentives awarded in respect of 2015 and previous years, and clawback has been introduced, and was applied from 1 January 2016 in respect of the annual bonus and DSBP, and from September 2015 awards in respect of the LTIP.

### CONSIDERATIONS OF CONDITIONS ELSEWHERE IN THE GROUP

The Committee considers the pay and employment conditions elsewhere in the Group when determining remuneration for Executive Directors, and the Company seeks to promote good relationships with employee representative bodies as part of its employee engagement strategy. However, the Committee does not currently consult specifically with employees on the Executive Remuneration Policy.

### CONSIDERATION OF SHAREHOLDER VIEWS

When determining remuneration, the Committee takes into account the guidelines of investor bodies and Shareholder views. The Committee is always open to feedback from Shareholders on the Remuneration Policy and arrangements, and commits to undertaking Shareholder consultation in advance of any significant changes to the Remuneration Policy. Further detail on the votes received on the 2014 Directors' Remuneration Report and the Committee's response are provided in the Annual Report on Remuneration.

### REMUNERATION POLICY

The Company's policy is to provide remuneration packages that fairly reward the Executive Directors for the contribution they make to the business and that are appropriately competitive to attract, retain and motivate Executive Directors and Senior Managers of the right calibre. The policy is designed to align the Executive Directors' interests with those of Shareholders, and to incentivise the Executive Directors to meet the Company's financial and strategic objectives such that a significant proportion of remuneration is performance-related. The Group's financial and strategic objectives are set out in the Strategic Report on pages 12 to 19. The Remuneration Policy for Executive Directors is summarised in the table overleaf:

## Fixed remuneration

| Element | Purpose and link to strategy | Operation and process | Opportunity | Performance metrics |
|---|---|---|---|---|
| **Base salary** | To attract and retain talent in the labour market in which the Executive Director is employed. | Reviewed on an annual basis (with effect from January) or following a significant change in responsibilities, taking into account the individual's performance and experience, with reference to published remuneration information from similar sized companies (excluding financial services) and companies operating in a similar sector. The Committee also takes account of the annual salary review for the rest of the Group. | Base salary increases will be applied in line with the outcome of the review. In respect of existing Executive Directors, it is anticipated that salary increases will be within the range of increases for the general employee population over the term of this policy.<br><br>In exceptional circumstances (including, but not limited to, a significant increase in role size or complexity) the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain market competitive. | Not applicable. |
| **Benefits** | To provide benefits that are appropriately competitive within the relevant labour market. | Benefits include (but are not necessarily limited to) a company car, medical and permanent health insurance. Benefits are reviewed annually and their value is not pensionable. | Benefits may vary by role. It is not anticipated that the cost of benefits will exceed £35,000 per annum per Executive Director over the term of this policy.<br><br>The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation) or in circumstances driven by factors outside the Company's control (e.g. material increases in insurance premiums). | Not applicable. |
| **Pension** | To provide retirement benefits that are appropriately competitive within the relevant labour market. | New joiners will participate in the Company's defined contribution pension scheme (open to all UK-based employees of the Group) or receive a cash equivalent.<br>The two current Executive Directors participate in the defined contribution pension scheme. | Defined contribution: SIG contributes 15% of base salary. | Not applicable. |
| **Share Incentive Plan ("SIP")** | To encourage share ownership across all UK-based employees using HMRC tax-advantaged schemes. | The SIP is an HMRC tax-advantaged arrangement which entitles all UK-based employees to purchase shares and receive matching shares in a potentially tax-advantageous manner. The Company gives one matching share for each share purchased by the employee up to a maximum of £20 each month. | Maximum opportunity is in line with HMRC limits. | The SIP is an all-employee scheme and Executive Directors participate on the same terms as other employees. The acquisition of shares is therefore not subject to the satisfaction of a performance target. |

## Variable remuneration

| Element | Purpose and link to strategy | Operation and process | Opportunity | Performance metrics |
|---|---|---|---|---|
| **Annual performance bonus ("annual bonus")** | To provide an incentive to achieve annual performance targets, which are set at the beginning of the financial year in line with the Group's strategy. | The annual bonus is reviewed annually prior to the start of each financial year to ensure bonus opportunity, performance measures, targets and weightings are appropriate and continue to support the strategy. Executive Directors are required to defer one-third of their bonus into an award over SIG shares for a period of three years under the DSBP.<br><br>Effective from the 2015 performance year (i.e. payments from 1 January 2016), the bonus is subject to malus and clawback, i.e. forfeiture or reduction of the deferred portion or recovery of paid amounts, in exceptional circumstances. Such circumstances may include (but are not limited to) material misstatement of the Group's financial results or gross misconduct. In respect of bonuses up to the 2014 performance year, only malus provisions apply.<br><br>Dividend equivalents are payable over the vesting period in respect of the awards which vest. | Maximum annual opportunity of up to 100% of salary.<br>For entry level and target performance, the bonus earned is up to 30% and up to 65% of maximum respectively. | Performance is determined by the Committee on an annual basis by reference to Group financial measures, as well as the achievement of personal and/or strategic objectives.<br><br>The personal/strategic element will not be weighted more than 30% of the total in any year.<br><br>When assessing financial performance, the Committee typically considers underlying PBT and Group working capital, as well as other indicators of performance defined at the start of the year. Performance targets are generally calibrated with reference to the Group's budget for the year.<br><br>Details of the measures and weightings applicable for the financial year under review are provided in the Annual Report on Remuneration. |
| **Long-Term Incentive Plan ("LTIP")** | To reward and retain Executive Directors to deliver the Group's long-term strategy whilst providing strong alignment with Shareholders. | Executive Directors are granted annual awards of nil-cost options or contingent rights to acquire shares for no cost as determined by the Committee, which vest based on performance over three years.<br><br>To encourage long-term decision making and further improve Shareholder alignment, the Committee introduced a two year holding period on vested LTIP awards for awards made in 2014 and subsequent years. Performance will continue to be measured over three years.<br><br>From 2015, awards are subject to malus and clawback, i.e. forfeiture or reduction of unvested awards or recovery of vested awards, in exceptional circumstances (e.g. material misstatement or gross misconduct)<br><br>Dividend equivalents are payable over the five year vesting and holding period in respect of the awards which vest. | Maximum annual award of up to 150% of salary.<br><br>In exceptional circumstances, such as to facilitate the recruitment of an external hire, the Committee may, in its absolute discretion, exceed this maximum annual opportunity, up to 200% of salary.<br><br>Threshold performance will result in no more than 25% vesting. | Vesting of LTIP awards is subject to the Group's performance over a three year performance period. If no entitlement is earned at the end of the performance period, awards will lapse.<br><br>The performance measures and respective weightings may vary year-on-year to reflect strategic priorities, subject to retaining an element on underlying EPS growth and ROCE.<br><br>Details of the measures, weightings and performance targets used for specific LTIP grants are included in the Annual Report on Remuneration. |

The Committee is satisfied that the Remuneration Policy on pages 81 to 88 is in the best interests of Shareholders and does not promote excessive risk-taking. The Committee will consider the Company's performance on environmental, social and governance issues when determining the overall reward for the Executive Directors, and has discretion to make adjustments as appropriate. The Committee also retains discretion to make non-significant changes to the policy without reverting to Shareholders.

## NOTES TO THE REMUNERATION POLICY TABLE

### Payments from existing awards

Executive Directors are eligible to receive payment under any award made prior to the approval and implementation of the Remuneration Policy including under the existing LTIP.

### LTIP awards

Awards under the new LTIP may be structured in a manner which delivers tax advantages to the Executive Directors but the value delivered will be no greater than as set out in the table on page 83.

### Selection of performance measures

The performance measures used under the annual performance bonus are selected annually to reflect the Group's main strategic objectives for the year and reflect both financial and non-financial priorities.

The Committee continues to believe that ROCE reinforces the focus on capital efficiency and delivery of strong returns for our Shareholders, thereby further strengthening the alignment of management's incentives with SIG's strategy. The Committee also continues to believe that underlying EPS is a key driver of long-term Shareholder value for SIG.

Performance targets are set to be stretching and achievable, taking into account the Group's strategic priorities and the economic environment in which the Company operates. Targets are set taking into account a range of reference points including the Group's strategic plan and broker forecasts for both SIG and its peers. The Committee believes that the performance targets set are very challenging and that the maximum outcomes are only available for truly outstanding performance.

## REMUNERATION POLICY FOR OTHER EMPLOYEES

Our approach to salary reviews is consistent across the Group, with consideration given to the level of responsibility, experience, individual performance, salary levels in comparable companies and the Company's ability to pay. Remuneration surveys are referenced, where appropriate, to establish market rates.

Senior Managers participate in an annual bonus plan which has similar performance targets to those of the Executive Directors. A limited number of Senior Managers also receive LTIP awards. Performance conditions are consistent for all participants, while award sizes vary by organisational level. All UK employees are eligible to participate in the SIP on the same terms.

Pension and benefits arrangements are tailored to local market conditions, and so various arrangements are in place for different populations within SIG. Executive Directors participate in the same pension scheme as other senior managers.

## APPROACH TO RECRUITMENT REMUNERATION

The Committee's policy is to set pay for new Executive Directors within the existing Remuneration Policy in order to provide internal consistency. The Committee aims to ensure that the Company pays no more than is necessary to appoint individuals of an appropriate calibre.

## SHARE OWNERSHIP GUIDELINES

To ensure alignment between Executive Director interests and those of Shareholders, the Company has established the principle of requiring Executive Directors to build up and maintain a beneficial holding of shares in the Company equivalent to a minimum of 200% of base salary. Under normal circumstances it is expected that this should be achieved within five years of appointment. It is anticipated that the satisfaction of this target will be mainly achieved by the vesting of shares through the Company's share plans.

## EXTERNAL APPOINTMENTS

In the case of appointing a new Executive Director, the Committee may make use of any of the existing components of remuneration, as follows:

| Component | Approach | Maximum annual grant value |
|---|---|---|
| **Base salary** | The base salary will be determined by reference to the scope and responsibility of the position as well as internal relativities and their current remuneration. Where a new appointee has an initial base salary set below market, any shortfall may be managed with phased increases over a period of years, subject to the Executive Director's development in the role, which may result in above-average salary increases during this period. | n/a |
| **Benefits** | New appointees will be eligible to receive benefits which may include (but are not limited to) a company car, medical and permanent health insurance. | n/a |
| **Pension** | New appointees will be eligible to participate in the Company's defined contribution pension scheme or receive a cash equivalent payment. | n/a |
| **SIP** | New appointees will be eligible to participate in the SIP. | n/a |
| **Annual bonus** | The plan as described in the policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of the year employed. Targets for the personal element will be tailored to the role of the appointee. | 100% of salary |
| **LTIP** | New appointees will be granted awards under the LTIP on the same terms as other Executives, as described in the policy table. | 200% of salary |

The Committee may also make an award in respect of a new appointment to "buy out" incentive arrangements forfeited on leaving a previous employer and may exercise the discretion available under the relevant Listing Rule to facilitate this, i.e. in the event that a different structure would be required. In doing so, the Committee will ensure that "buyout awards" would have a fair value no higher than that of the awards forfeited and would consider relevant factors including any performance conditions attached to these awards, the likelihood of those conditions being met, and the remaining vesting period of these awards. Where, in the Committee's opinion, awards forfeited are still subject (at date of appointment) to substantive performance conditions, any awards made in compensation will have SIG-specific performance conditions attached.

## INTERNAL APPOINTMENTS

Remuneration for new Executive Directors appointed by way of internal promotion will similarly be determined in line with the policy for external appointees, as detailed above. Where an individual has contractual commitments made prior to their promotion to the Board, the Company will continue to honour these arrangements. Incentive opportunities for below Board employees are typically no higher than for Executive Directors, but incentive measures may vary to provide better line of sight.

## EXECUTIVE DIRECTOR SERVICE CONTRACTS AND LEAVER/CHANGE OF CONTROL PROVISIONS AND POLICY FOR LOSS OF OFFICE

The Committee sets notice periods for the Executive Directors (including future Executive Directors) at twelve months.

Subject to the considerations set out overleaf, the Company's policy is to limit termination payments to pre-established contractual arrangements. In the event that the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans.

If employment is terminated by the Company, the departing Executive Director may have a legal entitlement (under statute or otherwise) to additional amounts, which would need to be met. In addition, the Committee retains discretion to settle any claims by or on behalf of the Executive Director in return for making an appropriate payment and contributing to the legal fees incurred by the Executive Director in connection with the termination of employment, where the Company wishes to enter into a settlement agreement (as provided for overleaf) and the individual must seek independent legal advice.

## EXECUTIVE DIRECTOR SERVICE CONTRACTS AND LEAVER/CHANGE OF CONTROL PROVISIONS AND POLICY FOR LOSS OF OFFICE (CONTINUED)

There is no provision in the Executive Directors' contracts for compensation to be payable on termination of their contract over and above sums due in respect of notice and accrued but untaken holiday, and as outlined overleaf regarding bonus and LTIP. Executive Director service contracts are available to view at the Company's registered office.

In certain circumstances, the Committee may approve new contractual arrangements with departing Executive Directors including (but not limited to) settlement, confidentiality, outplacement services, restrictive covenants and/or consultancy arrangements. These will be used sparingly and only entered into where the Committee believes that it is in the best interests of the Company and its Shareholders to do so.

The table below provides details of the main terms of Executive Director service contracts and termination payments not otherwise set out in this report.

| Provision | Policy |
|---|---|
| **Duration** | Continuous term subject to notice or reaching retirement age. |
| **Holiday** | 30 working days' holiday plus public holidays per holiday year. |
| **Notice period** | Twelve months' notice period in writing by either party, save in circumstances justifying summary termination. |
| **Exit payments** | The Executive Directors will be paid a sum equal to base salary and the value of contractual benefits (or receive the benefits themselves) which will not include a bonus. The Company may pay as a lump sum or in instalments and may require the Executive Director to mitigate his loss by seeking alternative employment. Where phasing payments, any income received from a third party shall be deducted from sums due to the Company.<br><br>The Company will take account of all the circumstances on a case-by-case basis when determining whether to exercise its discretion, including the need for an orderly handover and the contribution of the Executive Director to the success of the Company during his or her tenure. |
| **Restrictive covenants** | Apply during the contract and for up to a period of twelve months after leaving, subject to any period served by way of gardening leave. |

| Executive Director | Date of service contract |
|---|---|
| **S. R. Mitchell** | 10 December 2012 |
| **D. G. Robertson** | 10 October 2011 |

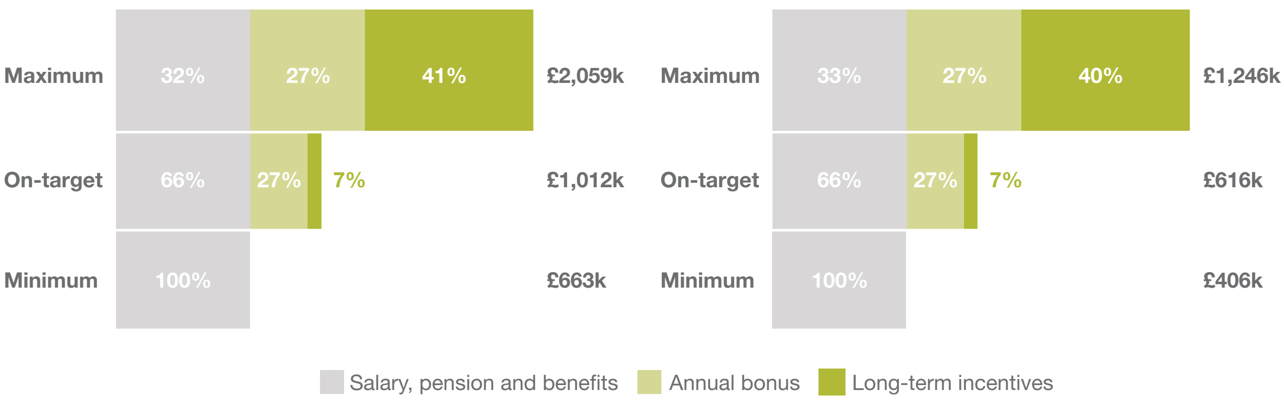
When considering termination payments under incentive plans, the Committee reviews all potential incentive outcomes to ensure they are fair to both Shareholders and participants. The table overleaf summarises how the awards under the annual bonus, the DSBP, the 2004 LTIP and the 2014 LTIP are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion.

| Plan | Scenario | Timing of vesting | Calculation of vesting/payment |
|---|---|---|---|
| **Annual bonus** | Death, injury, ill-health or disability, retirement, or any other reason the Committee may determine. | Normal payment date, although the Committee has discretion to accelerate. | The Committee will determine the bonus outcome based on circumstances and the date of leaving. Performance against targets is typically assessed at the end of the year in the normal way and any resulting bonus will be pro-rated for time served during the year. |
| | Change of control. | Immediately. | Performance against targets will be assessed at the point of change of control, and any resulting bonus will be pro-rated for time served up to the point of change of control. |
| | All other reasons. | No bonus is paid. | n/a |
| **Deferred Share Bonus Plan** | Death, injury, ill-health or disability, retirement, or any other reason the Committee may determine. | Normal vesting date, although the Committee has discretion to accelerate. | n/a |
| | Change of control. | Immediately. | n/a |
| | All other reasons. | Awards lapse. | n/a |
| **2004 LTIP** | Injury, ill-health or disability, redundancy, retirement, the sale of the employing company or business out of the Group or any other reason as the Committee may determine. | Normal vesting date, although the Committee has discretion to accelerate. | Any outstanding awards will normally be pro-rated for time and performance conditions will be measured. |
| | Death. | Immediately. | n/a |
| | Change of control. | Immediately. | Any outstanding awards will normally be pro-rated for time and performance conditions will be measured up to the point of the change of control. |
| | All other reasons. | Awards lapse. | n/a |
| **2014 LTIP** | Death, injury or disability, redundancy, the sale of the employing company or business out of the Group or any other reason as the Committee may determine. | Normal vesting date, although the Committee has discretion to accelerate. | Any outstanding awards will normally be pro-rated for time and performance conditions will be measured. The Committee retains discretion to dis-apply performance conditions in exceptional circumstances. |
| | Change of control. | Immediately. | Any outstanding awards will be pro-rated for time and performance up to the point of the change of control. The Committee retains discretion to dis-apply performance conditions in exceptional circumstances. |
| | All other reasons. | Awards lapse. | n/a |

## PAY-FOR-PERFORMANCE: SCENARIO ANALYSIS

The following charts provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of pay under three different performance scenarios: "Minimum", "On-target" and "Maximum". Potential reward opportunities are based on SIG's current Remuneration Policy (unchanged), applied to salaries as at 1 January 2016. Note that the projected values exclude the impact of any share price movements.

**Chief Executive** **Finance Director**



# Directors' Remuneration Policy

The "Minimum" scenario shows base salary, pension and benefits only. These are the only elements of the Executive Directors' remuneration packages which are not at risk. The "On-target" scenario shows fixed remuneration on page 87, plus a target payout of 50% of the annual bonus and threshold performance vesting for long-term incentives. The "Maximum" scenario reflects fixed remuneration, plus full payout of all incentives.

## NON-EXECUTIVE DIRECTORS

The Non-Executive Directors ("NEDs"), including the Chairman, do not have service contracts. The Company's policy is that NEDs are appointed for specific terms of three years unless otherwise terminated earlier in accordance with the Articles of Association or by, and at the discretion of, either party upon three months' written notice. NED appointments are reviewed at the end of each three year term. NEDs will normally be expected to serve two three year terms, although the Board may invite them to serve for an additional period.

Summary details of terms and notice periods for NEDs are included below:

| NED | Date of current letter of appointment | Effective date of appointment | Expiry of current term |
|---|---|---|---|
| **Mr L. Van de Walle** | 16 September 2013 | 1 October 2010 | 12 May 2016 |
| **Ms A. Abt** | 5 March 2015 | 12 March 2015 | 10 May 2018 |
| **Ms J. E. Ashdown** | 16 May 2014 | 11 July 2011 | 11 May 2017 |
| **Mr M. Ewell** | 16 May 2014 | 1 August 2011 | 11 May 2017 |
| **Mr C. V. Geoghegan** | 6 May 2015 | 1 July 2009 | 12 May 2016 |
| **Mr J. C. Nicholls** | 6 May 2015 | 6 November 2009 | 12 May 2016 |

NEDs do not receive benefits from the Company and they are not eligible to join the Company's pension scheme or participate in any bonus or share incentive plan. Any reasonable expenses that they incur in the furtherance of their duties are reimbursed by the Company.

Details of the policy on NED fees are set out in the table below:

| Purpose and link to strategy | Operation and process | Opportunity |
|---|---|---|
| To attract and retain NEDs of the highest calibre with experience relevant to the Company. | Fees are reviewed annually in May with any increase effective from 1 June.<br>The fee paid to the Chairman is determined by the Committee, and fees to NEDs are determined by the Board.<br>The fees are calculated by reference to current market levels and take account of the time commitment and the responsibilities of the NEDs.<br>Additional fees are payable for acting as Senior Independent Director or as Chairman of a Board Committee as appropriate. | Any fee increases are applied in line with the outcome of the review.<br>It is anticipated that increases to Chairman and NED fee levels will typically be in line with market levels of fee inflation. In exceptional circumstances (including, but not limited to, material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil an NED role) the Board has discretion to make appropriate adjustments to fee levels to ensure they remain market competitive and fair to the Director.<br>The maximum aggregate fees, per annum, for all NEDs allowed by the Company's Articles of Association is £500,000. |

## NED RECRUITMENT

In recruiting a new Chairman or NED, the Committee will use the policy as set out in the table above. A base fee would be payable for Board membership, with additional fees payable for acting as Senior Independent Director or as Chairman of a Board Committee as appropriate.

## EXTERNAL DIRECTORSHIPS

The Committee acknowledges that Executive Directors may be invited to become independent Non-Executive Directors of other quoted companies which have no business relationship with the Company and that these duties can broaden their experience and knowledge to the benefit of the Company.

Executive Directors are permitted to accept such appointments with the prior approval of the Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Group's activities and the wider exposure gained will be beneficial to the development of the individual. Where fees are payable in respect of such appointments, these would be retained by the Executive Director.

# Directors' Remuneration Report
## Annual Report on Remuneration

### ANNUAL REPORT ON REMUNERATION
The following section provides details of how SIG's Remuneration Policy was implemented during the financial year ended 31 December 2015 and how it will be implemented in 2016.

### THE REMUNERATION COMMITTEE
The key responsibilities of the Remuneration Committee are to:

- Determine the Remuneration Policy for Executive Directors and such other members of the Executive Management as it is designated to consider;
- Design specific remuneration packages which include salaries, bonuses, equity incentives, pension rights and benefits;
- Review the Executive Directors' service contracts;
- Ensure that failure is not rewarded and that steps are always taken to mitigate loss on termination, within contractual obligations;
- Review remuneration trends across the Group; and
- Approve the terms of and recommend grants under the Group's incentive plans.

The Committee's Terms of Reference, which are reviewed regularly, are set out on the Company's website **www.sigplc.com**.

As at 31 December 2015, the Committee comprised the five independent Non-Executive Directors of the Company, all of whom are considered to be independent within the definition set out in the Code.

| Chairman of the Committee | Members |
|---|---|
| Mr C.V. Geoghegan | Ms J.E. Ashdown, Mr M. Ewell, Mr J.C. Nicholls and Ms A. Abt |

During the year the Committee met four times. Attendance by individual members of the Committee is disclosed in the Corporate Governance section of the Directors' Report on page 62.

Only members of the Committee have the right to attend Committee meetings. The Chairman of the Board, Chief Executive, Group Human Resources Director and Company Secretary attend the Committee's meetings by invitation, but are not present when their own remuneration is discussed. The Committee also takes independent professional advice, on an ad hoc basis, as required. See page 90 for more details.

The Committee reviews its own performance annually and considers where improvements can be made as appropriate.

### KEY ACTIVITIES OF THE COMMITTEE IN 2015
The Committee met four times in 2015. Its key activities included:

- Annual review of Executive Director salaries;
- Considering performance outcomes for the annual bonus and long-term incentives in respect of performance to 31 December 2014 and 2015;
- Calibration of award levels and targets for the 2015 LTIP awards for the Executive Directors;
- Review of the Non-Executive Chairman's fees;
- Review of the Committee's Terms of Reference;
- Preparation of the 2014 and 2015 Directors' Remuneration Report;
- Implementation of clawback provisions in respect of the annual bonus scheme, deferred bonus scheme and LTIP;
- Review and approval of performance outcomes and vesting of LTIP awards granted in 2012;
- Review of the LTIP, consideration of potential revisions and related Shareholder consultation; and
- Preparation for the 2015 AGM.

## EXTERNAL ADVISORS

Kepler (a brand of Mercer), an independent firm of remuneration consultants appointed by the Committee after consultation with the Board, continued to act as the remuneration advisor to the Committee during the year. Kepler attends Committee meetings and provides advice on remuneration for Executives, analysis on all elements of the Remuneration Policy and regular market and best practice updates. Kepler reports directly to the Committee Chairman and is a signatory to, and abides by the Code of Conduct for Remuneration Consultants of UK-listed companies (which can be found at www.remunerationconsultantsgroup.com). Kepler's parent, Mercer, does not provide any other services to the Company. The Committee is satisfied that the advice it receives from Kepler is independent. Kepler's fees for the year in relation to advice to the Committee were charged on a time and materials basis and totalled £10,750 (2014: £20,300).

Deloitte LLP, external Auditor to the Group, has, when requested, performed specific procedures on the LTIP calculations at the end of the respective performance periods. Deloitte LLP was asked to perform this service in 2015 and received fees for this service which totalled £2,000 (2014: £nil).

## SHAREHOLDER VOTE AT THE 2015 AGM

The following table shows the results of the advisory vote on the Annual Report on Remuneration of the 2014 Directors' Remuneration Report at the 14 May 2015 AGM:

| | | For | Against | Total votes cast | Votes Withheld |
|---|---|---|---|---|---|
| **Annual Report on Remuneration** | Total number of votes | 465,616,304 | 1,185,417 | 466,801,721 | 936,099 |
| | % of votes cast | 99.7% | 0.2% | 100% | 0.2% |

The current Remuneration Policy was approved by Shareholders with a 99.7% vote 'for' at the 2014 AGM.

## SINGLE TOTAL FIGURE OF REMUNERATION FOR EXECUTIVE DIRECTORS (AUDITED)

The table below sets out the single total figure of remuneration received by each Executive Director for the year to 31 December 2015 and the prior year:

| Executive Director | | Base salary[1] £000 | Taxable Benefits[2] £000 | Pension Benefits[3] £000 | Annual bonus[4] £000 | LTIP[5] £000 | Other[6] £000 | Total Remuneration £000 |
|---|---|---|---|---|---|---|---|---|
| Mr S. R. Mitchell | 2015 | 558 | 26 | 83 | – | 101 | – | 768 |
| | 2014 | 550 | 21 | 83 | 314 | – | – | 968 |
| Mr D. G. Robertson | 2015 | 336 | 29 | 50 | – | 59 | – | 474 |
| | 2014 | 331 | 26 | 50 | 189 | 53 | – | 649 |

The figures in the table above have been calculated as follows:

1. Base salary/fee: amount earned for the year.
2. Benefits: comprising company car, medical and permanent health insurance.
3. Pension: the Company's pension contribution during the year of 15% of salary, an amount of which was paid by salary supplement.
4. Annual bonus: payment for performance during the year (including deferred portion).
5. LTIP: the value at vesting of awards vesting on performance over the three year periods ended 31 December 2015 and 31 December 2014. For the 2015 figure, given that vesting occurs in April 2016, after the Directors' Remuneration Report is finalised, the figures are based on the average share price in the last three months of 2015 of 143.6p.
6. Other: includes SIP, value based on the face value of matching shares at grant.
7. During 2015 Mr C. J. Davies, who retired from the Board on 28 February 2013, received £65,000 on the exercise of his outstanding LTIP awards.
8. Both S.R. Mitchell and D.G. Robertson have taken the decision to waive their entitlement to their 2015 annual bonuses.

## INCENTIVE OUTCOMES FOR 2015

### Annual bonus in respect of 2015

In 2015, the maximum bonus opportunity for Executive Directors was 100% of salary. 90% of bonus was based on financial performance (of which 15% related to savings from the Group Strategic Initiatives), and 10% on Health & Safety. For the financial performance element, 55% of bonus was linked to underlying PBT, 20% of bonus to the Group's Return on Capital Employed ("ROCE") and 15% to savings from the Group Strategic Initiatives.

Further details of the bonuses paid, including Group and individual targets set and performance against each of the metrics, are provided in the tables below:

### Financial element outcomes

| Measure | | Weighting (% of salary) | Performance targets | | | Actual performance | Payout (% of salary) |
|---|---|---|---|---|---|---|---|
| | | | Threshold | Target | Stretch | | |
| Underlying PBT | | 55% | £105.0m | £113.0m | £118.0m | £87.4m | 0% |
| ROCE (%) | Year to 31 Dec 15 | 20% | n/a | 11.6% | n/a | 9.3% | 0% |
| Cumulative savings from the Group Strategic Initiatives | | 15% | £20.0m | £30.0m | n/a | £22.7m | 7.7% |
| Total | | 90% | | | | | 7.7% |

### Non-financial element outcomes

| Executive Director | Objectives for the year | Payout (% of salary) |
|---|---|---|
| Mr S. R. Mitchell | Target against the delivery of the Health & Safety objective | 10% (out of 10%) |
| Mr D. G. Robertson | Target against the delivery of the Health & Safety objective | 10% (out of 10%) |

The Committee reviewed Health & Safety performance during the year, focusing on the Group's Accident Incident Rate ("AIR") and Health & Safety initiatives, and determined that the targets were achieved in full, and 10% of bonus (out of a maximum of 10%) was payable.

Therefore, based on performance, an outcome of 17.7% (out of a maximum of 100%) in respect of both financial and non-financial elements was warranted for both Executive Directors.

The Executive Directors have taken the decision to waive their 2015 bonuses in light of Group financial performance.

### Overall bonus outcomes

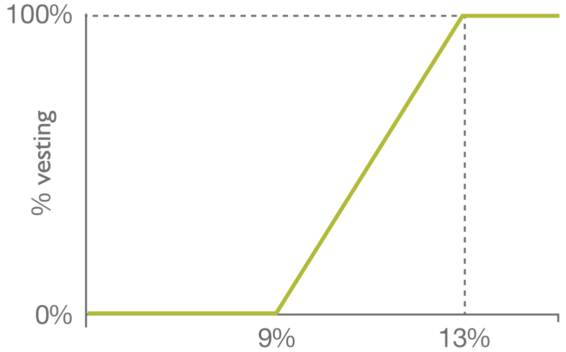
| Executive Director | Financial element bonus outcome (% of salary) | Personal element bonus outcome (% of salary) | Overall bonus outcome (% of salary) |
|---|---|---|---|
| Mr S. R. Mitchell | 7.7% | 10% | 0% (waived) |
| Mr D. G. Robertson | 7.7% | 10% | 0% (waived) |

As stated earlier, as a result of 2015 Group financial performance, both S.R. Mitchell and D.G. Robertson have taken the decision to waive their 2015 annual bonuses.

