



# Delivering the transformation

ANNUAL REPORT AND ACCOUNTS

for the year ended 31 December 2018



# Welcome

SIG is a leading supplier of specialist building materials to trade customers across Europe.



Our strategic focus is the transformation of our businesses to deliver significantly improved operational and financial performance.


## Investment case

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- **Strong positions in our core markets:** as a specialist distributor of insulation and interiors products, a merchant of roofing and exteriors products and a pan-European specialist provider of air handling solutions
- **Partner of choice:** we add value as the supply chain partner of choice for specialist building materials across Europe
- **Experienced and passionate workforce:** we have a capable and experienced team, committed to partnership with our customers and suppliers and with a strong focus on health and safety
- **Creating long term value:** through delivery of the operational and financial transformation of our businesses



Read more online at [www.sigplc.com](http://www.sigplc.com)

 **Navigating the report**  
For further information within this document and relevant page numbers

# Highlights

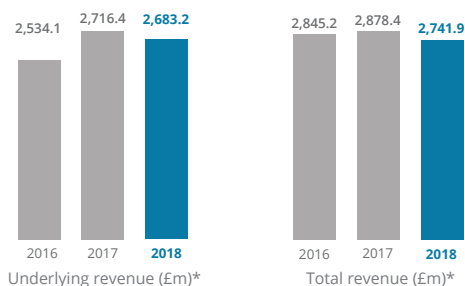
## Like-for-like sales

**-2.1%**

(2017: +3.5%)

Medium term target:

**Growth in line with market**



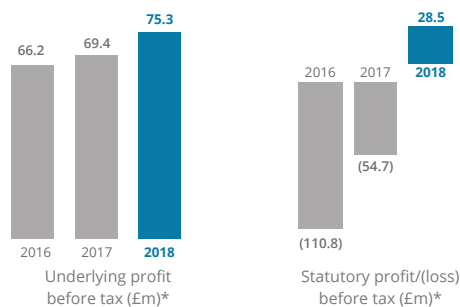
## Return on sales

**3.3%**

(2017: 2.7%)

Medium term target:

**c.5%**



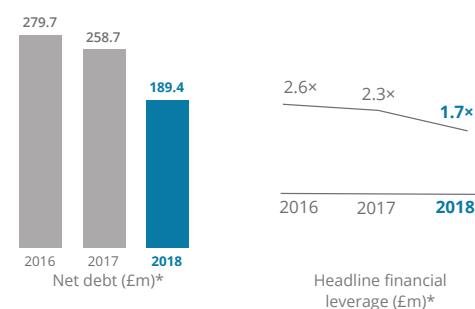
## Return on capital employed

**10.3%**

(2017: 9.3%)

Medium term target:

**c.15%**



## Financial highlights

- Underlying revenue down 1.2% due to challenging market conditions and focus on profitability over volume
- Underlying gross margin up 50bps and operating costs down
- Underlying PBT (excluding property profits) up 25% to £72.7m (2017: £58.1m)
- Return on sales (excluding property profits) up to 3.3% (2017: 2.7%)
- Net debt sharply lower at £189.4m (2017: £258.7m) and headline financial leverage down to 1.7x (2017: 2.3x)
- ROCE up 100bps to 10.3% (2017: 9.3%), EPS up to 3.0p (2017: loss per share 10.2p)
- Final dividend of 2.5p, bringing the total for the year to 3.75p (2017: 3.75p)

## Operational highlights

- Significant operational and financial progress in the year as the transformation starts to deliver
- Strengthened senior leadership team and enhanced capability providing the platform for the business to build on its potential
- Improvement in operational efficiency reflected in reduced costs and working capital
- Refocus of portfolio businesses largely complete; Air Handling fully integrated as pan-European business
- Improved IT and management information helping to sustain the transformation for the longer term

\* Before results attributable to businesses identified as non-core and Other items as disclosed in Notes 1 and 2 of the Financial Statements. Prior years have been restated for the restatements noted on page 34 and businesses identified as non-core since signing of the 2017 Annual Report and Accounts.

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Read more on our Performance on page 22 and in our Financial Review on page 28

# Chairman's statement

“We have made good progress this year with the transformation of the Group, as we seek to deliver significantly improved operational and financial performance for the benefit of all our stakeholders.”

**Andrew Allner**  
Chairman

Our vision is to be the supply chain partner of choice for specialist building materials across Europe.

## Dear Shareholder,

I am pleased to present the Group's Annual Report for the year ended 31 December 2018, a year of rapid change as we moved forward with the transformation of our businesses. Following the appointment of the new leadership team last year, the Board set a medium term strategy for the Group focused on the delivery of significantly improved operational and financial performance. This report demonstrates the good progress made towards meeting these strategic aims, against the backdrop of an increasingly challenging trading environment across the Group's major markets.

## Review of strategy

The medium term strategy set last year refocused the Group on its core strength, the supply of specialist building materials to trade customers in the construction industry. The vision of the Board is for SIG to be the supply chain partner of choice for specialist building materials across Europe, building on the Group's three lines of business as a specialist distributor of insulation and interiors products, a merchant of roofing and exteriors products and a pan-European specialist provider of air handling solutions. In that context, the Group has continued to exit from non-core businesses during the year, including the disposal of VJ Technology, Proteus and Roofspace, and the closure of its operations in the Middle East.

In the specialist distribution and roofing merchanting lines of business, the Group has made progress with the transformation of its operating model and the creation of a genuine performance management culture. New leadership is driving material performance improvement, focused on the key levers of margins, costs and capital. The benefits of the transformation are showing up most notably in the UK Distribution business, where profitability has improved by £17.4m, principally in the second half of the year, as

a result of measures to focus on profitability over volume, manage pricing structures more effectively and control operating costs. Our initial focus on this business leading to the step change in its performance during 2018 emphasises the potential for improved performance across the Group's other operating companies, where transformation plans are now being implemented. Increased focus and improved controls around inventory management have also seen structural levels of working capital begin to fall, and, as a result, net debt and headline financial leverage are sharply lower.

In line with our strategic approach to simplify the business, the Group has brought the last of its air handling businesses formally into the Air Handling division, which now additionally incorporates Oquest Isol Ventil in France and SK Sales in the UK. This creates an integrated pan-European air handling solutions platform, better able to leverage its scale, share best practice and deliver an enhanced customer proposition. As a result, we have initiated a strategic review of our Air Handling division, focused on demonstrating the value of this integrated platform and its leading positions across Europe, as well as exploring other strategic options for the division.

The transformation of the Group will continue in 2019, where further operational and financial benefits will be seen from the step changes made in the UK Distribution business during 2018 and the strategies implemented to deliver that step change will be rolled out in other businesses. In particular, the Board expects to see further substantial increase in profit from actions already delivered or in progress in the UK Exteriors business, in France and in Germany.

In addition, we are starting to turn our attention to the development of a longer term vision and strategy for the Group which will drive top line growth beyond the current phase of business transformation.



—  
**8,000+**  
Employees

—  
**538**  
Branches

—  
**85%**  
Revenue from  
UK, France and  
Germany

# Chairman's statement

“ The Board is confident that the Group will continue to deliver improving operational and financial performance as a result of its ongoing transformation.

”

## Delivering shareholder value

As a Board, we recognise that sustained reduction in the level of debt continues to be a key priority for the Group's shareholders. I am pleased to report that net debt has come sharply downward in the past year to its lowest level since 2014 of £189.4m (2017: £258.7m), leading to a reduction in headline financial leverage from 2.3x last year to 1.7x this year. Coupled with an improvement in underlying earnings per share from 8.6p in 2017 to 9.3p this year, this has delivered a marked improvement in ROCE, up to 10.3% this year from 9.3% last year, moving the business towards its medium term target of 15%.

As a result of the positive impact seen to date from the business transformation, and our confidence in the further benefits to come, the Board recommends payment of a final dividend for the year of 2.50p per share (2017: 2.50p per share), bringing the total dividend for the year to 3.75p per share (2017: 3.75p per share), in line with the Group's target of 2-3x underlying earnings cover.

## Governance and Board

I am a firm believer in doing business the right way, taking account of the interests of all our stakeholders, in order to deliver long term sustainable value for shareholders. Your Board is committed to the highest possible standards of corporate governance, which is essential to the effective running of the business.

Last year I carried out a review of Board effectiveness following my appointment as Chairman. This year, we appointed an external consultant, Condign Board Consulting, to undertake a review of Board effectiveness. We also focused on ensuring that market perception of our progress remains aligned with the rapid pace of transformation we are currently seeing across our Group.

I am pleased to be able to report that the review fundamentally concluded that this has been a much more functional and effective Board in the last year and that it comprises committed, experienced and perceptive individuals.

Further details of the evaluation, including areas for improvement, are set out on pages 68 to 89 of the Corporate Governance report.

Chris Geoghegan stepped down early in 2018, and Mel Ewell also retired after many years of service. I would like to thank both Chris and Mel for their significant contributions over a challenging period. During the year, Alan Lovell joined the Board as our new Senior Independent Director. In addition, the Board was pleased to welcome Cyrille Ragoucy. These new appointments add extensive construction industry and turnaround experience to the Board.

Janet Ashdown, a Non-Executive Director and Chair of the Remuneration Committee, will retire from the Board at the conclusion of the forthcoming Annual General Meeting on 8 May 2019. On behalf of the Board, I would like to thank Janet for her significant contribution and dedication over the last eight years. We wish her well for the future. The search for a new Non-Executive Director and Chair of Remuneration Committee is well advanced and an announcement will be made in due course. I am confident that SIG has an extremely bright future, and look forward to leading the Board as we complete the transformation of this Group.

## Health and safety

The Group consolidated the risk management elements of its Zero Harm policy, and Life Saving Rules were implemented on topics such as drugs and alcohol, the provision and wearing of anti-cut gloves, working from lorry beds and forklift truck safe operations.

Despite this continuing work, and increased management attention, the overall health and safety performance of the Group, as seen through the Accident and Incident Rate, did not improve year-on-year. We remain committed to fostering an exemplary health and safety culture in SIG, which we intend to drive in 2019 through a focus on eliminating the causes of the most serious accidents, and increased expectations for managers on health and safety leadership.

## People

I would like to thank all employees of SIG for their commitment and resilience in what has been a year of significant change. I believe that their efforts have delivered a step change in operational and financial performance as the year progressed and they have laid a strong foundation for the further development of the Group in 2019 and beyond.

Following the appointment of Meinie Oldersma and Nick Maddock in 2017, we have worked to strengthen the senior leadership team. We welcomed David Walmsley as Managing Director of SIG Distribution in March, Guy Bruce as Managing Director of SIG Exteriors in July, Ralf Hellwig as Managing Director of SIG Germany in October and Julien Monteiro as Managing Director of SIG France in December, as well as appointing our Group Chief Operating Officer, Christian Horn, as Executive Chairman of our Air Handling business, leading the delivery of value creation across this division of business. With these key appointments, we now have the right leadership structure in place to drive the business forward.

## Outlook

The Group brings considerable financial benefits into 2019 and the delivery of a step change in performance in SIG Distribution has given us confidence to accelerate the pace of transformation in other major Group businesses. Trading conditions remain challenging, with the outlook in many of our end markets uncertain, and the Group expects continuing like-for-like sales declines in the first part of the year. Notwithstanding these headwinds, the margin and cost actions taken in 2018 give us good visibility of further significant progress in the current year. While much work remains to be done, our delivery in 2018 and the momentum brought into 2019 confirm that our transformation of SIG is on track.

**Andrew Allner**  
Chairman

7 March 2019



# SIG at a glance

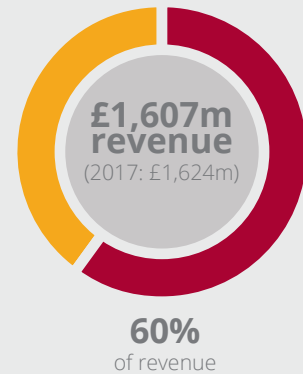
SIG is a leading supplier of specialist building materials to trade customers across Europe, with strong positions in its core markets as a specialist distributor of insulation and interiors products, a merchant of roofing and exteriors products and a provider of air handling solutions.

## Specialist distributor

- Market leading wholesale distributor of insulation and interiors to the construction industry
- Encompasses our structural and technical insulation businesses and our interiors businesses

### Leading market positions

- #1 insulation and interiors in the UK and Ireland, Poland and Benelux
- #1 technical / #3 structural insulation in France
- #1 technical / #3 structural insulation in Germany



[www.siginsulation.co.uk](http://www.siginsulation.co.uk)  
[www.siginteriors.co.uk](http://www.siginteriors.co.uk)



[www.sig.ie](http://www.sig.ie)



[www.sig.pl](http://www.sig.pl)  
[www.sigbenelux.com](http://www.sigbenelux.com)  
[www.wego-systembaustoffe.de](http://www.wego-systembaustoffe.de)



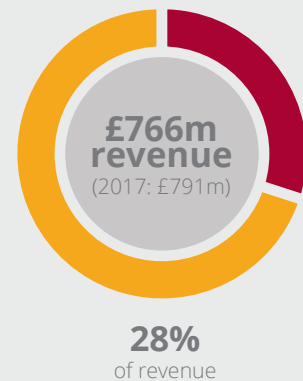
[www.litt.fr](http://www.litt.fr)

## Roofing merchant

- Specialist merchant of roofing materials to small and medium sized construction businesses
- Encompasses our roofing and exteriors businesses

### Leading market positions

- #1 specialist roofing in the UK and France



[www.sigroofing.co.uk](http://www.sigroofing.co.uk)

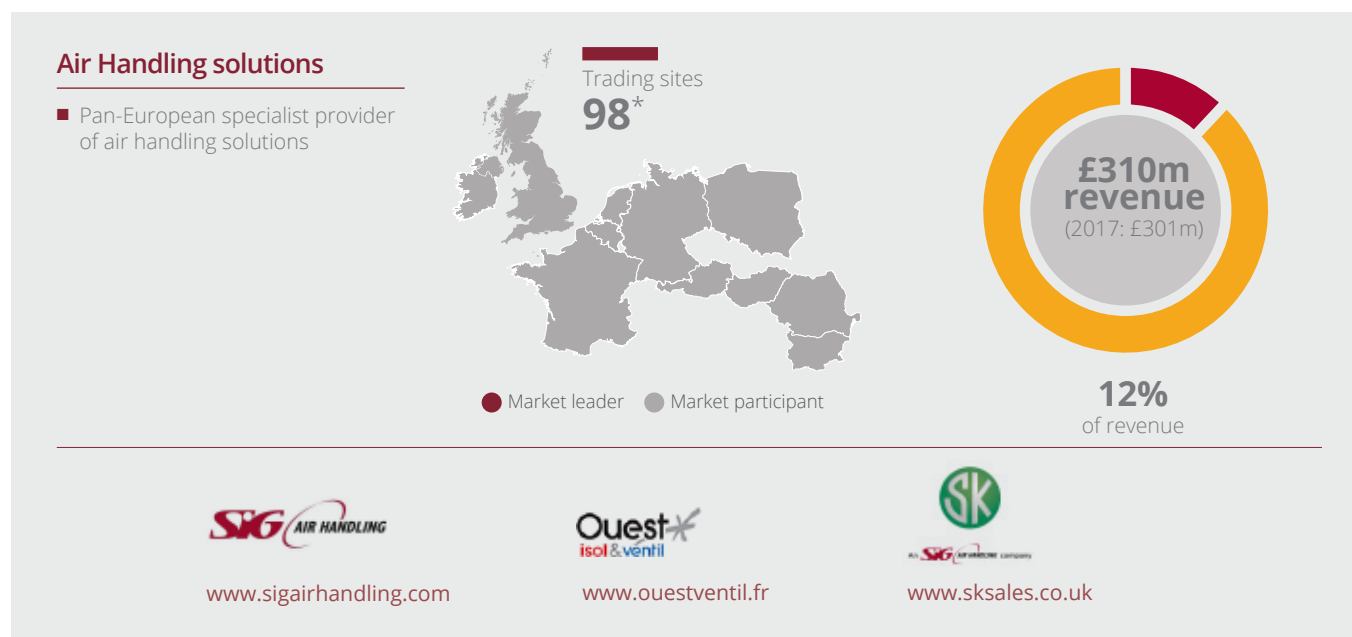


[www.lariviere.fr](http://www.lariviere.fr)

\* Includes shared sites  
Revenue relates to underlying operations and analysis by line of business



We play a critical role in the construction industry, ensuring that our customers receive the right product, in the right place, at the right time. We operate across the UK & Ireland and mainland Europe, employing around 8,000 people. Our main countries of operation are the UK, France and Germany.



\* Includes shared sites  
Revenue relates to underlying operations and analysis by line of business

## Analysis by line of business

				Line of business		
	Underlying operations	£m Revenue	Trading sites	Specialist distribution	Roofing merchant	Air Handling solutions
	£m Revenue	Trading sites	£m Revenue	£m Revenue	£m Revenue	
Segmental analysis	SIG Distribution	£701.2	65	£680.1	-	£21.1
	SIG Exteriors	£378.7	122	-	£378.7	-
	Ireland & Other	£99.9	10	£60.7	£39.2	-
	<b>UK &amp; Ireland</b>	<b>£1,179.8</b>	<b>197</b>	<b>-</b>	<b>-</b>	<b>-</b>
	France	£663.6	204	£175.0	£347.8	£140.8
	Germany	£426.6	56	£426.6	-	-
	Poland	£156.6	45	£156.6	-	-
	Air Handling	£148.2	22	-	-	£148.2
	Benelux	£108.4	14	£108.4	-	-
	<b>Mainland Europe</b>	<b>£1,503.4</b>	<b>341</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total revenue</b>	<b>£2,683.2</b>	<b>538</b>	<b>£1,607.4</b>	<b>£765.7</b>	<b>£310.1</b>	
<b>Gross margin</b>	<b>£716.7m</b>		<b>£403.0m</b>	<b>£197.3m</b>	<b>£116.4m</b>	
<b>Gross margin %</b>	<b>26.7%</b>		<b>25.1%</b>	<b>25.8%</b>	<b>37.5%</b>	
<b>Operating profit</b>	<b>£103.8m</b>		<b>£55.1m</b>	<b>£29.3m</b>	<b>£19.4m</b>	
<b>Return on sales %</b>	<b>3.9%</b>		<b>3.4%</b>	<b>3.8%</b>	<b>6.3%</b>	





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# Our markets

## Key differentiators of SIG

- We work in partnership with suppliers and customers to source specialist building materials
- The scale of our offering is unrivalled, enabling the development of bespoke customer solutions
- Market leader across a diverse portfolio, operating in the UK, Ireland and mainland Europe
- Touch points across a range of sectors, including: new build and repairs, maintenance and improvement (RMI) markets
- Strong and skilled workforce capable of providing expert advice

## Market drivers

SIG is a leading supplier of specialist building materials to trade customers, operating across a range of end markets within the UK, Ireland and mainland Europe. Whilst our response to market conditions varies depending on geography and sector, there are overarching economic themes that influence our business case. In particular, growth within the construction and civil engineering sectors, usually linked more generally to economic growth, is an important value driver for us.

### Market in the UK & Ireland

The residential markets of new build and repair grew 2.3% year on year. Construction activity in the second half of the year more than compensated for adverse weather conditions in the first quarter. Regional trends demonstrate growth in the north of the country, fuelled by demand and the availability of government incentives such as Help to Buy. This is offset by reduced activity in the southern / London markets.

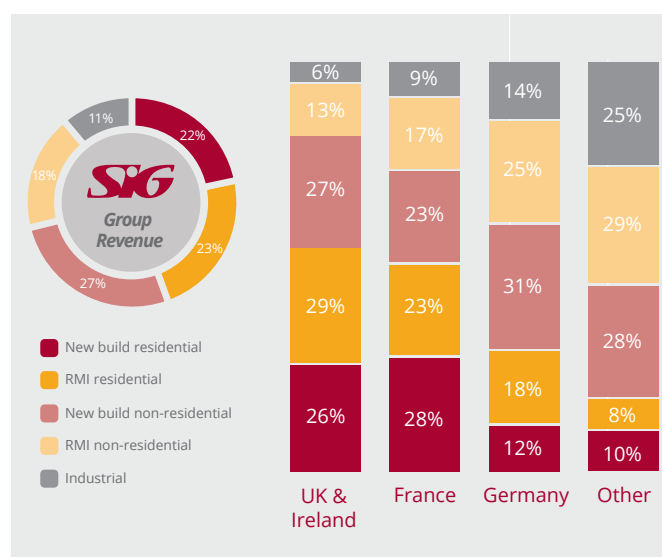
However, activity in the commercial construction market declined by 4.5% in 2018 as a result of the macro-economic uncertainty caused by Brexit and the collapse of Carillion. Further decline is expected in 2019, however the 2019 outlook for the market as a whole is expected to be broadly flat.

### Market in mainland Europe

Our largest markets in Europe are in France and Germany, but we also operate in mainland Poland, Belgium and The Netherlands. Markets across Europe have also softened this year.

SIG generated £663.6m revenue in France in 2018, which is 0.4% higher than last year. As expected, the residential construction market in France softened in 2018, with in year growth of just 1.9%. Whilst government incentives to support lending to first time buyers were extended, the remit of the incentives reduced and uptake correspondingly declined. In addition, GDP in France grew by just 0.1%, and increases in household income lagged behind house price inflation making home ownership a less affordable prospect. The non-residential construction sector performed strongly in 2018 as a result of ongoing government support. Growth of 3.9% achieved through the construction of industrial and office buildings provides opportunity for our Air Handling business, Quest Isol & Ventil, in particular.

£426.6m of our revenue is generated in Germany, which is 0.4% higher than last year. The residential construction market in Germany grew modestly in 2018 (1.6% growth), outperforming expectations 12 months ago. New home owners benefit from the low interest rates seen in recent years. Demand for new housing has increased as a result of a surge in immigration and internal migration, with access to social housing being a key priority in certain regions. Opportunity continues for SIG to support programmes to refurbish existing older residential housing stock. The non-residential construction market grew by 0.9% in 2018, impacted by the cyclical nature of the requirement for new industrial buildings and a shortage of skilled labour.



Residential construction markets in our smaller regions are growing ahead of our larger territories and also present opportunities to us. In Poland, increasing consumer demand and rising employment and income levels are supportive of new build housing development. The non-residential construction market in Poland is experiencing growth as a result of government programmes to invest in public infrastructure. Similar socio-economic trends are evident in Ireland, with substantial public and private sector construction work planned to cater for the growing economy.

## Construction market growth forecasts

	Residential		Non-residential	
	2018	2019	2018	2019
UK*	2.3%	1.1%	(4.5)%	(3.9)%
Ireland**	19.3%	15.7%	(5.5)%	(8.8)%
France**	1.9%	(2.1)%	3.9%	3.8%
Germany**	1.6%	0.5%	0.9%	(0.6)%
Poland**	10.2%	6.8%	10.5%	7.4%
Belgium**	3.3%	1.7%	(2.6)%	1.4%
The Netherlands**	6.0%	3.4%	6.4%	4.1%

\* Construction Products Association \*\* Euroconstruct

## Specialist distribution



### Key market drivers

- Construction activity (mainly new build) and availability of skilled construction labour market
- Higher energy efficiency standards and government funding to support home improvements
- Increasingly stringent fire protection and acoustic standards
- Demand for higher standard interior fit outs

### What this means for SIG

- Strong demand for distributors exists, to connect large manufacturers and importers with a fragmented customer base
- Our product range spans technical and structural insulation and interiors; specialist distribution of both value-add and commodity products
- Transformation means that we increasingly use data to focus on the quality of the sales we make to improve margins, over volume churn

## Roofing merchant



### Key market drivers

- Regulatory changes
- Level of construction activity (new build and RMI) and availability of skilled construction labour market
- Potential for consolidation and change within the merchanting sector

### What this means for SIG

- Market leading roofing merchant business in a regionally-oriented and fragmented market
- Specialist knowledge of timber batten and flat roofing materials
- Physical presence in branches with trade counters adding value to the customer experience
- Opportunity to benefit from consolidation within the merchanting sector

## Air Handling solutions



### Key market drivers

- Regulatory changes
- Non-residential construction activity
- Focus on improving energy efficiency and air quality standards
- More rigorous fire protection standards

### What this means for SIG

- Clear need for suppliers with expertise providing total solutions in ventilation
- Our fastest growing business segment
- Product breadth is unmatched, making the business a clear market leader
- Own brand products such as Cairox growing in popularity
- Focus on innovation to deliver a service comprising design, supply and installation



Read more on our Performance on page 22

# Our business model

SIG plays a critical role in the construction industry supply chain, ensuring that our customers receive the right product, in the right place, at the right time. We operate across the UK & Ireland and mainland Europe, employing around 8,000 people. Our main countries of operation are the UK, France and Germany.

## Our suppliers

- A small number of large building materials manufacturers
- A larger number of smaller suppliers of specialist building materials

### Interiors



### Exteriors



### Heating, ventilation & air handling



We play a critical role in the construction industry across Europe, as the supply chain partner of choice for specialist building materials

## We add value through

- Providing our suppliers with convenient access to customers across fragmented end markets
- Inventory availability and ability to break bulk supplies into quantities more suited to our customers' needs
- Efficient and cost-effective logistics and delivery
- Working in partnership with suppliers and customers to deliver innovative solutions, leveraging our specialist knowledge and expertise
- Provision of credit to our customers

## Advantages of a specialist focus

Defined product focus, leveraging technical expertise to deliver innovative solutions

Market leadership, allowing SIG to support manufacturers supply efficiently and cost effectively

Our operating model is focused on partnering the construction industry supply chain, providing a channel through which our suppliers can bring their products to our customers, conveniently and efficiently. This includes SIG holding a breadth of inventory, breaking bulk supplies into quantities that are more favourable to our small and medium sized contractor customers, assisting customers with our specialist knowledge and expertise, and cost effective logistics and delivery.