### Long-term Incentive Plan: 2013 Awards

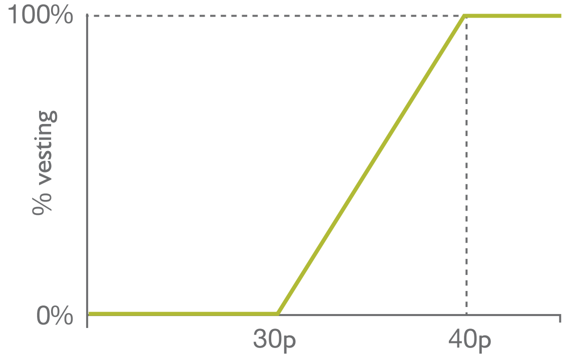
On 18 April 2013, Mr S. R. Mitchell and Mr. D. G. Robertson received an award of 363,036 and 214,191 nil-cost options respectively under the 2004 LTIP. Vesting of the award was dependent on three year average ROCE, defined as underlying operating profit after tax divided by average net assets plus average net debt (representing two-thirds of the award), and three year cumulative underlying EPS performance (representing the remaining one-third of the award). There was no re-testing of performance. The performance targets are illustrated overleaf:

### ROCE element of the award (2/3rd)




**Average ROCE 2013-2015**
(operating profit after tax divided by the sum of total equity plus net debt)

### EPS element of the award (1/3rd)




**Cumulative underlying EPS 2013-2015**
(pence)

For the ROCE element, if three year average ROCE over the three financial years ending 31 December 2015 is less than or equal to 9%, no shares will vest. Awards vest in full for ROCE of 13% or higher and vesting is on a straight line basis between these two points.

For the EPS element, if cumulative underlying EPS over the three financial years ending 31 December 2015 is less than or equal to 30p, no shares will vest. Awards vest in full for cumulative EPS of 40p or higher and vesting is on a straight line basis between these two points.

Actual average ROCE was 9.47% and cumulative underlying EPS was 33.5p, which resulted in the vesting of c. 7.78% and c. 11.67% of the maximum award respectively. 19.5% of the total award will therefore vest on 18 April 2016, subject to continued employment.

| Performance measure | Actual performance | Vesting outcome (% of maximum) |
|---|---|---|
| Three year average ROCE | 9.47% | 7.78% |
| Three year cumulative underlying EPS | 33.5p | 11.67% |

As disclosed in the Remuneration Policy, the Company has established the principle of requiring Executive Directors to build up and maintain a beneficial holding of shares in the Company equivalent to a minimum of 200% of base salary. Under normal circumstances it is expected that this should be achieved within five years of appointment. It is anticipated that the satisfaction of this target will be mainly achieved by the vesting of shares through the Company's share plans. Executive Directors' current holdings as measured against the guideline is disclosed on page 97.

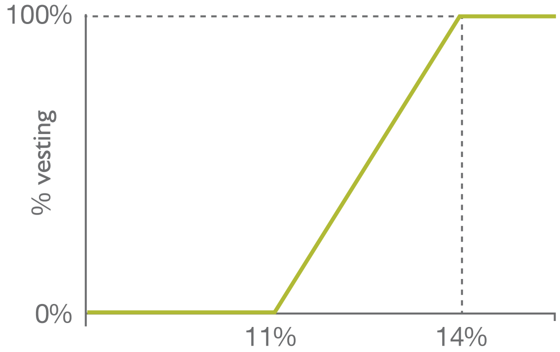
## LONG-TERM INCENTIVE PLAN: 2015 AWARDS

On 17 September 2015, Mr S. R. Mitchell and Mr D. G. Robertson were granted awards under the LTIP of 455,838 and 274,323 shares respectively; details are provided in the table below. The three year period over which performance will be measured will be 1 January 2015 to 31 December 2017. The award is eligible to vest in its entirety on the third anniversary of the date of grant (i.e. 16 September 2018), subject to ROCE and EPS performance. Executive Directors will additionally be required to hold any vested awards for a further two year period, to encourage long-term decision-making and further improve shareholder alignment.

| Executive Director | Date of grant | Awards made during the year | Market price at date of award | Face value at date of award | Face value at date of award (% of salary) |
|---|---|---|---|---|---|
| Mr S. R. Mitchell | 17 September 2015 | 455,838 | 183.7p | £837,375 | 150% |
| Mr D. G. Robertson | 17 September 2015 | 274,323 | 183.7p | £503,932 | 150% |

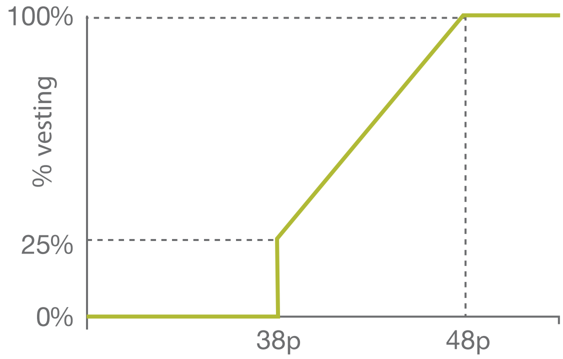
These awards will vest based on three year average ROCE (representing two-thirds of the award) and three year cumulative underlying EPS (representing one-third of the award). The performance targets are illustrated overleaf:

**ROCE element of the award (2/3rd)**




**Average ROCE 2015-2017**
(operating profit after tax divided by the sum of total equity plus net debt)

**EPS element of the award (1/3rd)**




**Cumulative underlying EPS 2015-2017**
(pence)

For the ROCE element, if three year average ROCE over the three financial years ending 31 December 2017 is less than or equal to 11%, no shares will vest. Awards vest in full for ROCE of 14% or higher and vesting is on a straight line basis between these two points.

For the EPS element, if cumulative underlying EPS over the three financial years ending 31 December 2017 is less than or equal to 38p, no shares will vest. 25% of the award will vest for EPS of 38p, and the award will vest in full for cumulative EPS of 48p or higher; vesting is on a straight line basis between these two points.

As in previous years, the ROCE and EPS targets have been calibrated with reference to analysis based on internal and external data and the Committee's view of what it believes will provide an appropriate level of stretch.

In order to ensure targets remain commensurately stretching with what was intended at the outset, and also to ensure a fair outcome for both participants and Shareholders, the Committee has discretion to adjust the targets as appropriate, e.g. to reflect changes in capital, merger and acquisition activity, and any other reason the Committee determines in its absolute discretion. Further, if such discretion is exercised, the Committee undertakes to disclose the rationale for its decision in the Annual Report on Directors' Remuneration the following year.

## SINGLE TOTAL FIGURE OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS

The table below sets out the single total figure of remuneration received by each NED for the year to 31 December 2015 and the prior year:

| | Base fee £'000 | | Additional fees £'000 | | Total fees £'000 | |
|---|---|---|---|---|---|---|
| Non-Executive Director | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Mr L. Van de Walle (Chairman) | 167 | 164 | – | – | 167 | 164 |
| Ms A. Abt (appointed 12 March 2015) | 38 | – | – | – | 38 | – |
| Ms J. E. Ashdown | 48 | 47 | – | – | 48 | 47 |
| Mr M. Ewell | 48 | 47 | – | – | 48 | 47 |
| Mr C. V. Geoghegan | 48 | 47 | 10 | 10 | 58 | 57 |
| Mr J. C. Nicholls | 48 | 47 | 10 | 10 | 58 | 57 |

## EXIT PAYMENTS

No exit payment was made to any Director during the year (2014: £nil).

## PAYMENTS TO FORMER DIRECTORS

During 2015, Mr C.J. Davies, who retired from the Board on 28 February 2013, received £65,000 on the exercise of his outstanding LTIP awards. These awards vested on 26 April 2015 based on performance over the three year performance period pro-rated to his period of service.

In 2014, Mr C.J. Davies received £85,000 in salary and £3,000 in benefits in the period to 28 February 2014.

## IMPLEMENTATION OF REMUNERATION POLICY FOR 2016

### Base salary

The Committee agreed that base salaries for the Chief Executive, Group Finance Director and Senior Leadership Team ("SLT") would remain unchanged and would not increase for 2016. The average salary increase across the remainder of the Group for each territory/business for 2016 is 1.5%.

| Executive Director | 2016 salary £ | 2015 salary £ | % change |
|---|---|---|---|
| S. R. Mitchell | 558,250 | 558,250 | 0% |
| D. G. Robertson | 335,955 | 335,955 | 0% |

Pension and benefits The Executive Directors will continue to receive pension contributions of 15% of base salary and receive benefits in line with the policy.

### Annual bonus

The maximum annual bonus opportunity for Executive Directors in 2016 will remain unchanged from the opportunity in 2015 of 100% of salary.

As in 2015, the 2016 bonus will be linked 55% to Group underlying PBT, 20% to ROCE, 15% to savings from the Group Strategic Initiatives and 10% to Health & Safety. As was the case last year, the Committee has determined that performance targets will not be disclosed on a prospective basis for reasons of commercial sensitivity, but will be disclosed on a retrospective basis in the following year's report. In 2016, financial performance objectives in respect of the bonus, will be measured based on budgeted exchange rates at the start of the year. This approach is in line with prevailing market practice, was applied in 2015 (in respect of financial performance) and will be consistently applied in 2016 and future years. Financial performance in respect of the LTIP will continue to be based on actual exchange rates, in line with market practice.

As in 2015 and in line with the Remuneration Policy, one-third of the annual bonus will be deferred in SIG shares for a period of three years.

As set out in last year's report, malus and clawback provisions apply to the annual bonus from the performance year ending 31 December 2015 (i.e. payments from 1 January 2016).

### LTIP

In advance of each LTIP cycle, the Committee reviews the performance measures and corresponding targets to ensure they are appropriately stretching over the performance period. The Committee intends to make LTIP awards in September 2016, and will determine the appropriate measures and targets closer to the time and disclose them in the 2016 Annual Report on Remuneration.

### Malus and clawback

As mentioned in the Chairman's Letter, the Committee last year noted the requirement for both malus and clawback provisions to be included in incentives under the updated UK Corporate Governance Code. The Committee took action in 2015 in order to implement clawback provisions in the Company's incentive schemes. Malus and clawback provisions are in place for awards made in and after September 2015 in respect of the LTIP, and for awards made on or after 1 January 2016 in respect of the Deferred Share Bonus Plan ("DSBP") and annual bonus.

### Chairman and Non-Executive Director fees

With effect from 1 May 2015, the fee payable to the Chairman of the Board is £168,000 p.a. and the basic fee payable to each Non-Executive Director is £48,204 p.a. The fees payable for chairing the Audit and Remuneration Committees are £10,000 and £8,000 p.a. respectively. The additional fee paid for being Senior Independent Director is £2,000 p.a. Non-Executive Director fees are reviewed in May each year.

## PERCENTAGE CHANGE IN CHIEF EXECUTIVE REMUNERATION

The table below shows the percentage change in the Chief Executive's remuneration from the prior year compared to the average percentage change in remuneration for all other employees being the SLT. To provide a meaningful comparison, the analysis includes only salaried employees and is based on a consistent set of employees, i.e. the same individuals appear in the 2015 and 2014 populations.

Given that the Company operates across a number of diverse economies with pay levels and structures reflecting local market conditions, the Committee believes that using the SLT as a subset for purposes of comparing Chief Executive pay against wider employee pay provides a more meaningful comparison than using pay data for all employees.

| | Chief Executive £'000 | | | Other employees |
|---|---|---|---|---|
| | **2015** | 2014 | % change | % change |
| Salary[1] | **558** | 550 | 1.5% | 1.7% |
| Taxable benefits | **26** | 21 | 23.8% | (2.5)% |
| Annual performance bonus (including deferred element) | **–** | 314 | (100.0)% | (71.7)% |
| Total | **584** | 885 | (34.0)% | (20.6)% |

1 The Chief Executive will not receive a salary increase for 2016.

## RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows the percentage change in total employee pay expenditure and Shareholder distributions (i.e. dividends and share buybacks) from the financial year ended 31 December 2014 to the financial year ended 31 December 2015.

| | **2015 £m** | 2014 £m | % change |
|---|---|---|---|
| Distribution to Shareholders | **27.6** | 26.0 | 6.2% |
| Employee remuneration | **332.0** | 331.2 | 0.2% |

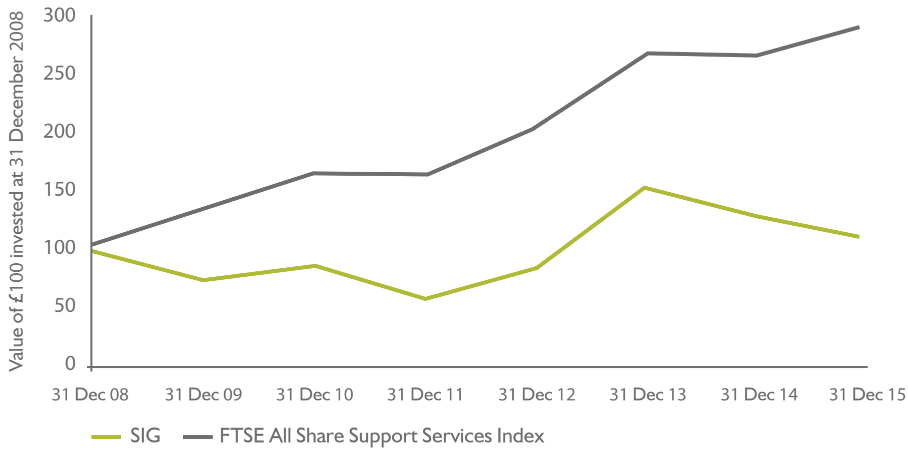
The Directors are proposing a final dividend for the year ended 31 December 2015 of 2.91p per share (2014: 2.98p).

## PAY-FOR-PERFORMANCE

The graph overleaf shows the Company's Total Shareholder Return ("TSR") performance (share price plus dividends paid) compared with the performance of the FTSE All Share Support Services Index over the six year period to 31 December 2015. This index has been selected because the Company believes that the constituent companies comprising the FTSE All Share Support Services Index are the most appropriate for this comparison as they are affected by similar commercial and economic factors to SIG. The table overleaf details the Chief Executive's single figure of remuneration and actual variable pay outcomes over the same period.

## HISTORICAL TSR PERFORMANCE

Growth in value of a hypothetical £100 holding over the seven years to 31 December 2015.




| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Incumbent | C.J. Davies | C.J. Davies | C.J. Davies | C.J. Davies | C.J. Davies[1] | C.J. Davies | C.J. Davies | S.R. Mitchell[2] | S.R. Mitchell | S.R. Mitchell[3] |
| Chief Executive single figure of remuneration (£000) | 1,354 | 1,087 | 1,065 | 1,024 | 1,031 | 88 | n/a | 987 | 968 | 768 |
| Annual bonus outcome (% of maximum) | 45% | 59% | 96% | 54% | 50% | n/a | n/a | 60.5% | 57.0% | 0% |
| LTIP vesting outcome (% of maximum) | 0% | 0% | 0% | 0% | 0% | 0% | 10.5% | n/a | n/a | 10.5% |

1. The figures shown pertain to the period 1 January 2013 to 31 December 2013 (includes remuneration in lieu of salary, pension and other benefits after 1 March 2013).
2. Mr S. R. Mitchell was appointed to the Board on 10 December 2012 and became the Chief Executive on 1 March 2013. The 2013 figure pertains to the period 1 January 2013 to 31 December 2013.
3. Mr S.R. Mitchell has taken the decision to waive his entitlement to the 2015 annual bonus.

## DIRECTORS' INTERESTS IN SIG SHARES (AUDITED)

The interests of the Directors in office at 31 December 2015, and their families, in the ordinary shares of the Company at the dates below were as follows:

| | 31 December 2015 | 1 January 2015 or date of appointment |
|---|---|---|
| Ms A. Abt (appointed 12 March 2015) | 8,500 | – |
| Ms J. E. Ashdown | 33,450 | 21,700 |
| Mr M. Ewell | 16,450 | 8,600 |
| Mr C. V. Geoghegan | 40,000 | 40,000 |
| Mr J. C. Nicholls | 14,200 | 14,200 |
| Mr S. R. Mitchell | 176,474* | 165,460* |
| Mr D. G. Robertson | 112,586* | 61,489* |
| Mr L. Van de Walle | 75,000 | 50,000 |

* Includes shares purchased under the SIP.

There have been no changes to shareholdings between 1 January 2016 and 8 March 2016 save that on 15 January 2016 when Mr S. R. Mitchell and Mr D. G. Robertson acquired a further 111 shares each under the SIG plc Share Incentive Plan ("SIP"), and on 15 February 2016 when Mr S. R. Mitchell and Mr D. G. Robertson acquired a further 119 shares each under the SIP.

None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group. Details of Directors' interests in shares and options under SIG long-term incentives are set out on pages 97 and 98.

## DIRECTORS' SHAREHOLDING (AUDITED)

The table below shows the shareholding of each Director against their respective shareholding requirement as at 31 December 2015:

| | Shares held | | Nil-cost options held | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Owned outright or vested | Vested but subject to holding period | Vested but not exercised | Unvested and subject to performance conditions | Unvested and subject to deferral | Shareholding required (% basic salary) | Current shareholding/ potential (% of basic salary/basic fee) | Requirement* met |
| S. R. Mitchell | 176,474 | – | – | 1,285,502 | 106,938 | 200 | 45 | No |
| D. G. Robertson | 112,586 | – | – | 769,331 | 99,568 | 200 | 48 | No |
| A. Abt | 8,500 | | | | | | 25 | |
| J. E. Ashdown | 33,450 | | | | | | 100 | |
| M. Ewell | 16,450 | | | | | | 49 | |
| C. V. Geoghegan | 40,000 | | | | | | 120 | |
| J. C. Nicholls | 14,200 | | | | | | 42 | |
| L. Van de Walle | 75,000 | | | | | | 64 | |

* Based on SIG share price of 143.6p as at 31 December 2015.

## DIRECTORS' INTERESTS IN SIG SHARE AND OPTION PLANS (AUDITED)

| | Date of grant | Share price | Number of nil-cost options awarded | Face value at grant £ | Performance period | Exercise period |
|---|---|---|---|---|---|---|
| **LTIP** | | | | | | |
| Mr S. R. Mitchell | 17/09/2015 | 183.7p | 455,838 | 837,375 | 01/01/2015 – 31/12/2017 | 17/09/2020 – 16/09/2025 |
| | 18/09/2014 | 176.8p | 466,628 | 825,000 | 01/01/2014 – 31/12/2016 | 18/09/2019 – 17/09/2024 |
| | 18/04/2013 | 151.5p | 363,036 | 550,000 | 01/01/2013 – 31/12/2015 | 18/04/2016 – 17/04/2023 |
| Mr D. G. Robertson | 17/09/2015 | 183.7p | 274,323 | 503,932 | 01/01/2015 – 31/12/2017 | 17/09/2020 – 16/09/2025 |
| | 18/09/2014 | 176.8p | 280,817 | 496,485 | 01/01/2014 – 31/12/2016 | 18/09/2019 – 17/09/2024 |
| | 18/04/2013 | 151.5p | 214,191 | 324,500 | 01/01/2013 – 31/12/2015 | 18/04/2016 – 17/04/2023 |
| **Deferred Bonus Plan** | | | | | | |
| Mr S. R. Mitchell | 31/03/2015 | 202.3p | 51,646 | 104,499 | n/a | 31/03/2018 – 30/03/2025 |
| | 31/03/2014 | 201.1p | 55,292 | 111,192 | n/a | 31/03/2017 – 30/03/2024 |
| Mr D. G. Robertson | 31/03/2015 | 202.3p | 31,081 | 62,889 | n/a | 31/03/2018 – 30/03/2025 |
| | 31/03/2014 | 201.1p | 32,078 | 64,509 | n/a | 31/03/2017 – 30/03/2024 |
| | 18/04/2013 | 149.95p | 36,409 | 54,594 | n/a | 18/04/2016 – 17/04/2023 |

Under the SIP, the Company matches up to the first £20 of savings made each month by the employee which is used to purchase matching shares on a monthly basis. Mr S. R. Mitchell and Mr D. G. Robertson participated in the SIP in 2015.

The market price of the shares at 31 December 2015 was 143.6p and the range during 2015 was 119.0p to 211.2p.

There were 40,083 options exercised by the Directors in 2015 (2014: nil) and the aggregate of the total theoretical gains on option exercised by the Directors during 2015 amounted to £68,141 (2014: £nil). This is calculated by reference to the difference between the closing mid-market price of the shares on the date of exercise and the exercise price of the options, disregarding whether such shares were sold or retained on exercise, and is stated before tax.

## EXTERNAL DIRECTORSHIPS

Mr D. G. Robertson was appointed a Non-Executive Director of HSS Hire Group plc on 12 January 2015. He receives a fee of £50,000 per annum which he retains. Mr S.R. Mitchell does not receive a fee for his position of Non-Executive Director with Enactus UK.

## APPROVAL OF THE DIRECTORS' REMUNERATION REPORT

The Directors' Remuneration Report set out on pages 80 to 98 was approved by the Board of Directors on 8 March 2016 and signed on its behalf by Chris Geoghegan, Chairman of the Remuneration Committee.

**CHRIS GEOGHEGAN**
Chairman of the Remuneration Committee
8 March 2016

# Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare Accounts for each financial year. Under that law the Directors are required to prepare the Group Accounts in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company Accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the Accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company Accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Accounts; and
- Prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group Accounts, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Accounts may differ from legislation in other jurisdictions.

## Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- The Accounts, prepared in accordance with the relevant financial reporting framework, 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, which is incorporated into the Statutory Information, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

This Responsibility Statement was approved by the Board of Directors on 8 March 2016 and is signed on its behalf by:

**STUART MITCHELL**
Chief Executive
8 March 2016

**DOUG ROBERTSON**
Group Finance Director
8 March 2016

# Financials

STRONGER
TOGETHER

# FINANCIALS

# Consolidated Income Statement
## for the year ended 31 December 2015

| | Note | Before Other items* 2015 £m | Other items* 2015 £m | Total 2015 £m | Before Other items* 2014 £m | Other items* 2014 £m | Total 2014 £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | 1 | **2,566.4** | **–** | **2,566.4** | 2,602.9 | 31.0 | 2,633.9 |
| Cost of sales | 2 | **(1,878.0)** | **–** | **(1,878.0)** | (1,902.3) | (27.5) | (1,929.8) |
| **Gross profit** | | **688.4** | **–** | **688.4** | 700.6 | 3.5 | 704.1 |
| Other operating expenses | 2 | **(589.7)** | **(32.8)** | **(622.5)** | (589.4) | (61.5) | (650.9) |
| **Operating profit** | | **98.7** | **(32.8)** | **65.9** | 111.2 | (58.0) | 53.2 |
| Finance income | 3 | **1.0** | **–** | **1.0** | 0.9 | 0.1 | 1.0 |
| Finance costs | 3 | **(12.3)** | **(3.3)** | **(15.6)** | (13.0) | (2.2) | (15.2) |
| **Profit before tax** | 4 | **87.4** | **(36.1)** | **51.3** | 99.1 | (60.1) | 39.0 |
| Income tax expense | 6 | **(21.0)** | **6.0** | **(15.0)** | (27.8) | 23.3 | (4.5) |
| **Profit after tax** | | **66.4** | **(30.1)** | **36.3** | 71.3 | (36.8) | 34.5 |
| **Attributable to:** | | | | | | | |
| Equity holders of the Company | | **66.1** | **(30.1)** | **36.0** | 70.9 | (37.9) | 33.0 |
| Non-controlling interests | | **0.3** | **–** | **0.3** | 0.4 | 1.1 | 1.5 |
| | | | | | | | |
| **Earnings per share** | | | | | | | |
| Basic earnings per share | 8 | **11.2p** | **(5.1)p** | **6.1p** | 12.0p | (6.4)p | 5.6p |
| Diluted earnings per share | 8 | **11.2p** | **(5.1)p** | **6.1p** | 12.0p | (6.4)p | 5.6p |

* "Other items" relate to the amortisation of acquired intangibles, restructuring costs, acquisition expenses and contingent consideration, other one-off items, profits and losses arising on the sale of businesses and associated impairment charges, trading profits and losses associated with disposed businesses, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, one-off recognition of deferred tax assets, the taxation effect of "Other items" and the effect of changes in taxation rates. "Other items" have been disclosed separately in order to give an indication of the underlying earnings of the Group. Further details can be found in Note 2 and within the Statement of Significant Accounting Policies on page 108.

The accompanying Statement of Significant Accounting Policies and Notes to the Accounts are an integral part of this Consolidated Income Statement.

# Consolidated Statement of Comprehensive Income
## for the year ended 31 December 2015

| | Note | 2015 £m | 2014 £m |
|---|---|---|---|
| **Profit after tax** | | **36.3** | 34.5 |
| **Items that will not subsequently be reclassified to the Consolidated Income Statement:** | | | |
| Remeasurement of defined benefit pension liability | 28c | **1.9** | (7.7) |
| Deferred tax movement associated with remeasurement of defined benefit pension liability | 22 | **(0.2)** | 1.7 |
| Effect of change in rate on deferred tax | 22 | **(0.7)** | (0.1) |
| | | **1.0** | (6.1) |
| **Items that may subsequently be reclassified to the Consolidated Income Statement:** | | | |
| Exchange difference on retranslation of foreign currency goodwill and intangibles | | **(11.7)** | (14.3) |
| Exchange difference on retranslation of foreign currency net investments (excluding goodwill and intangibles) | | **(16.2)** | (18.9) |
| Exchange and fair value movements associated with borrowings and derivative financial instruments | | **7.3** | 8.9 |
| Tax charge on exchange and fair value movements arising on borrowings and derivative financial instruments | | **(1.5)** | (1.9) |
| Exchange difference reclassified to the Consolidated Income Statement in respect of the disposal of foreign operations | | **–** | (6.7) |
| Gains and losses on cash flow hedges | | **(4.2)** | (3.7) |
| Transfer to profit and loss on cash flow hedges | | **2.3** | 2.3 |
| | | **(24.0)** | (34.3) |
| **Other comprehensive expense** | | **(23.0)** | (40.4) |
| **Total comprehensive income/(expense)** | | **13.3** | (5.9) |
| **Attributable to:** | | | |
| Equity holders of the Company | | **13.0** | (7.4) |
| Non-controlling interests | | **0.3** | 1.5 |
| | | **13.3** | (5.9) |

The accompanying Statement of Significant Accounting Policies and Notes to the Accounts are an integral part of this Consolidated Statement of Comprehensive Income.

# Consolidated Balance Sheet
## as at 31 December 2015

| | Note | 2015 £m | 2014 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **142.7** | 127.2 |
| Goodwill | 11 | **437.5** | 419.2 |
| Intangible assets | 12 | **88.2** | 49.6 |
| Deferred tax assets | 22 | **21.0** | 29.0 |
| Derivative financial instruments | 18 | **2.4** | 33.9 |
| Deferred consideration | 18 | **–** | 1.5 |
| | | **691.8** | 660.4 |
| **Current assets** | | | |
| Inventories | 14 | **242.9** | 225.4 |
| Trade and other receivables | 15 | **414.9** | 381.7 |
| Current tax assets | 15 | **4.3** | 5.6 |
| Derivative financial instruments | 18 | **34.4** | – |
| Deferred consideration | 18 | **1.5** | – |
| Other financial assets | 18 | **1.3** | 0.9 |
| Cash and cash equivalents | 18 | **89.0** | 110.3 |
| | | **788.3** | 723.9 |
| **Total assets** | | **1,480.1** | 1,384.3 |
| **Current liabilities** | | | |
| Trade and other payables | 16 | **364.5** | 349.2 |
| Obligations under finance lease contracts | 16 | **2.5** | 2.5 |
| Bank overdrafts | 16 | **2.3** | 4.4 |
| Bank loans | 16 | **90.9** | 0.7 |
| Private placement notes | 16 | **160.1** | – |
| Loan notes and deferred consideration | 16 | **3.0** | 1.9 |
| Derivative financial instruments | 16 | **1.3** | 0.5 |
| Current tax liabilities | 16 | **8.4** | 8.3 |
| Provisions | 16 | **9.7** | 14.6 |
| | | **642.7** | 382.1 |
| **Non-current liabilities** | | | |
| Obligations under finance lease contracts | 17 | **7.5** | 8.0 |
| Bank loans | 17 | **0.4** | 0.6 |
| Private placement notes | 17 | **95.8** | 254.3 |
| Derivative financial instruments | 17 | **0.7** | 0.6 |
| Deferred tax liabilities | 17 | **18.2** | 12.1 |
| Other payables | 17 | **3.8** | 4.3 |
| Retirement benefit obligations | 17 | **23.8** | 28.7 |
| Provisions | 17 | **37.6** | 29.3 |
| | | **187.8** | 337.9 |
| **Total liabilities** | | **830.5** | 720.0 |
| **Net assets** | | **649.6** | 664.3 |
| **Capital and reserves** | | | |
| Called up share capital | 24 | **59.1** | 59.1 |
| Share premium account | | **447.3** | 447.2 |
| Capital redemption reserve | | **0.3** | 0.3 |
| Share option reserve | | **1.4** | 1.8 |
| Hedging and translation reserve | | **(42.4)** | (20.3) |
| Retained profits | | **183.0** | 175.6 |
| **Attributable to equity holders of the Company** | | **648.7** | 663.7 |
| **Non-controlling interests** | | **0.9** | 0.6 |
| **Total equity** | | **649.6** | 664.3 |

The accompanying Statement of Significant Accounting Policies and Notes to the Accounts are an integral part of this Consolidated Balance Sheet.