## Our customers

- Developers, contractors and sub-contractors across the construction industry
- Designers and specialist installers of air handling solutions
- Independent merchants

### Developers



### Contractors



### Specialist installers



### Independent merchants



## We deliver value for our stakeholders

### Partnering with our supply chain:

- As a specialist distributor, flexible and responsive to our customers who can rely on us to deliver what they need, when they need it, helping them to reduce the total cost of construction
- As a roofing merchant, bringing depth of knowledge, breadth of inventory and a branch network offering a local geographic footprint
- As a specialist provider of Air Handling solutions, bringing technical expertise and innovation to deliver integrated air handling solutions

### Partnering with our people:

- Giving our employees the tools and training that allow them to leverage their commitment to our customers
- Encouraging talent, providing clear frameworks and empowering local decisions, facilitating and rewarding collaboration within our business and across the supply chain
- Building sustainable businesses around great people, great leadership and shared values

### Delivering value for our shareholders:

- Focus on significantly improving operating and financial performance
- Building on our market leading businesses across Europe
- Integrating and developing our air handling division as a platform for value creation
- Increasing profit and returns, reducing debt and delivering a progressive dividend

Scale in key supply niches, enabling SIG to respond flexibly to customers' needs

Genuine partnership with both suppliers and customers

# Our strategy

## Building on our potential

### The strategic focus

Our strategic focus is the transformation of our businesses to deliver significantly improved operational and financial performance as a leading European supplier of specialist building materials to trade customers.



#### Our strategic levers

Following our detailed review of strategy in 2017, we identified three levers which will deliver our goal of significantly improved operational and financial performance:

Customer service:	Operational efficiency:	Customer value:
Investing in our people and branches to improve sales effectiveness and consistently deliver excellent customer service	Streamlining our ways of working, targeting improved inventory management and cost control	Right product, right price, enhancing value through specialist advice and services



#### Key strategic enablers

Our strategic levers are supported by three key enablers:

IT:	Capability:	Data:
Updating our systems and streamlining our project delivery	Investing in our people to help them deliver our strategy and reach their potential	Right tools delivering the right information in the right place, at the right time, in support of performance management



#### Delivering our strategy

Simplify:	Focus:	Deliver:
Getting the basics right and concentrating on what we do best	On the things that are key to the success of our customers, suppliers and business	Delivering our transformation and building on our potential

#### Our safety focus

**Zero harm:** our continual focus on safety in everything we do



## Progress in delivering our strategy

Significant progress has been made in delivering our strategy during 2018.

	STRATEGIC PLAN	PROGRESS AGAINST PLAN	NEXT STEPS	LINK TO KPI'S
<b>Customer service</b>	<ul style="list-style-type: none"> <li>Invest in trade counters, branch and sales staff training</li> <li>Establish central telephony-enabled sales providing consistent response levels</li> <li>Create specialist customer retention teams</li> <li>Restructure external sales teams to track performance and increase accountability</li> <li>Reduce administration distractions</li> <li>Improve progress for inbound leads and use of CRM to drive quote prioritisation and conversion</li> <li>Develop enhanced B2B 'click and collect' capability</li> </ul>	<ul style="list-style-type: none"> <li>We have invested in the look and feel of many of our trade counters and display areas, enabling us to improve our customer service. See our case study on page 16 to see how these changes have benefited SIG Exteriors</li> <li>We have restructured and centralised our sales teams to improve accountability and to ensure a consistent customer experience</li> <li>We have invested in technology to enable us to improve our customer service journey, including the introduction of electronic proof of dispatch notes and the upgrading of navigation software. In turn, this has improved the safety of our drivers (see page 17 to see how this has benefited our German business)</li> <li>We have driven cultural change within our businesses removing silos and reducing hierarchy, resulting in an open and collaborative working environment</li> </ul>	<ul style="list-style-type: none"> <li>We will invest in our customer facing technology, to reduce the touch points between our business and the customer, and to improve the customer journey</li> </ul>	<p>Like-for-like sales</p> <p>Return on sales</p> <p>Return on capital employed</p> <p>Accident incident rate</p> <p></p> <p>Read about our KPIs on pages 18 to 21</p>
<b>Customer value</b>	<ul style="list-style-type: none"> <li>Expand coverage of specialist product offering</li> <li>Further develop own label brands and value add fabrication capability</li> <li>Wider use of pricing tools and enhanced pricing data</li> <li>Systematic and prioritised approach to renegotiate or exit unprofitable or unattractive business</li> <li>Review and manage spot pricing</li> <li>Introduction of carriage and ancillary charges where appropriate</li> <li>Management focus and training to drive compliance to target price levels</li> <li>Alignment of management and branch incentives</li> </ul>	<ul style="list-style-type: none"> <li>We have taken simple steps to improve the margin on our products, by reviewing what we sell and how we sell it. The most notable impact of this is in SIG Distribution, where margins have improved by 200bps</li> <li>As part of the renewed focus on margin management, we have continued to withdraw from unprofitable business, reducing revenue but increasing gross margin and profit</li> <li>We have continued to expand our coverage of specialist products. For example, SIG Distribution's performance and technology business was selected as the exclusive UK distributor to a revolutionary product</li> <li>Read our case study on page 43 that shows how our Air Handling business has developed its own label brands to improve capability</li> </ul>	<ul style="list-style-type: none"> <li>We will extend the improved pricing practices implemented in the UK across our European businesses</li> </ul>	<p>Like-for-like sales</p> <p>Return on sales</p> <p>Return on capital employed</p> <p>Working capital as a % of revenue</p> <p>Accident incident rate</p> <p></p> <p>Read about our KPIs on pages 18 to 21</p>
<b>Operational efficiency</b>	<ul style="list-style-type: none"> <li>Down-size Group and functional structure</li> <li>Organisational redesign across major operating companies to allow for a leaner structure and quicker decision making</li> <li>Process standardisation and system integration at operating company level to generate front and back office synergies</li> <li>Optimise branch resource activity</li> <li>Close sub-performing branches and centralise stock around 'hubs'</li> <li>Short term levers to reduce working capital: changes to purchasing rules, stockholding guidelines, number of SKU's, centralised stock control</li> <li>Medium term structural reduction in net working capital: stock, rebates</li> <li>Alignment of branches and management incentives</li> </ul>	<ul style="list-style-type: none"> <li>We have invested in ensuring that we have the right leadership in the right place, enabling us to reduce headcount, locations and cost</li> <li>We have outsourced our UK finance processing centre, in order to save cost, and improve processes and controls</li> <li>We have reduced our inventory levels, improving working capital. We have introduced a new warehouse management system in Ireland, and have set up a centralised inventory management team in the UK for the first time. Read what this has meant for us on page 16</li> <li>We have started to remove surplus vehicles from our fleet in the UK and in Germany</li> <li>We are developing reporting tools which make better information available across the organisation on a timely basis, enabling us to make the right decisions more quickly</li> </ul>	<ul style="list-style-type: none"> <li>We are working with our suppliers to improve up front pricing structures and reduce our reliance on rebates</li> <li>We will invest in inventory forecasting tools to improve control</li> </ul>	<p>Return on sales</p> <p>Return on capital employed</p> <p>Operating costs as a % of revenue</p> <p>Working capital as a % of revenue</p> <p></p> <p>Read about our KPIs on pages 18 to 21</p>

# Strategy in action



## CASE STUDY

### **Customer service –** Refurbishing our roofing branches in SIG Exteriors

In support of our objective to provide customers with the best possible experience when visiting an SIG Exteriors branch, 2018 saw us undertake an extensive refurbishment programme. The programme extended the shop floor, with new trade counters and additional display space giving customers greater exposure to our product range. The programme created a dynamic, welcoming and modern environment, enhancing the in-store experience. As part of the refit, we considered requirements at each branch through the customers' eyes, assessing each step of their journey and measuring performance against the market and customer expectations. Our staff received training on the best practice approach to trade counter management, enabling us to deliver a consistent customer experience. Each refurbishment was celebrated with an open day for customers, suppliers and the local community.



## CASE STUDY

### **Operational efficiency –** Managing inventory in SIG Distribution

Twelve months ago, SIG Distribution's branches each controlled their own inventory. This decentralised approach led to insufficient control over purchasing which, combined with limited forecasting capability in the branches, resulted in too many of the wrong products being held in inventory, and tied up too much working capital. It further meant that stock targets could only be hit by understocking fast moving products, which in turn impacted customer service.

Transformation in this area took the form of creating a centralised inventory management team. This new team has sole responsibility for the placement of orders for core products in the UK, which provides continuity for our supply chain and ensures that our inventory levels are appropriately controlled. It delivers against new target inventory levels for availability as well as stock levels and drives best practice in inventory management across the SIG Distribution sites. Going forward, we intend to enhance the capability of the central team by investing in technology to support improved inventory forecasting.



CASE STUDY

**Data –**  
New dashboard reporting across the Group

In order to improve our access to and use of data, we have developed a data repository using cloud technology, which we have linked to a business intelligence (BI) reporting tool. The BI tool facilitates reporting from disparate ERP and other systems, providing us with improved visibility of our performance on a daily basis.

Performance measures around sales, profit and working capital are now available through dashboards which can be accessed remotely. This flexibility enables our senior leaders to make decisions quickly and adjust activity at short notice to meet changing circumstances.



CASE STUDY

**IT –**  
Implementing electronic proof of delivery in Germany

In 2018, we rolled out an electronic proof of delivery (ePod) system for the first time, improving the experience of our customers and our own operational efficiency. The ePod system integrates with a new telematics and navigation tool, which together connect our drivers to the business on a real-time basis. For SIG Germany, this has facilitated a more flexible approach to distribution, reducing manual intervention and enabling the business and drivers to respond quickly to new orders and changes in the delivery schedule. In addition, with improved telematics, the business is able to sustain a safer working environment for drivers. The consistency of service delivery to our customers has in turn improved. The ePod system is capable of integrating with customer ERP systems, removing the need for paper at the point of delivery. Customers also have access to a portal providing the ability to track orders. Going forward, we intend to introduce real time delivery updates via smartphone technology, providing our customers with certainty of the delivery window.

# Our KPIs

Following the 2017 review of the Group's strategy, we identified four key performance indicators against which we assess and measure our success, two additional financial indicators of progress, and accident incident rate as a proxy for our focus on safe operations.

	Definition	Why is this KPI important?	Supporting performance measures												
<p><b>Like-for-like sales (%)</b></p>  <table border="1"> <caption>Like-for-like sales (%) Data</caption> <thead> <tr> <th>Year</th> <th>Underlying revenue</th> <th>Like-for-like sales (%)</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>2,533.9</td> <td>-0.2%</td> </tr> <tr> <td>2017</td> <td>2,716.4</td> <td>3.5%</td> </tr> <tr> <td>2018</td> <td>2,683.2</td> <td>-2.1%</td> </tr> </tbody> </table>	Year	Underlying revenue	Like-for-like sales (%)	2016	2,533.9	-0.2%	2017	2,716.4	3.5%	2018	2,683.2	-2.1%	<p>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 branch openings and closures</p>	<p>This measure shows how the Group has developed its revenue for comparable business relative to the prior period. As such it is a key measure of the growth of the Group during the year</p>	<p>Underlying revenue growth (%)</p>
Year	Underlying revenue	Like-for-like sales (%)													
2016	2,533.9	-0.2%													
2017	2,716.4	3.5%													
2018	2,683.2	-2.1%													
<p><b>Return on sales (%)</b></p>  <table border="1"> <caption>Return on sales (%) Data</caption> <thead> <tr> <th>Year</th> <th>Return on sales (%)</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>3.1</td> </tr> <tr> <td>2017</td> <td>2.7</td> </tr> <tr> <td>2018</td> <td>3.3</td> </tr> </tbody> </table>	Year	Return on sales (%)	2016	3.1	2017	2.7	2018	3.3	<p>The ratio of underlying operating profit excluding property profits, divided by underlying revenue</p>	<p>Return on sales provides the key measure of the profit the Group can deliver for a given level of sales</p>	<p>Underlying gross margin (%) Underlying operating costs as % of sales</p>				
Year	Return on sales (%)														
2016	3.1														
2017	2.7														
2018	3.3														
<p><b>Return on capital employed (%)</b></p>  <table border="1"> <caption>Return on capital employed (%) Data</caption> <thead> <tr> <th>Year</th> <th>Return on capital employed (%)</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>9.0</td> </tr> <tr> <td>2017</td> <td>9.3</td> </tr> <tr> <td>2018</td> <td>10.3</td> </tr> </tbody> </table>	Year	Return on capital employed (%)	2016	9.0	2017	9.3	2018	10.3	<p>The ratio of underlying operating profit less taxation divided by adjusted average capital employed (average net assets plus average net debt)</p>	<p>Return on capital employed (ROCE) is a measure of value creation for our stakeholders and is a measure of how efficiently the Group is using the capital and resources it has available</p>	<p>Underlying operating profit (£m) Like-for-like working capital as % of sales</p>				
Year	Return on capital employed (%)														
2016	9.0														
2017	9.3														
2018	10.3														
<p><b>Headline financial leverage</b></p>  <table border="1"> <caption>Headline financial leverage Data</caption> <thead> <tr> <th>Year</th> <th>Headline financial leverage</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>2.6x</td> </tr> <tr> <td>2017</td> <td>2.3x</td> </tr> <tr> <td>2018</td> <td>1.7x</td> </tr> </tbody> </table>	Year	Headline financial leverage	2016	2.6x	2017	2.3x	2018	1.7x	<p>The ratio of covenant EBITDA (earnings before interest, tax, depreciation and amortisation) to covenant net debt as defined in the Group's banking and private placement arrangements</p>	<p>This ratio is a bi-annual covenant of the Group's principal medium and long term funding facilities and has a maximum permitted ceiling of 3.0x</p> <p>As such it is a measure of balance sheet strength and resilience to economic downturn</p>	<p>Underlying operating profit (£m) Trading cash (£m) Net debt (£m)</p>				
Year	Headline financial leverage														
2016	2.6x														
2017	2.3x														
2018	1.7x														

## Relevance to strategy

**CS** CUSTOMER SERVICE

**CV** CUSTOMER VALUE

**OE** OPERATIONAL EFFICIENCY

Performance	Medium term target	Link to strategy	Principal risk	Link to remuneration
Like-for-like sales have reduced by 2.1% (2017: 3.5%) overall, with a 5.6% reduction in the UK and Ireland offset by a 0.7% increase in Mainland Europe. The focus of transformational activity has been in the UK this year, with a change in strategy away from volume growth and towards profitability	Growth in line with market  Maintain market share	<b>CS</b> <b>CV</b>	Market downturn  Delivering the change agenda  Data quality	Profit measures in annual bonus scheme for senior management and staff
Return on sales excluding property profits has increased by 60bps to 3.3% (2017: 2.7%), with transformation delivering an improvement in gross margin, particularly in the UK	c.5%	<b>CS</b> <b>CV</b> <b>OE</b>	Market downturn  Delivering the change agenda  Supplier rebates  Data quality	Profit measures in annual bonus scheme for senior management and staff
ROCE increased 100bps to 10.3% (2017: 9.3%), reflecting the impact of bringing working capital under control, with inventory days reducing from 43 in 2017 to 38 in 2018. ROCE for previous periods has been rebased to reflect the impairments arising on the sale of closure of non-core businesses. On an unadjusted basis, ROCE increased from (5.2%) in 2017 to 4.9%, reflecting the increase in statutory operating profit	c.15%	<b>CS</b> <b>CV</b> <b>OE</b>	Market downturn  Delivering the change agenda  Working capital management	Capital measures (working capital and ROCE) in annual bonus scheme for senior management and staff  Longer term plans focused on shareholder value creation
Headline financial leverage closed the year at 1.7x, which is 60bps lower than 2.3x reported at 31 December 2017. This reflects a significant reduction in net debt, following measures taken to bring working capital under control and cash generated from a shift in strategy away from acquisition towards divestment	Under 1.0x	<b>CS</b> <b>CV</b> <b>OE</b>	Delivering the change agenda  Working capital management	Capital measures in annual bonus scheme for senior management and staff

# Our KPIs

	Definition	Why is this KPI important?	Supporting performance measures								
<p><b>Operating costs as a % of revenue</b></p> <table border="1"> <caption>Operating costs as a % of revenue</caption> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>23.1%</td> </tr> <tr> <td>2017</td> <td>23.5%</td> </tr> <tr> <td>2018</td> <td>23.4%</td> </tr> </tbody> </table>	Year	Percentage	2016	23.1%	2017	23.5%	2018	23.4%	<p>The ratio of underlying operating costs excluding property profits to underlying revenue</p>	<p>This ratio enables the business to track the delivery of its strategy of improving operating and financial performance, by reducing costs</p>	<p>Underlying revenue growth (%)</p> <p>Underlying operating profit (£m)</p>
Year	Percentage										
2016	23.1%										
2017	23.5%										
2018	23.4%										
<p><b>Working capital as a % of revenue</b></p> <table border="1"> <caption>Working capital as a % of revenue</caption> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>9.81%</td> </tr> <tr> <td>2017</td> <td>8.9%</td> </tr> <tr> <td>2018</td> <td>8.1%</td> </tr> </tbody> </table>	Year	Percentage	2016	9.81%	2017	8.9%	2018	8.1%	<p>The ratio of underlying working capital to underlying revenue</p>	<p>This ratio is used to understand how effectively the Group is using the resources it has available</p>	<p>Inventory and receivables days</p> <p>Inventory value (£m)</p> <p>Payable days</p>
Year	Percentage										
2016	9.81%										
2017	8.9%										
2018	8.1%										
<p><b>Accident incident rate</b></p> <table border="1"> <caption>Accident incident rate</caption> <thead> <tr> <th>Year</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>11.3</td> </tr> <tr> <td>2017</td> <td>9.9</td> </tr> <tr> <td>2018</td> <td>11.3</td> </tr> </tbody> </table>	Year	Rate	2016	11.3	2017	9.9	2018	11.3	<p>The ratio per 1,000 employees of work-related accidents and incidents (lost time over three days and major injury)</p>	<p>All employees, customers and suppliers should be able to work in a safely managed environment across every part of the SIG Group</p>	<p>Near misses</p>
Year	Rate										
2016	11.3										
2017	9.9										
2018	11.3										

## Relevance to strategy

**CS** CUSTOMER SERVICE

**CV** CUSTOMER VALUE

**OE** OPERATIONAL EFFICIENCY

Performance	Medium term target	Link to strategy	Principal risk	Link to remuneration
Underlying operating costs excluding property profits represented 23.4% of revenue in 2018 (2017: 23.5%). Underlying operating costs are £8.7m lower in the year as the benefit of cost reduction initiatives as part of the transformation of the business begins to be seen. Underlying revenue has decreased by £33.2m due to a focus on improving profitability	N/a	<b>CV</b> <b>OE</b>	Delivering the change agenda	Profit measures in annual bonus scheme for senior management and staff
Working capital as a percentage of revenue was 8.1% (2017: 8.9%). Inventory management has been a particular focus during the year, and the progress made in this area is evidenced by inventory days reducing by five days year on year	N/a	<b>CV</b> <b>OE</b>	Working capital management Delivering the change agenda	Capital measures (working capital and ROCE) in annual bonus scheme for senior management and staff
After several years of sustained decline in accident rates, performance did not improve in 2018; in order to revitalise its "Zero Harm" program, the Group will focus on eliminating accidents resulting from its four critical hazards (those hazards known to cause serious injury)	Zero accident in any given period for all critical hazards (pedestrian and forklift truck interaction, fall from height, road traffic, contact with machinery)	<b>OE</b>	Health and safety	Safety gateway in annual bonus scheme for senior management and staff

The Group's KPIs are reconciled to the Financial Statements in Note 32 of the Financial Statements.

“Much work remains to be done, but our delivery in 2018 and the momentum brought into 2019 confirm that our transformation of SIG is on track.”

**Meinie Oldersma**  
Chief Executive Officer

2018 saw the Group's transformation strategy start to deliver significant operational and financial progress

## Transformation on track

2018 saw the Group's transformation strategy start to deliver significant operational and financial progress. Underlying profit before tax (excluding property profits) was up 25.1% to £72.7m (2017: £58.1m).

Despite challenging market conditions and lower revenue in the Group's largest markets, the Group's focus on pricing and profitability over volume enabled it to grow gross margins and gross profit, particularly in the UK insulation and interiors business, SIG Distribution. In addition, actions taken to reduce headcount and improve operational efficiency brought operating costs under tighter control, resulting in a reduction during the year. As a result, the Group made good progress during 2018 towards its medium term financial targets, particularly in the second half.

The Group has delivered higher underlying gross margins, lower operating costs and lower debt in 2018, albeit on reduced revenues. This improved financial performance enabled the Group to report its first statutory profit before tax for three years of £28.5m (2017: loss before tax of £54.7m).

## Step change in performance in second half of year

The transformation gathered pace in the second half of the year, with higher margins and lower operating costs enabling return on sales (excluding property profits) to increase from 2.5% in the first half to 4.0%. As a result, underlying profit before tax (excluding property profits) increased 81% from £25.9m in the first half to £46.8m in the second half. Statutory profit before tax decreased from £19.7m in the first half to £8.8m in the second half, reflecting higher levels of Other items, including restructuring costs, in the second half.

Notwithstanding the reduction in LFL sales, which reduces the base of business brought into 2019, the Group believes that the margin and cost actions which underpin the step change in performance delivered in the second half of the year bring considerable financial momentum into 2019.

## Delivering the transformation

Some fifteen months ago, the Group set out the conclusions of its strategic review with the announcement of its strategic vision, "Building on our potential". This identified the considerable opportunity for significant improvement in the operational and financial performance of each major operating company and across the Group as a whole. The strategic review identified that improvement would come from focused delivery of three strategic levers around customer service, customer value and operational efficiency, supported by investment in key enablers around data, IT and capability.

Since then, the Group has taken substantial actions to deliver rapid progress from this transformation strategy. The overhaul of SIG's leadership is now largely complete, following the departure during 2017 and 2018 of 51 out of 75 senior leaders across the Group. The induction into the business of new leaders from outside the Group is improving capability, setting new standards and delivering cultural change across the organisation.

As part of this overhaul of Group leadership, new Managing Directors were appointed in 2018 at each of the Group's four largest operating companies: SIG Distribution, SIG Exteriors, SIG France and SIG Germany. These new Managing Directors are bringing broader experience and perspectives and an accelerated pace of transformation to their businesses. As a result, the Group is beginning to benefit from the establishment of a genuine performance culture across these businesses in support of improved performance.

History highlights the significant challenge in achieving lasting change across SIG and there remains much work to be done to complete the planned transformation. The Group is working to leverage its improved capability and ways of working to complete the process of structural and cultural change across the organisation. The step change in operational and financial performance delivered in 2018 provides reassurance that this transformation of SIG is on track.



Like-for-like sales

**-2.1%**  
(2017: 3.5%)

Total Group revenue

**£2,741.9m**  
(2017: £2,878.4m)

Return on sales

**3.3%**  
(2017: 2.7%)



# Performance

## Customer service – investment in capability, branches and technology

The Group's strategic focus on customer service has seen it develop its sales capability, branch experience and supporting technology during the year. The sales teams in SIG Distribution and SIG Exteriors have been restructured into dedicated sales functions and similar changes are in hand at other operating companies. New sales and customer relationship management tools have been introduced and this is beginning to be reflected in improving conversion rates at several businesses.

Investment has been made during the year in branch telephony, transport management and electronic point of delivery capability, with a view to reducing customer lead times and improving customer service levels for delivery on time and in full. The programme of trade counter upgrades has continued at SIG Exteriors and new sales training has been developed and introduced in several businesses. As the Group moves into 2019, the focus is on continued development of sales capability and associated tools. The Group is also looking to increase its investment in the development of its eCommerce strategy and capability.

## Customer value – optimising pricing and profitability

The Group's actions around customer value have primarily targeted pricing and profitability initiatives during the year. SIG Distribution led the way with the introduction of list price rises across a broad range of products in the middle of the year. SIG Distribution has also been at the forefront of action to reduce the Group's exposure to low margin business with an ongoing review of profitability by customer.

Other Group businesses have similarly begun to pursue a range of initiatives to optimise pricing and margins. New pricing controls have been implemented around quantity breaks and new charging structures implemented for ancillary services. Historic customer terms have been extensively reviewed at SIG Exteriors during the year and a new pricing framework has been introduced in Germany and is currently being piloted in France. The Group's focus on pricing is being supported by improved data analytics and the introduction of new reporting, which provides better visibility on end-to-end margin by branch and customer. This allows management to reduce levels of discounting in the branches and improve compliance with target prices.

The Group is targeting further significant progress on pricing and margins in 2019, reflecting the benefit of specific actions taken in 2018, mostly in the second half, and the extension of these initiatives across the Group.

## Operational efficiency – reducing operating costs

During 2018, the Group has taken further steps to reduce costs, continuing to scale back Group functions and overheads, eliminate duplicate spend and constrain discretionary expenditure, and downsize corporate functions and the corporate office. Peripheral and non-core businesses have been sold or closed, enabling the removal of associated central costs.

Administrative costs have been significantly reduced, notably in the UK, where the back office support functions for the Group's insulation and roofing businesses in the UK have been combined and co-located in a single shared services centre in Sheffield. The finance back office in the UK has largely been outsourced to a third party provider and work is ongoing with the outsourcing partner to optimise processes and enhance levels of financial control.