The Accounts were approved by the Board of Directors on 8 March 2016 and signed on its behalf by:

**STUART MITCHELL**
Director

**DOUG ROBERTSON**
Director

Registered in England: 998314

# Consolidated Cash Flow Statement
## for the year ended 31 December 2015

| | Note | 2015 £m | 2014 £m |
|---|---|---|---|
| **Net cash flow from operating activities** | | | |
| Cash generated from operating activities | 25 | 61.6 | 95.6 |
| Income tax paid | | (11.1) | (16.9) |
| Net cash generated from operating activities | | 50.5 | 78.7 |
| **Cash flows from investing activities** | | | |
| Finance income received | | 1.2 | 0.9 |
| Purchase of property, plant and equipment and computer software | | (49.0) | (38.1) |
| Proceeds from sale of property, plant and equipment | | 4.9 | 13.2 |
| Net cash flow arising on sale of businesses | | – | (2.6) |
| Settlement of amounts payable for purchase of businesses | 13 | (70.1) | (19.0) |
| Net cash used in investing activities | | (113.0) | (45.6) |
| **Cash flows from financing activities** | | | |
| Finance costs paid | | (10.7) | (12.5) |
| Capital element of finance lease rental payments | | (2.4) | (2.3) |
| Issue of share capital | 24 | 0.1 | – |
| Repayment of loans/settlement of derivative financial instruments | | (2.5) | (2.7) |
| New loans/settlement of derivative financial instruments | | 91.5 | 4.3 |
| Dividends paid to equity holders of the Company | 7 | (27.6) | (22.6) |
| Net cash generated from/(used in) financing activities | | 48.4 | (35.8) |
| **Decrease in cash and cash equivalents in the year** | 26 | (14.1) | (2.7) |
| Cash and cash equivalents at beginning of the year | 27 | 105.9 | 113.8 |
| Effect of foreign exchange rate changes | 27 | (5.1) | (5.2) |
| **Cash and cash equivalents at end of the year** | 27 | 86.7 | 105.9 |

The accompanying Statement of Significant Accounting Policies and Notes to the Accounts are an integral part of this Consolidated Cash Flow Statement.

# Consolidated Statement of Changes in Equity
## for the year ended 31 December 2015

| | Called up share capital £m | Share premium account £m | Capital redemption reserve £m | Share option reserve £m | Hedging and translation reserve £m | Retained profits £m | Total £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| At 31 December 2013 | 59.1 | 447.2 | 0.3 | 1.1 | 12.6 | 172.2 | 692.5 | 0.6 | 693.1 |
| Profit after tax | – | – | – | – | – | 33.0 | 33.0 | 1.5 | 34.5 |
| Other comprehensive income/(expense) | – | – | – | – | (32.9) | (7.5) | (40.4) | – | (40.4) |
| Total comprehensive income/(expense) | – | – | – | – | (32.9) | 25.5 | (7.4) | 1.5 | (5.9) |
| Derecognition of non-controlling interest | – | – | – | – | – | – | – | (1.5) | (1.5) |
| Share capital issued in the year | – | – | – | – | – | – | – | – | – |
| Credit to share option reserve | – | – | – | 0.7 | – | – | 0.7 | – | 0.7 |
| Exercise of share options | – | – | – | – | – | – | – | – | – |
| Deferred tax on share options | – | – | – | – | – | 0.5 | 0.5 | – | 0.5 |
| Dividends paid to equity holders of the Company | – | – | – | – | – | (22.6) | (22.6) | – | (22.6) |
| At 31 December 2014 | 59.1 | 447.2 | 0.3 | 1.8 | (20.3) | 175.6 | 663.7 | 0.6 | 664.3 |
| Profit after tax | – | – | – | – | – | 36.0 | 36.0 | 0.3 | 36.3 |
| Other comprehensive income/(expense) | – | – | – | – | (22.1) | (0.9) | (23.0) | – | (23.0) |
| Total comprehensive income/(expense) | – | – | – | – | (22.1) | 35.1 | 13.0 | 0.3 | 13.3 |
| Share capital issued in the year | – | 0.1 | – | – | – | – | 0.1 | – | 0.1 |
| Debit to share option reserve | – | – | – | (0.3) | – | – | (0.3) | – | (0.3) |
| Exercise of share options | – | – | – | (0.1) | – | – | (0.1) | – | (0.1) |
| Deferred tax on share options | – | – | – | – | – | (0.1) | (0.1) | – | (0.1) |
| Dividends paid to equity holders of the Company | – | – | – | – | – | (27.6) | (27.6) | – | (27.6) |
| **At 31 December 2015** | **59.1** | **447.3** | **0.3** | **1.4** | **(42.4)** | **183.0** | **648.7** | **0.9** | **649.6** |

The share option reserve represents the cumulative equity-settled share option charge under IFRS 2 less the value of any share options that have been exercised.

The hedging and translation reserve represents movements in the Consolidated Balance Sheet as a result of movements in exchange rates which are taken directly to reserves as detailed in the Statement of Significant Accounting Policies on pages 110 to 111.

The accompanying Statement of Significant Accounting Policies and Notes to the Accounts are an integral part of this Consolidated Statement of Changes in Equity.

# Statement of Significant Accounting Policies

The significant accounting policies adopted in this Annual Report and Accounts for the year ended 31 December 2015 are set out below.

## BASIS OF PREPARATION

The Accounts have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), and therefore the Group Accounts comply with Article 4 of the EU IAS Regulation.

The Accounts have been prepared under the historical cost convention except for derivative financial instruments which are stated at their fair value.

The Accounts have been prepared on a going concern basis as set out on page 39.

The following standard was amended in the current period:

- IAS 19 "Employee Benefits" (amended).

Adoption of the above standard has not had a material impact on the Accounts of the Group.

At the date of authorisation of these Accounts, the following significant standards and interpretations, which have not been applied in these Accounts, were in issue but not yet effective (and in some cases have not yet been adopted by the EU):

- IAS 1 "Disclosure Initiative" – effective for accounting periods beginning on or after 1 January 2016;
- IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation" – effective for accounting periods beginning on or after 1 January 2016;
- IAS 27 "Equity Method in Separate Financial Statements" (amendments) – effective for accounting periods beginning on or after 1 January 2016;
- IFRS 11 "Joint Arrangements" (amended) – effective for accounting periods beginning on or after 1 January 2016;
- IFRS 9 "Financial Instruments" – effective for accounting periods beginning on or after 1 January 2018;
- IFRS 15 "Revenue from Contracts with Customers" – effective for accounting periods beginning on or after 1 January 2018; and
- IFRS 16 "Leases" – effective for accounting periods beginning on or after 1 January 2019.

The Directors do not expect that the adoption of the standards and interpretations listed above will have a material impact on the Accounts of the Group in future periods, except that IFRS 9 will impact upon both the measurement and disclosure of financial instruments, IFRS 15 will impact upon disclosures given in relation to revenue and trade receivables, and IFRS 16 will impact the assets, liabilities and Income Statement charges in respect of leases.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

## BASIS OF CONSOLIDATION

The Consolidated Accounts incorporate the Accounts of the Company and each of its subsidiary undertakings after eliminating all significant intercompany transactions and balances. The results of subsidiary undertakings acquired or sold are consolidated for the periods from or to the date on which control passed.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses attributable to the non-controlling interest in excess of their interest in the subsidiary's equity are allocated against the interest of SIG except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the Shareholders of the Company.

Profit and loss on disposal is calculated as the difference between the aggregate of the fair value of the consideration received and the previous carrying amount of the net assets (including goodwill and intangible assets) of the businesses.

All results are from continuing operations under IFRS as the businesses disposed of in 2014 and operations closed in 2015 did not meet the disclosure criteria of IFRS 5 "Discontinued Operations" as they did not individually or in aggregate represent a separate major line of business or geographical area of operation. In order to give an indication of the underlying earnings of the Group the results of these businesses have been included in the column of the Consolidated Income Statement entitled "Other items".

## CONSOLIDATED INCOME STATEMENT DISCLOSURE

In order to give an indication of the underlying earnings of the Group, certain items are presented in the column of the Consolidated Income Statement entitled "Other items". These include:

- amortisation of acquired intangibles;
- restructuring costs;
- acquisition expenses and contingent consideration;
- other one-off items;
- profits and losses arising on the sale of businesses and associated impairment charges;
- trading profits and losses associated with disposed businesses;
- unwinding of provision discounting;
- fair value gains and losses on derivative financial instruments;
- one-off recognition of deferred tax assets;
- the taxation effect of "Other items"; and
- the effect of the change in taxation rates.

The prior year comparatives have been re-analysed to present the results of the operations closed in 2015 within other one-off items.

## OPERATING PROFIT

Operating profit is stated after charging distribution, selling and marketing costs and administrative expenses but before finance income and finance costs.

## GOODWILL AND BUSINESS COMBINATIONS

All business combinations are accounted for by applying the purchase method. Goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's interest in the fair value of identifiable assets (including intangible assets) and liabilities of the business acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment, or more frequently when there is an indication that goodwill may be impaired. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") expected to benefit from the synergies of the combination. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised on goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of remaining goodwill relating to the entity disposed of is included in the determination of any profit or loss on disposal.

Goodwill recorded in foreign currencies is retranslated at each period end. Any movements in the carrying value of goodwill as a result of foreign exchange rate movements are recognised in the Consolidated Statement of Comprehensive Income.

Any excess of the fair value of net assets over consideration arising on an acquisition is recognised immediately in the Consolidated Income Statement.

## INTANGIBLE ASSETS

The Group recognises intangible assets at cost less accumulated amortisation and impairment losses. The Group recognises two types of intangible asset: acquired and purchased. Acquired intangible assets arise as a result of applying IFRS 3 "Business Combinations" which requires the separate recognition of intangible assets from goodwill on all business combinations. Purchased intangible assets relate primarily to software that is separable from any associated hardware.

Intangible assets are amortised on a straight-line basis over their useful economic lives as follows:

| | Amortisation period | Current estimate of useful life |
|---|---|---|
| Customer relationships | Life of the relationship | 7.4 years |
| Non-compete contracts | Life of the contract | 3.0 years |
| Computer software | Useful life of the software | 7.0–10.0 years |

Assets in the course of construction are carried at cost, with amortisation commencing once the assets are ready for their intended use.

## REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and customer rebates, VAT and other sales-related taxes. The Group principally earns revenue from the distribution of construction products and is able to recognise revenue on receipt of the goods by the customer. Customer rebates are accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to customer rebates and recognised in the period as earned. Wherever revenue is generated from a contract to provide services, it is recognised by reference to the stage of completion of the contract.

## CONSTRUCTION CONTRACTS

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date. This is normally measured by the proportion that contracts costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are recognised only to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the total expected loss is recognised as an expense immediately.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from contract customers. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to contract customers.

## BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such a time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the Consolidated Income Statement in the period in which they are incurred.

## PENSION COSTS

SIG operates six defined benefit pension schemes. The Group's net obligation in respect of these defined benefit pension schemes is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in both current and prior periods. That benefit is discounted using an appropriate discount rate to determine its present value and the fair value of any plan assets is deducted.

Where the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Consolidated Income Statement, on a straight-line basis, over the average period until the benefits vest. To the extent that the benefits vest immediately, the expense is recognised immediately.

The full service cost of the pension schemes is charged to operating profit. Net finance costs on defined benefit pension schemes are recognised in the Consolidated Income Statement. Discretionary contributions made by employees or third parties reduce service costs upon payment of these contributions into the plan.

Any actuarial gain or loss arising is charged through the Consolidated Statement of Comprehensive Income and is made up of the difference between the expected returns on assets and those actually achieved, any changes in the actuarial assumptions for demographics and any changes in the financial assumptions used in the valuations.

The pension scheme deficit is recognised in full and presented on the face of the Consolidated Balance Sheet. The associated deferred tax asset is recognised within non-current assets in the Consolidated Balance Sheet.

For defined contribution schemes the amount charged to the Consolidated Income Statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are included within either accruals or prepayments in the Consolidated Balance Sheet.

## SHARE-BASED PAYMENT TRANSACTIONS

The Group issues both equity-settled and cash-settled share-based payments ("share options"). Share options are measured at fair value at the date of grant based on the Group's estimate of the number of shares that will eventually vest. The fair value determined is then expensed in the Consolidated Income Statement on a straight-line basis over the vesting period, with a corresponding increase in equity (equity-settled share options) or in liabilities (cash-settled share options). The fair value of the options is measured using the Black–Scholes option pricing model.

The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

## SHARE-BASED PAYMENT TRANSACTIONS CONTINUED

For equity-settled share options, at each balance sheet date the Group revises its estimate of the number of share options expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the Consolidated Income Statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

For cash-settled share options, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in the Consolidated Income Statement, with a corresponding adjustment to liabilities.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the Consolidated Cash Flow Statement.

## FOREIGN CURRENCY

Transactions denominated in foreign currencies are recorded in the local currency and converted at actual exchange rates at the date of the transaction. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the Consolidated Income Statement.

At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at that date.

For the purpose of consolidation, income statements of overseas subsidiary undertakings are translated at the average rate for the year and their balance sheets at the rates prevailing at the balance sheet date.

Exchange differences arising on translation of the opening net assets and results of overseas operations, and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are reported in the Consolidated Statement of Comprehensive Income.

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation are reclassified to the Consolidated Income Statement.

## FINANCIAL ASSETS

Financial assets are classified as either financial assets at fair value through profit or loss or loans and receivables. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss are initially measured and subsequently stated at fair value, with any resultant gain or loss recognised in the Consolidated Income Statement. When determining the fair value of financial assets, the expected future cash flows are discounted using an appropriate discount rate.

Loans and receivables are measured initially at fair value and then subsequently at amortised cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets (including trade receivables) are assessed for indicators of impairment on an ongoing basis. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows have been negatively impacted. When there is objective evidence of impairment, appropriate allowances are made for estimated irrecoverable amounts based upon expected future cash flows discounted by an appropriate interest rate where applicable. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered to be uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the Consolidated Income Statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Consolidated Income Statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## FINANCIAL LIABILITIES

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss are initially measured and subsequently stated at fair value, with any resultant gain or loss recognised in the Consolidated Income Statement. The net gain or loss recognised in the Consolidated Income Statement incorporates any interest paid on the financial liability.

Other financial liabilities (including trade and other payables) are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

When determining the fair value of financial liabilities, the expected future cash flows are discounted using an appropriate interest rate.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

## DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments including interest rate swaps, forward foreign exchange contracts, cross currency swaps and commodity hedging instruments to hedge its exposure to foreign currency exchange, interest rate and fuel price risks arising from operational and financing activities. In accordance with its Treasury Policy, the Group does not hold or issue derivative financial instruments for trading purposes. However derivative financial instruments, or any that do not qualify for hedge accounting, are accounted for as trading instruments. Derivatives are classified as non-current assets or non-current liabilities if the remaining maturity of the derivatives is more than twelve months and they are not expected to be otherwise realised or settled within twelve months. Other derivatives are presented as current assets or current liabilities.

Derivative financial instruments are recognised immediately at cost. Subsequent to their initial recognition, derivative financial instruments are then stated at their fair value. The fair value of derivative financial instruments is derived from "mark-to-market" valuations obtained from the Group's relationship banks.

Unless hedge accounting is achieved, the gain or loss on remeasurement to fair value is recognised immediately and is included as part of finance income or finance costs, together with other fair value gains and losses on derivative financial instruments, within the column of the Consolidated Income Statement entitled "Other items".

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, no longer qualifies for hedge accounting, or when the Group revokes the hedging relationship. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Consolidated Income Statement in the period.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedging transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

## CASH FLOW HEDGES

When a derivative financial instrument is designated as a hedge of the variability in cash flows associated with a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the Consolidated Statement of Comprehensive Income (i.e. equity). When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were previously recognised in the Consolidated Statement of Comprehensive Income are reclassified into the Consolidated Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Consolidated Income Statement.

For cash flow hedges, the ineffective portion of any gain or loss is recognised immediately as fair value gains or losses on derivative financial instruments and is included as part of finance income or finance costs within the column of the Consolidated Income Statement entitled "Other items".

## HEDGE OF NET INVESTMENT IN FOREIGN OPERATIONS

The portion of any gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in the Consolidated Statement of Comprehensive Income. The ineffective portion of any gain or loss is recognised immediately as fair value gains or losses on derivative financial instruments and is included as part of finance income or finance costs within the column of the Consolidated Income Statement entitled "Other items". Gains and losses deferred in the hedging and translation reserve are recognised immediately in the Consolidated Income Statement when foreign operations are disposed of.

## FAIR VALUE HEDGES

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the Consolidated Income Statement within “Other items”. Fair value gains or losses from remeasuring the derivative financial instruments are recognised immediately in the Consolidated Income Statement within “Other items”.

## TAXATION

Income tax on the profit or loss for the periods presented comprises both current and deferred tax. Income tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the Consolidated Statement of Comprehensive Income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates that have been enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

In accordance with IAS 12, the following temporary differences are not provided for:

- goodwill not deductible for taxation purposes;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is shown at original cost to the Group less accumulated depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost less the estimated residual value of property, plant and equipment on a straight-line basis over their estimated useful lives as follows:

| | Current estimate of useful life |
|---|---|
| Freehold buildings | 50 years |
| Leasehold buildings | Period of lease |
| Plant and machinery (including motor vehicles) | 3–8 years |

Freehold land is not depreciated.

Residual values, which are based on market rates, are reassessed annually.

Assets in the course of construction are carried at cost, with depreciation charged on the same basis as all other assets once those assets are ready for their intended use.

## INVENTORIES

Inventories are stated at the lower of cost (including an appropriate proportion of attributable overheads, supplier rebates and discounts) and net realisable value. The cost formula used in measuring inventories is either a weighted average cost, or a First In First Out basis, depending on the most appropriate method for each particular business.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred up to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

## LEASES AND HIRE PURCHASE AGREEMENTS

The cost of assets held under finance leases and hire purchase agreements is capitalised with an equivalent liability categorised as appropriate under current liabilities or non-current liabilities. The asset is depreciated over the shorter of the lease term or its useful life.

Rentals under finance leases and hire purchase agreements are apportioned between finance costs and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. The finance costs are charged in arriving at profit before tax.

Rentals under operating leases are charged to the Consolidated Income Statement on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

## PROPERTY PROVISIONS

The Group makes provisions in respect of onerous leasehold property contracts and leasehold dilapidation commitments where it is probable that a transfer of economic benefit will be required to settle a present obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

## DIVIDENDS

Dividends proposed by the Board of Directors that have not been paid by the end of the year are not recognised in the Accounts until they have been approved by the Shareholders at the Annual General Meeting.

## SUPPLIER REBATES

Supplier rebate income is significant to the Group’s result, with a substantial proportion of purchases covered by rebate agreements.

Some supplier rebate agreements are non-coterminous with the Group’s financial year, and firm confirmation of amounts due may not be received until six months after the balance sheet date.

Where the Group relies on estimates, these are made with reference to contracts or other agreements, management forecasts and detailed operational workbooks. Supplier rebate income estimates are regularly reviewed by senior management.

# Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described on pages 107 to 113, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the change takes place if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## CRITICAL JUDGMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

The following are critical judgments, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Group Accounts.

## REBATES PAYABLE AND RECEIVABLE

Supplier rebate income is significant to the Group's result, with a substantial proportion of purchases covered by rebate agreements. Supplier rebate income affects the recorded value of cost of sales, trade payables and inventories. Customer rebates affect the recorded value of revenue and trade receivables. The amounts payable and receivable under rebate agreements are often subject to negotiation after the balance sheet date. A number of agreements are non-coterminous with the Group's financial year, requiring judgment over the level of future purchases and sales. At the balance sheet date the Directors make judgments on the amount of rebate that will become both payable by and due to the Group under these agreements based upon prices, volumes and product mix.

## PROVISIONS AGAINST RECEIVABLES

Using information available at the balance sheet date, the Directors make judgments based on experience regarding the level of provision required to account for potentially uncollectible receivables.

## POST-EMPLOYMENT BENEFITS

The Group operates six defined benefit pension schemes. All post-employment benefits associated with these schemes have been accounted for in accordance with IAS 19 "Employee Benefits". As detailed within the Statement of Significant Accounting Policies on page 109, in accordance with IAS 19, all actuarial gains and losses have been recognised immediately through the Consolidated Statement of Comprehensive Income.

For all defined benefit pension schemes, pension valuations have been performed using specialist advice obtained from independent qualified actuaries. In performing these valuations, significant actuarial assumptions and judgments have been made to determine the defined benefit obligation, in particular with regard to discount rate, inflation and mortality.

## KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year, are discussed below.

## IMPAIRMENT OF NON-CURRENT ASSETS

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The key estimates made in the value in use calculation are those regarding discount rates, sales and operating profit growth rates. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money for the Group. For those businesses not based in the UK or Western Europe, the cash flows are further risk-adjusted to reflect the risks specific to that individual CGU.

For the majority of the CGUs, the Group performs goodwill impairment reviews by forecasting cash flows based upon the following year's budget and a projection of cash flows based upon industry growth expectations (0%-3%) over a further period of four years. Where detailed five year forecasts for a CGU have been prepared and approved by the Board, which can include higher growth rates or varied results reflecting specific economic factors, these are used in preparing cash flow forecasts for impairment review purposes. After this period, the sales growth rates applied to the cash flow forecasts are no more than 1% and operating profit growth no more than 3% in perpetuity. The discount rates applied to all CGUs represent pre-tax rates and range between 7.9% and 10.8%.

Assumptions regarding sales and operating profit growth are considered to be the key area of estimation in the impairment review process, and appropriate sensitivities have been performed and disclosed in Note 11.

Impairments are allocated initially against the value of any goodwill and intangible assets held within a CGU, with any remaining impairment applied to property, plant and equipment on a pro-rata basis.

The carrying amount of relevant non-current assets at 31 December 2015 is £668.4m (2014: £596.0m). Impairment reviews performed during the year indicated that the carrying value of all of the Group's non-current assets at 31 December 2015 is considered supportable.

## TAXATION

Accruals for corporation tax contingencies require the Directors to estimate the level of corporation tax that will be payable based upon the interpretation of applicable tax legislation on a country-by-country basis and an assessment of the likely outcome of any open tax computations. All such accruals are included within current liabilities.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Therefore, estimates are made to establish whether deferred tax balances should be recognised, in particular in respect of non-trading losses.

## 1. REVENUE AND SEGMENTAL INFORMATION

### Revenue

An analysis of the Group's revenue is as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Sale of goods | 2,533.4 | 2,620.6 |
| Revenue from construction contracts | 33.0 | 13.3 |
| **Total revenue** | 2,566.4 | 2,633.9 |
| | | |
| Finance income | 1.0 | 1.0 |
| **Total income** | 2,567.4 | 2,634.9 |

### Segmental Information

#### a) Segmental results

Following the adoption of IFRS 8 "Operating Segments", the Group identifies its reportable segments as those upon which the Group Board regularly bases its opinion and assesses performance. The Group has deemed it appropriate to aggregate its operating segments into two reported segments: UK & Ireland, and Mainland Europe. The constituent operating segments have been aggregated as they have similar: products and services; production processes; types of customer; methods of distribution; regulatory environments; and economic characteristics.

| | 2015 UK & Ireland £m | 2015 Mainland Europe £m | 2015 Eliminations £m | 2015 Total £m | 2014 UK & Ireland £m | 2014 Mainland Europe £m | 2014 Eliminations £m | 2014 Total £m |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| Continuing sales | 1,412.9 | 1,153.5 | – | 2,566.4 | 1,336.2 | 1,266.7 | – | 2,602.9 |
| Sales attributable to businesses divested in 2014 | – | – | – | – | 18.6 | 12.4 | – | 31.0 |
| Inter-segment sales^ | 2.3 | 11.4 | (13.7) | – | 2.4 | 11.2 | (13.6) | – |
| Total revenue | 1,415.2 | 1,164.9 | (13.7) | 2,566.4 | 1,357.2 | 1,290.3 | (13.6) | 2,633.9 |
| **Result** | | | | | | | | |
| **Segment result before Other items** | 61.0 | 45.1 | – | 106.1 | 66.9 | 54.2 | – | 121.1 |
| Amortisation of acquired intangibles | (8.3) | (2.0) | – | (10.3) | (8.9) | (10.7) | – | (19.6) |
| Restructuring costs | (5.2) | (3.1) | – | (8.3) | (7.1) | (2.1) | – | (9.2) |
| Acquisition expenses and contingent consideration (Note 13) | (8.6) | (5.7) | – | (14.3) | (3.8) | (0.1) | – | (3.9) |
| Other one-off items | (0.3) | 0.4 | – | 0.1 | (4.6) | – | – | (4.6) |
| Profits and losses on sale of businesses and associated impairment charges | – | – | – | – | (19.0) | 5.0 | – | (14.0) |
| Net operating losses attributable to businesses divested in 2014 | – | – | – | – | (4.7) | (2.0) | – | (6.7) |
| **Segment operating profit** | 38.6 | 34.7 | – | 73.3 | 18.8 | 44.3 | – | 63.1 |
| Parent Company costs | | | | (7.4) | | | | (9.9) |
| **Operating profit** | | | | 65.9 | | | | 53.2 |
| Net finance costs before Other items | | | | (11.3) | | | | (12.1) |
| Net fair value losses on derivative financial instruments | | | | (1.9) | | | | (1.9) |
| Unwinding of provision discounting | | | | (1.4) | | | | (0.2) |
| **Profit before tax** | | | | 51.3 | | | | 39.0 |
| Income tax expense | | | | (15.0) | | | | (4.5) |
| Non-controlling interests | | | | (0.3) | | | | (1.5) |
| **Profit for the year** | | | | 36.0 | | | | 33.0 |

^ Inter-segment sales are charged at the prevailing market rates.

## 1. REVENUE AND SEGMENTAL INFORMATION CONTINUED

### a) Segmental results continued

| | 2015 UK & Ireland £m | 2015 Mainland Europe £m | 2015 Total £m | 2014 UK & Ireland £m | 2014 Mainland Europe £m | 2014 Total £m |
|---|---|---|---|---|---|---|
| **Balance sheet** | | | | | | |
| **Assets** | | | | | | |
| Segment assets | **771.5** | **649.0** | **1,420.5** | 666.4 | 645.6 | 1,312.0 |
| *Unallocated assets:* | | | | | | |
| Property, plant and equipment | | | **1.0** | | | 0.1 |
| Derivative financial instruments | | | **36.8** | | | 33.9 |
| Deferred consideration | | | **1.5** | | | 1.5 |
| Other financial assets | | | **0.3** | | | – |
| Cash and cash equivalents | | | **12.8** | | | 25.8 |
| Deferred tax assets | | | **4.0** | | | 9.6 |
| Other assets | | | **3.2** | | | 1.4 |
| Consolidated total assets | | | **1,480.1** | | | 1,384.3 |
| **Liabilities** | | | | | | |
| Segment liabilities | **305.4** | **164.8** | **470.2** | 283.9 | 165.4 | 449.3 |
| *Unallocated liabilities:* | | | | | | |
| Private placement notes | | | **255.9** | | | 254.3 |
| Bank loans | | | **88.1** | | | – |
| Derivative financial instruments | | | **2.0** | | | 1.1 |
| Other liabilities | | | **14.3** | | | 15.3 |
| Consolidated total liabilities | | | **830.5** | | | 720.0 |
| **Other segment information** | | | | | | |
| *Capital expenditure on:* | | | | | | |
| Property, plant and equipment | **30.6** | **10.3** | **40.9** | 16.5 | 14.8 | 31.3 |
| Computer software | **8.4** | **0.8** | **9.2** | 10.1 | 0.3 | 10.4 |
| Goodwill and intangible assets (excluding computer software) | **60.0** | **12.7** | **72.7** | 23.1 | 8.5 | 31.6 |
| *Non-cash expenditure:* | | | | | | |
| Depreciation | **13.5** | **9.5** | **23.0** | 11.4 | 9.8 | 21.2 |
| Impairment of property, plant and equipment and computer software | **–** | **–** | **–** | 6.1 | – | 6.1 |
| Amortisation of acquired intangibles and computer software | **10.8** | **2.5** | **13.3** | 10.8 | 11.6 | 22.4 |
| Impairment of goodwill and intangibles (excluding computer software) | **–** | **–** | **–** | 3.3 | – | 3.3 |

## 1. REVENUE AND SEGMENTAL INFORMATION CONTINUED

### b) Revenue by product group

The Group focuses its activities into three product sectors: Insulation and Energy Management; Exteriors; and Interiors, as set out on page 2.

The following table provides an analysis of Group sales by type of product:

| | 2015 £m | 2014 £m |
|---|---|---|
| Insulation and Energy Management | 1,157.8 | 1,195.0 |
| Exteriors | 792.6 | 807.6 |
| Interiors | 616.0 | 600.3 |
| **Total continuing** | 2,566.4 | 2,602.9 |
| Sales attributable to businesses divested in 2014 | – | 31.0 |
| **Total** | 2,566.4 | 2,633.9 |

### c) Geographic information

The Group's revenue from external customers and its non-current assets (including property, plant and equipment, goodwill and intangible assets but excluding deferred tax, deferred consideration and derivative financial instruments) by geographical location are as follows:

| Country | 2015 Revenue £m | 2015 Non-current assets £m | 2014 Revenue £m | 2014 Non-current assets £m |
|---|---|---|---|---|
| United Kingdom | 1,340.8 | 397.5 | 1,265.2 | 323.2 |
| Ireland | 72.1 | 1.1 | 71.0 | 0.8 |
| France | 517.3 | 194.5 | 586.1 | 205.7 |
| Germany & Austria | 368.3 | 19.0 | 412.2 | 17.8 |
| Poland | 103.6 | 15.4 | 112.0 | 16.8 |
| Benelux* | 164.3 | 40.9 | 156.4 | 31.7 |
| **Total continuing** | 2,566.4 | 668.4 | 2,602.9 | 596.0 |
| Attributable to businesses divested in 2014 | – | – | 31.0 | – |
| **Total** | 2,566.4 | 668.4 | 2,633.9 | 596.0 |

* Includes Air Trade Centre.

There is no material difference between the basis of preparation of the information reported above and the accounting policies adopted by the Group.

## 2. COST OF SALES AND OTHER OPERATING EXPENSES

| | 2015 Before Other items £m | 2015 Other items £m | 2015 Total £m | 2014 Before Other items £m | 2014 Other items £m | 2014 Total £m |
|---|---|---|---|---|---|---|
| **Cost of sales** | **1,878.0** | **–** | **1,878.0** | 1,902.3 | 27.5 | 1,929.8 |
| **Other operating expenses:** | | | | | | |
| – distribution costs | **219.1** | **8.1** | **227.2** | 216.6 | 1.7 | 218.3 |
| – selling and marketing costs | **213.7** | **1.3** | **215.0** | 223.4 | 3.0 | 226.4 |
| – administrative expenses | **156.9** | **23.4** | **180.3** | 149.4 | 56.8 | 206.2 |
| | **589.7** | **32.8** | **622.5** | 589.4 | 61.5 | 650.9 |

Profit after tax includes the following "Other items" which have been disclosed in a separate column within the Consolidated Income Statement in order to provide a better indication of the underlying earnings of the Group:

| | 2015 £m | 2014 £m |
|---|---|---|
| Amortisation of acquired intangibles (Note 12) | **(10.3)** | (19.6) |
| Profits and losses arising on sale of businesses and associated impairment charges | **–** | (14.0) |
| Net operating losses attributable to businesses divested in 2014 | **–** | (6.7) |
| Restructuring costs^ | **(8.3)** | (9.2) |
| Acquisition expenses and contingent consideration (Note 13) | **(14.3)** | (3.9) |
| Other one-off items* | **0.1** | (4.6) |
| **Impact on operating profit** | **(32.8)** | (58.0) |
| Net fair value losses on derivative financial instruments | **(1.9)** | (1.9) |
| Unwinding of provision discounting | **(1.4)** | (0.2) |
| **Impact on profit before tax** | **(36.1)** | (60.1) |
| Income tax credit on Other items | **4.2** | 8.1 |
| One-off recognition of deferred tax assets (Note 22) | **0.7** | 14.9 |
| Utilisation of losses not previously recognised | **0.3** | 0.1 |
| Effect of change in rate on deferred tax | **0.8** | 0.2 |
| **Impact on profit after tax** | **(30.1)** | (36.8) |

^ Included within restructuring costs are redundancy costs of £0.9m (2014: £3.9m), property closure costs of £4.6m (2014: £3.1m), rebranding costs of £0.2m (2014: £2.2m), and supply chain consultancy costs of £2.6m (2014: £nil).