These changes have enabled the property portfolio in Sheffield to be consolidated into a single location following the sale of SIG's historical head office in Hillsborough. The Group continues to reduce management layers across the organisation.

As the year has progressed, the focus on costs has extended to branch networks and the customer-facing organisation, where operating models are being restructured with the twin aims of improved customer service and lower costs.

SIG Distribution has transformed its organisational structure during the year from a branch-centric model to a functional model, centralising some of the functions historically managed within branches and establishing dedicated cross-organisation capability in sales, inventory, warehousing and transportation. As a result, it has been able to eliminate significant regional costs, reorganise the sales force and streamline distribution routing resulting in a reduction in fleet numbers, whilst enhancing levels of customer service.

SIG Exteriors has optimised its network around a hub and spoke model, resulting in some branch closures and the removal of surplus vehicles from the fleet. It is now implementing tools to facilitate improved transport management, including real time vehicle tracking and electronic proof of delivery capability, bringing real benefits to customers as well as reducing costs. Further changes are being implemented in the Group's other large operating companies in France and Germany during 2019.

The optimisation of branch networks and disposals of businesses have seen the number of trading sites fall from 661 at the beginning of 2017 to 538 at 31 December 2018. In parallel, headcount has fallen c.20% from 10,383 at the beginning of 2017 to 8,260 at 31 December 2018. Further headcount reductions are anticipated in 2019 as the Group continues to streamline its operating model and ways of working.

## Operational efficiency – reducing working capital

In parallel with the reductions in operating costs, working capital is beginning to respond to actions to reduce the level of stock, which fell this year to £207.2m (2017: £243.5m). Management has revised the Group's approach to inventory management during the year, implementing tighter controls around the purchase of stock and re-orienting performance management mechanisms to incentivise lower levels of working capital. SIG Distribution again led the way, with the centralisation of inventory management facilitating a sharp reduction in levels of inventory in the second half of the year. The Group is seeking to build on the experience of SIG Distribution as it seeks further reductions in inventory in 2019.

## Key enablers – improved data and reporting

The business has made good progress in relation to the key enablers necessary for delivery of its transformational plans around data, IT and capability. The Group now has daily visibility of sales and margin. Initiatives to improve sales effectiveness, manage pricing and margins and reduce stock have all significantly benefited during the year from new data analytics and reporting. A new master data management system is being rolled out.

The next stage is focused on overhauling some of the Group's core underlying systems and associated processes, with the implementation of improved transportation and inventory management systems. There are also plans to upgrade and standardise the Kerridge ERP system in the UK during 2019 and initial preparations are underway for the replacement of dated and inefficient systems in France and Germany.

## Turnaround at SIG Distribution well underway

Progress has been most evident during 2018 in the turnaround in performance at SIG Distribution, the Group's specialist distributor of insulation and interiors products in the UK. The business delivered £20.9m of operating profit in 2018, up from £3.5m in 2017.

The turnaround of SIG Distribution was the Group's most immediate priority in the year. The Group appointed a new Managing Director for the business, David Walmsley, early in 2018. David brought extensive experience in business-to-business distribution, both in the UK and internationally, and joined SIG Distribution from Palletways, Europe's largest pallet delivery network, where he was UK Managing Director. Prior to that, he spent 25 years in a variety of roles with Lyreco, the worldwide distributor of office supplies and workplace products.

He inherited a business that was ineffectively managed, with poor control over prices and costs and high levels of stock. Branch employees were distracted by a proliferation of internal initiatives and customer service was suffering as a result. The business was in urgent need of rapid improvement.

The business took radical actions in 2018 to deliver a step change in performance. It implemented price increases across key product ranges from the middle of the year and reviewed profitability by customer to reduce exposure to low margin business. As a result, the business has seen gross margins increase by 200bps across the year to 24.7% (2017: 22.7%).

The business restructured its branch organisation to a functional model focused on sales, inventory, warehousing and transport and removed significant unnecessary regional structures, as a result of which headcount was reduced in 2018 by 441. The business implemented new performance management tools in support of sales effectiveness and operational efficiency. Improved stock profiling, new inventory processes and central control reduced inventory days from 32 in H2 2017 to 25 in H2 2018.

SIG Distribution delivered significant profit improvement as the year progressed, with improved gross margins and lower operating costs providing an increase in underlying operating profit from £4.6m in the first half to £16.3m in the second half with a return on sales (excluding property profits) in the second half of 4.9%. As a result, the business brings considerable financial benefits from these profit improvement actions into 2019.

The step change in performance at SIG Distribution has given the Group confidence to accelerate the transformation in other major Group businesses, notably SIG Exteriors in the UK and the businesses in France and Germany. These businesses are expected to see improving financial performance in 2019 as a result.

## Balance sheet further strengthened

Leverage reduction remains a key priority and the Group has continued to strengthen the balance sheet during the year. Tactical actions to reduce debt, including the sale and lease back of property and the factoring of debtor receivables, were largely completed in 2017. As anticipated, the focus in 2018 turned towards structural reductions in levels of working capital, particularly stock. In addition, the Group benefited from the disposal of peripheral businesses, raising £35.8m in net proceeds. As a result, headline financial leverage has fallen sharply to 1.7x (2017: 2.3x).

The Group has now reduced net debt by over a third since the start of 2017 to £189.4m. Further significant progress is expected during 2019 towards the Group's medium term target of headline financial leverage below 1.0x.

## Portfolio management continues at pace

The Group's medium term strategy recognised that it had a number of smaller businesses which were peripheral to its core focus. Management identified a number of these businesses as potential exit candidates, representing around 13% or £0.4bn of the statutory Group revenues (as reported at the FY 2016 results), either because they had limited fit with Group strategy or because their small scale was a distraction to management. In many cases, these businesses were also delivering a poor financial performance.

The Group has continued to exit from these peripheral businesses during the year. Ongoing management of the portfolio saw the disposals in 2018 of:

- SIG Building Systems, a modular offsite construction business in the UK;
- GRM, a manufacturer of phenolic pipe insulation serving the UK's industrial and HVAC markets;
- IBSL, a UK fabricator and supplier of cryogenic and high-temperature insulation solutions used by the petrochemical, power generation and offshore exploration industries;
- VJ Technology, a UK distributor of technical fixings, fasteners and consumables to the infrastructure, commercial and wider construction industry;
- Roofspace, the Group's remaining UK offsite manufacturing business; and
- The trade and assets of Proteus, a UK-based façade panel systems manufacturing business.

In addition, the Group closed SIG Cut Solutions, the Group's German insulation conversion business, and took the decision to exit from its Commercial Drainage business in the UK.

The Group has now divested or closed businesses representing 11% of FY 2016 statutory revenue. The Group continues to evaluate the options for remaining potential exit candidates, in line with its stated strategy.

## Establishment of pan-European Air Handling business

With the continuing disposal of peripheral businesses, the Group's activities now largely comprise three core lines of business: a specialist distributor of insulation and interiors across Europe, a roofing merchant in the UK and France, and a provider of air handling solutions.

The Group has transferred the last of its air handling businesses formally into the Air Handling division, incorporating the branch network and manufacturing subsidiaries of Ouest Isol & Ventil, the Group's specialist distributor of ventilation, air conditioning and technical insulation products in France, and SK Sales, the Group's specialist supplier of heating, ventilation and air conditioning products in the UK.

The Air Handling division is a specialist provider of air handling solutions operating in ten countries across Europe, with a track record of attractive returns in fast-growing end markets. The combination provides an integrated platform with potential for continuing growth and significant profit enhancement.

The Board is reviewing strategic options for this business and has engaged financial advisers to help with this review.



Read more on pages 42 and 43

# Performance

## Dividend

In 2018, the Group delivered underlying earnings per share of 9.3p (2017: 8.6p). As a result, the Board is recommending payment of a final dividend for the year of 2.5p (2017: 2.5p) per share. Together with the interim dividend of 1.25p (2017: 1.25p) per share, this gives a total dividend for the year of 3.75p (2017: 3.75p) per share, in line with the Group's stated policy to target dividend cover in the range of 2-3x underlying earnings per share.

In determining the final dividend, the Board has reviewed progress against its target of reducing headline financial leverage below 1.0x over the medium term, particularly in the context of the weaker trading conditions seen in the Group's largest markets during the latter part of 2018. It has also considered the current defined benefit pension deficit and recovery plan agreed as part of the triennial valuation finalised in March 2018. The Board remains confident that delivery of the leverage target is on track.

Subject to approval at the Group's Annual General Meeting, the final dividend is expected to be paid on 5 July 2019 to shareholders on the register at the close of business on 7 June 2019. The ex-dividend date will be 6 June 2019.

## People

The Group would like to thank all employees of SIG for their commitment and resilience in what has been a year of significant change. Their efforts have delivered a step change in operational and financial performance as the year has progressed and they have laid a strong foundation for the further development of the Group in 2019 and beyond.

## Current trading and outlook

The Group brings considerable financial benefits into 2019 and the delivery of a step change in performance in SIG Distribution has given us confidence to accelerate the pace of transformation in other major Group businesses. Trading conditions remain challenging, with the outlook in many of our end markets uncertain, and the Group expects continuing like-for-like sales declines in the first part of the year. Notwithstanding these headwinds, the margin and cost actions taken in 2018 give us good visibility of further significant progress in the current year. While much work remains to be done, our delivery in 2018 and the momentum brought into 2019 confirm that our transformation of SIG is on track.

The Group will provide a further update on trading and outlook on 8 May 2019, when it will hold its Annual General Meeting.

## Reporting our progress

### Medium term financial targets

- Like-for-like sales growth (%)
- Return on sales (%)
- Return on capital employed (%)
- Headline financial leverage (x)

### Other indicators of progress

- Opex as % of sales
- Working capital as % of sales

### Key financial outputs

- Revenue (£m)
- Underlying gross margin (%)
- Underlying PBT (£m)
- Underlying EPS (p)
- Dividend per share (p)
- Net debt (£m)

# Transformation in action

## Transformation of SIG Distribution

Despite the challenging market conditions witnessed over the past twelve months, SIG Distribution, the leading distributor of insulation and interior products in the UK, posted a significant year-on-year improvement in profits in 2018 of £21m (2017: £4m).

This major step-up was achieved by introducing radical changes across a number of under-performing areas of the business; the first of which was to address the calibre of the leadership personnel in the business, resulting in significantly enhanced capability and the development of a 'can do' attitude.

In May 2018, SIG Distribution embarked on transforming its pricing processes and structures, along with carrying out a detailed review of its customer base, consciously walking away from low margin and non-profitable business where considered appropriate. Whilst this has inevitably contributed toward the year-on-year drop in revenues, there has been a marked improvement in gross margins and profitability, particularly in the second half of the year, bringing significant financial benefits into 2019.

In addition, a restructure of the operating model during the year has turned the historic 'branch-centric' business model into one that is 'function-led', which has helped to drive a significant amount of overhead out of the business, particularly in the areas of sales and inventory. SIG Distribution has transformed the processes over its inventory management and the move from branch to central control has allowed the business to maximise efficiency through capable and effective management of its stock levels, resulting in a year-on-year reduction of 15%.

The transformation is well underway in SIG Distribution, and a marked step-up in financial performance indicators in the second half, return on sales and opex as a % of sales, provides comfort that the business has the necessary momentum to deliver further progress into 2019 and beyond.



# Financial review

“The Group delivered a significantly improved financial performance in the year, with good progress towards our medium term financial targets.”

**Nick Maddock**  
Chief Financial Officer

The margin and cost actions taken in 2018 give us good visibility of further significant progress in the current year

	Results from underlying operations*			Statutory		
	2018 £m	2017 (Restated)** £m	Change	2018	2017 (Restated)** £m	Change
Revenue	<b>2,683.2</b>	2,716.4	(1.2%)	<b>2,741.9</b>	2,878.4	(4.7)%
Gross profit	<b>716.7</b>	711.7	0.7%	<b>734.9</b>	752.5	(2.3)%
Operating profit/(loss) excluding property sales	<b>88.0</b>	74.3	18.4%	<b>40.6</b>	(53.4)	176.0%
Operating profit/(loss)	<b>90.6</b>	85.6	5.8%	<b>44.3</b>	(36.3)	222.0%
Profit/(loss) before tax	<b>75.3</b>	69.4	8.5%	<b>28.5</b>	(54.7)	152.1%
Net debt	<b>189.4</b>	258.7	(26.8)%	<b>189.4</b>	258.7	(26.8)%
<b>Other performance measures</b>						
Like-for-like sales growth	<b>(2.1)%</b>	3.5%	(560)bps	<b>n/a</b>	n/a	n/a
Gross margin	<b>26.7%</b>	26.2%	50bps	<b>26.8%</b>	26.1%	70bps
Return on sales (excluding property profits)	<b>3.3%</b>	2.7%	60bps	<b>1.5%</b>	(1.9)%	340bps
Basic earnings/(loss) per share (pence)	<b>9.3p</b>	8.6p	8.1%	<b>3.0p</b>	(10.2)p	129.4%
Total dividends per share	<b>n/a</b>	n/a	n/a	<b>3.75p</b>	3.75p	-
Working capital to sales	<b>8.1%</b>	8.9%	(80)bps	<b>8.0%</b>	9.1%	(110)bps
Post-tax return on capital employed (ROCE)	<b>10.3%</b>	9.3%	100bps	<b>4.9%</b>	(5.2)%	1010bps
Headline financial leverage (covenant net debt/covenant EBITDA)	<b>1.7x</b>	2.3x	(0.6)	<b>1.7x</b>	2.3x	(0.6)

\* Underlying results are stated before the amortisation of acquired intangibles, impairment charges, losses on agreed sale or closure of non-core businesses and associated impairment charges, net operating results attributable to businesses identified as non-core, net restructuring costs, acquisition expenses and contingent consideration, the defined benefit pension scheme curtailment loss, other specific items, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, the taxation effect of Other items and the effect of changes in taxation rates. Alternative performance measures are referred to as “underlying” and “like-for-like”. These are applied consistently throughout this report and the calculations to these are found in Note 32 of the Financial Statements.