* Other one-off items include operating losses and closure costs associated with the Group's operations in the Kingdom of Saudi Arabia of £3.6m, fair value losses on fuel hedging contracts of £0.4m, credits arising on the reversal of provisions made in prior periods of £2.4m and other credits of £0.6m, and the profit on sale of property of £1.1m.

## 3. FINANCE INCOME AND FINANCE COSTS

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Before Other Items £m | Other items £m | Total £m | Before Other Items £m | Other items £m | Total £m |
| **Finance income** | | | | | | |
| Interest on bank deposits | 1.0 | – | 1.0 | 0.9 | – | 0.9 |
| Fair value gains on derivative financial instruments | – | – | – | – | 0.1 | 0.1 |
| Total finance income | 1.0 | – | 1.0 | 0.9 | 0.1 | 1.0 |
| **Finance costs** | | | | | | |
| On bank loans, overdrafts and other associated items^ | 2.8 | – | 2.8 | 3.4 | – | 3.4 |
| On private placement notes | 7.8 | – | 7.8 | 8.0 | – | 8.0 |
| On obligations under finance lease contracts | 0.5 | – | 0.5 | 0.7 | – | 0.7 |
| Total interest expense | 11.1 | – | 11.1 | 12.1 | – | 12.1 |
| Net finance charge on defined benefit pension schemes | 0.7 | – | 0.7 | 0.6 | – | 0.6 |
| Unwinding of provision discounting | 0.1 | 1.4 | 1.5 | – | 0.2 | 0.2 |
| Fair value losses on derivative financial instruments* | 0.4 | 1.9 | 2.3 | 0.3 | 2.0 | 2.3 |
| Total finance costs | 12.3 | 3.3 | 15.6 | 13.0 | 2.2 | 15.2 |
| **Net finance costs** | 11.3 | 3.3 | 14.6 | 12.1 | 2.1 | 14.2 |

^ Other associated items includes the amortisation of arrangement fees of £0.5m (2014: £0.9m).

* Fair value losses on derivative financial instruments before Other items includes £0.4m (2014: £0.3m) relating to the recycling of amounts previously recorded in reserves in respect of two interest rate derivative contracts cancelled in 2014 as part of the ongoing management of the Group's interest rate hedging policy.

## 4. PROFIT BEFORE TAX

| | 2015 £m | 2014 £m |
|---|---|---|
| **Profit before tax is stated after crediting:** | | |
| Foreign exchange rate gains* | 0.1 | 0.3 |
| Discounting of provisions | – | 1.4 |
| Fair value gains on derivative financial instruments | – | 0.1 |
| Net decrease in provision for inventories | 1.4 | – |
| Gains on disposal of property, plant and equipment | 2.4 | 2.2 |
| Other one-off items (Note 2) | 0.1 | – |
| **And after charging:** | | |
| Cost of inventories recognised as an expense | 1,916.0 | 1,944.5 |
| Net increase in provision for inventories | – | 0.5 |
| Depreciation of property, plant and equipment: | | |
| – owned | 20.1 | 18.7 |
| – held under finance leases and hire purchase agreements | 2.9 | 2.5 |
| Amortisation of acquired intangibles | 10.3 | 19.6 |
| Amortisation of computer software | 3.0 | 2.8 |
| Operating lease rentals: | | |
| – land and buildings | 49.7 | 48.3 |
| – plant and machinery | 14.4 | 16.3 |
| Auditor remuneration for audit services | 1.4 | 1.3 |
| Non-audit fees | 0.1 | 0.1 |
| Net increase in provision for receivables (Note 15) | 6.0 | 6.9 |
| Foreign exchange rate losses* | 0.3 | 0.2 |
| Fair value losses on derivative financial instruments | 2.3 | 2.3 |
| Unwinding of provision discounting | 1.5 | 0.2 |
| Profits and losses arising on sale of businesses and associated impairment charges | – | 14.0 |
| Impairment of property, plant and equipment (Note 10) | – | 6.1 |
| Restructuring costs (Note 2) | 8.3 | 9.2 |
| Acquisition expenses and contingent consideration (Note 13) | 14.3 | 3.9 |
| Other one-off items (Note 2) | – | 4.6 |
| Staff costs excluding contingent consideration treated as remuneration (Note 5) | 321.8 | 328.3 |

* Excludes gains and losses incurred as a result of applying IAS 39 “Financial Instruments: Recognition and Measurement”.

A more detailed analysis of Auditor remuneration is provided below:

| | 2015 Deloitte LLP £m | 2014 Deloitte LLP £m |
|---|---|---|
| **Audit services** | | |
| Fees payable to the Company’s Auditor for the audit of the Company’s Consolidated Accounts | 0.1 | 0.1 |
| Fees payable to the Company’s Auditor and its associates for other services to the Group: | | |
| – for the audit of the Company’s subsidiaries | 1.3 | 1.2 |
| **Total audit fees** | 1.4 | 1.3 |
| Audit-related assurance services (including Interim Review) | 0.1 | 0.1 |
| **Total non-audit fees** | 0.1 | 0.1 |
| **Total fees** | 1.5 | 1.4 |

The Audit Committee Report on pages 72 to 77 provides an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the Auditor.

## 5. STAFF COSTS
Particulars of employees (including Directors) are shown below:

| | 2015 £m | 2014 £m |
|---|---|---|
| **Employee costs during the year amounted to:** | | |
| Wages and salaries | 270.3 | 274.0 |
| Social security costs | 44.3 | 46.8 |
| IFRS 2 share option charge | 0.1 | 0.7 |
| Pension costs (Note 28c) | 7.1 | 6.8 |
| Total staff costs excluding contingent consideration | 321.8 | 328.3 |
| Contingent consideration treated as remuneration (Note 13) | 10.2 | 2.9 |
| **Total staff costs including contingent consideration** | 332.0 | 331.2 |

Of the pension costs noted above, a charge of £1.5m (2014: £1.3m) relates to defined benefit schemes and a charge of £5.6m (2014: £5.5m) relates to defined contribution schemes. See Note 28c for more details.

The average monthly number of persons employed by the Group during the year was as follows:

| | 2015 Number | 2014 Number |
|---|---|---|
| Production | 704 | 681 |
| Distribution | 3,050 | 3,588 |
| Sales | 4,243 | 3,864 |
| Administration | 1,644 | 1,321 |
| **Total** | 9,641 | 9,454 |

Included within the prior year average monthly numbers above were 231 staff employed by businesses divested in 2014.

### Directors' emoluments
Details of the individual Directors' emoluments are given in the Directors' Remuneration Report on pages 90 to 96.

The employee costs shown above include the following emoluments in respect of Directors of the Company:

| | 2015 £m | 2014 £m |
|---|---|---|
| Directors' remuneration (excluding IFRS 2 share option charge) | 1.5 | 2.0 |

## 6. INCOME TAX
The income tax expense comprises:

| | | 2015 £m | 2014 £m |
|---|---|---|---|
| **Current tax** | | | |
| UK corporation tax: | – on profits/(losses) for the year | – | – |
| | – adjustments in respect of previous years | – | – |
| | | – | – |
| Overseas tax: | – on profits/(losses) for the year | 10.8 | 14.7 |
| | – adjustments in respect of previous years | (0.4) | 0.9 |
| Total current tax | | 10.4 | 15.6 |
| **Deferred tax** | | | |
| Current year | | 5.7 | 3.4 |
| Adjustments in respect of previous years | | (1.0) | (15.1) |
| Deferred tax charge in respect of pension schemes* | | 0.2 | 0.7 |
| Effect of change in rate | | (0.3) | (0.1) |
| Total deferred tax | | 4.6 | (11.1) |
| **Total income tax expense** | | 15.0 | 4.5 |

* Includes a credit of £0.5m (2014: £0.1m) in respect of the change in rate.

## 6. INCOME TAX CONTINUED

The total tax charge for the year differs from that resulting from applying the standard rate of corporate tax in the UK at 31 December 2015 of 20.0% (31 December 2014: 21.0%). The differences are explained in the following reconciliation:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | £m | % | £m | % |
| Profit on ordinary activities before tax | 51.3 | | 39.0 | |
| Tax at 20.0% (2014: 21.0%) thereon | 10.3 | 20.0 | 8.2 | 21.0 |
| Factors affecting the income tax expense for the year: | | | | |
| – non-deductible and non-taxable items | 4.8 | 9.4 | 6.2 | 15.9 |
| – losses not recognised | – | – | 0.4 | 1.0 |
| – losses utilised not previously recognised | (0.3) | (0.6) | (0.1) | (0.3) |
| – other adjustments in respect of previous years | (1.4) | (2.7) | (14.2) | (36.4) |
| – effect of overseas tax rates | 2.4 | 4.7 | 4.2 | 10.8 |
| – effect of change in rate on deferred tax | (0.8) | (1.6) | (0.2) | (0.5) |
| **Total income tax expense** | 15.0 | 29.2 | 4.5 | 11.5 |

The effective tax rate for the Group on the total profit before tax of £51.3m is 29.2% (2014: 11.5%). The effective tax charge for the Group on profit before tax, before amortisation of acquired intangibles, restructuring costs, acquisition expenses and contingent consideration, other one-off items, profits and losses arising on the sale of businesses and associated impairment charges, trading profits and losses associated with disposed businesses, unwinding of provision discounting and fair value gains and losses on derivative financial instruments, of £87.4m is 24.0% (2014: 28.1%), which comprises a tax charge of 24.8% (2014: 27.3%) in respect of current year profits and a tax credit of 0.8% (2014: charge of 0.8%) in respect of prior years.

In 2014, a deferred tax asset of £14.9m was recognised in respect of previously unrecognised UK excess non-trading losses incurred in 2008 (see Note 22).

The following factors will affect the Group's future total tax charge as a percentage of underlying profits:

- the mix of profits between the UK and overseas; in particular, France/Germany/Belgium/Netherlands (corporate tax rates greater than 20%) and Ireland/Poland (corporate tax rates less than 20%). If the proportion of profits from these jurisdictions changes, this could result in a higher or lower Group tax charge;
- the impact of non-deductible expenditure and non-taxable income;
- the agreement of open tax computations with the respective tax authorities; and
- the recognition or utilisation (with a corresponding reduction in cash tax payments) of unrecognised deferred tax assets (see Note 22).

In addition to the amounts charged to the Consolidated Income Statement, the following amounts in relation to taxes have been recognised in the Consolidated Statement of Comprehensive Income with the exception of deferred tax on share options which has been recognised in the Consolidated Statement of Changes in Equity.

| | 2015 £m | 2014 £m |
|---|---|---|
| Deferred tax movement associated with remeasurement of defined benefit pension liabilities* | (0.2) | 1.7 |
| Deferred tax on share options | (0.1) | 0.5 |
| Tax charge on exchange and fair value movements arising on borrowings and derivative financial instruments | (1.5) | (1.9) |
| Effect of change in rate on deferred tax* | (0.7) | (0.1) |
| **Total** | (2.5) | 0.2 |

* These items will not subsequently be reclassified to the Consolidated Income Statement.

## 7. DIVIDENDS

An interim dividend of 1.69p per ordinary share was paid on 7 November 2015 (2014: 1.42p). The Directors have proposed a final dividend for the year ended 31 December 2015 of 2.91p per ordinary share (2014: 2.98p). The proposed final dividend is subject to approval by Shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. No dividends have been paid between 31 December 2015 and the date of signing the Accounts.

## 8. EARNINGS PER SHARE

The calculations of earnings per share are based on the following profits and numbers of shares:

| | Basic and diluted | |
|---|---|---|
| | **2015 £m** | 2014 £m |
| Profit after tax | **36.3** | 34.5 |
| Non-controlling interests | **(0.3)** | (1.5) |
| | **36.0** | 33.0 |

| | Basic and diluted before Other items | |
|---|---|---|
| | **2015 £m** | 2014 £m |
| Profit after tax | **36.3** | 34.5 |
| Non-controlling interests | **(0.3)** | (1.5) |
| Other items: | | |
| Amortisation of acquired intangibles (Note 12) | **10.3** | 19.6 |
| Profits and losses arising on the sale of businesses and associated impairment charges | **–** | 14.0 |
| Net operating losses attributable to businesses divested in 2014 | **–** | 6.7 |
| Restructuring costs | **8.3** | 9.2 |
| Acquisition expenses and contingent consideration (Note 13) | **14.3** | 3.9 |
| Other one-off items | **(0.1)** | 4.6 |
| Net fair value losses on derivative financial instruments | **1.9** | 1.9 |
| Unwinding of provision discounting | **1.4** | 0.2 |
| Tax credit relating to Other items | **(4.2)** | (8.1) |
| One-off recognition of deferred tax assets (Note 22) | **(0.7)** | (14.9) |
| Utilisation of losses not previously recognised | **(0.3)** | (0.1) |
| Effect of change in rate on deferred tax | **(0.8)** | (0.2) |
| Other items attributable to non-controlling interests | **–** | 1.1 |
| | **66.1** | 70.9 |

| **Weighted average number of shares** | **2015 Number** | 2014 Number |
|---|---|---|
| For basic earnings per share | **591,183,300** | 591,112,524 |
| Exercise of share options | **–** | 99,237 |
| For diluted earnings per share | **591,183,300** | 591,211,761 |

| **Earnings per share** | **2015** | 2014 |
|---|---|---|
| Basic earnings per share | **6.1p** | 5.6p |
| Diluted earnings per share | **6.1p** | 5.6p |
| **Earnings per share before Other items^** | | |
| Basic earnings per share | **11.2p** | 12.0p |
| Diluted earnings per share | **11.2p** | 12.0p |

^ Earnings per share before Other items has been disclosed in order to present the underlying performance of the Group.

## 8. EARNINGS PER SHARE CONTINUED

The impact of Other items on the Consolidated Income Statement, along with their associated tax impact, is disclosed in the table below:

| | 2015 Other items £m | 2015 Tax impact £m | 2015 Tax impact % | 2014 Other items £m | 2014 Tax impact £m | 2014 Tax impact % |
|---|---|---|---|---|---|---|
| Amortisation of acquired intangibles (Note 12) | **10.3** | **2.2** | **21.4** | 19.6 | 5.3 | 27.0 |
| Profits and losses arising on the sale of businesses and associated impairment charges | **–** | **–** | **–** | 14.0 | – | – |
| Net operating losses attributable to businesses divested in 2014 | **–** | **–** | **–** | 6.7 | 0.4 | 6.0 |
| Restructuring costs | **8.3** | **1.7** | **20.5** | 9.2 | 1.5 | 16.3 |
| Acquisition expenses and contingent consideration (Note 13) | **14.3** | **–** | **–** | 3.9 | – | – |
| Other one-off items | **(0.1)** | **(0.1)** | **–** | 4.6 | 0.5 | 10.9 |
| **Impact on operating profit** | **32.8** | **3.8** | **11.6** | 58.0 | 7.7 | 13.3 |
| Net fair value losses on derivative financial instruments | **1.9** | **0.4** | **21.1** | 1.9 | 0.4 | 21.1 |
| Unwinding of provision discounting | **1.4** | **–** | **–** | 0.2 | – | – |
| **Impact on profit before tax** | **36.1** | **4.2** | **11.6** | 60.1 | 8.1 | 13.5 |
| One-off recognition of deferred tax assets | **–** | **0.7** | **–** | – | 14.9 | – |
| Utilisation of losses not previously recognised | **–** | **0.3** | **–** | – | 0.1 | – |
| Effect of change in rate on deferred tax | **–** | **0.8** | **–** | – | 0.2 | – |
| **Impact on profit after tax** | **36.1** | **6.0** | **16.6** | 60.1 | 23.3 | 38.8 |
| Other items attributable to non-controlling interests | **–** | **–** | **–** | 1.1 | – | – |
| **Impact on profit attributable to equity holders of the Company** | **36.1** | **6.0** | **16.6** | 61.2 | 23.3 | 38.1 |

## 9. SHARE-BASED PAYMENTS

The Group had three share-based payment schemes in existence during the year ended 31 December 2015 (2014: three). The Group recognised a total charge of £0.1m (2014: £0.7m) in the year relating to share-based payment transactions issued after 7 November 2002 with a corresponding entry to the share option reserve. The weighted average fair value of each option granted in the year was 163p (2014: 160p). Details of each of the schemes are provided below.

### a) Save As You Earn ("SAYE") scheme

The Company operated a SAYE scheme within the Republic of Ireland which was open to all employees and was linked to a monthly savings contract over a five year period. The remaining options were either exercised or lapsed during 2015.

No SAYE options have been granted in the UK since 2005. Instead, the Company has operated a Share Incentive Plan ("SIP") since 2005 as approved at the 2004 Annual General Meeting.

#### SAYE options (issued after 7 November 2002)

| | 2015 Options | 2015 Weighted average exercise price (p) | 2014 Options | 2014 Weighted average exercise price (p) |
|---|---|---|---|---|
| At 1 January | **99,237** | **95.0** | 154,065 | 95.0 |
| Lapsed during the year | **(14,305)** | **95.0** | (17,472) | 95.0 |
| Exercised during the year | **(84,932)** | **95.0** | (37,356) | 95.0 |
| **At 31 December** | **–** | **–** | 99,237 | 95.0 |

## 9. SHARE-BASED PAYMENTS CONTINUED

### b) Long-Term Incentive Plan ("LTIP")

Under the existing LTIP policy, Executive Directors can be awarded an annual grant of nil paid share options up to a maximum value of 150% of base salary.

The criteria and vesting conditions of the LTIP options are as follows:

| | 2015 Awards | | 2014 Award | | 2013 Award | |
|---|---|---|---|---|---|---|
| | EPS | ROCE | EPS | ROCE | EPS | ROCE |
| Weighting of criteria | 33% | 67% | 33% | 67% | 33% | 67% |
| Vesting Conditions: | | | | | | |
| Does not vest | < 38p | < 11.0% | < 35p | < 9.2% | < 30p | < 9.0% |
| Vests proportionately | 38p — 48p | 11.0% — 14.0% | 35p — 45p | 9.2% — 13.0% | 30p — 40p | 9.0% — 13.0% |
| Vests in full | ≥ 48p | ≥ 14.0% | ≥ 45p | ≥ 13.0% | ≥ 40p | ≥ 13.0% |
| Proportion that vests at entry level | 25% | 0% | 25% | 0% | 0% | 0% |
| Exercise period | 3 – 10 years | | 3 – 10 years | | 3 – 10 years | |

The right to exercise options terminates upon the employee ceasing to hold office with the Group, subject to certain exceptions and the discretion of the Board.

Awards have also been made annually since 2011 through a shadow Cash LTIP scheme that requires the Group to pay the intrinsic value of the share appreciation rights to the employee at the date of exercise. This scheme has exactly the same conditions and vesting criteria as the LTIP, the difference being that the award is settled in the cash value of the equity in the event of the options being exercised, rather than through the issue of shares. This scheme has been accounted for in the same way as the equity-settled scheme, with the exception that the liability is recognised within accruals as opposed to equity.

### LTIP options (issued after 7 November 2002)

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Options | Weighted average exercise price (p) | Options | Weighted average exercise price (p) |
| At 1 January | 4,840,049 | 0.0 | 4,028,642 | 0.0 |
| Granted during the year | 2,408,985 | 0.0 | 2,077,819 | 0.0 |
| Exercised during the year | (124,413) | 0.0 | – | 0.0 |
| Lapsed during the year | (1,686,833) | 0.0 | (1,266,412) | 0.0 |
| **At 31 December** | 5,437,788 | 0.0 | 4,840,049 | 0.0 |

Of the above share options outstanding at the end of the year, 15,533 (2014: none) are exercisable at 31 December 2015.

The options outstanding at 31 December 2015 had a weighted average exercise price of nil p (2014: nil p) and a weighted average remaining contractual life of 1.9 years (2014: 1.6 years). In the year, 124,413 options were exercised.

The assumptions used in the Black–Scholes model in relation to the LTIP options are as follows:

| | 2015 Awards | | 2014 Award | 2013 Award |
|---|---|---|---|---|
| Share price (on date of official grant) | 138p (4 December 2015) | 184p (17 September 2015) | 177p (18 September 2014) | 152p (18 April 2013) |
| Exercise price | 0.0p | 0.0p | 0.0p | 0.0p |
| Expected volatility | 25.4% | 25.4% | 32.3% | 185.7% |
| Actual life | 3 – 5 years | 3 – 5 years | 3 years | 3 years |
| Risk free rate | 1.8% | 1.8% | 1.8% | 4.5% |
| Dividend | 4.67p | 4.67p | 3.82p | 3.15p |
| Expected percentage options exercised versus granted at date of grant | 12% | 50% | 50% | 35% |
| Revised expectation of percentage of options to be exercised as at 31 December 2015 | 12% | 12% | 23% | 19.5% |

The weighted average fair value of LTIP options granted during the year was 163p.

## 9. SHARE-BASED PAYMENTS CONTINUED

### b) Long-Term Incentive Plan ("LTIP") continued

The expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected percentage of total options exercised is based on the Directors' best estimate for the effects of behavioural considerations.

### c) Share Incentive Plan ("SIP")

The SIP is offered to UK employees. The SIP is an HM Revenue and Customs approved scheme and operates by inviting participants, including Executive Directors, to purchase shares in the Company in a tax efficient manner on a monthly basis. The Company gives one matching share for each share purchased by the employee up to a maximum of £20 each month. No performance criteria are attached to these matching shares, other than to avoid forfeiture the participants must remain within the plan for a minimum of two years. In 2015, 108,120 (2014: 72,238) matching shares were granted during the year. Given the nature of the scheme, the fair value of the matching shares equates to the cost of the Company acquiring these shares.

## 10 PROPERTY, PLANT AND EQUIPMENT

The movements in the year and the preceding year were as follows:

| | Land and buildings | | | |
|---|---|---|---|---|
| | Freehold £m | Short leasehold £m | Plant and machinery £m | Total £m |
| **Cost** | | | | |
| At 1 January 2014 | 88.3 | 40.9 | 204.4 | 333.6 |
| Exchange differences | (3.9) | (1.2) | (8.9) | (14.0) |
| Additions | 1.9 | 3.3 | 26.1 | 31.3 |
| Added on acquisition | 1.2 | – | 0.6 | 1.8 |
| Disposals | (17.3) | (4.9) | (31.7) | (53.9) |
| At 31 December 2014 | 70.2 | 38.1 | 190.5 | 298.8 |
| Exchange differences | (3.0) | (0.9) | (7.1) | (11.0) |
| Additions | 4.7 | 4.6 | 31.6 | 40.9 |
| Added on acquisition | 1.7 | 0.2 | 2.1 | 4.0 |
| Disposals | (10.2) | (0.4) | (13.8) | (24.4) |
| **At 31 December 2015** | **63.4** | **41.6** | **203.3** | **308.3** |
| **Accumulated depreciation and impairment** | | | | |
| At 1 January 2014 | 27.7 | 23.1 | 147.2 | 198.0 |
| Charge for the year | 1.4 | 2.7 | 17.1 | 21.2 |
| Impairment charges | 6.1 | – | – | 6.1 |
| Exchange differences | (1.8) | (1.0) | (7.0) | (9.8) |
| Disposals | (9.6) | (4.2) | (30.1) | (43.9) |
| At 31 December 2014 | 23.8 | 20.6 | 127.2 | 171.6 |
| Charge for the year | 1.2 | 3.0 | 18.8 | 23.0 |
| Exchange differences | (1.2) | (0.7) | (5.2) | (7.1) |
| Disposals | (8.2) | (0.4) | (13.3) | (21.9) |
| **At 31 December 2015** | **15.6** | **22.5** | **127.5** | **165.6** |
| **Net book value** | | | | |
| **At 31 December 2015** | **47.8** | **19.1** | **75.8** | **142.7** |
| At 31 December 2014 | 46.4 | 17.5 | 63.3 | 127.2 |

The net book value of plant and machinery at 31 December 2015 includes an amount of £9.5m (2014: £9.9m) in respect of assets held under finance lease contracts.

Included within plant and machinery additions are assets in the course of construction of £8.6m (2014: £1.8m).

## 11. GOODWILL

| | £m |
|---|---|
| **Cost** | |
| At 1 January 2014 | 508.0 |
| Exchange differences | (14.4) |
| Acquisitions | 18.6 |
| Adjustments in respect of prior period acquisitions | 0.3 |
| Disposals | (24.9) |
| At 31 December 2014 | 487.6 |
| Exchange differences | (11.7) |
| Acquisitions | 29.4 |
| Adjustments in respect of prior period acquisitions | 0.2 |
| **At 31 December 2015** | **505.5** |
| **Accumulated impairment losses** | |
| At 1 January 2014 | 90.4 |
| Impairment charges | 3.3 |
| Disposals | (24.9) |
| Exchange differences | (0.4) |
| At 31 December 2014 | 68.4 |
| Exchange differences | (0.4) |
| **At 31 December 2015** | **68.0** |
| **Net book value** | |
| **At 31 December 2015** | **437.5** |
| At 31 December 2014 | 419.2 |

Goodwill acquired in a business combination is allocated at the date of acquisition to the Cash Generating Units ("CGUs") that are expected to benefit from that business combination. The Group currently has ten CGUs.

### Summary analysis

The recoverable amounts of goodwill in respect of all CGUs are fully supported by the value in use calculations in the year and are as follows:

| | **2015 £m** | 2014 £m |
|---|---|---|
| UK Distribution | **115.4** | 108.9 |
| UK Exteriors | **128.6** | 112.3 |
| Larivière | **144.7** | 153.6 |
| Other CGUs | **48.8** | 44.4 |
| **Total goodwill** | **437.5** | 419.2 |

## 11. GOODWILL CONTINUED

### Impairment review process

The Group tests goodwill and the associated intangible assets and property, plant and equipment of CGUs annually for impairment, or more frequently if there are indications that an impairment may be required.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for these calculations are those regarding discount rates, sales and operating profit growth rates. These assumptions have been revised in the year in light of the current economic environment. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money for the Group. In respect of the other assumptions, external data and management's best estimates are applied.

For the majority of CGUs, the Group performs goodwill impairment reviews by forecasting cash flows based upon the following year's budget and a projection of sales and cash flows based upon industry growth expectations (0%-3%) over a further period of four years. Where detailed five year forecasts for a CGU have been prepared and approved by the Board, which can include higher growth rates or varied results reflecting specific economic factors, these are used in preparing cash flow forecasts for impairment review purposes. The forecasts used in the annual impairment reviews have been prepared taking into account current economic conditions. After this period, the sales growth rates applied to the cash flow forecasts are no more than 1% and operating profit growth no more than 3% in perpetuity. The discount rates applied to all impairment reviews represent pre-tax rates and range between 7.9% and 10.8%.

### 2015 impairment review results

The carrying value of the Group's CGUs remain supportable.

### Sensitivity analysis

A number of sensitivities have been performed on the Group's significant CGUs to highlight the changes in market conditions that would lead to verge of impairment. The results are as follows:

**2015**

| | | Like-for-like market volume (average % per annum) | | Discount rate (%) | | Long-term operating profit growth rate (average % per annum) | |
|---|---|---|---|---|---|---|---|
| CGU | Headroom | Assumption | Sensitivity | Assumption | Sensitivity | Assumption | Sensitivity |
| UK Distribution | £520.5m | 0.6 | (15.1) | 8.9 | 19.1 | 3.0 | (13.9) |
| UK Exteriors | £545.4m | 0.9 | (22.4) | 8.9 | 16.4 | 3.0 | (12.0) |
| Larivière | €48.6m | 1.4 | (4.8) | 10.8 | 1.7 | 2.0 | (1.5) |

**2014**

| | | Like-for-like market volume (average % per annum) | | Discount rate (%) | | Long-term operating profit growth rate (average % per annum) | |
|---|---|---|---|---|---|---|---|
| CGU | Headroom | Assumption | Sensitivity | Assumption | Sensitivity | Assumption | Sensitivity |
| UK Distribution | £678.7m | 0.7 | (20.2) | 9.2 | 30.4 | 3.0 | (21.2) |
| UK Exteriors | £565.1m | 0.9 | (25.9) | 9.2 | 24.8 | 3.0 | (17.6) |
| Larivière | €90.3m | 0.4 | (9.3) | 11.0 | 2.9 | 2.2 | (1.6) |

The sensitivities noted above are the amounts by which the related assumption would have to vary before an impairment is indicated.

Revenue is the key assumption in the forecasts used in the goodwill impairment reviews, and therefore a 5% reduction in revenue has been determined as a reasonably possible change for the purposes of the disclosure requirements of IAS 36 "Impairment of Assets".

If a 5% reduction in revenue were to arise from the forecast used in the goodwill impairment reviews, an impairment of £1.8m would arise in one CGU, Larivière. The Board has actively reviewed the forecast associated with Larivière, noting the conservative assumptions used and, in a challenging economic environment, its continued outperformance of the markets in which it operates, and is satisfied that no impairment is necessary. If revenues fell by 4.8% then the recoverable amount of the CGU would equal its carrying value. The current forecasts provide headroom of £35.7m.