\*\* Restated for prior period restatements described on page 34.

## Overview

The Group delivered a significantly improved financial performance in the year, with underlying profit before tax (excluding property profits) up 25.1% at £72.7m (2017: £58.1m). This performance reflected a combination of lower revenues, more than offset by higher gross margins, delivering improved underlying gross profit. Coupled with tighter control over operating costs, the improvement in the Group's financial performance demonstrates the tangible delivery of financial benefits from the Group's transformation strategy.

During the year, the Group divested six non-core businesses. It also closed SIG Cut Solutions in Germany and took the decision to close the Commercial Drainage business in the UK. These businesses have been excluded from underlying results in order to provide a better understanding of underlying performance in the continuing

business. At a statutory level, the Group saw a 2017 loss before tax of £54.7m become a profit before tax of £28.5m in 2018, helped by the underlying performance improvement and by a reduction in losses associated with the sale or closure of non-core businesses.

Key financial metric	Medium term target	2018 Performance	2017 Performance
Like-for-like sales	Market growth	<b>(2.1)%</b>	3.5%
Return on sales	5%	<b>3.3%</b>	2.7%
Return on capital employed	15%	<b>10.3%</b>	9.3%
Headline financial leverage	<1.0x	<b>1.7x</b>	2.3x

In parallel with the increased profit, the Group saw significantly lower



Return on capital employed

**10.3%**

(2017: 9.3%)

Headline financial leverage

**1.7x**

(2017: 2.3x)

# Financial review

net debt and headline financial leverage. Net debt fell to £189.4m (2017: £258.7m) as a result of cash flow generated from operating activities, including reductions in the level of working capital, and cash flow generated from the sale of businesses, offset by lower proceeds from the sale of property, plant and equipment.

The Group is bringing considerable momentum into 2019 from the actions taken on margin and costs in 2018.

## Revenue and gross margin

The Group experienced lower revenues in the year ended 31 December 2018, reflecting challenging market conditions and the decision to focus on pricing and profitability over volume. Group revenue from underlying operations fell 1.2% to £2,683.2m (2017: £2,716.4m), net of the benefit of foreign exchange translation (+0.7%) and more working days (+0.2%).

LFL sales growth is one of the Group's key performance metrics and the Group targets over the medium term to grow its LFL sales in line with market growth to maintain market share. The fall in LFL sales over the year of 2.1% accelerated as the year progressed, with trading conditions deteriorating in the Group's largest markets and the Group accelerating its strategy to increase profit by improving pricing discipline and reducing its exposure to low margin business. LFL sales was down 4.2% in the second half, resulting in the Group carrying a smaller but more profitable base of business into 2019 than it brought into 2018.

Revenue generated in the year by non-core businesses was £58.7m (2017: £162.0m). On a statutory basis including the revenue from these non-core businesses, Group revenue was down 4.7% to £2,741.9m (2017: £2,878.4m).

The decline in revenue was offset by significantly improved gross margin in the year as a result of the Group's increased focus on pricing and profitability. Underlying gross margin increased 50bps to 26.7% (2017: 26.2%) and continued to strengthen as the year progressed, rising to 27.1% in the second half.

Underlying gross margin improved 110bps in the UK & Ireland to 25.9% (2017: 24.8%) and remained stable in Mainland Europe at 27.4% (2017: 27.4%). The improvement in the UK & Ireland was primarily a reflection of actions taken at SIG Distribution from the middle of the year, including price rises across a broad range of products, resulting in a 200bps year-on-year increase in gross margin to 24.7% (2017: 22.7%). As a result, underlying gross profit increased by £5.0m to £716.7m (2017: £711.7m), despite the weaker revenue. The Group is replicating elements of this approach taken in SIG Distribution in other operating companies, notably SIG Exteriors, France and Germany, and is targeting further gross margin improvement across the Group in 2019.

On a statutory basis, the Group's gross margin increased by 70bps to 26.8% (2017: 26.1%). Statutory gross profit fell from £752.5m to £734.9m as a result of disposals of businesses.

## Operating costs and profit

At a Group level, underlying operating profit improved by 5.8% year-on-year, benefiting from the £5.0m increase in underlying gross profit and a £8.7m reduction in underlying operating costs (excluding property profits). Sustained actions to improve operational efficiency and bring costs under control were reflected in underlying operating costs (excluding property profits) falling to £628.7m in the year (2017: £637.4m). The benefit of these actions accelerated as the year progressed, with underlying operating costs (excluding property profits) falling from £319.7m in the first half to £309.0m, equivalent to 23.0% of second half sales.

Return on sales (ROS) is one of the Group's primary performance metrics and is calculated as underlying operating profit (excluding property profits) divided by underlying revenue. The Group targets an ROS of 5.0% over the medium term in each operating company and across the Group as a whole. The improvement in underlying operating profit helped ROS to increase to 3.3% in 2018 (2017: 2.7%), with the improvement accelerating as margins increased and operating costs fell during the year. ROS increased to 4.0% in the second half of the year.

Non-core businesses reported a combined operating profit of £1.2m in the year (2017: £8.0m loss). At a statutory level, the 2017 operating loss of £36.3m became a 2018 operating profit of £44.3m, as the improvement in underlying operating profit was enhanced by a significant reduction in the level of other items, particularly losses on the sale or closure of non-core businesses.

There was a lower level of profit from the disposal of properties in 2018 of £2.6m (2017: £11.3m). The Group is not anticipating any material profit from the disposal of properties in 2019.

Underlying profit before tax (excluding property profits) was up 25.1% to £72.7m (2017: £58.1m). The statutory profit before tax for the year was £28.5m (2017: loss before tax of £54.7m).



## UK and Ireland

As previously reported, the UK construction market weakened during 2018 and became increasingly challenging towards the end of the year. Commercial construction demand remained dampened by macro-economic uncertainty, house price inflation slowed and secondary housing market transactions continued to fall. This weaker trading environment impacted on demand for SIG's products and is a key factor behind the lower LFL revenues in the UK and Ireland, down 5.6%. Revenues at SIG Distribution also reflected the focus on improving profitability, which has delivered higher gross margins at the expense of lower revenue.

	Revenue (£m)	Change	LFL change	Gross margin	Change	Underlying operating profit (£m) <sup>2</sup>	Underlying operating margin <sup>2</sup>	Change	Reported operating profit/(loss) (£m) <sup>3</sup>
SIG Distribution <sup>1</sup>	701.2	(5.5)%	(5.8)%	24.7%	200bps	20.9	3.0%	250bps	7.2
SIG Exteriors <sup>1</sup>	378.7	(6.2)%	(6.6)%	28.3%	(10)bps	17.3	4.6%	(290)bps	(0.5)
Ireland and Other UK <sup>1</sup>	99.9	1.6%	(0.1)%	25.2%	20bps	6.1	6.1%	120bps	3.7
UK & Ireland <sup>1</sup>	1,179.8	(5.2)%	(5.6)%	25.9%	110bps	44.3	3.8%	70bps	10.4
Non-core businesses	58.4	(58.7)%	n/a	31.0%	610bps	1.5	2.6%	740bps	n/a
UK and Ireland	1,238.2	(10.6)%	n/a	26.1%	130bps	45.8	3.7%	140bps	10.4

<sup>1</sup> Before results attributable to businesses identified as non-core and before transfer of SK Sales from SIG Distribution to Air Handling.

<sup>2</sup> Underlying operating profit and underlying operating margin are shown including property profits.

<sup>3</sup> Reported operating profits/(losses) are shown on a segmental basis including the operating result of the non-core businesses.

SIG Distribution, the core insulation and interiors business in the UK, delivered a substantial increase in profitability in 2018. Underlying operating profit increased to £20.9m (2017: £3.5m), as the business took radical actions to deliver an operational and financial turnaround under new leadership. Underlying revenue fell by 5.8% on a LFL basis, but this was more than compensated by increased gross margins, up 200bps to 24.7% (2017: 22.7%), reflecting price rises and reduced exposure to low margin business. The business also reduced costs and inventory during the second half of the year, delivering a significant step up in profitability from £4.6m in the first half to £16.3m.

SK Sales, a specialist distributor of air handling products, reported as part of SIG Distribution in 2018, is being combined into the pan-European Air Handling business in 2019. SK Sales generated an operating loss of c.£2.1m on revenue of c.£21.1m in 2018.

SIG Exteriors primarily comprises the Group's market-leading roofing merchant in the UK. In addition, it includes SIG Building Solutions, a small manufacturer and distributor of façades and claddings. SIG Exteriors saw LFL sales reduce by 6.6% in the year, with poor weather conditions impacting performance at the start of the year and ongoing trading challenges in end markets weakening demand throughout the year. Improved pricing discipline introduced by the new leadership in the second half enabled gross margins to recover to 28.3% (2017: 28.4%). Underlying operating profit at SIG Exteriors ended the year at £17.3m (2017: £30.1m), reflecting the revenue shortfalls, but also the benefit in 2017 of £5.3m of operating profit related to a one-off sale of property that were not repeated in 2018.

Ireland & Other UK, predominantly comprising specialist distribution of insulation, interiors and other building products in Ireland from a large Dublin hub, performed well under new leadership. LFL revenue for the year was in line at (0.1%), but underlying operating profit increased to £6.1m (2017: £4.8m) as a result of higher gross margins up 20bps to 25.2% (2017: 25.0%) and operating cost discipline.

Overall, the UK & Ireland delivered underlying revenue of £1,179.8m (2017: £1,244.1m) and underlying operating profit of £44.3m (2017: £38.4m), at a return on sales (excluding property profits) of 3.8% (2017: 2.6%).

# Financial review

## Mainland Europe

As anticipated at the time of the interim results, trading conditions in construction markets across mainland Europe slowed in the second half of the year, notably in France and Germany. Revenues in Germany were also affected by ongoing actions to reduce the Group's exposure to low margin business. In contrast, the Group currently continues to see robust demand and good top-line growth in Poland, Air Handling and Benelux.

	Revenue (£m)	Change	LFL change	Gross margin	Change	Underlying operating profit (£m) <sup>2</sup>	Underlying operating margin <sup>2</sup>	Change	Reported operating profit (£m) <sup>3</sup>
France <sup>1</sup>	663.6	0.4%	(0.9)%	27.7%	10bps	27.8	4.2%	20bps	24.0
Germany <sup>1</sup>	426.6	0.4%	(0.8)%	26.7%	30bps	9.1	2.1%	(70)bps	2.6
Poland <sup>1</sup>	156.6	9.7%	8.5%	20.1%	10bps	3.3	2.1%	140bps	3.3
Air Handling <sup>1</sup>	148.2	4.3%	2.6%	38.1%	(30)bps	14.8	10.0%	(10)bps	14.2
Benelux	108.4	6.6%	5.7%	23.7%	(210)bps	4.5	4.2%	(200)bps	3.0
Mainland Europe <sup>1</sup>	1,503.4	2.1%	0.8%	27.4%	-	59.5	4.0%	(10)bps	47.1
Non-core businesses	0.3	(98.5)%	n/a	33.3%	650bps	(0.3)	(100)bps	(9,410)bps	n/a
Mainland Europe	1,503.7	0.7%	n/a	27.4%	-	59.2	3.9%	-	47.1

<sup>1</sup> Before results attributable to businesses identified as non-core and before transfer of Ouest Isol & Ventil from France to Air Handling.

<sup>2</sup> Underlying operating profit and underlying operating margin are shown including property profits.

<sup>3</sup> Reported operating profits/(losses) are shown on a segmental basis including the operating result of the non-core businesses.

The Group's business in France comprises Larivière, the leading specialist roofing merchant, LiTT, a specialist distributor of insulation and interiors and Ouest Isol & Ventil, a specialist provider, manufacturer and distributor of air handling and technical insulation products. France saw a small decline in LFL sales in the year, down (0.9)% on weakening market conditions, which was compensated through improved pricing discipline and higher gross margins, resulting in underlying operating profit of £27.8m (2017: £26.2m).