## 12. INTANGIBLE ASSETS

The intangible assets presented below relate to acquired intangibles that arise as a result of applying IFRS 3 "Business Combinations" (which requires the separate recognition of acquired intangibles from goodwill) and computer software (separable from any associated hardware).

| | Customer relationships £m | Non-compete clauses £m | Computer software £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2014 | 185.7 | 11.6 | 28.5 | 225.8 |
| Acquisitions | 12.2 | 0.5 | – | 12.7 |
| Additions | – | – | 10.4 | 10.4 |
| Disposals | (7.3) | (0.8) | (0.3) | (8.4) |
| Exchange differences | (9.0) | – | – | (9.0) |
| At 31 December 2014 | 181.6 | 11.3 | 38.6 | 231.5 |
| Acquisitions | 42.3 | 0.8 | – | 43.1 |
| Additions | – | – | 9.2 | 9.2 |
| Exchange differences | (4.0) | – | – | (4.0) |
| **At 31 December 2015** | **219.9** | **12.1** | **47.8** | **279.8** |
| **Amortisation** | | | | |
| At 1 January 2014 | 155.2 | 10.4 | 10.9 | 176.5 |
| Charge for the year | 18.9 | 0.7 | 2.8 | 22.4 |
| Disposals | (7.3) | (0.8) | (0.2) | (8.3) |
| Exchange differences | (8.7) | – | – | (8.7) |
| At 31 December 2014 | 158.1 | 10.3 | 13.5 | 181.9 |
| Charge for the year | 9.4 | 0.9 | 3.0 | 13.3 |
| Exchange differences | (3.6) | – | – | (3.6) |
| **At 31 December 2015** | **163.9** | **11.2** | **16.5** | **191.6** |
| **Net book value** | | | | |
| **At 31 December 2015** | **56.0** | **0.9** | **31.3** | **88.2** |
| At 31 December 2014 | 23.5 | 1.0 | 25.1 | 49.6 |

Amortisation of acquired intangibles is included in the Consolidated Income Statement as part of operating expenses and is classified within "Other items".

The weighted average amortisation period for each category of intangible asset is disclosed in the Statement of Significant Accounting Policies on page 108.

Included within additions are £0.2m (2014: £nil) of borrowing costs which were capitalised in accordance with IAS 23 "Borrowing Costs".

Included within computer software additions are assets in the course of construction of £4.7m (2014: £2.0m).

## 13. ACQUISITIONS

During the period SIG acquired the following:

| Acquisition name | % of ordinary share capital acquired | Acquisition date | Country of incorporation | Principal activity |
|---|---|---|---|---|
| Advanced Cladding & Insulation Group Limited | 100% | 30 January 2015 | United Kingdom | Distributor of roofing and cladding materials and associated products |
| Gutters & Ladders (1968) Limited | 100% | 7 March 2015 | United Kingdom | Distributor of building plastics and associated products |
| Multijoint SA | 100% | 30 April 2015 | Switzerland | Distributor of insulating materials and associated products |
| Undercover Holdings Limited | 100% | 30 April 2015 | United Kingdom | Distributor of roofing materials and associated products |
| Flex-R Limited | 100% | 1 May 2015 | United Kingdom | Distributor of flat roofing materials |
| KG SML System und Metallbau GmbH & Co. | 100% | 7 May 2015 | Germany | Distributor of commercial interiors products |
| Drywall Qatar LLC | 49%* | 28 May 2015 | Qatar | Distributor of commercial interiors products |
| Ainsworth Group | 100% | 31 July 2015 | United Kingdom | Distributor of insulating materials and associated products |
| Weymead Holdings Limited | 100% | 4 September 2015 | United Kingdom | Distributor of roofing materials and associated products |
| HC Groep B.V. | 100% | 23 September 2015 | The Netherlands | Design, supply and distribution of air handling products and systems |
| Interland Techniek B.V. | 100% | 22 October 2015 | The Netherlands | Distributor of air handling products |

* Although the Group owns less than 50% of the ordinary share capital of Drywall Qatar LLC it has full operational control of the business; therefore the assets, liabilities and results of the business are consolidated in full in the Group's Financial Statements.

The Group also acquired the trade and certain assets and liabilities of the following business:

| Acquisition name | Acquisition date | Country of operation | Principal activity |
|---|---|---|---|
| Airtech | 23 March 2015 | France | Distributor of air handling products |

## 13. ACQUISITIONS CONTINUED

The provisional fair value of the net assets of these businesses at acquisition (in aggregation) were as follows:

| | £m |
|---|---|
| Property, plant and equipment | 4.0 |
| Inventories | 8.6 |
| Trade and other receivables | 22.9 |
| Cash acquired | 12.1 |
| Debt acquired | (1.5) |
| Trade and other payables | (20.2) |
| Net corporation tax and deferred tax liability | (2.3) |
| Finance leases and other debt items | (0.7) |
| Net assets acquired | 22.9 |
| Intangible assets - customer relationships | 42.3 |
| Intangible assets - non-compete clauses | 0.8 |
| Deferred tax liability on acquired intangible assets | (8.4) |
| Goodwill | 29.4 |
| **Total consideration** | **87.0** |
| Consideration is represented by: | |
| Cash | 78.1 |
| Deferred consideration | 0.3 |
| Contingent consideration | 8.6 |
| **Total consideration** | **87.0** |
| | |
| Cash (per above) | 78.1 |
| Cash acquired | (12.1) |
| Settlement of loan notes and contingent consideration in respect of acquisitions | 4.1 |
| **Settlement of amounts payable for purchase of businesses** | **70.1** |

In accordance with IFRS 3 “Business Combinations”, acquisition expenses of £1.9m in relation to the above acquisitions have been recognised within the Consolidated Income Statement and have been presented within “Other items”.

It is currently expected that, dependent upon future profits, a further £30.9m may be paid to the vendors of recent acquisitions who are employed by the Group. These payments are contingent upon the vendors remaining within the business and, as required by IFRS 3, this will be treated as remuneration and will be charged to the Consolidated Income Statement as earned. The related accrual of potential consideration in the year to 31 December 2015 is £10.2m (31 December 2014: £2.9m). Added to the £1.9m acquisition expenses is a £2.2m increase in contingent consideration based solely on a reassessment of post-acquisition performance of the acquired businesses outside of the hindsight period, this has led to a charge within “Other items” in the Consolidated Income Statement of £14.3m in respect of acquisitions (see Note 2).

In addition, £8.9m of deferred and contingent consideration (not subject to the vendors remaining within the business) has been recognised within goodwill and intangible assets in the year.

The Directors have made a provisional assessment of the fair value of the net assets acquired. Any further adjustments arising will be accounted for in 2016. These fair value adjustments may relate primarily to:

a) the review of the carrying value of all non-current assets to ensure that they accurately reflect their fair value;

b) the alignment of valuation and provisioning methodologies to those adopted by the Group; and

c) an assessment of all provisions and payables to ensure they are accurately reflected in accordance with the Group’s policies.

The fair value of financial assets includes trade receivables with a fair value of £20.9m and a gross contractual value of £21.4m. The best estimate at the date of acquisition of the contractual cash flows not able to be collected is £0.5m.

Included within goodwill is the benefit of staff acquired as part of the business and strategic acquisition synergies which are specifically excluded in the identification of intangible assets on acquisition in accordance with the relevant accounting standards. The goodwill of £29.4m arising from the acquisitions is not expected to be deductible for income tax purposes.

Post-acquisition revenue and operating profit for the year ended 31 December 2015 for all 2015 acquisitions amounted to £57.6m and £7.5m respectively.

The Directors estimate that the combined pre-acquisition revenue and operating profit of the 2015 acquisitions for the period from 1 January 2015 to the acquisition dates was £61.4m and £8.4m respectively.

## 13. ACQUISITIONS CONTINUED

### Post balance sheet events

On 5 January 2016, the Group acquired 100% of the issued share capital of Metall Architektur Limited and the trade and certain assets of KME Yorkshire Limited, fabricators of high performance facade panels in the United Kingdom, for a total initial consideration of £4.4m, with net assets acquired of £1.4m.

On 11 January 2016 the Group acquired 100% of the issued share capital of Profant Lufttechnik HandelsgmbH, a distributor and fabricator of premium air handling systems in Austria, for an initial consideration of €2.2m, with net assets acquired of €1.7m.

On 20 January 2016, the Group acquired 100% of the issued share capital of Maury SAS, a specialist converter of metal serving high-end roofing and facade markets in France, for an initial consideration of €2.2m, with net assets acquired of €0.9m.

On 1 March 2016, the Group acquired 100% of the issued share capital of Metechno Limited, a designer and fabricator of offsite manufactured technologies in the United Kingdom, for an initial consideration of £1, with net liabilities acquired of £1.1m.

On 5 March 2016, the Group acquired 100% of the issued share capital of SAS Direct & Partitioning Limited, a distributor of partitioning systems and associated products in the United Kingdom, for an initial consideration of £6.8m, with net assets acquired of £3.4m.

## 14. INVENTORIES

| | 2015 £m | 2014 £m |
|---|---|---|
| Raw materials and consumables | 3.6 | 3.9 |
| Work in progress | 1.1 | 1.0 |
| Finished goods and goods for resale | 238.2 | 220.5 |
| **Total inventories** | 242.9 | 225.4 |

The estimated replacement cost of inventories is not materially different from the balance sheet value stated above.

## 15. TRADE AND OTHER RECEIVABLES

| | 2015 £m | 2014 £m |
|---|---|---|
| Trade receivables | 386.9 | 362.1 |
| Amounts due from contract customers | 3.9 | – |
| VAT | 3.2 | 1.2 |
| Other receivables | 3.2 | 2.6 |
| Prepayments and accrued income | 17.7 | 15.8 |
| **Trade and other receivables** | 414.9 | 381.7 |
| Current tax assets | 4.3 | 5.6 |
| **Total receivables** | 419.2 | 387.3 |

The average credit period on sale of goods and services for continuing operations on a constant currency basis is 45 days (2014: 43 days). No interest is charged on receivables. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £18.8m at 31 December 2015 (2014: £20.7m). This allowance has been determined by reference to past default experience.

Included within the Group's trade receivable balance are debtors with a carrying amount of £138.6m (2014: £130.5m) which are past due at the reporting date for which the Group has not provided, as there has not been a significant change in credit quality and the Group considers that the amounts are still recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 34 days overdue (2014: 31 days).

## 15. TRADE AND OTHER RECEIVABLES CONTINUED

### Ageing analysis of trade receivables for which no provision for impairment has been made

| | 2015 £m | 2014 £m |
|---|---|---|
| Neither past due nor renegotiated | **240.4** | 220.3 |
| Renegotiated | **1.0** | 0.3 |
| *Balances overdue which have no provision for impairment:* | | |
| 1-30 days | **90.2** | 87.1 |
| 31-60 days | **29.7** | 29.8 |
| 61-90 days | **8.9** | 8.6 |
| 91-120 days | **4.5** | 1.7 |
| 121-180 days | **2.8** | 1.4 |
| 180+ days | **2.5** | 1.9 |
| | **138.6** | 130.5 |
| **Total trade receivables for which no provision for impairment has been made** | **380.0** | 351.1 |

### Movement in the allowance for doubtful debts

| | 2015 £m | 2014 £m |
|---|---|---|
| At 1 January | **(20.7)** | (27.7) |
| Utilised | **6.9** | 11.4 |
| Disposals | **–** | 0.1 |
| Added on acquisition | **(0.5)** | (0.1) |
| Charged to the Consolidated Income Statement | **(6.0)** | (6.9) |
| Exchange differences | **1.5** | 2.5 |
| **At 31 December** | **(18.8)** | (20.7) |

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date and makes a provision for impairment accordingly. The concentration of credit risk is limited due to the customer base being large and unrelated. The Directors therefore believe that no further credit provision is required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are trade receivables with a gross balance of £25.7m (2014: £31.7m) and a provision for impairment of £18.8m (2014: £20.7m). The provision for impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected recoverable amount.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Trade receivable credit exposure is controlled by counterparty limits that are set, reviewed and approved by operational management on a regular basis.

Trade receivables consist of a large number of typically small to medium sized customers, spread across a number of different market sectors and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The Group does not have any significant credit risk exposure to any single customer.

## 16. CURRENT LIABILITIES

| | 2015 £m | 2014 £m |
|---|---|---|
| Trade payables | **234.4** | 206.3 |
| Bills of exchange payable | **12.7** | 16.9 |
| VAT | **15.9** | 17.1 |
| Social security and payroll taxes | **13.3** | 14.0 |
| Accruals and deferred income | **88.2** | 94.9 |
| **Trade and other payables** | **364.5** | 349.2 |
| Obligations under finance lease contracts (Note 23) | **2.5** | 2.5 |
| Bank overdrafts | **2.3** | 4.4 |
| Bank loans | **90.9** | 0.7 |
| Private placement notes | **160.1** | – |
| Loan notes and deferred consideration | **3.0** | 1.9 |
| Derivative financial instruments | **1.3** | 0.5 |
| Current tax liabilities | **8.4** | 8.3 |
| Provisions (Note 21) | **9.7** | 14.6 |
| **Current liabilities** | **642.7** | 382.1 |

£2.5m (2014: £1.0m) of the above Group bank loans and overdrafts are secured on the assets of subsidiary undertakings. All of the finance lease contracts are secured on the underlying assets. The remaining balances are unsecured. All of the above private placement notes, financial instruments and £90.0m of the bank debt are guaranteed by certain companies of the Group.

The bank overdrafts are repayable on demand and attract floating rates of interest, which at 31 December 2015 ranged from 0.2% to 3.0% (2014: between 0.4% and 3.0%).

£50.5m (2014: £0.4m) of the bank loans and deferred consideration due within one year (after taking into account derivative financial instruments) are at variable rates of interest.

£43.4m (2014: £2.2m) of the bank loans and deferred consideration due within one year (after taking into account derivative financial instruments) attract an average fixed interest rate of 2.7% (2014: 0.9%).

£92.3m (2014: £nil) of the private placement notes due within one year (after taking into account derivative financial instruments) are at variable rates of interest.

£67.8m (2014: £nil) of the private placement notes due within one year (after taking into account derivative financial instruments) attract an average fixed interest rate of 5.9%.

Trade payables, accruals and deferred income principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases for continuing operations on a constant currency basis is 39 days (2014: 36 days).

The Group has financial risk management policies in place to ensure that all payments are paid within the pre-agreed credit terms.

The Directors consider that the carrying amount of current liabilities approximates to their fair value, with the exception of the private placements notes, the fair value of which is disclosed in Note 18 on page 136.

## 17. NON-CURRENT LIABILITIES

| | 2015<br>£m | 2014<br>£m |
|---|---|---|
| Obligations under finance lease contracts (Note 23): | | |
| – due after one and within two years | **2.4** | 2.2 |
| – due after two and within five years | **4.5** | 4.9 |
| – due after five years | **0.6** | 0.9 |
| Bank loans | **0.4** | 0.6 |
| Private placement notes | **95.8** | 254.3 |
| Derivative financial instruments | **0.7** | 0.6 |
| Deferred tax liabilities (Note 22) | **18.2** | 12.1 |
| Other payables | **3.8** | 4.3 |
| Retirement benefit obligations (Note 28c) | **23.8** | 28.7 |
| Provisions (Note 21) | **37.6** | 29.3 |
| **Non-current liabilities** | **187.8** | 337.9 |

| | 2015<br>£m | 2014<br>£m |
|---|---|---|
| The bank loans included above are repayable as follows: | | |
| – due after one and within two years | **0.2** | 0.2 |
| – due after two and within five years | **0.2** | 0.4 |
| **Total** | **0.4** | 0.6 |

All of the bank loans noted above due after more than one year are secured on certain assets of subsidiary undertakings. All of the above private placement notes and derivative financial instruments are guaranteed by certain companies of the Group.

The bank loans due after more than one year attract variable rates of interest.

Details of the private placement notes (before applying associated derivative financial instruments) are as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | £m | Fixed interest rate % | £m | Fixed interest rate % |
| Repayable in 2016* | **160.1** | **5.9** | 153.3 | 5.9 |
| Repayable in 2018 | **22.4** | **5.2** | 23.1 | 5.1 |
| Repayable in 2020 | **22.0** | **3.7** | 23.4 | 3.7 |
| Repayable in 2021 | **14.7** | **3.9** | 15.6 | 3.9 |
| Repayable in 2023 | **36.7** | **4.2** | 38.9 | 4.2 |
| **Total** | **255.9** | **5.3** | 254.3 | 5.2 |

* The private placement notes repayable in 2016 are included within current liabilities in 2015.

The Directors consider that the carrying amount of non-current liabilities approximates to their fair value, with the exception of the private placements notes, the fair value of which is disclosed in Note 18 on page 136.

## 18. FINANCIAL INSTRUMENTS

The Treasury Risk Management section of the Strategic Report on pages 37 to 40 includes a review of all liquidity, interest rate and foreign currency risks, and provides an explanation of the role that derivative financial instruments have had during the year in creating or changing the risks the Group faces in its activities. The capital structure of the Group is outlined in the Strategic Report on page 36.

The Group's financial assets consist of trade and other receivables, cash at bank and derivative financial instruments. The following financial assets form part of the net debt of the Group:

| | 2015 £m | 2014 £m |
|---|---|---|
| Cash and cash equivalents (including cash deposits repayable on demand) | 89.0 | 110.3 |
| Other financial assets | 1.3 | 0.9 |
| Deferred consideration | 1.5 | 1.5 |
| Derivative financial instruments | 36.8 | 33.9 |
| **Total** | 128.6 | 146.6 |

The Directors consider the fair value of financial assets to approximate to their book value. The interest received on cash deposits is at variable rates of up to 1.4% (2014: 2.0%).

The Group's credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Of the above cash at bank, £17.3m (2014: £15.9m) is denominated in Sterling, £55.0m (2014: £78.1m) in Euros, £12.9m (2014: £14.1m) in Polish Zloty, and £3.8m (2014: £2.2m) in other currencies. Of the other financial assets, £1.3m (2014: £0.7m) is denominated in Sterling, and £nil (2014: £0.2m) in Euros. The deferred consideration is denominated in Sterling.

### 2015 interest rate and currency profile

The interest rate and currency profile of the Group's borrowings at 31 December 2015, after taking account of interest rate and currency derivative financial instruments (including derivative assets of £36.8m as noted above) was as follows:

| | Currency | Total £m | Floating rate £m | Fixed rate £m | Effective fixed interest rate % | Weighted average time for which rate is fixed Years | Amount secured £m | Amount unsecured £m |
|---|---|---|---|---|---|---|---|---|
| Private placement notes | Sterling | 145.8 | 92.8 | 53.0 | 5.8 | 0.8 | – | 145.8 |
| Other borrowings | Sterling | 68.1 | 25.0 | 43.1 | 1.8 | 0.2 | – | 68.1 |
| Finance lease contracts | Sterling | 0.4 | – | 0.4 | 6.2 | 3.7 | 0.4 | – |
| Private placement notes | Euro | 73.4 | – | 73.4 | 4.0 | 6.5 | – | 73.4 |
| Other borrowings | Euro | 27.9 | 27.9 | – | n/a | n/a | 0.6 | 27.3 |
| Finance lease contracts | Euro | 7.6 | – | 7.6 | 5.9 | 6.0 | 7.6 | – |
| Other borrowings | Polish Zloty | 0.3 | 0.3 | – | n/a | n/a | 0.3 | – |
| Finance lease contracts | Polish Zloty | 2.0 | – | 2.0 | 3.3 | 4.3 | 2.0 | – |
| Other borrowings | US Dollar | 2.2 | – | 2.2 | 1.8 | 1.1 | 1.9 | 0.3 |
| **Total** | | 327.7 | 146.0 | 181.7 | | | 12.8 | 314.9 |

In addition to the currency exposures above, the Group has entered into a short-term currency derivative financial instrument which alters the currency profile of the Group's financial liabilities. A net investment hedge amounting to an asset of £45.5m and a liability of €62.0m was entered into on 31 December 2015 at market rates and therefore the fair value is deemed to equate to its book value of £nil. The Group's net debt at 31 December 2015 was £235.9m, of which £99.4m is denominated in Euros.

All of the above finance lease contracts, totalling £10.0m, are secured on the underlying assets.

The Directors consider the fair value of the Group's floating rate financial liabilities to materially approximate to the book value shown in the table above. The fair value of the Group's private placement notes at 31 December 2015 is estimated to be c.£248m and is classified as a Level 2 fair value measurement for disclosure purposes. The remaining fixed rate debt amounts to £55.3m and relates to finance lease contracts, fixed rate loans and loan notes (after applying financial instruments) and deferred consideration. The Directors consider the fair value of these remaining fixed rate debts to materially approximate to the book values shown above.

## 18. FINANCIAL INSTRUMENTS CONTINUED

### 2014 interest rate and currency profile

The interest rate and currency profile of the Group's borrowings at 31 December 2014, after taking account of interest rate and currency derivative financial instruments (including derivative assets of £33.9m as noted on page 136), was as follows:

| | Currency | Total £m | Floating rate £m | Fixed rate £m | Effective fixed interest rate % | Weighted average time for which rate is fixed Years | Amount secured £m | Amount unsecured £m |
|---|---|---|---|---|---|---|---|---|
| Private placement notes | Sterling | 143.1 | 80.0 | 63.1 | 5.2 | 2.1 | – | 143.1 |
| Other borrowings | Sterling | 2.4 | 0.1 | 2.3 | 0.4 | 0.5 | – | 2.4 |
| Finance lease contracts | Sterling | 0.2 | – | 0.2 | 7.8 | 1.4 | 0.2 | – |
| Private placement notes | Euro | 77.9 | – | 77.9 | 4.0 | 7.5 | – | 77.9 |
| Other borrowings | Euro | 5.1 | 5.1 | – | n/a | n/a | 1.0 | 4.1 |
| Finance lease contracts | Euro | 8.0 | – | 8.0 | 6.6 | 4.9 | 8.0 | – |
| Other borrowings | Polish Zloty | 0.2 | 0.2 | – | n/a | n/a | 0.2 | – |
| Finance lease contracts | Polish Zloty | 2.3 | – | 2.3 | 4.3 | 4.4 | 2.3 | – |
| Other borrowings | US Dollar | 0.4 | – | 0.4 | 3.0 | 0.1 | 0.4 | – |
| **Total** | | 239.6 | 85.4 | 154.2 | | | 12.1 | 227.5 |

In addition to the currency exposures above, the Group entered into a short term currency derivative financial instrument which alters the currency profile of the Group's financial liabilities. A net investment hedge amounting to an asset of £48.3m and a liability of €62.0m was entered into on 31 December 2014 at market rates and therefore the fair value was deemed to equate to its book value of £nil. The Group's net debt at 31 December 2014 was £126.9m, of which £61.0m was denominated in Euros.

All of the above finance lease contracts, totalling £10.5m, were secured on the underlying assets.

In both 2015 and 2014, the interest rate on floating rate financial liabilities is based upon appropriate local market rates.

### Hedging relationships

Included within financial assets are derivative financial instruments in designated hedge accounting relationships amounting to £36.8m (2014: £33.9m) and loans and receivables (including cash and cash equivalents) of £485.8m (2014: £477.4m).

Included within financial liabilities are derivative financial instruments in designated hedge accounting relationships amounting to £1.6m (2014: £1.1m) and liabilities (including trade payables) at amortised cost of £685.1m (2014: £573.6m).

The Group does not trade in derivative financial instruments for speculative purposes. Where the Group can demonstrate a hedge relationship under the rules of IAS 32 and IAS 39, movements in the fair values of these derivative financial instruments (for cash flow and net investment hedges) will be recognised in the Consolidated Statement of Comprehensive Income. Where the Group does not meet these rules, movements in the fair value will be recognised as gains and losses on derivative financial instruments in the Consolidated Income Statement in the column entitled "Other items".

In order to manage the Group's exposure to interest rate, exchange rate, and commodity price changes, the Group utilises interest rate, currency, and commodity derivative financial instruments. The fair values of these derivative financial instruments are calculated by discounting the associated future cash flows to net present values using appropriate market rates prevailing at the balance sheet date.

The Group is required to analyse 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 (i.e. as prices) or indirectly (i.e. derived from prices); and
- 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).

All of the financial instruments on pages 138 and 139 are categorised as Level 2.

## 18. FINANCIAL INSTRUMENTS CONTINUED

### a) Net investment hedges

As at 31 December 2015, the Group had entered into one (31 December 2014: one) cross-currency forward contract which swaps Sterling denominated debt into Euro denominated debt. This derivative financial instrument is a net investment hedge of the Group's Euro denominated assets and is designated and effective as a net investment hedge. The fair value of this derivative was £nil at 31 December 2013, 31 December 2014 and 31 December 2015, therefore the fair value movement to be recognised in the Consolidated Statement of Comprehensive Income in both 2014 and 2015 is £nil.

### b) Cash flow hedges

With regard to cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in equity and is subsequently removed and included in the Consolidated Income Statement within finance costs in the same period the hedged item affects the Consolidated Income Statement. The cash flow hedges described below are expected to impact upon both profit and loss and cash flow annually over the life of the hedging instrument and the related debt as interest falls due and upon maturity of the debt and related hedging instrument.

As at 31 December 2015, the Group had entered into two (31 December 2014: two) cross-currency interest rate derivative financial instruments which swap fixed US Dollar denominated debt held in the UK into fixed Sterling denominated debt. In addition, as at 31 December 2015, the Group had entered into one (31 December 2014: one) cross-currency interest rate derivative financial instrument which swaps fixed rate US Dollar denominated debt into variable rate Sterling denominated debt. These derivative financial instruments form a cash flow hedge as they fix the functional currency cash flows of the Group. All of these derivative financial instruments are designated and effective as cash flow hedges and the fair value movement has therefore been deferred in equity via the Consolidated Statement of Comprehensive Income. At 31 December 2015, the weighted average maturity date of these swaps is 0.8 years (2014: 1.8 years).

| Hedge of the Group's functional currency cash flows | 2015 £m | 2014 £m |
|---|---|---|
| Asset at 1 January | 29.0 | 24.4 |
| Fair value gains recognised in equity | 4.4 | 4.6 |
| **Asset at 31 December** | **33.4** | 29.0 |

Of the above derivative financial instruments, £33.4m matures within one year (2014: £nil).

As at 31 December 2015, the Group had entered into two (31 December 2014: one) interest rate derivative financial instruments which swap variable rate debt into fixed rate debt thereby fixing the functional currency cash flows of the Group. All of these interest rate derivative financial instruments are designated and effective as cash flow hedges and the fair value movement has therefore been deferred in equity via the Consolidated Statement of Comprehensive Income. At 31 December 2015, the weighted average maturity date of these swaps is 4.1 years (2014: 3.6 years).

| Hedge of the Group's interest cash flows | 2015 £m | 2014 £m |
|---|---|---|
| Liability at 1 January | (0.6) | (2.0) |
| Fair value losses recognised in equity | (0.1) | (0.6) |
| Cancellation of cash flow hedges | – | 2.0 |
| **Liability at 31 December** | **(0.7)** | (0.6) |

None of the above derivative financial instruments matures within one year (2014: £nil).

The Group purchases diesel fuel on a floating price basis and therefore is exposed to changes in diesel prices, of which the most significant element is crude oil price risk. As at 31 December 2015 the Group had entered into two (31 December 2014: nil) fuel price derivative financial instruments which swap variable price fuel into fixed price fuel, thereby creating an element of fuel cost certainty for the Group. One of these fuel price derivative financial instruments is designated and effective as a cash flow hedge and the fair value movement has therefore been deferred in equity via the Consolidated Statement of Comprehensive Income. At 31 December 2015, the maturity date of this swap is one year.

| Hedge of the Group's fuel costs | 2015 £m | 2014 £m |
|---|---|---|
| Liability at 1 January | – | – |
| Fair value losses recognised in equity | (0.9) | – |
| **Liability at 31 December** | **(0.9)** | – |

Of the above derivative financial instrument, £0.9m matures within one year (2014: £nil).

## 18. FINANCIAL INSTRUMENTS CONTINUED

### b) Cash flow hedges continued

The remaining fuel price derivative financial instrument had not been designated as a cash flow hedge and the fair value movement of £0.4m has therefore been charged through "Other items" in the Consolidated Income Statement. At 31 December 2015, the maturity date of this swap is one year, and therefore £0.4m of this derivative financial instrument matures within one year (2014: £nil).

The following table reconciles the net fair value gain recognised in equity on cash flow hedges as noted on page 138 of £3.4m (2014: £4.0m) to the loss on cash flow hedges recorded in the Consolidated Statement of Comprehensive Income of £1.9m (2014: £1.4m).

| | 2015 £m | 2014 £m |
|---|---|---|
| Movement in cash flow hedges recognised in equity | 3.4 | 4.0 |
| Movement in the hedged item | (7.6) | (7.7) |
| | (4.2) | (3.7) |
| Spreading charge associated with the cancellation of cash flow hedges* | 2.3 | 2.3 |
| **Total movement relating to cash flow hedges included in the Consolidated Statement of Comprehensive Income** | (1.9) | (1.4) |

Of the £2.3m spreading charge associated with cancellation of cash flow hedges in 2015, £1.9m is reported in "Other items" in the Consolidated Income Statement (2014: £1.9m).

### c) Fair value hedges

As at 31 December 2015, the Group had entered into two (31 December 2014: two) derivative financial instruments which hedge the fair value of the fixed interest private placement notes drawn down on 1 February 2007. All of these interest rate derivative financial instruments are designated and effective as fair value hedges and the fair value movement has therefore been recognised immediately in the Consolidated Income Statement.

| Hedge of the fair value of fixed interest borrowings | 2015 £m | 2014 £m |
|---|---|---|
| Asset at 1 January | 4.9 | 5.3 |
| Net fair value losses recognised in the Consolidated Income Statement | (1.5) | (0.4) |
| **Asset at 31 December** | 3.4 | 4.9 |

Of the above derivative financial instruments, £1.0m matures within one year (2014: £nil).

The following table reconciles the losses on derivative financial instruments recognised directly in the Consolidated Income Statement, to the movements in derivative financial instruments noted above and on page 138.

| | 2015 £m | 2014 £m |
|---|---|---|
| Fair value losses on derivative financial instruments recognised in the Consolidated Income Statement | 1.5 | 0.5 |
| Fair value gains attributable to the hedged item recognised in the Consolidated Income Statement | (1.5) | (0.5) |
| Hedge ineffectiveness credit recognised in the Consolidated Income Statement | – | (0.1) |
| Spreading charges associated with cancellation of cash flow hedges* | 2.3 | 2.3 |
| **Total losses on derivative financial instruments included in the Consolidated Income Statement** | 2.3 | 2.2 |

* £0.4m of the £2.3m spreading charge has been recognised within finance costs before Other items (2014: £0.3m).

## 19. MATURITY OF FINANCIAL ASSETS AND LIABILITIES

### Maturity of financial liabilities

The maturity profile of the Group's financial liabilities (inclusive of derivative financial assets) at 31 December 2015 was as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| In one year or less | 225.7 | 9.9 |
| In more than one year but not more than two years | 2.6 | 124.9 |
| In more than two years but not more than five years | 47.4 | 26.0 |
| In more than five years | 52.0 | 78.8 |
| **Total** | 327.7 | 239.6 |

The table above excludes trade payables of £234.4m (2014: £206.3m).

### Borrowing facilities

The Group had undrawn committed borrowing facilities at 31 December 2015 as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Expiring in more than two years but not more than five years | 160.0 | 250.0 |
| **Total** | 160.0 | 250.0 |

At 31 December 2015 the Group had £474m of committed facilities, of which £160m were undrawn as disclosed above. Since 31 December 2015, a maximum of £166m has been drawn down against the £250m Revolving Credit Facility.

### Contractual maturity analysis of the Group's financial liabilities, derivative financial instruments, other financial assets, deferred consideration and cash and cash equivalents

IFRS 7 requires disclosure of the maturity of the Group's remaining contractual financial liabilities. The tables overleaf have been drawn up based on the undiscounted contractual maturities of the Group's financial assets and liabilities including interest that will accrue to those assets and liabilities except where the Group is entitled and intends to repay the liability before its maturity. Both the inclusion of future interest and the values disclosed being undiscounted results in the total position being different to that included in the Consolidated Balance Sheet. Given that this is a maturity analysis all trade payables and receivables (including amongst other items payroll and sales tax accruals which are not classified as financial instruments) have been included.

## 19. MATURITY OF FINANCIAL ASSETS AND LIABILITIES CONTINUED

### 2015 analysis

| | Balance sheet value £m | Maturity analysis < 1 year £m | 1-2 years £m | 2-5 years £m | > 5 years £m | Total £m |
|---|---|---|---|---|---|---|
| **Current liabilities** | | | | | | |
| Trade and other payables | 335.3 | 335.3 | – | – | – | 335.3 |
| Obligations under finance lease contracts | 2.5 | 2.6 | – | – | – | 2.6 |
| Bank overdrafts | 2.3 | 2.3 | – | – | – | 2.3 |
| Bank loans | 90.9 | 91.1 | – | – | – | 91.1 |
| Private placement notes | 160.1 | 167.0 | – | – | – | 167.0 |
| Derivative financial instruments | 1.3 | 1.3 | – | – | – | 1.3 |
| Loan notes and deferred consideration | 3.0 | 3.0 | – | – | – | 3.0 |
| **Total** | 595.4 | 602.6 | – | – | – | 602.6 |
| **Non-current liabilities** | | | | | | |
| Obligations under finance lease contracts | 7.5 | 0.4 | 2.8 | 5.0 | 0.6 | 8.8 |
| Bank loans | 0.4 | – | 0.2 | 0.2 | – | 0.4 |
| Private placement notes | 95.8 | 4.1 | 4.1 | 51.7 | 56.3 | 116.2 |
| Derivative financial instruments | 0.7 | 0.5 | 0.5 | 0.4 | – | 1.4 |
| **Total** | 104.4 | 5.0 | 7.6 | 57.3 | 56.9 | 126.8 |
| **Total liabilities** | 699.8 | 607.6 | 7.6 | 57.3 | 56.9 | 729.4 |
| **Other** | | | | | | |
| Derivative financial instrument assets | (36.8) | (34.4) | (1.0) | (0.9) | – | (36.3) |
| Cash and cash equivalents | (89.0) | (89.0) | – | – | – | (89.0) |
| Other financial assets | (1.3) | (1.3) | – | – | – | (1.3) |
| Deferred consideration | (1.5) | (1.5) | – | – | – | (1.5) |
| Trade and other receivables | (411.7) | (411.7) | – | – | – | (411.7) |
| **Total** | (540.3) | (537.9) | (1.0) | (0.9) | – | (539.8) |
| **Grand total** | 159.5 | 69.7 | 6.6 | 56.4 | 56.9 | 189.6 |

### 2014 analysis

| | Balance sheet value £m | Maturity analysis < 1 year £m | 1–2 years £m | 2–5 years £m | > 5 years £m | Total £m |
|---|---|---|---|---|---|---|
| **Current liabilities** | | | | | | |
| Trade and other payables | 318.1 | 318.1 | – | – | – | 318.1 |
| Obligations under finance lease contracts | 2.5 | 2.6 | – | – | – | 2.6 |
| Bank overdrafts | 4.4 | 4.4 | – | – | – | 4.4 |
| Bank loans | 0.7 | 0.7 | – | – | – | 0.7 |
| Loan notes | 1.9 | 1.9 | – | – | – | 1.9 |
| Derivative financial instruments | 0.5 | 0.5 | – | – | – | 0.5 |
| **Total** | 328.1 | 328.2 | – | – | – | 328.2 |
| **Non-current liabilities** | | | | | | |
| Obligations under finance lease contracts | 8.0 | 0.4 | 2.5 | 5.3 | 0.8 | 9.0 |
| Bank loans | 0.6 | – | 0.2 | 0.4 | – | 0.6 |
| Private placement notes | 254.3 | 13.3 | 164.8 | 31.5 | 86.0 | 295.6 |
| Derivative financial instruments | 0.6 | 0.2 | 0.2 | 0.4 | – | 0.8 |
| **Total** | 263.5 | 13.9 | 167.7 | 37.6 | 86.8 | 306.0 |
| **Total liabilities** | 591.6 | 342.1 | 167.7 | 37.6 | 86.8 | 634.2 |
| **Other** | | | | | | |
| Derivative financial instrument assets | (33.9) | (5.7) | (25.8) | (1.6) | – | (33.1) |
| Cash and cash equivalents | (110.3) | (110.3) | – | – | – | (110.3) |
| Other financial assets | (0.9) | (0.9) | – | – | – | (0.9) |
| Deferred consideration | (1.5) | – | (1.5) | – | – | (1.5) |
| Trade and other receivables | (380.5) | (380.5) | – | – | – | (380.5) |
| **Total** | (527.1) | (497.4) | (27.3) | (1.6) | – | (526.3) |
| **Grand total** | 64.5 | (155.3) | 140.4 | 36.0 | 86.8 | 107.9 |

## 20. SENSITIVITY ANALYSIS

IFRS 7 requires the disclosure of a sensitivity analysis that details the effects on the Group's profit or loss and other equity of reasonably possible fluctuations in market rates.

This sensitivity analysis has been prepared to illustrate the effect of the following hypothetical variations in market rates on the fair value of the Group's financial assets and liabilities:

i) a 1% (100 basis points) increase or decrease in market interest rates; and
ii) a 10% strengthening or weakening of Sterling against all other currencies to which the Group is exposed.

### a) Interest rate sensitivity

The Group is currently exposed to Sterling, Euro and US Dollar interest rates. The Group also has a minimal exposure to Polish Zloty interest rates.

In order to illustrate the Group's sensitivity to interest rate fluctuations, the following table details the Group's sensitivity to a 100 basis point change in each respective interest rate. The sensitivity analysis of the Group's exposure to interest rate risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit or loss and other equity.

#### 2015 analysis

| | GBP | | EUR | | USD | | Total | |
|---|---|---|---|---|---|---|---|---|
| | +100bp £m | -100bp £m | +100bp £m | -100bp £m | +100bp £m | -100bp £m | +100bp £m | -100bp £m |
| Profit or loss | **(1.3)** | **1.3** (i) | **0.2** | **(0.2)** (iii) | **–** | **–** | **(1.1)** | **1.1** |
| Other equity | **2.2** | **(2.2)** (ii) | **–** | **–** | **(1.2)** | **1.2** (ii) | **1.0** | **(1.0)** |
| **Total Shareholders' equity** | **0.9** | **(0.9)** | **0.2** | **(0.2)** | **(1.2)** | **1.2** | **(0.1)** | **0.1** |

#### 2014 analysis

| | GBP | | EUR | | USD | | Total | |
|---|---|---|---|---|---|---|---|---|
| | +100bp £m | -100bp £m | +100bp £m | -100bp £m | +100bp £m | -100bp £m | +100bp £m | -100bp £m |
| Profit or loss | (0.6) | 0.6 (i) | 0.3 | (0.3) (iii) | – | – | (0.3) | 0.3 |
| Other equity | 1.6 | (1.6) (ii) | – | – | (2.6) | 2.6 (ii) | (1.0) | 1.0 |
| **Total Shareholders' equity** | 1.0 | (1.0) | 0.3 | (0.3) | (2.6) | 2.6 | (1.3) | 1.3 |

The movements noted above are mainly attributable to:

i) floating rate Sterling debt and cash deposits;
ii) mark-to-market valuation changes in the fair value of effective cash flow hedges; and
iii) floating rate Euro debt and Euro cash deposits.

### b) Foreign currency sensitivity

The Group is exposed to currency rate changes between Sterling and Euros, US Dollars and Polish Zloty.

The following table details the Group's sensitivity to a 10% change in Sterling against each respective foreign currency to which the Group is exposed, indicating the likely impact of changes in foreign exchange rates on the Group's financial position. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit or loss and other equity.

## 20. SENSITIVITY ANALYSIS CONTINUED

### b) Foreign currency sensitivity continued

### 2015 analysis

| | EUR +10% £m | EUR -10% £m | | USD +10% £m | USD -10% £m | | PLN +10% £m | PLN -10% £m | | Total +10% £m | Total -10% £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets and liabilities under the scope of IFRS 7** | | | | | | | | | | | |
| Profit or loss | 0.4 | (0.5) | (i) | – | – | | – | – | | 0.4 | (0.5) |
| Other equity | (4.0) | 4.9 | (ii) | (0.5) | 0.6 | (ii) | (1.4) | 1.7 | (ii) | (5.9) | 7.2 |
| Total Shareholders' equity | (3.6) | 4.4 | | (0.5) | 0.6 | | (1.4) | 1.7 | | (5.5) | 6.7 |
| **Total assets and liabilities*** | | | | | | | | | | | |
| Profit or loss | (2.9) | 3.3 | (iii) | – | – | | (0.1) | 0.2 | (v) | (3.0) | 3.5 |
| Other equity | (29.2) | 36.0 | (iv) | (0.5) | 0.6 | (iv) | (4.8) | 3.9 | (iv) | (34.5) | 40.5 |
| **Total Shareholders' equity** | (32.1) | 39.3 | | (0.5) | 0.6 | | (4.9) | 4.1 | | (37.5) | 44.0 |

### 2014 analysis

| | EUR +10% £m | EUR -10% £m | | USD +10% £m | USD -10% £m | | PLN +10% £m | PLN -10% £m | | Total +10% £m | Total -10% £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets and liabilities under the scope of IFRS 7** | | | | | | | | | | | |
| Profit or loss | 0.4 | (0.5) | (i) | – | – | | – | – | | 0.4 | (0.5) |
| Other equity | (3.5) | 4.3 | (ii) | (1.1) | 1.4 | (ii) | (0.9) | 1.1 | (ii) | (5.5) | 6.8 |
| Total Shareholders' equity | (3.1) | 3.8 | | (1.1) | 1.4 | | (0.9) | 1.1 | | (5.1) | 6.3 |
| **Total assets and liabilities*** | | | | | | | | | | | |
| Profit or loss | (3.0) | 3.4 | (iii) | – | – | | (0.1) | 0.1 | (v) | (3.1) | 3.5 |
| Other equity | (27.5) | 33.9 | (iv) | (1.1) | 1.4 | (iv) | (2.8) | 3.5 | (iv) | (31.4) | 38.8 |
| **Total Shareholders' equity** | (30.5) | 37.3 | | (1.1) | 1.4 | | (2.9) | 3.6 | | (34.5) | 42.3 |

* Certain assets and liabilities such as inventories, non-current assets and provisions do not come under the scope of IFRS 7. Therefore, in order to present a complete analysis of the Group's exposure to movements in foreign currency exchange rates, the exposure on the Group's total assets and liabilities has been disclosed.

The movements noted above are mainly attributable to:

i) retranslation of Euro interest flows;
ii) mark-to-market valuation changes in the fair value of effective cash flow and net investment hedges and retranslation of assets and liabilities under the scope of IFRS 7;
iii) retranslation of Euro profit streams;
iv) retranslation of foreign currency denominated assets and liabilities outside the scope of IFRS 7 and mark-to-market valuation changes in the fair value of effective cash flow and net investment hedges; and
v) retranslation of Polish Zloty profit streams.

## 21. PROVISIONS FOR LIABILITIES AND CHARGES

| | Onerous leases £m | Leasehold dilapidations £m | Contingent consideration £m | Other amounts £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2015 | 10.1 | 14.1 | 12.6 | 7.1 | 43.9 |
| Unused amounts reversed in the period | (1.1) | – | (0.4) | (0.6) | (2.1) |
| Utilised | (3.5) | (0.5) | (4.9) | (1.9) | (10.8) |
| New provisions | 2.6 | 0.8 | 11.1 | 1.3 | 15.8 |
| Unwinding of provision discounting | 0.1 | 0.1 | 0.8 | 0.1 | 1.1 |
| Transferred (to)/from accruals | (0.4) | 0.6 | – | (0.3) | (0.1) |
| Exchange differences | (0.2) | (0.1) | – | (0.2) | (0.5) |
| **At 31 December 2015** | **7.6** | **15.0** | **19.2** | **5.5** | **47.3** |

| | **2015 £m** | 2014 £m |
|---|---|---|
| Included in current liabilities | **9.7** | 14.6 |
| Included in non-current liabilities | **37.6** | 29.3 |
| **Total** | **47.3** | 43.9 |

### Onerous leases
The Group has provided for the rental payments due over the remaining term of existing operating lease contracts where a period of vacancy is ongoing. The provision has been calculated after taking into account both the periods over which the properties are likely to remain vacant and the likely income from existing and future sub-lease agreements on a contract-by-contract basis. The provision covers potential transfer of economic benefit over the full range of current lease commitments disclosed in Note 28.

### Leasehold dilapidations
This provision relates to contractual obligations to reinstate leasehold properties to their original state of repair. The provision is calculated with reference to the expired portion of individual lease agreements where such a clause exists in the lease contract. The transfer of economic benefits will be made at the end of the leases as set out in Note 28.

### Contingent consideration
Contingent consideration relates to the amounts due to vendors of completed acquisitions providing certain future profit targets are met. The utilisation of the contingent consideration provision includes the recognition of £2.7m of loan notes payable within one year.

### Other amounts
Other amounts relate principally to claims and warranty provisions. The transfer of economic benefit is expected to be made between one and twenty three years' time.

## 22. DEFERRED TAX

The net deferred tax asset at the end of the year is analysed as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Deferred tax assets | **21.0** | 29.0 |
| Deferred tax liabilities | **(18.2)** | (12.1) |
| **Net deferred tax asset** | **2.8** | 16.9 |

### Summary of deferred tax

The different components of deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period are analysed below:

| | Goodwill and intangibles £m | Property, plant and equipment £m | Tax assets £m | Retirement benefit obligations £m | Losses £m | Other £m | Total £m |
|---|---|---|---|---|---|---|---|
| At 31 December 2013 | (7.9) | 1.2 | 8.5 | 5.6 | 1.0 | (0.9) | 7.5 |
| Credit/(charge) to income | 5.3 | (1.2) | (1.1) | (0.7) | 8.9 | (0.1) | 11.1 |
| Credit to equity | – | – | – | 1.7 | – | 0.5 | 2.2 |
| Added on acquisition | (3.1) | (0.2) | – | – | – | – | (3.3) |
| Removed on disposal | – | – | – | – | (0.4) | – | (0.4) |
| Exchange differences | 0.1 | 0.3 | (0.4) | (0.1) | (0.1) | 0.1 | (0.1) |
| Change of rate charged to equity | – | – | – | (0.1) | – | – | (0.1) |
| At 31 December 2014 | (5.6) | 0.1 | 7.0 | 6.4 | 9.4 | (0.4) | 16.9 |
| Credit/(charge) to income | 2.6 | (1.3) | (1.7) | (0.2) | (3.9) | (0.1) | (4.6) |
| Charge to equity | – | – | – | (0.2) | – | (0.1) | (0.3) |
| Added on acquisition | (8.4) | (0.2) | – | – | 0.1 | – | (8.5) |
| Exchange differences | 0.1 | 0.2 | (0.3) | (0.1) | – | 0.1 | – |
| Change of rate charged to equity | – | – | – | (0.7) | – | – | (0.7) |
| **At 31 December 2015** | **(11.3)** | **(1.2)** | **5.0** | **5.2** | **5.6** | **(0.5)** | **2.8** |

During 2015, the Group recognised deferred tax assets of £0.9m (net) relating to previously unrecognised trading losses incurred in prior periods in Ireland (£0.7m net) and Belgium (£0.2m net). In prior periods these trading losses were not recognised on the grounds of uncertainty. Following utilisation in the current and prior periods, the Directors now feel that the remaining amount is recoverable and therefore the asset has been recognised in full in the period. The £0.7m net tax credit relating to historical trading losses in Ireland has been recognised as a non-underlying credit in line with where the trading losses (restructuring costs) were previously recorded, whereas the £0.2m net tax credit relating to Belgium has been recorded as an underlying tax credit.

During 2014, the Group recognised deferred tax assets of £14.9m (net) relating to c.£72m (gross) of previously unrecognised excess non-trading losses incurred in 2008 associated with the derivative financial instruments and included within “Other items” in the Consolidated Income Statement. For the year ended 31 December 2015, c.£27m (gross) or £5.5m (net) of these non-trading losses were utilised, together with a prior year net tax credit of £0.7m (c.£2.7m gross).

The deferred tax charge within the Consolidated Income Statement for 2015 includes a credit of £0.8m (2014: £0.2m) arising from the change in domestic tax rates in the countries in which the Group operates.

Given current and forecast trading the Directors consider that recognition of the deferred tax assets above is appropriate.

There are other potential deferred tax assets in relation to tax losses totalling £3m (2014: £5m) that have not been recognised on the basis that the realisation of their future economic benefit is uncertain. The tax losses in The Netherlands of c.£2.6m expire after eight years. The remaining tax losses may be carried forward indefinitely.

At the balance sheet date, no deferred tax liability is recognised on temporary differences of £22m (2014: £18m) relating to unremitted earnings of overseas subsidiaries as the Group is in a position to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

## 23. OBLIGATIONS UNDER FINANCE LEASE CONTRACTS

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m |
| Amounts payable under finance lease contracts: | | | | |
| – within one year | **3.0** | 2.6 | **2.5** | 2.5 |
| – after one year and within five years | **7.8** | 8.0 | **6.9** | 7.1 |
| – after five years | **0.6** | 1.0 | **0.6** | 0.9 |
| | **11.4** | 11.6 | **10.0** | 10.5 |
| Less: future finance charges | **(1.4)** | (1.1) | | |
| **Present value of lease obligations** | **10.0** | 10.5 | | |

The Group leases certain of its motor vehicles, fixtures and equipment under finance lease contracts, which are denominated in Sterling, Euros and Polish Zloty.

The average remaining lease term is 5.6 years (2014: 4.8 years). For the year ended 31 December 2015, the average effective borrowing rate was 5.4% (2014: 6.1%). Interest rates are fixed at the contract date.

The carrying amount of the Group's lease obligations approximates to their fair value.

## 24. CALLED UP SHARE CAPITAL

| | **2015 £m** | 2014 £m |
|---|---|---|
| Authorised: | | |
| 800,000,000 ordinary shares of 10p each (2014: 800,000,000) | **80.0** | 80.0 |
| Allotted, called up and fully paid: | | |
| 591,347,148 ordinary shares of 10p each (2014: 591,137, 803) | **59.1** | 59.1 |

There were 209,345 shares allotted during 2015 (2014: 37,356). The Company has one class of ordinary share which carries no right to fixed income.

At 31 December 2015 the following share options were outstanding:

| | Number of shares | | | | | | Exercise dates | |
|---|---|---|---|---|---|---|---|---|
| Scheme and date of grant | At 31 December 2014 | Granted | Exercised | Lapsed | **At 31 December 2015** | Original Option price per 10p share | Date from which option may be exercised | Date on which option expires |
| **Long-Term Incentive Plan** | | | | | | | | |
| 26/04/2012 | 1,424,602 | – | (121,930) | (1,302,672) | **–** | 0.00p | 26/04/2015 | 25/04/2022 |
| 03/10/2012 | 185,668 | – | (2,483) | (167,652) | **15,533** | 0.00p | 03/10/2015 | 02/10/2022 |
| 18/04/2013 | 1,151,960 | – | – | (62,818) | **1,089,142** | 0.00p | 18/04/2016 | 17/04/2023 |
| 18/09/2014 | 2,077,819 | – | – | (127,562) | **1,950,257** | 0.00p | 18/09/2017 | 17/09/2024 |
| 17/09/2015 | – | 2,408,985 | – | (26,129) | **2,382,856** | 0.00p | 17/09/2018 | 16/09/2025 |
| **Savings Related Scheme** | | | | | | | | |
| 20/10/2010 | 99,237 | – | (84,932) | (14,305) | **–** | 95.0p | 01/12/2013 | 30/06/2015 |
| **Total** | **4,939,286** | **2,408,985** | **(209,345)** | **(1,701,138)** | **5,437,788** | | | |

## 25. RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATING ACTIVITIES

| | 2015 £m | 2014 £m |
|---|---|---|
| **Operating profit** | **65.9** | 53.2 |
| Depreciation (Note 10) | **23.0** | 21.2 |
| Amortisation of computer software (Note 12) | **3.0** | 2.8 |
| Impairment of property, plant and equipment (Note 10) | **–** | 6.1 |
| Profits and losses arising on sale of businesses and associated impairment charges | **–** | 14.0 |
| Amortisation of acquired intangibles (Note 12) | **10.3** | 19.6 |
| Profit on sale of property, plant and equipment | **(2.4)** | (2.2) |
| Share-based payments | **–** | 0.7 |
| Working capital movements: | | |
| Increase in inventories | **(15.8)** | (9.0) |
| Increase in receivables | **(9.0)** | (0.4) |
| Decrease in payables | **(13.4)** | (10.4) |
| **Cash generated from operating activities** | **61.6** | 95.6 |

Included within the cash generated from operating activities is a defined benefit pension scheme employer's special contribution of £2.5m (2014: £2.5m).

## 26. RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET DEBT

| | 2015 £m | 2014 £m |
|---|---|---|
| Decrease in cash and cash equivalents in the year | **(14.1)** | (2.7) |
| Cash flow from (increase)/decrease in debt | **(86.6)** | 0.7 |
| Increase in net debt resulting from cash flows | **(100.7)** | (2.0) |
| Debt added on acquisition | **(2.5)** | (0.1) |
| Recognition of loan notes | **(2.7)** | – |
| Non-cash items^ | **(3.9)** | (3.8) |
| Exchange differences | **0.8** | 0.2 |
| Increase in net debt in the year | **(109.0)** | (5.7) |
| **Net debt at 1 January** | **(126.9)** | (121.2) |
| **Net debt at 31 December** | **(235.9)** | (126.9) |

^ Non-cash items relate to the fair value movement of debt recognised in the year which does not give rise to a cash inflow or outflow.

Net debt is defined as the net of cash and cash equivalents, deferred consideration, other financial assets, bank overdrafts, derivative financial instruments, loan notes, private placement notes, bank loans and obligations under finance lease contracts.

## 27. ANALYSIS OF NET DEBT

| | At 31 December 2014 £m | Cash flows £m | Net cash added on acquisition £m | Reclassification of debts £m | Recognition of loan notes £m | Non-cash items^ £m | Exchange difference £m | At 31 December 2015 £m |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 110.3 | (28.1) | 12.1 | – | – | – | (5.3) | **89.0** |
| Bank overdrafts | (4.4) | 1.9 | – | – | – | – | 0.2 | **(2.3)** |
| | 105.9 | (26.2) | 12.1 | – | – | – | (5.1) | **86.7** |
| Financial assets – derivative financial instruments | 33.9 | (0.5) | – | – | – | (1.7) | 5.1 | **36.8** |
| Other financial assets and deferred consideration | 2.4 | 0.1 | – | – | – | – | 0.3 | **2.8** |
| Debts due within one year* | (3.1) | (88.6) | (1.8) | (160.3) | (2.7) | (1.8) | 3.0 | **(255.3)** |
| Debts due after one year | (255.5) | – | – | 160.3 | – | 1.4 | (3.1) | **(96.9)** |
| Finance lease contracts | (10.5) | 2.4 | (0.7) | – | – | (1.8) | 0.6 | **(10.0)** |
| **Net debt** | (126.9) | (112.8) | 9.6 | – | (2.7) | (3.9) | 0.8 | **(235.9)** |

^ Non-cash items relate to the fair value movement of debt recognised in the year which does not give rise to a cash inflow or outflow.
* Debts due within one year added on acquisition includes £0.3m of deferred consideration.

## 28. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

### a) Capital commitments

| | 2015 £m | 2014 £m |
|---|---|---|
| Contracted but not provided for | **7.7** | 15.8 |

### b) Lease commitments

The Group leases a number of its premises under operating leases which expire between 2015 and 2049.

The rentals payable are subject to renegotiation at various dates. The total future minimum lease rentals under the foregoing leases are as follows:

| Minimum lease rentals due: | 2015 £m | 2014 £m |
|---|---|---|
| – within one year | **49.5** | 45.1 |
| – after one year and within five years | **129.2** | 113.5 |
| – after five years | **60.6** | 56.2 |
| | **239.3** | 214.8 |

The Group also leases certain items of plant and machinery whose total future minimum lease rentals under the foregoing leases are as follows:

| Minimum lease rentals due: | 2015 £m | 2014 £m |
|---|---|---|
| – within one year | **14.1** | 12.9 |
| – after one year and within five years | **19.2** | 17.9 |
| – after five years | **0.2** | 1.0 |
| | **33.5** | 31.8 |

### c) Pension schemes

The Group operates a number of pension schemes, six (2014: six) of which provide defined benefits based on final pensionable salary. Of these schemes, one (2014: one) has assets held in a separate trustee administered fund and five (2014: four) are overseas book reserve schemes. The Group also operates a number of defined contribution schemes, all of which are independently managed.

The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund.

## 28. GUARANTEES AND OTHER FINANCIAL COMMITMENTS CONTINUED

### c) Pension schemes continued

In The Netherlands, the Company participates in the industry-wide pension plan for the construction materials industry ("BPF HiBiN"). The pension plan classifies as a multi-employer defined benefit scheme under IAS 19, but is recognised in the Accounts as a defined contribution scheme since the pension fund is not able to provide sufficient information to allow SIG's share of the assets and liabilities to be separately identified. Therefore, the Group's annual pension expense for this scheme is equal to the required contribution each year. The coverage ratio of the multi-employer union plan decreased to 105.3% as at 31 December 2015 (2014: 112.2%). No change was made to the pension premium percentage of 22.2% (2014: 22.2%). The coverage ratio is calculated by dividing the fund's assets by the total sum of pension liabilities and is based upon market interest rates.

In Belgium, the Company provides pensions for employees through a defined contribution scheme which, following a change in Belgian legislation, has a minimum guaranteed rate of return and is accounted for as a defined benefit scheme under IAS 19. The Company has insured its liabilities. At 31 December 2015 the scheme has gross assets and liabilities of £0.4m (2014: £nil).

The Group's total pension charge for the year including amounts charged to interest was £7.8m (2014: £7.4m), of which a charge of £2.2m (2014: £1.9m) related to defined benefit pension schemes and £5.6m (2014: £5.5m) related to defined contribution schemes.

### Defined benefit pension scheme valuations

In accordance with IAS 19 the Group recognises all actuarial gains and losses in full in the period in which they arise in the Consolidated Statement of Comprehensive Income.

The actuarial valuations of the defined benefit pension schemes are assessed by an independent actuary every three years who recommends the rate of contribution payable each year. The last formal actuarial valuation of the SIG plc Retirement Benefits Plan, the UK scheme, was conducted at 31 December 2013 and showed that the market value of the scheme's assets was £131.4m and their actuarial value covered 90% of the benefits accrued to members after allowing for expected future increases in pensionable salaries.

The other five schemes are book reserve schemes whereby the sponsoring company does not hold any separate assets to fund the pension scheme but makes a reserve in its accounts. Therefore, these schemes do not hold separate scheme assets. The liabilities of the schemes are met by the sponsoring companies.

The schemes typically expose the Group to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk. The risk relating to benefits to be paid to the dependants of scheme members on death in service is re-insured by an external insurance company.

| | |
|---|---|
| Investment risk | The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets falls below this rate, it will create a plan deficit. Currently the plan has relatively balanced investments in line with the Trustees' Statement of Investment Principles between equity securities and debt instruments. Due to the long-term nature of the plan liabilities, the trustees of the pension fund consider it appropriate that a reasonable portion of the plan assets should be invested in growth assets to leverage the return generated by the fund. |
| Interest rate risk | A decrease in the bond interest rate will increase the plan liability but this will be partially offset by an increase in the return on the plan's debt investments. |
| Longevity risk | The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability. |
| Salary risk | The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability. However, a pensionable salary cap was introduced from 1 July 2012 of 2.5% per annum. |

### Consolidated Income Statement charges

The pension charge for the year including amounts charged to interest of £0.7m (2014: £0.6m) relating to the defined benefit pension schemes was £2.2m (2014: £1.9m).

In accordance with IAS 19, the charge for the defined benefit schemes has been calculated as the sum of the cost of benefits accruing in the year, the increase in the value of benefits already accrued and the expected return on assets. The actuarial valuations described previously have been updated at 31 December 2015 by a qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. Investments have been valued, for this purpose, at fair value.

The UK defined benefit scheme is closed to new members and has an age profile that is rising, and therefore under the projected unit method the current service cost will increase as the members of the scheme approach retirement. The four overseas book reserve schemes remain open to new members.

## 28. GUARANTEES AND OTHER FINANCIAL COMMITMENTS CONTINUED

### c) Pension schemes continued

#### Consolidated Balance Sheet liability

The balance sheet position in respect of the six defined benefit schemes can be summarised as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Pension liability before taxation | **(23.8)** | (28.7) |
| Related deferred tax asset | **5.2** | 6.4 |
| **Pension liability after taxation** | **(18.6)** | (22.3) |

The actuarial gain of £1.9m (2014: loss of £7.7m) for the year, together with the associated deferred tax charge of £0.2m (2014: credit of £1.7m) and deferred tax charge of £0.7m (2014: £0.1m) in respect of the change in the UK standard rate of corporation tax to 19% from 1 April 2017 and 18% from 1 April 2020, has been recognised in the Consolidated Statement of Comprehensive Income. In addition a deferred tax charge of £0.2m (2014: £0.7m) has been recognised in the Consolidated Income Statement. A full reconciliation of the deferred tax movement is shown in Note 22.

The cumulative actuarial gains and losses gross of deferred tax (from 2004 onwards) recognised in the Consolidated Statement of Comprehensive Income amounted to a loss of £37.7m (2014: £39.6m).

Of the above pension liability before taxation, £15.4m (2014: £19.4m) relates to wholly or partly funded schemes and £8.4m (2014: £9.3m) relates to the overseas unfunded schemes.