New leadership in France from December 2018 is looking at ways to build on the strong profit contribution from LiTT and Larivière through initiatives around sales effectiveness, pricing management and working capital reduction, building on the developing success of transformation at other Group businesses. Ouest Isol & Ventil, reported as part of France in 2018, is being combined into the pan-European Air Handling business in 2019. Ouest Isol & Ventil generated an operating profit of c.£6.7m on revenue of c.£140.8m in 2018.

Following the success at SIG Distribution in improving prices and gross margin, Germany started to manage pricing and profitability more actively towards the end of the year. LFL sales in Germany declined by 0.8%, but gross margins increased to 26.7% (2017: 26.4%), reflecting some initial benefit from price increases and the commencement of an initiative to reduce the exposure to low margin business. As a result, Germany delivered underlying operating profit of £9.1m in the year (2017: £12.0m), net of a reduction in underlying operating profit related to one-off sales of properties to £1.6m (2017: £4.5m). The arrival of new leadership in Germany from October should deliver further transformation of that business in 2019.

The Group's Polish business had a very strong year, with LFL sales up 8.5%, benefiting from economic stability, infrastructure investment and corresponding growth in construction end markets. In this environment, the Polish management team maintained its gross margin at 20.1% (2017: 20.0%) and managed its cost base effectively to deliver an underlying operating profit of £3.3m in 2018 (2017: £1.0m).

Air Handling, the Group's specialist provider of air handling solutions, which is managed from The Netherlands and focused on the Benelux and Central Europe, saw LFL sales growth of 2.6% in 2018. The air handling market continues to grow at a faster rate than the wider construction sector, due to strong demand drivers, including higher energy efficiency and air quality standards. The specialist focus of this division enabled it to generate gross margins of 38.1% (2017: 38.4%). Air Handling delivered underlying operating profit in 2018, of £14.8m (2017: £14.4m) at a return on sales (excluding property profits) of 10.0%.

In 2019, the Air Handling business is being combined with Ouest Isol & Ventil in France and SK Sales in the UK to establish a pan-European specialist provider of air handling solutions. This creates an integrated platform with potential for growth and significant profit enhancement. The combined business delivered underlying operating profit of c.£19.4m on revenue of c.£310.1m in 2018 at a return on sales (excluding property profits) of c.6.3%. The Board is reviewing strategic options for this business.

LFL sales in the Benelux region increased by 5.7% in the year reflecting strong demand in its end markets. Adverse product mix towards cheaper alternatives meant management was unable to capitalise effectively on this growth, resulting in a decline in gross margins to 23.7% (2017: 25.8%) and underlying operating profit of £4.5m (2017: £6.3m).

Overall, mainland Europe delivered underlying revenue of £1,503.4m (2017: £1,472.3m) and underlying operating profit of £56.9m (2017: £54.8m), at a return on sales (excluding property profits) of 3.8% (2017: 3.7%).

## H1 / H2 performance

As the transformation has progressed, the Group has seen significantly higher profitability across most of its businesses in the second half of the year.

Underlying operating profit (including property profits)	H2 2018 £m	H1 2018 £m	FY 2018 £m
SIG Distribution	16.3	4.6	20.9
SIG Exteriors	11.6	5.7	17.3
Ireland & Other UK	3.1	3.0	6.1
<b>UK &amp; Ireland</b>	<b>31.0</b>	<b>13.3</b>	<b>44.3</b>
France	14.7	13.1	27.8
Germany	5.6	3.5	9.1
Poland	3.0	0.3	3.3
Air Handling	7.1	7.7	14.8
Benelux	1.9	2.6	4.5
Mainland Europe	32.3	27.2	59.5
<b>Group</b>	<b>56.5</b>	<b>34.1</b>	<b>90.6</b>

## Return on Capital Employed

Post tax return on capital employed (ROCE) is one of the Group's primary performance metrics and is calculated on a rolling 12 month basis as underlying operating profit less tax, divided by average net assets plus average net debt. The Group continues to target a significant improvement in ROCE to 15.0% over the medium term and made progress towards that target in 2018 with ROCE up to 10.3% at 31 December 2018 (2017: 9.3%).

This improvement reflects both increased underlying operating profit less tax and reduced levels of working capital and net debt at the year end. Working capital fell to 8.1% of sales on a like-for-like basis (2017: 8.9%), particularly helped by actions to reduce structural levels of inventory, down to £207.2m at the year end (2017: £243.5m).

## Cash flow and leverage

The Group generated £109.6m of net cash from operating activities (2017: £93.4m) during the year, together with £35.8m net cash flow arising on the sale of businesses (2017: £17.6m), offset by lower proceeds of £5.1m from the sale of property, plant and equipment (2017: £34.6m). As a result, after taking into account dividends paid and other cash flow from financing activities, net debt fell sharply to £189.4m at the year end (2017: £258.7m).

	2018 £m	2017 Restated £m
<b>Opening net debt (restated)</b>	<b>(258.7)</b>	<b>(299.2)</b>
Cash inflow from trading	<b>65.6</b>	45.2
Decrease/(increase) in working capital	<b>43.0</b>	(0.5)
Cash inflow from factoring arrangement	<b>1.0</b>	48.7
Cash inflow from operating activities	<b>109.6</b>	93.4
Interest and tax	<b>(27.1)</b>	(31.4)
Dividends paid to equity holders of the Company	<b>(22.2)</b>	(18.2)
Capital expenditure	<b>(25.3)</b>	(32.3)
Proceeds from sale of property, plant and equipment	<b>5.1</b>	34.6
Cashflow from divested businesses	<b>35.8</b>	17.6
Acquisitions/contingent consideration	<b>(3.4)</b>	(21.2)
Other (including fair value movements)	<b>(3.2)</b>	(2.0)
Movement in net debt	<b>69.3</b>	40.5
Closing net debt	<b>(189.4)</b>	(258.7)
<b>Headline financial leverage</b>	<b>1.7x</b>	2.3x

Headline financial leverage is one of the Group's primary performance metrics and is calculated on the same basis as one of the primary covenants to the Group's revolving credit facility and private placement notes. The monitoring of this covenant is an important element of treasury risk management. The combination of increased profit and reduced net debt enabled the Group to deliver a further sharp decline in headline financial leverage in 2018 to 1.7x (2017: 2.3x). The Group continues to target a reduction in headline financial leverage to less than 1.0x over the medium term.

# Financial review

## Reconciliation of statutory result to underlying result

Income statement items are presented in the column of the Consolidated Income Statement entitled Other items where they are significant in size and either they do not form part of the trading activities of the Group or their separate presentation enhances understanding of the financial performance of the Group. With continuing extensive operational changes and portfolio management carried out during the year, SIG has again sought to provide a clear understanding of the underlying and continuing performance of the businesses making up the Group, by separating and disclosing significant non-underlying items as set out in the following table:

	2018 £m	2017 £m
Underlying profit before tax	75.3	69.4
Other items – impact operating profit:		
Amortisation of acquired intangibles	(8.9)	(9.3)
Impairment charges	(4.0)	(6.8)
Losses on agreed sale or closure of non-core businesses and associated impairment charges	(6.7)	(72.4)
Net operating losses attributable to businesses identified as non-core	1.2	(8.0)
Net restructuring costs	(27.7)	(21.1)
Acquisition expenses and contingent consideration	-	(9.8)
Other specific items	(0.2)	5.5
Other items – impact net finance costs:		
Net fair value losses on derivative financial instruments and unwinding of provision discounting	(0.5)	(2.2)
Total Other items	(46.8)	(124.1)
Statutory profit/(loss) before tax	28.5	(54.7)

Amounts reported in the Other items column of the Consolidated Income Statement which in total amounted to a loss before tax of £46.8m (2017: £124.1m) are as follows:

- Amortisation of acquired intangibles of £8.9m (2017: £9.3m);
- Impairment charges of £4.0m (2017: £6.8m), of which £2.8m has been recognised in relation to the Group's former head office which is no longer occupied and £1.2m in relation to software and other assets no longer in use due to a change in digital strategy. In the prior year an impairment of £6.8m was recognised in relation to the carrying value of UK ERP system;
- Losses on agreed sale or closure of non-core businesses and associated impairment charges of £6.7m (2017: £72.4m);
- Net operating profits/(losses) of £1.2m (2017: £8.0m losses) attributable to businesses identified as non-core;
- Net restructuring costs of £27.7m (2017: £21.1m) including redundancy and related staff costs of £11.5m (2017: £3.9m), property closure costs of £5.5m (2017: £2.8m), impairment of non-current assets of £0.6m (2017: £nil) and £10.1m (2017: £2.7m) in relation to third party restructuring consultancy costs;
- Acquisition expenses and contingent consideration of £9.8m incurred in the prior year in relation to the acquisition of HC Groep by Air Handling in 2015;

- A net cost of £0.2m (2017: £5.5m credit) in relation to other specific items, mainly comprising income of £1.1m in relation to profit on the sale of property in connection with the acquisition of remaining 40% shares in ATC Bulgaria, offset by £1.0m charge in respect of the liability for equalising Guaranteed Minimum Pensions; and
- Net fair value losses on derivative financial instruments and unwinding of provision discounting of £0.5m (2017: £2.2m).

## IFRS 16

IFRS 16 is a new standard relating to accounting for leases which is effective for accounting periods beginning on or after 1 January 2019. The standard eliminates the classification of leases as either operating leases or finance leases for lessees and introduces a single lease accounting model where the lessee is required to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset is of low value.

The Group has elected to adopt the standard using the modified retrospective approach, which means that it has no impact on the results announced in this Report. However, it will have an accounting impact on the results of the Group in 2019. It is estimated that implementation of IFRS16 at the 2018 year end would have increased net debt by c.£291m, operating profit by c.£7m and interest expense by c.£12m.

Accordingly it is anticipated that the implementation and application of IFRS16 will have the effect of reducing the Group's profit before tax in 2019 by c.£4m.

The changes in accounting resulting from the implementation of IFRS16 will not affect the way liquidity is assessed against the Group's banking covenants, which will continue to be assessed as though the accounting rules had not changed. As such, headline financial leverage will continue to be measured on a consistent basis in 2019 and the Group will continue to target a headline financial leverage, excluding the increase in leverage associated with the implementation of IFRS16, below 1.0x over the medium term.

## Prior period restatements

As previously reported, Ernst and Young LLP was appointed as the Group's new statutory Auditor in July 2018. As part of the transition to the new Auditor, the Group has reviewed certain accounting policies and judgements. This resulted in a number of errors being corrected by prior year restatements to previously recorded numbers, as announced in the Group's 2018 Interim Report. In addition, as part of the 2018 year end close, the Group corrected its policy for accounting for future dilapidations costs on property leases to account for the cost of reinstating capital modifications on inception of the lease instead of accruing costs over the life of the lease. This gives rise to a prior period restatement, resulting in an increase to fixed assets of £2.6m and to liabilities of £7.9m at 31 December 2017.

Full details of these prior period restatements are described in the Statement of Significant Accounting Policies and the effect on each financial line item affected is shown in Note 33 of the Financial Statements. In aggregate, these prior period restatements increased net debt by £34.9m at 31 December 2017 and reduced underlying profit before tax by £3.5m in the year ended 31 December 2017.

## Impact of non-core businesses and prior period restatements

The revenue and profits of businesses that had been divested or closed, or which the Board had resolved to divest or close, before 8 March 2018, and which are therefore now being treated as non-underlying, are set out in the table below. The table also shows the impact on profit of the prior period restatements in order to derive comparatives for the underlying Group.

	2018			2017		
	Revenue £m	Underlying profit/(loss) before tax £m	Net debt	Revenue £m	Underlying profit/(loss) before tax £m	Net debt
Underlying Group as reported at 2017 full year results	2,737.9	78.9	189.4	2,778.5	79.2	223.8
VJ Technology	(17.0)	(3.1)	-	(30.6)	(5.0)	-
Prior period restatements <sup>1</sup>	-	-	-	-	(3.0)	34.9
Underlying Group as reported at 2018 half year results	2,720.9	75.8	189.4	2,747.9	71.2	258.7
SIG Cut Solutions	(0.3)	0.3	-	(0.9)	0.6	-
Roofspace	(24.0)	(2.1)	-	(17.6)	(2.0)	-
Proteus	(3.4)	0.5	-	(5.6)	(0.6)	-
Commercial Drainage	(10.0)	0.8	-	(7.4)	0.7	-
Prior period restatements <sup>2</sup>	-	-	-	-	(0.5)	-
Underlying Group as included at 2018 full year results	2,683.2	75.3	189.4	2,716.4	69.4	258.7

1. Comprises the prior period restatements identified as part of the review of the accounting treatment of certain opening balances following the appointment of the Group's new statutory Auditor as included in the 2018 Interim Report.
2. Comprises the prior period restatement in relation to dilapidations provisions identified and included in this Report.
3. Further details of the financial impact of these prior period restatements are included in Note 33.