The movement in the pension liability before taxation in the year can be summarised as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Pension liability at 1 January | **(28.7)** | (25.5) |
| Current service cost | **(1.5)** | (1.3) |
| Transfer to accruals | **1.0** | – |
| Payment of unfunded benefits | **0.2** | 2.4 |
| Contributions | **3.5** | 3.4 |
| Net finance cost | **(0.7)** | (0.6) |
| Actuarial gain/(loss) | **1.9** | (7.7) |
| Effect of changes in exchange rates | **0.5** | 0.6 |
| **Pension liability at 31 December** | **(23.8)** | (28.7) |

Contributions of approximately £3.4m are expected to be paid to defined benefit pension schemes during the annual period beginning 1 January 2016. The Group is contracted to pay £2.5m per annum to January 2019. The principal assumptions used for the IAS 19 actuarial valuation of the schemes were:

| | 2015 % | 2014 % | 2013 % |
|---|---|---|---|
| Rate of increase in salaries | **2.5** | 2.5 | 2.5 |
| Rate of fixed increase of pensions in payment | **1.7** | 1.6 | 2.5 |
| Rate of increase of LPI pensions in payment | **3.0** | 2.9 | 3.3 |
| Discount rate | **3.9** | 3.6 | 4.5 |
| Inflation assumption | **3.1** | 3.0 | 3.3 |

Deferred pensions are revalued to retirement in line with the schemes' rules and statutory requirements, with the inflation assumption used for LPI revaluation in deferment.

The life expectancy for a male employee beyond the normal retirement age of 60 is 27.4 years (2014: 27.4 years). The life expectancy on retirement at age 60 of a male employee currently aged 40 years is 29.2 years (2014: 29.1 years).

If the discount rate were to be increased/decreased by 0.25%, this would decrease/increase the Group's gross pension scheme deficit by £7.1m. If the rate of inflation increased/decreased by 0.25% this would increase/decrease the Group's gross pension scheme deficit by £1.6m. If the life expectancy for employees increased/decreased by one year the Group's gross pension scheme deficit would increase/decrease by £6.3m.

## 28. GUARANTEES AND OTHER FINANCIAL COMMITMENTS CONTINUED

### c) Pension schemes continued

The average duration of the defined benefit scheme obligation at 31 December 2015 is 18 years (2014: 18 years).

The fair value of the assets in the schemes at each balance sheet date were:

| | 2015 £m | 2014 £m | 2013 £m | 2012 £m | 2011 £m |
|---|---|---|---|---|---|
| Equities | **65.5** | 74.7 | 62.7 | 57.8 | 50.3 |
| Bonds | **55.5** | 51.5 | 44.9 | 44.6 | 40.4 |
| Other | **21.8** | 16.8 | 23.5 | 14.8 | 9.5 |
| **Total fair value of assets** | **142.8** | 143.0 | 131.1 | 117.2 | 100.2 |

The amount included in the Consolidated Balance Sheet arising from the Group's obligation in respect of its defined benefit schemes is as follows:

| | 2015 £m | 2014 £m | 2013 £m | 2012 £m | 2011 £m |
|---|---|---|---|---|---|
| Fair value of assets | **142.8** | 143.0 | 131.1 | 117.2 | 100.2 |
| Present value of scheme liabilities | **(166.6)** | (171.7) | (156.6) | (151.6) | (144.7) |
| **Net liability recognised in the Consolidated Balance Sheet** | **(23.8)** | (28.7) | (25.5) | (34.4) | (44.5) |

The overall expected rate of return is based upon market conditions at the balance sheet date.

Amounts recognised in the Consolidated Income Statement in respect of these defined benefit schemes are as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Current service cost | **1.5** | 1.3 |
| Net finance cost | **0.7** | 0.6 |
| **Amounts recognised in the Consolidated Income Statement** | **2.2** | 1.9 |

All of the current service cost for the year has been included within administrative expenses in the Consolidated Income Statement. The net finance cost has been included within finance costs (see Note 3).

The actual return on scheme assets was £2.5m (2014: £12.6m).

Analysis of the actuarial gain/(loss) recognised in the Consolidated Statement of Comprehensive Income in respect of the schemes:

| | 2015 £m | 2014 £m |
|---|---|---|
| Actual return less expected return on assets | **(2.7)** | 6.7 |
| Effect of changes in demographic assumptions | **–** | 5.2 |
| Effect of changes in financial assumptions | **3.9** | (21.7) |
| Impact of liability experience | **0.7** | 2.1 |
| **Remeasurement of the defined benefit liability** | **1.9** | (7.7) |

The remeasurement of the net defined benefit liability is included within the Consolidated Statement of Comprehensive Income.

## 28. GUARANTEES AND OTHER FINANCIAL COMMITMENTS CONTINUED

### c) Pension schemes continued

Movements in the present value of the schemes' liabilities were as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Present value of schemes' liabilities at 1 January | (171.7) | (156.6) |
| Current service cost | (1.5) | (1.3) |
| Transfer to accruals | 1.0 | – |
| Interest on pension schemes' liabilities | (5.8) | (6.5) |
| Benefits paid | 6.1 | 4.1 |
| Payment of unfunded benefits | 0.2 | 2.4 |
| Effect of changes in exchange rates | 0.5 | 0.6 |
| Remeasurement gains/(losses): | | |
| Actuarial gain arising from changes in demographic assumptions | – | 5.2 |
| Actuarial gain/(loss) arising from changes in financial assumptions | 3.9 | (21.7) |
| Actuarial gain due to liability experience | 0.7 | 2.1 |
| **Present value of schemes' liabilities at 31 December** | **(166.6)** | (171.7) |

Movements in the fair value of the schemes' assets were as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Fair value of schemes' assets at 1 January | 143.0 | 131.1 |
| Finance income | 5.1 | 5.9 |
| Actual return less expected return on assets | (2.7) | 6.7 |
| Contributions from sponsoring companies | 3.5 | 3.4 |
| Benefits paid | (6.1) | (4.1) |
| **Fair value of schemes' assets at 31 December** | **142.8** | 143.0 |

### d) Contingent liabilities

As at the balance sheet date, the Group had outstanding obligations under customer guarantees, claims, standby letters of credit and discounted bills of up to £12.5m (2014: £11.0m). Of this amount, £9.0m (2014: £9.0m) relates to a standby letter of credit issued by HSBC Bank plc in respect of the Group's insurance arrangements.

## 29. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and have therefore not been disclosed.

SIG has a shareholding of less than 0.1% in a German purchasing co-operative. Net purchases from this co-operative (on commercial terms) totalled £251m in 2015 (2014: £282m). At the balance sheet date net trade payables in respect of the co-operative amounted to £1m (2014: £3m).

In 2015, SIG incurred expenses of £0.3m (2014: £0.3m) on behalf of the SIG plc Retirement Benefits Plan, the UK defined benefit pension scheme.

### Remuneration of key management personnel

The total remuneration of key management personnel of the Group, being the Executive Committee members and the Non-Executive Directors, (see page 93) was £2.5m (2014: £4.3m). Further details of Directors' Remuneration can be found on page 89 to 98. In addition, the Group recognised a share-based payment charge under IFRS 2 in respect of the Directors of less than £0.1m (2014: £0.1m).

## 30. SUBSIDIARIES

Details of the Group's subsidiaries, all of which have been included in the Consolidated Accounts, are shown on pages 170 to 172.

# Independent Auditor's Report
## TO THE MEMBERS OF SIG PLC

## OPINION ON FINANCIAL STATEMENTS OF SIG PLC

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 2015 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 (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including, Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- 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.

The financial statements comprise the Consolidated Income Statement, the Consolidated and Company Statements of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated and Company Statements of Changes in Equity, the Statements of Significant Accounting Policies, the Critical Accounting Judgments and Key Sources of Estimation Uncertainty and the related Group Notes 1 to 30 and the related Parent Company Notes 1 to 14. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including, Financial Reporting Standard 101 "Reduced Disclosure Framework".

## GOING CONCERN AND THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE GROUP

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within the Strategic Report on page 39 and the Directors' statement on the longer-term viability of the Group contained within the Strategic Report, on page 39.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 39 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 20 to 23 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement on page 39 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation on page 39 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider 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.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

## INDEPENDENCE

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

## OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

| Risk | How the scope of our audit responded to the risk |
|---|---|
| **The recognition and measurement of supplier rebate income**<br><br>Rebate income earned by the Group is significant to the Group's result and affects the recorded value of cost of sales, trade payables and inventory. In some cases, rebate calculations are complex and judgmental, particularly at a time of uncertain demand and difficult trading conditions, being based on estimates of purchases and/or non-coterminous trading periods.<br><br>Further explanation is given on page 114 Critical Accounting Judgments and Key Sources of Estimation Uncertainty.<br><br>The consideration made by the Audit Committee is set out on page 75. | We evaluated the design and implementation of key controls related to the recognition of supplier rebate income where income is significant. We discussed significant rebate contracts with the commercial managers to understand the complexities and judgments that may exist over income recognition.<br><br>We circularised suppliers in business units where rebate income is significant to confirm a sample of amounts receivable, including high value balances. Where supplier responses were not returned, we reviewed further correspondence between the Group and the supplier to verify the position taken. We also considered post year end recoveries against receivables.<br><br>We re-performed a sample of management's calculations of rebate income, agreeing volumes to purchasing records and correspondence from suppliers where available or to other available documentation, and agreeing the rebate percentages applied to a signed contract where available or to other supplier correspondence. We compared rebate income earned by supplier against historical rates achieved and considered previous estimation accuracy to identify significant movements for further testing or enquiries.<br><br>We challenged whether the recognition policies and estimates were appropriate, particularly when there were non-coterminous trading periods, renegotiated rebate agreements and buy-ins, and we performed detailed testing to determine whether an appropriate level of rebate had been adjusted against stock to reflect the net cost of the related items. |
| **The assessment of the carrying value of goodwill and intangible assets**<br><br>The goodwill and intangible assets (excluding computer software) of £494.4m represent 33% of total assets and 71% of non-current assets and therefore the judgments over the carrying value are significant.<br><br>Management's judgments in relation to the financial forecasts of the business units, discount rates and perpetuity growth rates used to determine the value in use of the CGUs are subjective and are described in the Critical Accounting Judgments and Key Sources of Estimation Uncertainty on page 114 and Note 11 to the financial statements. | We evaluated the design and implementation of key controls related to the assessment of the carrying value of goodwill and intangible assets.<br><br>We challenged management's assumptions used in the impairment model for goodwill and intangible assets, including specifically the cash flow projections, changes to the discount rates applied and perpetuity rates used. We performed sensitivity analysis against these assumptions. We have compared these to industry forecasts, the Group's historical performance, budgeting accuracy, benchmarking against comparator groups and our understanding of the future prospects of the business. We tested the integrity of the model using our computer assisted analytical tools.<br><br>Particular focus has been given to Larivière given its carrying value of goodwill of £144.7m and the difficult trading conditions in France. As a result we applied a greater level of verification to the growth rates and additional sensitivity analysis over the trading performance and judgments taken. |

| Risk | How the scope of our audit responded to the risk |
| --- | --- |
| **The recognition and presentation of Other items in the Consolidated Income Statement**<br><br>The Group has consistently used a three column approach for the presentation of the Consolidated Income Statement to separately identify certain income/costs which are non-underlying in nature. This includes certain costs relating to a significant restructuring programme. The inappropriate or inconsistent inclusion of income/costs within Other items could distort the underlying profit disclosed. The Group's definition for separate presentation within Other items is set out in the Statement of Significant Accounting Policies on page 108. The net loss associated with Other items is £36.1m and reduces the Group's underlying profit before tax by 41%.<br><br>This is on the face of the Consolidated Income Statement on page 102 and also Note 2. | We evaluated the design and implementation of key controls related to the recognition and presentation of Other items. We assessed the nature of the income/costs included in Other items and challenged whether they met the Group's definition for separate presentation. Where income/costs have been presented as Other items, we obtained evidence that enabled us to assess whether this presentation is appropriate. We performed detailed substantive testing for a sample of the costs/income by verifying these against supporting invoices, agreements and other records as appropriate. Particular focus has been given to net restructuring costs of £8.3m as set out on page 118 to determine whether they arise from significant restructuring and changing the shape of the business rather than minor changes to the Group's structure. |
| **The recognition and measurement of provisions for trade receivables**<br><br>Trade receivables represent 49% of the Group's current assets. The judgments regarding aged or impaired receivables are significant and are subjective with respect to the trading conditions in some of the countries in which the Group operates, particularly in Ireland.<br><br>Further explanation is given on page 114 Critical Accounting Judgments and Key Sources of Estimation Uncertainty and Note 15 in the Annual Report and Accounts. | We evaluated the design and implementation of key controls related to the recognition and measurement of provisions for trade receivables. We challenged the appropriateness of management's assumptions and estimates in relation to the provisions for trade receivables through discussions with local management who are the most knowledgeable of the customers themselves. In assessing completeness and accuracy we have reviewed evidence of customer disputes and defaults and whether this indicates that a provision is required. We have tested the ageing of the ledgers through agreement of ageing date to proof of customer delivery and recalculated the provision based upon this. We have assessed the appropriateness of provisions by considering subsequent cash receipts, past payment practices and the initial assessment of customer viability. |

The risks noted above remain unchanged from the audit report in the prior year.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 75.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £4.25m (2014: £5m), which is below 5% (2014: approximately 5%) of underlying pre-tax profit (as defined on page 102), and below 1% (2014: 1%) of equity. Deteriorating market conditions have had an adverse impact on sales, driving a lower underlying pre-tax profit resulting in a lower materiality being determined. We use underlying pre-tax profit to exclude the effect of volatility from our determination and because it represents one of the primary KPIs referred to both internally and externally. The recognition and presentation of Other items is treated as a significant risk as set out above.

Component materiality ranges between 50% and 95% of Group materiality (£2.1m to £4.0m) based on the components' blended revenue and underlying pre-tax profit contribution.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £85,000 (2014: £100,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. The Group audit and audit of the consolidation is performed at the Group's head office in Sheffield. The accounting records of the trading businesses within the Group are spread across the countries in which the Group operates. We perform audit work in each of the eight principal countries of operation.

Full scope audits were performed for the principal business units including the United Kingdom, Germany, France, Poland, and Ireland covering 75% of the Group's total assets (2014: 88%), 90% of revenue (2014: 91%) and 84% of pre-tax profit (2014: 89%). A further 17% of the Group's total assets (2014: 9%), 5% of revenue (2014: 6%) and 6% of pre-tax profit (2014: 9%) were subject to specified audit procedures where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified on pages 154 and 155. Our full scope audits and the specified audit procedures were executed at levels of materiality applicable to each individual entity which were lower than Group materiality.

At the Parent Company level we also tested the consolidation process, including testing on the acquisitions which are significant to the Group's results and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team continued to follow a programme of planned visits that has been designed so that a senior member of the Group audit team visits each of the locations where the Group audit scope was focused once every year and the most significant of them at least twice a year. During 2015 and 2014 a senior member of the Group audit team visited Germany, France, Ireland and the United Kingdom at least twice, and also Poland once.

## OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

### In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

### Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION CONTINUED

### Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Simon Manning FCA** (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, UK
8 March 2016

# Five-Year Summary

| Statutory basis | Total 2011 £m | Total 2012 £m | Total 2013 £m | Total 2014 £m | **Total 2015 £m** |
|---|---|---|---|---|---|
| Revenue | 2,808.4 | 2,635.5 | 2,719.8 | 2,633.9 | **2,566.4** |
| Operating profit | 25.6 | 57.9 | 15.4 | 53.2 | **65.9** |
| Finance income | 7.4 | 1.9 | 1.6 | 1.0 | **1.0** |
| Finance costs | (25.4) | (15.8) | (14.8) | (15.2) | **(15.6)** |
| Profit before tax | 7.5 | 43.7 | 2.1 | 39.0 | **51.3** |
| Profit/(loss) after tax | (0.0) | 26.6 | (14.3) | 34.5 | **36.3** |
| Earnings/(loss) per share | (0.0p) | 4.5p | (2.5p) | 5.6p | **6.1p** |
| Total dividend per share | 2.25p | 3.00p | 3.55p | 4.40p | **4.60p** |

| Continuing basis^ | Underlying* 2011 £m | Underlying* 2012 £m | Underlying* 2013 £m | Underlying* 2014 £m | **Underlying* 2015 £m** |
|---|---|---|---|---|---|
| Revenue | 2,499.6 | 2,413.0 | 2,539.7 | 2,602.9 | **2,566.4** |
| Operating profit | 95.2 | 93.0 | 101.3 | 111.2 | **98.7** |
| Finance income | 7.4 | 1.5 | 1.4 | 0.9 | **1.0** |
| Finance costs | (21.2) | (13.6) | (12.7) | (13.0) | **(12.3)** |
| Profit before tax | 81.4 | 80.9 | 90.0 | 99.1 | **87.4** |
| Profit after tax | 55.8 | 55.7 | 63.4 | 71.3 | **66.4** |
| Earnings per share | 9.4p | 9.4p | 10.7p | 12.0p | **11.2p** |

* Underlying figures are stated before the amortisation of acquired intangibles, restructuring costs, acquisition expenses and contingent consideration, other one-off items, profits and losses arising on the sale or agreed sale of businesses and associated impairment charges, trading profits and losses associated with disposed businesses, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, one-off recognition of deferred tax assets, the taxation effect of these items and the effect of changes in taxation rates.

^ All underlying numbers are stated on a continuing basis (i.e. excluding the trading results associated with businesses divested or closed before 31 December 2015).

A more detailed five-year summary can be found in the investor section of the Company's website **(www.sigplc.com)**.



# Company Accounts

## Prepared Under United Kingdom Generally Accepted Accounting Practice (including Financial Reporting Standard 101)

STRONGER
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# Company Statement of Comprehensive Income
## for the year ended 31 December 2015

| | 2015 £m | 2014 £m |
|---|---|---|
| **Profit after tax** | **20.5** | 26.2 |
| **Items that may subsequently be reclassified to the Company Income Statement** | | |
| Gains and losses on cash flow hedges | **(3.3)** | (3.7) |
| Transfer to profit and loss on cash flow hedges | **2.3** | 2.3 |
| **Other comprehensive expense** | **(1.0)** | (1.4) |
| **Total comprehensive income** | **19.5** | 24.8 |
| **Attributable to:** | | |
| Equity holders of the Company | **19.5** | 24.8 |

The accompanying Statement of Significant Accounting Policies and Notes to the Accounts are an integral part of this Company Statement of Comprehensive Income.

# Company Balance Sheet
## as at 31 December 2015



| | Note | 2015 £m | 2014 £m | 2013 £m |
|---|---|---|---|---|
| **Fixed assets** | | | | |
| Investments | 5 | **443.0** | 443.0 | 446.1 |
| Tangible fixed assets | 6 | **1.0** | 0.1 | 0.1 |
| | | **444.0** | 443.1 | 446.2 |
| **Current assets** | | | | |
| Debtors – due within one year | 7 | **188.2** | 90.7 | 65.6 |
| Debtors – due after more than one year | 7 | **683.3** | 737.3 | 731.7 |
| Deferred tax assets | 11 | **4.0** | 9.6 | 0.8 |
| Other financial assets | | **0.3** | – | – |
| Cash at bank and in hand | | **12.8** | 25.8 | 33.3 |
| | | **888.6** | 863.4 | 831.4 |
| Creditors: amounts falling due within one year | 8 | **439.3** | 241.1 | 214.5 |
| **Net current assets** | | **449.3** | 622.3 | 616.9 |
| **Total assets less current liabilities** | | **893.3** | 1,065.4 | 1,063.1 |
| Creditors: amounts falling due after one year | 9 | **157.8** | 320.1 | 324.1 |
| Provisions | 10 | **2.0** | 3.4 | – |
| **Net assets** | | **733.5** | 741.9 | 739.0 |
| **Capital and reserves** | | | | |
| Called up share capital | 12 | **59.1** | 59.1 | 59.1 |
| Share premium account | 12 | **447.3** | 447.2 | 447.2 |
| Merger reserve | 12 | **21.7** | 21.7 | 21.7 |
| Capital redemption reserve | 12 | **0.3** | 0.3 | 0.3 |
| Share option reserve | 12 | **1.4** | 1.8 | 1.1 |
| Exchange reserve | 12 | **(0.2)** | (0.2) | (0.2) |
| Retained profits | 12 | **203.9** | 212.0 | 209.8 |
| **Shareholders' funds** | | **733.5** | 741.9 | 739.0 |

The accompanying Statement of Significant Accounting Policies and Notes to the Accounts are an integral part of this Company Balance Sheet.

The Accounts were approved by the Board of Directors on 8 March 2016 and signed on its behalf by:

**STUART MITCHELL**
Director

**DOUG ROBERTSON**
Director

Registered in England: 998314

# Company Statement of Changes in Equity
## year ended 31 December 2015

| | Called up share capital £m | Share premium account £m | Merger reserve £m | Capital redemption reserve £m | Share option reserve £m | Exchange reserve £m | Retained profits £m | Total Equity £m |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2014 | 59.1 | 447.2 | 21.7 | 0.3 | 1.1 | (0.2) | 209.8 | 739.0 |
| Profit after tax | – | – | – | – | – | – | 26.2 | 26.2 |
| Other comprehensive income/(expense) | – | – | – | – | – | – | (1.4) | (1.4) |
| Total comprehensive income/(expense) | – | – | – | – | – | – | 24.8 | 24.8 |
| Exercise of share options | – | – | – | – | – | – | – | – |
| Credit to share option reserve | – | – | – | – | 0.7 | – | – | 0.7 |
| Share capital issued in the year | – | – | – | – | – | – | – | – |
| Dividends paid to equity holders of the Company | – | – | – | – | – | – | (22.6) | (22.6) |
| At 31 December 2014 | 59.1 | 447.2 | 21.7 | 0.3 | 1.8 | (0.2) | 212.0 | 741.9 |
| Profit after tax | – | – | – | – | – | – | 20.5 | 20.5 |
| Other comprehensive income/(expense) | – | – | – | – | – | – | (1.0) | (1.0) |
| Total comprehensive income/(expense) | – | – | – | – | – | – | 19.5 | 19.5 |
| Share capital issued in the year | – | 0.1 | – | – | – | – | – | 0.1 |
| Debit to share option reserve | – | – | – | – | (0.3) | – | – | (0.3) |
| Exercise of share options | – | – | – | – | (0.1) | – | – | (0.1) |
| Dividends paid to equity holders of the Company | – | – | – | – | – | – | (27.6) | (27.6) |
| **At 31 December 2015** | **59.1** | **447.3** | **21.7** | **0.3** | **1.4** | **(0.2)** | **203.9** | **733.5** |

There was no movement in the merger reserve, capital redemption reserve and exchange reserve in the year. During 2015 the Company allotted 209,345 shares (2014: 37,356) following the exercising of share options.

The accompanying Statement of Significant Accounting Policies and Notes to the Accounts are an integral part of this Company Statement of Changes in Equity.

# Company Statement of Significant Accounting Policies



## BASIS OF ACCOUNTING

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company is exempt from the preparation of consolidated financial statements because it is included in the Group Accounts of SIG plc as detailed on pages 102 to 152. The separate financial statements have been prepared under the historical cost convention (except for the revaluation of financial instruments which are held at fair value as disclosed on page 164). Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. Categorisation of fair value is set out in the Group Accounts on page 137.

The separate financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101). For periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the year ended 31 December 2015, are the first the Company has prepared in accordance with FRS 101.

FRS 101 sets out a reduced disclosure framework for a qualifying entity that would otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS. The Company is a qualifying entity for the purposes of FRS 101.

As explained above, the Company has adopted FRS 101 for the first time in the current year. As part of this adoption, the following new and revised Standards and Interpretations have been adopted in the current year:

- Amendments to IAS 1 "Presentation of Financial Statements" (as part of the Annual Improvements to IFRSs 2009 – 2011 Cycle issued in May 2012); and
- IFRS 13 "Fair Value Measurement".

The application of these specific Standards and Interpretations has not had a material effect on the Company.

In preparing these financial statements, the Company has started from an opening Balance Sheet as at 1 January 2014, the Company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required by FRS 101 for the first time adoption of FRS 101.

The impact of these amendments to the Company's previously adopted accounting policies was not material to the Shareholders' equity as at the date of transition and as at 31 December 2014 and on the profit for the year ended 31 December 2015.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 "Share-based Payment";
- the requirements of IFRS 7 "Financial Instruments: Disclosures";
- the requirements of paragraphs 91 to 99 of IFRS 13 "Fair Value Measurement";
- the requirement in paragraph 38 of IAS 1 "Presentation of Financial Statements" to present comparative information in respect of:
  - i) paragraph 79(a)(iv) of IAS 1;
  - ii) paragraph 73(e) of IAS 16 "Property, Plant and Equipment";
- the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A to 40B, 111, and 134 to 136 of IAS 1 "Presentation of Financial Statements";
- the requirements of IAS 7 "Statement of Cash Flows";
- the requirements of paragraphs 30 and 31 of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors";
- the requirements of paragraph 17 of IAS 24 "Related Party Disclosures";
- the requirements in IAS 24 "Related Party Disclosures" to disclose related party transactions entered into between two or more members of a group; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 "Impairment of Assets".

The Company has notified its Shareholders in writing, and they do not object to the use of the disclosure exemptions used by the Company in these financial statements. Where required, equivalent disclosures are given in the Group Accounts.

### Share-based payments
The accounting policy for share-based payments (IFRS 2) is consistent with that of the Group as detailed on pages 109 and 110.

### Derivative financial instruments
The accounting policy for derivative financial instruments is consistent with that of the Group as detailed on page 111.

### Financial assets and liabilities
The accounting policy for financial assets and liabilities is consistent with that of the Group as detailed on pages 110 and 111.

### Investments
Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

### Tangible fixed assets
The accounting policy for tangible fixed assets is consistent with that of the Group as detailed on page 112.

### Foreign currency
The accounting policy for foreign currency is consistent with that of the Group as detailed on page 110.

### Taxation
The accounting policy for taxation is consistent with that of the Group as detailed on page 112.

### Dividends
Dividends proposed by the Board of Directors that have not been paid by the end of the year are not recognised in the Accounts until they have been approved by the Shareholders at the Annual General Meeting.

## CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY
In the application of the Company's accounting policies, which are described above, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the change takes place if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgments in applying the Company's accounting policies
The critical accounting judgments are consistent with that of the Group as detailed on page 114.

### Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

### Impairment of fixed asset investments
Determining whether the Company's investments in subsidiaries have been impaired requires estimations of the investments' values in use. The value in use calculations require the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values. The carrying amount of investments in subsidiaries at the balance sheet date was £443m (2014: £443m) with no impairment loss recognised in 2015 or 2014.

### Deferred tax assets
A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Therefore, estimates are made to establish whether deferred tax balances should be recognised, in particular in respect of non-trading losses.

# Notes to the Company Accounts



## 1. PROFIT FOR THE YEAR

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own Company Income Statement for the year. SIG plc reported a profit after tax for the financial year ended 31 December 2015 of £20.5m (2014: £26.2m).

The Auditor's remuneration for audit services to the Company was £0.1m (2014: £0.1m).

## 2. SHARE-BASED PAYMENTS

The Company had three share-based payment schemes in existence during the year ended 31 December 2015. The Company recognised a total charge of £0.1m (2014: £0.7m) in the year relating to share-based payment transactions issued after 7 November 2002. Details of each of the three share-based payment schemes can be found in Note 9 to the Group Accounts on pages 124 to 126.

## 3. DIVIDENDS

An interim dividend of 1.69p per ordinary share was paid on 7 November 2015 (2014: 1.42p). The Directors have proposed a final dividend for the year ended 31 December 2015 of 2.91p per ordinary share (2014: 2.98p). The proposed final dividend is subject to approval by Shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. No dividends have been paid between 31 December 2015 and the date of signing the Accounts.

## 4. STAFF COSTS

Particulars of employees (including Directors) are shown below:

| | 2015 £m | 2014 £m |
|---|---|---|
| **Employee costs during the year amounted to:** | | |
| Wages and salaries | 4.7 | 5.1 |
| Social security costs | 0.6 | 0.7 |
| IFRS 2 share option charge | 0.1 | 0.7 |
| Pension costs | 0.3 | 0.3 |
| **Total** | 5.7 | 6.8 |

The average monthly number of persons employed by the Company during the year was as follows:

| | 2015 Number | 2014 Number |
|---|---|---|
| Administration | 49 | 25 |

## 5. FIXED ASSET INVESTMENTS

Fixed asset investments comprise investments in subsidiary undertakings, as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| **Cost** | | |
| At 1 January | 650.2 | 662.3 |
| Disposals | – | (12.1) |
| At 31 December | 650.2 | 650.2 |
| **Accumulated impairment charges** | | |
| At 1 January | 207.2 | 216.2 |
| Impairment charge | – | 3.1 |
| Disposals | – | (12.1) |
| At 31 December | 207.2 | 207.2 |
| **Net book value** | | |
| At 31 December | 443.0 | 443.0 |
| At 1 January | 443.0 | 446.1 |

Details of the Company's subsidiaries are shown on pages 170 to 172.

## 6. TANGIBLE FIXED ASSETS

The movement in the year was as follows:

| | Land and buildings | | | |
|---|---|---|---|---|
| | Freehold land and buildings £m | Short leasehold £m | Plant and machinery £m | Total £m |
| **Cost** | | | | |
| At 1 January 2014 | 0.1 | – | 0.4 | 0.5 |
| Additions | – | – | 0.1 | 0.1 |
| Disposals | – | – | (0.1) | (0.1) |
| At 1 January 2015 | 0.1 | – | 0.4 | 0.5 |
| Additions | – | 0.8 | 0.3 | 1.1 |
| Disposals | – | – | – | – |
| **At 31 December 2015** | **0.1** | **0.8** | **0.7** | **1.6** |
| **Depreciation** | | | | |
| At 1 January 2014 | 0.1 | – | 0.3 | 0.4 |
| Charge for the year | – | – | – | – |
| Disposals | – | – | – | – |
| At 1 January 2015 | 0.1 | – | 0.3 | 0.4 |
| Charge for the year | – | 0.1 | 0.1 | 0.2 |
| Disposals | – | – | – | – |
| **At 31 December 2015** | **0.1** | **0.1** | **0.4** | **0.6** |
| **Net book value** | | | | |
| **At 31 December 2015** | **–** | **0.7** | **0.3** | **1.0** |
| At 31 December 2014 | – | – | 0.1 | 0.1 |

No impairment review was performed in 2015 or 2014 as there were no indications of impairment.

## 7. DEBTORS

| | **31 December 2015 £m** | 31 December 2014 £m | 1 January 2014 £m |
|---|---|---|---|
| Amounts owed by subsidiary undertakings | **150.1** | 89.8 | 64.1 |
| Corporation tax recoverable | **1.0** | – | 0.6 |
| Derivative financial instruments | **34.4** | – | – |
| Prepayments and accrued income | **1.2** | 0.9 | 0.9 |
| Deferred consideration | **1.5** | – | – |
| Debtors - due within one year | **188.2** | 90.7 | 65.6 |
| Amounts owed by subsidiary undertakings | **680.9** | 701.9 | 702.0 |
| Derivative financial instruments | **2.4** | 33.9 | 29.7 |
| Deferred consideration | **–** | 1.5 | – |
| Debtors - due after more than one year | **683.3** | 737.3 | 731.7 |
| **Total** | **871.5** | 828.0 | 797.3 |

## 8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 31 December 2015 £m | 31 December 2014 £m | 1 January 2014 £m |
|---|---|---|---|
| Private placement notes | **160.1** | – | – |
| Bank loans | **88.1** | – | – |
| Bank overdrafts | **69.8** | 40.4 | 54.8 |
| Amounts owed to subsidiary undertakings | **109.2** | 189.7 | 150.0 |
| Derivative financial instruments | **1.3** | 0.5 | 0.1 |
| Accruals and deferred income | **8.0** | 9.3 | 9.6 |
| Corporation tax | **2.8** | 1.2 | – |
| **Total** | **439.3** | 241.1 | 214.5 |

All of the Company's bank loans and overdrafts are unsecured. The bank loans are guaranteed by certain companies of the Group.

## 9. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

| | 31 December 2015 £m | 31 December 2014 £m | 1 January 2014 £m |
|---|---|---|---|
| Private placement notes | **95.8** | 254.3 | 252.5 |
| Derivative financial instruments | **0.7** | 0.6 | 2.0 |
| Amounts owed to subsidiary undertakings | **61.3** | 65.2 | 69.6 |
| **Total** | **157.8** | 320.1 | 324.1 |

Details of the private placement notes (before applying associated derivative financial instruments) are as follows:

| | 31 December 2015 | | 31 December 2014 | | 1 January 2014 | |
|---|---|---|---|---|---|---|
| | | Fixed interest rate | | Fixed interest rate | | Fixed interest rate |
| | £m | % | £m | % | £m | % |
| Repayable in 2016* | **160.1** | **5.9** | 153.3 | 5.9 | 146.2 | 5.9 |
| Repayable in 2018 | **22.4** | **5.2** | 23.1 | 5.1 | 23.0 | 5.1 |
| Repayable in 2020 | **22.0** | **3.7** | 23.4 | 3.7 | 25.0 | 3.7 |
| Repayable in 2021 | **14.7** | **3.9** | 15.6 | 3.9 | 16.7 | 3.9 |
| Repayable in 2023 | **36.7** | **4.2** | 38.9 | 4.2 | 41.6 | 4.2 |
| **Total** | **255.9** | **5.3** | 254.3 | 5.2 | 252.5 | 5.2 |

* The private placement notes repayable in 2016 are included within creditors: amounts falling due within one year in 2015.

All Group derivative financial instruments entered into by the Company have been disclosed in Note 18 of the Group Accounts on pages 136 to 139.

## 10. PROVISIONS

| | Warranty Claims £m |
|---|---|
| At 1 January 2014 | – |
| New provisions | 3.7 |
| Transferred in from accruals | 0.7 |
| Utilised | (1.0) |
| At 31 December 2014 | 3.4 |
| Unwinding of provision discounting | 0.1 |
| Utilised | (1.5) |
| **At 31 December 2015** | **2.0** |

## 10. PROVISIONS CONTINUED

| | 31 December 2015 £m | 31 December 2014 £m | 1 January 2014 £m |
|---|---|---|---|
| Amounts falling due within one year | **0.7** | 1.4 | – |
| Amounts falling due after one year | **1.3** | 2.0 | – |
| **Total** | **2.0** | 3.4 | – |

The transfer of economic benefit in respect of the warranty provision is expected to be made between one and twenty three years' time.

## 11. DEFERRED TAX

| | 31 December 2015 £m | 31 December 2014 £m | 1 January 2014 £m |
|---|---|---|---|
| Deferred tax assets | **4.0** | 9.6 | 0.8 |

The different components of deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior reporting period are analysed below:

| | Losses £m | Other £m | Total £m |
|---|---|---|---|
| At 1 January 2014 | – | 0.8 | 0.8 |
| Credit to income | 14.8 | 0.1 | 14.9 |
| Utilised | (6.1) | – | (6.1) |
| At 31 December 2014 | 8.7 | 0.9 | 9.6 |
| Credit/(charge) to income | 0.7 | (0.8) | (0.1) |
| Utilised | (5.5) | – | (5.5) |
| **At 31 December 2015** | **3.9** | **0.1** | **4.0** |

Given the current profitability of the Company, the Directors consider that the recognition of the deferred tax assets above is appropriate.

## 12. CAPITAL AND RESERVES

| | 31 December 2015 £m | 31 December 2014 £m | 1 January 2014 £m |
|---|---|---|---|
| Called up share capital | **59.1** | 59.1 | 59.1 |
| Share premium account | **447.3** | 447.2 | 447.2 |
| Merger reserve | **21.7** | 21.7 | 21.7 |
| Capital redemption reserve | **0.3** | 0.3 | 0.3 |
| Share option reserve | **1.4** | 1.8 | 1.1 |
| Exchange reserve | **(0.2)** | (0.2) | (0.2) |
| Retained profits | **203.9** | 212.0 | 209.8 |
| **Total reserves** | **733.5** | **741.9** | **739.0** |

## 12. CAPITAL AND RESERVES CONTINUED

The movement in reserves during the year was as follows:

| | Called up share capital £m | Share premium account £m | Share option reserve £m | Retained profits £m |
|---|---|---|---|---|
| At 1 January 2014 | 59.1 | 447.2 | 1.1 | 209.8 |
| Exercise of share options | – | – | – | – |
| Credit to share option reserve | – | – | 0.7 | – |
| Fair value movement on cash flow hedges | – | – | – | (3.7) |
| Transfer to profit and loss on cash flow hedges | – | – | – | 2.3 |
| Issue of share capital | – | – | – | – |
| Profit for the period | – | – | – | 26.2 |
| Dividends | – | – | – | (22.6) |
| At 31 December 2014 | 59.1 | 447.2 | 1.8 | 212.0 |
| Issue of share capital | – | 0.1 | – | – |
| Debit to share option reserve | – | – | (0.3) | – |
| Exercise of share options | – | – | (0.1) | – |
| Fair value movement on cash flow hedges | – | – | – | (3.3) |
| Transfer to profit and loss on cash flow hedges | – | – | – | 2.3 |
| Profit for the period | – | – | – | 20.5 |
| Dividends | – | – | – | (27.6) |
| **At 31 December 2015** | **59.1** | **447.3** | **1.4** | **203.9** |

There was no movement in the merger reserve, capital redemption reserve and exchange reserve in the year. During 2015 the Company allotted 209,345 shares (2014: 37,356) following the exercising of share options.

The Company has sufficient distributable reserves to pay dividends for a number of years, and when required the Company can receive dividends from its subsidiaries to further increase distributable reserves.

Details of the Company's share capital can be found in Note 24 of the Group Accounts on page 146.

## 13. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

### a) Guarantees

At 31 December 2015 the Company had provided guarantees of £9.0m (2014: £5.5m) on behalf of its subsidiary undertakings.

### b) Contingent liabilities

As at the balance sheet date, the Company had outstanding obligations under a standby letter of credit of up to £9.0m (2014: £9.0m). This standby letter of credit, issued by HSBC Bank plc, is in respect of the Group's insurance arrangements.

## 14. RELATED PARTY TRANSACTIONS

### Remuneration of key management personnel

The total remuneration of the Directors of the Group Board, who the Group considered to be its key management personnel, is provided in the audited part of the Directors' Remuneration Report on pages 89 to 98. In addition, the Company recognised a share-based charge under IFRS 2 of £0.1m (2014: £0.7m).

# Group Companies 2015

## Full list of subsidiary undertakings

The SIG Group comprises a large number of companies. A full list of subsidiary undertakings in which an SIG Group Company has a controlling interest as at 31 December 2015 is detailed below. The list includes those subsidiaries which in the Directors' opinion affect the figures shown in the consolidated financial statements. The country of incorporation and the effective percentage of equity owned (if less than 100 per cent) is also detailed. Unless otherwise noted, the share capital comprises shares which are indirectly held by SIG plc. Unless otherwise stated, the share capital disclosed comprises ordinary shares.

### Fully owned subsidiaries

A. M. Proos & Sons (Birmingham) Limited (England) (ii)
A. M. Proos & Sons Limited (England) (ii)
A. M. Proos (South) Limited (England) (ii)
A. Steadman & Son (Holdings) Limited (England) (ii)
A. Steadman & Son Limited (England) (ii)
Aaron Roofing Supplies Limited (England) (ii)
Accurate Roofing Supplies Limited (England) (ii)
Acoustic and Insulation Manufacturing Limited (England) (ii)
Acoustic and Insulation Materials Limited (England) (ii)
ADB Industrial Gloves & Clothing Limited (England) (ii)
Advanced Cladding & Insulation Group Limited (England) (ii)
Ainsworth Insulation Limited (England) (ii) (xi)
Ainsworth Insulation Supplies Limited (England) (ii) (xiii)
Air Trade Centre Hungary Kft (Hungary)
Air Trade Centre International B.V. (The Netherlands)
Air Trade Centre Netherlands B.V. (The Netherlands)
Air Trade Centre Poland Sp. z.o.o. (Poland)
Air Trade Centre SRL Romania (Romania)
Air Trade Centre UK Limited (England) (ii)
AIS Insulation Supplies Limited (England) (ii)
Alltrim Plastics (Stoke) Limited (England) (ii)
Alltrim Plastics Limited (England) (ii)
Asphaltic Properties Limited (England) (ii)
Asphaltic Roofing Supplies Limited (England) (ii)
Asimex Klimaattechniek B.V. (The Netherlands)
Auron Limited (England) (ii) (xix)
BBM (Materials) Limited (England) (ii)
Beleggingsmij Interland Techniek B.V. (The Netherlands)
Blueprint Construction Supplies Limited (England) (ii)
Bondec Boards Limited (England) (ii)
Border Slate Suppliers Limited (Scotland) (ii)
Bowller Group Limited (England) (ii)
Builders-Express Limited (England) (ii)
Buildspan Holdings Limited (England) (ii) (vii)
Buildspan Limited (England) (ii)
C. P. Supplies Limited (England) (ii)
Cairns Roofing and Building Merchants Limited (England) (ii)
Capco (Northern Ireland) Limited (Northern Ireland) (ii) (vii)
Capco Interior Supplies Limited (England) (ii) (xv)
Capco Interior Supplies Limited (Ireland) (ii)
Capco Slate & Tile Limited (England) (ii)
Capco Slate & Tile Limited (Ireland) (ii)
Capco UK Holdings Limited (England) (ii) (xiv)
Capco UK Holdings Limited (Ireland)
Carpet and Flooring (Midlands) Limited (England) (ii)
Carpet and Flooring (South West) Limited (England) (ii)
Ceiling System Supplies Limited (England) (ii) (xv)
Ceilings Distribution Limited (England) (i) (ii)
Central Refractories Scotland Limited (Scotland) (ii)
CH Insulation Products Limited (England) (ii) (viii)
Cheshire Roofing Supplies Limited (England) (ii)
Cladding and Fascia Supplies Limited (England) (ii)
Classicbond Limited (England) (ii)
Clyde Insulation (Contracts) Limited (Scotland) (ii)
Clyde Insulation Supplies Limited (Scotland) (ii)
Clydesdale Roofing Supplies (Leyland) Limited (England) (ii)
C.M.S. Acoustic Solutions Limited (England) (ii) (x)
CMS Danskin Acoustics Limited (England) (ii)
C.M.S. Vibration Solutions Limited (England) (ii) (xv)
Coleman Group Limited (England) (ii) (xviii)
Coleman Roofing Supplies Limited (England) (ii)
Conservatory Village Limited (England) (ii)
Construction Material Specialists Limited (England) (ii) (xvi)
Coolag Hamar B.V. (The Netherlands)
Coxbench IP Limited (England) (ii)
CPD Distribution Plc (England) (ii)
Dane Weller Glass and Blinds Limited (England) (ii)
Dane Weller Holdings Limited (England) (ii)
Danskin Flooring Systems Limited (Scotland) (ii)
Dataplus Software Limited (England) (ii)
Davies & Tate Installations Limited (England) (ii)
Davies & Tate Replacement Window Systems Limited (England) (ii)
Davies and Tate plc (England) (ii)
Daylight Domes Limited (England) (ii)
Direct Roofing Supplies Limited (England) (ii)
Drainage Online Limited (England) (ii)
Drainex Limited (England) (ii) (viii)
Drywall Qatar LLC (Qatar)
Dyfed Roofing Centre Limited (England) (ii)
Elthisol S.A.R.L. (France)
Eurisol Limited (England) (ii)
Euroform Products Limited (England) (ii)
Eviee Limited (England) (ii)
Exton Construction Supplies Limited (England) (ii)
Fastplas Limited (Scotland) (ii)
Fibreglass Insulations Limited (England) (ii)
Fireseal (North West) Limited (England) (ii)
Firth Powerfix Limited (England) (ii) (vii)
Footitts Roofing Supplies Limited (England) (ii)
Formerton Limited (England) (ii)
Formerton Sheet Sales Limited (England) (ii)
Frankin (Sussex) Limited (England) (ii)
Freeman Group Limited (England) (i) (ii)
Freeman Holdings Limited (England) (ii)
Gate Pizzaras SL (Spain)
General Fixings Limited (England) (ii)
The Greenjackets Roofing Services Limited (England) (ii) (xv)
GRM Distribution Limited (England) (ii)
G.S. Insulation Supplies Limited (England) (ii)
Gutters & Ladders (1968) Limited (England) (ii)
Hamar B.V. (The Netherlands)
Handelmaatschappij Bracol Nederland B.V. (The Netherlands)
Harris Roofing Supplies Gloucester Limited (England) (ii)
HC Barcol Air B.V. (The Netherlands)
HC Groep B.V. (The Netherlands)
HCKP B.V. (The Netherlands)
HCPS B.V. (The Netherlands)
HHI Building Products Limited (Northern Ireland) (ii)
Hillsborough (Guernsey) Limited (Guernsey)
Hillsborough Investments Limited (England) (i) (ii) (iii)
Hillsborough Investments (Guernsey) Limited (Guernsey) (ii)
Holland Conditioning B.V. (The Netherlands)
Homewarm Insulation Limited (England) (i) (ii)
Houdstermaatschappij Gisama B.V. (The Netherlands)
IBSL Group Limited (England) (ii)
Idencourt Limited (England) (ii)
Impex Avon Limited (England) (ii) (xv)
IMS Asia-Pacific Pty (Australia) (ii)
Isolatec b.v.b.a. (Belgium)
Insulation & Buoyancy Services Limited (England) (ii)
Insulation and Machining Services Limited (England) (ii)
Insulation Express Limited (England) (ii)
Insulation Products & Systems B.V. (The Netherlands)
Insulslab Limited (England) (ii)
Interland Techniek B.V. (The Netherlands)
J. Danskin & Company Limited (Scotland) (ii)
J S McCarthy Limited (Ireland)
John Hughes (Roofing Merchant) Limited (England) (ii)
John Hughes (Wigan) Limited (England) (ii)
Jordan Wedge Limited (England) (ii)
JP Fixings Limited (Scotland) (ii)
K.D. Insulation Supplies Limited (England) (ii)
Kem Edwards Limited (England) (ii)
Kent Flooring Supplies Limited (England) (ii)
Kesteven Roofing Centre Limited (England) (ii)
KG SML System and Metallbau GmbH & Co. (Germany)
Kitson's Thermal Supplies Limited (England) (ii) (v)
Landsdon Holdings Limited (England) (ii) (xv)
Landsdon Limited (England) (ii) (x)
Lariviere SAS (France)
Leaderflush + Shapland Holdings Limited (England)
Lee and Son Limited (England) (ii)
Leicester Ceiling Supplies Limited (England) (ii)
Lifestyle Partitions and Furniture Limited (England) (ii) (vi)
LITT Diffusion SAS (France)
London Insulation Supplies Limited (England) (ii)
Long Construction Services (Northern Ireland) Limited (Northern Ireland) (ii)
MacGregor & Moir Limited (Scotland) (ii)
Marvellous Fixings Limited (England) (ii)
Max Wilson Fasteners Limited (England) (ii)
Mayplas Limited (England) (ii) (ix)
M.C. Insulation Supplies Limited (England) (ii)
Megawand B.V. (The Netherlands)
Meldertse Plafonneerartikelen N.V. (Belgium)
MIT International Trading S.L. (Spain)
Modulus B.V. (The Netherlands)

Monofix Limited (England) (ii)
MP Acoustics Solutions Limited (England) (ii)
MPA BXL N.V. (Belgium)
Multijoint SA (Switzerland)
M. Van Tol B.V. (The Netherlands)
Netherlands Financing B.V. (The Netherlands)
Ockwells Limited (England) (ii) (vii)
Omni Plastics Limited (England) (ii)
Omnico (Developments) Limited (England) (ii)
Omnico Plastics Limited (England) (ii)
One Stop Roofing Centre Limited (England) (ii)
Orion Trent Holdings Limited (England) (ii) (xvii)
Orion Trent Limited (England) (ii) (xvi)
Parking Ventilation Equipment Limited (England) (xv)
Penkridge Holdings Limited (England) (ii)
Plastic Pipe Supplies Limited (England) (ii)
Polytech Systems Limited (England) (ii) (xvi)
Premier Fixings (UK) Limited (England) (ii)
Pre-Pour Services Limited (England) (ii) (xv)
Procurewide Limited (England) (ii)
Proos Roofing Centres Limited (England) (ii)
Rinus International Limited (England) (ii)
R.J. & T. Wormwell Limited (England) (ii)
Roberts & Burling Roofing Supplies Limited (England) (ii)
Roof Care (Northern) Limited (England) (ii)
Roof Fitters Mate Limited (England) (ii)
Roof Shop Limited (England) (ii)
Roofers Mate Limited (England) (ii)
Roofing Centre Group Limited (England) (ii)
Roofing Material Supplies Limited (England) (ii)
Roofspace Solutions Limited (England) (ii)
Roplas (Humberside) Limited (England) (ii)
Roplas (Lincs) Limited (England) (ii)
Rubberbond Roofing Systems Limited (England) (ii)
Ryan Roofing Supplies Limited (England) (ii) (viii)
S.K. (Sales) Limited (England) (ii)
Safety & Workwear Limited (England) (ii)
Safety Direct Limited (England) (ii)
Saftair Ventilation S.A.S. (France)
Scotplas Limited (England) (ii)
Scotwarm Insulations Limited (England) (i)
Sebemex S.A.S. (France)
S.G. Insulation Supplies Limited (England) (ii)
Sheffield Insulations Limited (England) (i) (ii) (iii)
Shropshire Roofing Supplies Limited (England) (ii)
SIG Air Handling N.V. (Belgium)
SIG Belgium Holdings N.V. (Belgium)
SIG Building Products Limited (Ireland) (ii)
SIG Building Solutions Limited (England) (ii)
SIG Central Services B.V. (The Netherlands)
SIG Construction GmbH (Germany)
SIG Construction Accessories Limited (England) (ii)
SIG Distribution Limited (England) (ii)
SIG Dormant Company Number Eight Limited (England) (ii) (iv)
SIG Dormant Company Number Eleven Limited (England) (ii)
SIG Dormant Company Number Nine Limited (England) (i) (ii)
SIG Dormant Company Number Seven Limited (England) (i) (ii)
SIG Dormant Company Number Six Limited (England) (ii)
SIG Dormant Company Number Ten Limited (England) (i) (xvii)
SIG Dormant Company Number Three Limited (England) (i) (ii)
SIG Dormant Company Number Twelve Limited (England) (ii)
SIG Dormant Company Number Two Limited (England) (i) (ii) (iv)
SIG Dormant Number 4 Limited (England) (ii)
SIG Energy Management Limited (Dormant) (i) (ii)
SIG EST Trustees Limited (Dormant) (i) (ii)
SIG European Holdings Limited (England) (i)
SIG European Investments Limited (England)
SIG Express Limited (England) (ii)
SIG Finance Limited (England) (ii)
SIG Financing (Jersey) Limited (Jersey)
SIG Fixings Limited (England) (ii)
SIG France S.A.S. (France)
SIG Germany GmbH (Germany)
SIG GBT Machines B.V. (The Netherlands) (ii)
SIG Glazing Services Limited (England) (ii)
SIG Green Deal Provider Company Limited (England) (i) (ii)
SIG Group Life Assurance Scheme Trustees Limited (England) (ii)
SIG Hillsborough Limited (England)
SIG Insulations Limited (England) (ii)
SIG International Trading FZE (Dubai)
SIG International Trading Limited (Dormant) (i) (ii)
SIG International Trading (HK) Limited (China)
SIG Logistics Limited (England) (ii)
SIG Manufacturing Limited (England)
SIG Nederland B.V. (The Netherlands)
SIG Netherlands Holdings Cooperatief W.A. (The Netherlands)
SIG Property GmbH (Germany)
SIG Retirement Benefits Plan Trustee Limited (England) (i) (ii)
SIG Roofing Supplies Limited (England) (i) (ii)
SIG Services Limited (Jersey)
SIG Specialist Construction Products Limited (England) (ii)
SIG Stukadoorsspecialist B.V. (The Netherlands)
SIG Sustainable Solutions Limited (England) (ii)
SIG Trading Limited (i)
SIG Trading (Ireland) Limited (Ireland) (viii)
SIG Trading (Guangzhou) Limited (China) (ii)
SIG Trading (KSA) Limited (England) (ii)
SIG Sp. Z o.o. (Poland)
Sitaco Sp. z.o.o. (Poland)
Sitaco Sp. z.o.o. Spolka Komandytowa (Poland)
SML System und Verwaltungs GmbH (Germany)
Societe Industrielle de l'Ouest des Produits Isolants SAS (France)
Solent Insulation Supplies Limited (England) (ii)
South Coast Roofing Supplies Limited (England) (ii)
Southern Roofing Warehouse Limited (England) (ii)
Southwest Roofing Supplies Limited (England) (ii) (viii)
Specialised Fixings (East Anglia) Limited (England) (ii)
Specialised Fixings Limited (England) (ii)
Summers PVC (Essex) Limited (England) (ii)
Summers PVC Limited (England) (ii)
Support Site Limited (England) (i) (ii)
Swindon Roofing Centre Limited (England) (ii) (xv)
T A Stephens (Roofing) Limited (England) (ii)
TD Insulation Supplies Limited (England) (ii)
Technische Handelmaatschappij "Inatherm" B.V. (The Netherlands)
Tenon Partition Systems Limited (England) (ii)
Thomas Smith (Roofing Centres) Limited (England) (ii)
Tolway East Limited (England) (ii)
Tolway Fixings Limited (England) (ii)
Tolway Holdings Limited (England) (ii)
Tooltray.com Limited (England) (ii)
Trent Insulations Limited (England) (ii)
Trimform Products Limited (England) (ii)
TSS Plastics Centre Limited (England) (ii)
Turner Fixings Limited (England) (ii)
U.M.B. Amersfoort B.V. (The Netherlands)
U.M.B. Tiel B.V. (The Netherlands)
Undercover Holdings Limited (England) (ii)
Undercover Insulations Limited (England) (ii)
Undercover Roofing Supplies Limited (England) (ii)
United Roofing Products Limited (England) (ii)
United Trading Company (UK) Limited (England) (ii) (vii)
Universal Roofing Supplies Limited (England) (ii)
Valley Sealants Limited (England) (ii)
V.J. Technology Limited (England) (ii)
W.W. Fixings Limited (England) (ii) (xvi)
Walkwell Flooring Supplies Limited (England) (ii)
Warm A Home Limited (England) (ii) (xx)
Warren Insulation plc (England) (ii)
Warwickshire Roofing Centre Limited (England) (ii)
WeGo Systembaustoffe GmbH (Germany)
WeGo Systembaustoffe Austria GmbH (Austria)
Weymead Holdings Limited (England) (ii) (xv)
Wedge Roofing Centres Holdings Limited (England) (ii)
Wedge Roofing Centres Limited (England) (ii)
Westway Insulation Supplies Limited (England) (ii)
White & Taylor (Tunstall) Limited (England) (ii) (xii)
White & Taylor (Tunstall) Limited (Ireland) (ii)
William Smith & Son (Roofing) Limited (England) (ii)
Window Fitters Mate Limited (England) (ii)
Window Village Limited (England) (ii)
Wood Floor Sales Limited (England) (ii)
Woods Insulation Limited (England) (ii)
Workspace London Limited (England) (ii)
Zip Screens Limited (England) (i) (ii)

## Controlling interests

Air Trade Centre Bulgaria Limited (Bulgaria) (60%)
Air Trade Centre East B.V. (The Netherlands) (80%)
Air Trade Centre Limited Sti Turkey (Turkey) (70%)
Drywall Qatar UK Limited (England) (51%)
Flex-R Limited (England) (53%) (xv)
Passive Fire Protection (PFP) UK Limited (England) (ii) (51%)
SIG Building Systems Limited (England) (51%)
SIG Middle East LLC (Dubai) (49%)
SIG Roofspace Limited (England) (80%) (xv)

For related notes please see overleaf.

## Notes

(i) Directly owned by SIG plc
(ii) Dormant company
(iii) Ownership held in cumulative preference shares
(iv) Ownership held in ordinary shares and 12% cumulative redeemable preference shares
(v) Ownership held in ordinary shares and preference shares
(vi) Ownership held in ordinary shares and deferred ordinary shares
(vii) Ownership held in ordinary shares and class A ordinary shares
(viii) Ownership held in ordinary shares and class B ordinary shares
(ix) Ownership held in ordinary shares, class A ordinary shares and class B ordinary shares
(x) Ownership held in ordinary shares, class B ordinary shares and class C ordinary shares
(xi) Ownership held in ordinary shares, class A ordinary shares, class B ordinary shares and class C ordinary shares
(xii) Ownership held in ordinary shares and class E ordinary shares
(xiii) Ownership held in ordinary shares, class A ordinary shares, class B ordinary shares, class C ordinary shares, class E ordinary shares, class F ordinary shares and class G ordinary shares
(xiv) Ownership held in class A ordinary shares
(xv) Ownership held in class A ordinary shares and class B ordinary shares
(xvi) Ownership held in class A ordinary shares, class B ordinary shares and class C ordinary shares
(xvii) Ownership held in class A ordinary shares, class B ordinary shares and preference shares
(xviii) Ownership held in class A ordinary shares, class B ordinary shares and cumulative redeemable preference shares
(xix) Ownership held in class B ordinary shares and preference shares
(xx) Ownership held in class AA ordinary shares, class AB ordinary shares, class AC ordinary shares, class AD ordinary shares, class AE ordinary shares, class AF ordinary shares, class AG ordinary shares, class B ordinary shares and class C ordinary shares

# Company information



## President
Sir Norman Adsetts OBE, MA

## Secretary
Richard Monro FCIS

## Registered Number
Registered in England
998314

## Registered Office
Hillsborough Works
Langsett Road
Sheffield S6 2LW
United Kingdom
Tel: 0114 285 6300
Fax: 0114 285 6349
Email: info@sigplc.com

## Corporate Office
Signet House
17 Europa View
Sheffield Business Park
Sheffield S9 1XH
United Kingdom
Tel: 0114 285 6300
Fax: 0114 285 6349

## Company Website
**www.sigplc.com**

## Listing details
Market UK Listed
Reference SHI.L
Sector Support Services

## Registrars and Transfer Office
### Computershare Investor Services Plc
The Pavilions
Bridgwater Road
Bristol BS13 8AE

## Auditor
### Deloitte LLP
1 City Square
Leeds LS1 2AL

## Solicitors
### Pinsent Masons LLP
1 Park Row
Leeds LS1 5AB

## Principal Bankers
### The Royal Bank of Scotland plc
Corporate Banking
3rd Floor
2 Whitehall Quay
Leeds LS1 4HR

### Barclays Bank PLC
PO Box 190
1 Park Row
Leeds LS1 5WU

### Commerzbank Aktiengesellschaft AG
London Branch
PO Box 52715
30 Gresham Street
London EC2P 2XY

### Lloyds Bank plc
2nd Floor, Lisbon House
116 Wellington Street
Leeds LS1 4LT

### HSBC Bank plc
4th Floor
City Point
Leeds LS1 2HL

## Joint Stockbrokers
### Jefferies Hoare Govett
Vintners Place
68 Upper Thames Street
London EC4V 3BJ

### Panmure Gordon (UK) Limited
One New Change
London EC4M 9AF

## Financial Public Relations
### FTI Consulting Limited
200 Aldersgate
Aldersgate Street
London EC1A 4HD

# Company information CONTINUED

## Shareholders' enquiries

Our share register is managed by Computershare, who can be contacted by telephone on:

| | |
|---|---|
| 24 hour helpline* | 0370 707 1293 |
| Overseas callers | +44 370 707 1293 |
| Text phone | 0370 702 0005 |

* Operator assistance available between 08:30 and 17:30 each business day.

Email: Access the Computershare website **www-uk.computershare.com/investor** and click on "Contact Us", from where you can email Computershare.

Post: Computershare, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ, United Kingdom.

## Dividend Tax Allowance

In respect of UK Shareholders, from April 2016 dividend tax credits will be replaced by an annual £5,000 tax-free allowance on dividend income across an individual's entire share portfolio. Above this amount, individuals will pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company will continue to provide registered shareholders with a confirmation of the dividends paid by SIG plc and this should be included with any other dividend income received when calculating and reporting total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

This change was announced by the Chancellor, as part of the UK government budget in July 2015. If you have any tax queries, please contact a Financial Advisor.

## Financial calendar

| | |
|---|---|
| Annual General Meeting | – To be held on 12 May 2016 |
| Interim Results 2016 | – Announcement August 2016 |
| Full Year Results 2016 | – Announcement March 2017 |
| Annual Report and Accounts 2016 | – Posted to Shareholders April 2017 |

## Shareholder Analysis at 31 December 2015

| Size of Shareholding | Number of Shareholders | % | Number of Ordinary Shares | % |
|---|---|---|---|---|
| 0 - 999 | 756 | 30.61 | 318,761 | 0.06 |
| 1,000 – 4,999 | 967 | 39.16 | 2,173,214 | 0.37 |
| 5,000 – 9,999 | 230 | 9.31 | 1,527,240 | 0.26 |
| 10,000 – 99,999 | 296 | 11.98 | 9,722,513 | 1.64 |
| 100,000 – 249,999 | 59 | 2.39 | 9,339,027 | 1.58 |
| 250,000 – 499,999 | 49 | 1.98 | 16,518,739 | 2.79 |
| 500,000 – 999,999 | 28 | 1.13 | 20,004,870 | 3.38 |
| 1,000,000+ | 85 | 3.44 | 531,742,784 | 89.92 |
| **Total** | **2,470** | **100.00** | **591,347,148** | **100.00** |


Tyvek
Tyvek

**CORPORATE OFFICE**
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Hillsborough Works
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