### Strategy in action



#### Portfolio management – Selling VJ Technology and Roofspace

As part of the 2017 strategic review, the Group identified businesses associated with 13% of 2016 Group statutory revenue which it considered should be improved or exited, reflecting a combination of small scale, limited strategic fit or poor financial performance.

The Group has sold a number of businesses during the year, including VJ Technology and Roofspace, following competitive disposal processes. VJ Technology is a UK distributor of technical fixings, fasteners and consumables to the infrastructure, commercial and wider construction industry, and was part of SIG Distribution. Roofspace was part of SIG Distribution and the last remaining offsite manufacturing business of the Group.

The Group has now exited from 11% of the 13% of 2016 statutory revenue. A further 2% remains under review associated with potential exit candidates. The Group has refocused the remaining portfolio on its three core lines of business, as a specialist distributor of insulation and interiors products, a merchant of roofing and exteriors products and a pan-European provider of specialist air handling solutions.

Key statistics:

- Net proceeds from disposals: £35.8m (2017: £17.6m)
- Proportion of 2016 Group statutory revenue exited in 2017 and 2018: 11%



# Financial review

## Taxation

The Group takes a responsible approach to its tax affairs, acting in accordance with the laws and objectives of the territories in which we operate. We seek to pay our tax liabilities in full at the right time.

Where necessary, we take appropriate advice from professional advisers to ensure compliance with applicable rules and regulations, and to consider potential mitigating actions in order to manage tax risks.

The Group aims to establish and maintain transparent and constructive relationships with all relevant tax authorities. Should a tax related dispute arise then we aim promptly to address and resolve the issue with the relevant tax authority, in a responsible, cooperative and timely manner.

The Board has overall responsibility for managing and controlling risk, including tax risk, within the Group. The Board recognises the importance of tax risk management as part of the day-to-day management of the business. The Group has a Tax and Treasury Committee that provides regular updates to the Board, which enables the Board to consider the tax implications of significant strategic decisions on a timely basis.

In accordance with UK legislation the Group publishes an annual tax strategy, which is available on the Group's website ([www.sigplc.com](http://www.sigplc.com)).

The Group recorded an income tax charge on underlying profits from ongoing operations amounting to £19.8m (2017: £17.7m) which represents an underlying effective rate of 26.3% (2017: 25.5%). On the statutory profit before tax of £29.2m (2017: loss £54.7m), the income tax charge of £10.6m (2017: £4.5m) represents an effective rate of 36.3% (2017: 8.2% charge on loss of £54.7m). These differences arise as a result of amounts included as Other items in the year.

Cash tax payments amounted to £14.0m, £6.3m below the £19.8m 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 tax losses (c.£3m gross utilised during the year).

The Group's underlying effective tax rate in 2019 will be determined by the mix of profits from different jurisdictions. It is anticipated that the underlying effective tax rate in 2019 (excluding any prior year effects) will be c.27%.

## Shareholders' funds and returns to shareholders

Shareholders' funds decreased by £6.7m to £462.9m (2017 restated: £469.6m). The decrease comprised the following elements:

	£m
Profit after tax attributable to equity holders of the Company	17.9
Exchange differences on assets and liabilities after tax	2.1
Gains and losses on cash flow hedges	1.3
Movements attributable to share options	0.4
Actuarial gain on pensions schemes (net of deferred tax)	0.2
Adoption of IFRS 15	(0.7)
Acquisition of non-controlling interest	(5.3)
Dividends paid to equity holders of the Company	(22.2)
Decrease in Shareholders' funds	(6.7)

The Company pays dividends out of the Parent Company retained earnings and has sufficient distributable reserves to pay the final dividend for 2018 and an appropriate interim dividend for 2019. When required the Company can repatriate cash from its subsidiaries to increase distributable reserves. Further details are included in Note 12 of the Company Financial Statements.

In 2018, the Group delivered an improved underlying earnings per share of 9.5p (2017: 8.6p). As a result the Board is recommending payment of a final dividend for the year of 2.50p (2017: 2.50p) per share. Together with the interim dividend of 1.25p (2017: 1.25p) per share, this gives a total dividend for the year of 3.75p (2017: 3.75p) per share, in line with the Group's stated policy to target a dividend pay-out in the range of 2-3x earnings cover (on an underlying earnings per share basis).

Subject to approval at the Group's AGM, the final dividend is expected to be paid on 5 July 2019 to shareholders on the register at the close of business on 7 June 2019. The ex-dividend date will be 6 June 2019.

## Fixed assets

Net capital expenditure (including computer software) was a net cash outflow of £20.2m (2017: £2.3m inflow), representing a capex to depreciation ratio of 0.84x (2017: 0.08x). Capital expenditure includes new vehicles, new brownfield sites, investment in plant and machinery and computer software.

The capex to depreciation ratio is influenced by the level of proceeds from the sale of property, plant and equipment, which were £5.1m (2017: £34.6m). Excluding these proceeds, the capex to depreciation ratio would be 1.05x (2017: 1.18x).

## Foreign currency translation

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

	Average rate		Movement	Closing rate		Movement
	2018	2017	%	2018	2017	%
Euro	1.13	1.14	(1.0)%	1.11	1.13	(1.4)%
Polish Zloty	4.82	4.85	(0.6)%	4.78	4.70	1.7%

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 2018
Underlying revenue	18.8m
Statutory revenue	18.8m
Underlying operating profit	0.8m
Statutory operating profit	0.7m
Underlying profit before tax	0.7m
Statutory profit before tax	0.6m
Consolidated net assets	2.1m
Net debt	2.0m

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 page 38.

## Pension schemes

In total, the Group operates six defined benefit pension schemes, the largest of which is a funded scheme held in the UK which was closed to future accrual on 30 June 2016. 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 last triennial valuation of the UK scheme ("the Plan") was conducted at 31 December 2016 and concluded in the first quarter of 2018. The Trustees and the Company agreed to fund the triennial pension deficit and increase the security of the Plan using an asset backed funding arrangement under a partnership arrangement. The asset backed funding arrangement transfers certain rights over a managed pool of the Group's customer receivables to the partnership and the ongoing management of the receivables provides income to meet contributions to the Plan of £2.5m per annum for up to 20 years (as may be required and subject to certain discretions).

The pension charge for the year includes £1.0m in relation to the estimated liability impact of equalising Guaranteed Minimum Pensions (GMP), which has been included within Other items in the Consolidated Income Statement.

The overall gross defined benefit pension schemes' liability decreased during the year by £1.7m to £28.7m (31 December 2017: £30.4m).

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 29c of the Financial Statements on pages 170 to 173.

## Capital structure

The Group manages its capital structure to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group is focused on strengthening the balance sheet as it has accumulated losses at 31 December 2018.

The main measure used to assess the appropriateness of the Group's capital structure is its net debt to EBITDA (see Note 32 of the Financial Statements) ratio (i.e. leverage), thus ensuring that the Group's capital structure is aligned to the Group's debt covenants.

As at 7 March 2019, SIG's share price closed at 122.2p per share, representing a market capitalisation of £723m 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 99.

## 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:

	2018 £m	2017 Restated £m
Obligations under finance lease contracts	23.4	23.2
Bank overdrafts	4.5	29.6
Bank loans	56.5	84.2
Private placement notes	185.6	204.2
Loan notes and deferred consideration	0.9	17.0
Other financial liabilities	1.1	8.0
Derivative financial instruments (liabilities)	4.1	3.5
<b>Total</b>	<b>276.1</b>	369.7
Derivative financial instruments (assets)	(1.9)	(1.3)
<b>Gross debt (after derivative financial assets)</b>	<b>274.2</b>	368.4
Cash at bank and on hand	(83.3)	(108.2)
Deferred consideration	(1.5)	(1.5)
<b>Net debt</b>	<b>189.4</b>	258.7

This reconciles to net debt used for covenant calculations as follows:

	2018 £m	2017 £m
Net debt	189.4	258.7
Other covenant financial indebtedness	10.9	11.8
Foreign exchange adjustment	(1.8)	(1.5)
<b>Covenant net debt</b>	<b>198.5</b>	269.0

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

	2018 £m	2018 %	2017 £m	2017 %
Gross financial liabilities with a maturity profile of greater than five years	111.0	40.5%	154.3	41.9%
Gross financial liabilities held on an unsecured basis	262.9	95.8%	358.1	97.2%

Details of derivative financial instruments are shown in Note 19 of the Financial Statements on pages 153 to 160.

# Financial review

## 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 pension funds, and principal bank debt.

The maturity profile of the Group's debt facilities at 31 December 2018 is as follows:

	Facility amount £m	Amount drawn £m	Amount undrawn £m	Date of expiry
Bank debt	350.0	56.5	293.5	May 2021
Private placement loan notes	26.9	26.9	-	Oct 2020
Private placement loan notes	18.0	18.0	-	Oct 2021
Private placement loan notes	44.9	44.9	-	Oct 2023
Private placement loan notes	96.2	96.2	-	Aug 2026
	536.0	242.5	293.5	

£20.0m of Private Placement loan notes were repaid on maturity in November 2018.

SIG has no immediate refinancing requirements and has sufficient funding headroom with existing facilities to support its medium term plans.

## Interest rate risk

### 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.

The percentage of gross debt at fixed rates of interest at 31 December 2018 is 88% (2017: 76%).

## 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. 60% of SIG's 2018 continuing revenues (2017: 58%) 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 euros.

## 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):

	2018 Local currency net borrowings/ (cash) LC'm	2018 Sterling equivalent borrowings/ (cash) £m	2017 Sterling equivalent borrowings/ (cash) £m
Euro	149.6	134.3	147.6
PLN	(75.8)	(15.8)	(17.4)
Other currencies	multiple	(3.9)	1.5
Total	n/a	114.6	131.7
% of net debt	n/a	61%	51%

Euro net debt at 31 December 2018 represented 71% of Group net debt (2017: 57%).

### Impact of foreign currency movements in 2018

The overall impact of foreign exchange rate movements on the Group's Consolidated Income Statement and Consolidated Balance Sheet is disclosed on page 36 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 exposures where it makes commercial and economic sense to do so. The Group currently has no commodity derivative contracts in place.

## 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 2018 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 2018	Year ended 31 December 2017 Restated
Consolidated net worth <sup>1</sup>	>£400m	<b>£463.6m</b>	£469.6m
Interest cover ratio <sup>2</sup>	>3.0x	<b>6.6x</b>	4.7x
Leverage ratio <sup>3</sup>	<3.0x	<b>1.7x</b>	2.3x

- The consolidated net worth covenant is applicable to the private placement debt only.
- Covenant interest cover is the ratio of the previous 12 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 12 months (EBITDA).

Detailed calculations of the interest cover ratio and leverage can be found in Note 32 to the accounts on pages 174 to 180.

As can be seen in the table above, the Group is in compliance with its financial covenants and has a satisfactory level of headroom.

Leverage reduced in 2018, despite the repayment of £20m of private placement notes, with cash balances benefiting from proceeds received from the divestment of non-core businesses and the suspension of the Group's acquisition strategy.

The Group continues to experience intra-year seasonal working capital patterns, and it is anticipated that at 30 June 2019 leverage will increase from the position at December 2018.

## Viability statement

In accordance with the requirements of the 2016 UK Corporate Governance Code ("the Code"), the directors confirm that they 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 process and a description of the principal risks and uncertainties facing the Group are included in this Strategic report on pages 46 to 47. As such, the key factors affecting the Group's prospects are:

- **Market positions:** SIG retains top three positions in its core business, which will continue to offer sustainable positions over the medium term.
- **Specialist business model:** SIG is focused on specialist distribution and merchanting of specialist products for our business customers. A defined product focus means SIG occupies a key supply niche, partnering both suppliers and customers to add value.
- **Sales mix:** a diversified portfolio of products, market sectors and geographies means SIG has a resilient underlying portfolio of customers, and as a result, competitors, diversifying the risk around sales for the Group.

The Board has determined that a three-year period to 31 December 2021 is the most appropriate time period for its viability review. This period has been selected since it gives the Board sufficient visibility into the future, due to industry characteristics, business cycle and the tenor of existing financing, to make a realistic viability assessment. This aligns with the turnaround plans for the business.

## The assessment process and key assumptions

As part of the Group's strategic and financial planning process a medium term business plan including detailed financial forecasts for the first three years was produced covering the period to 31 December 2021. The process included a detailed review of the plan, led by the Chief Executive Officer and Chief Financial Officer in conjunction with input from divisional and functional management teams. The Board participated fully in this process by means of an extended Board meeting to review and approve the plan.

The key assumptions within the Group's financial forecasts include:

- **Modest but realistic growth:** the Group is targeting top-line sales growth in line with the market over the medium term. Other than the strategic levers and the impact of the annualising cost saving actions taken in 2017, trading is assumed to be on a 'business as usual' basis.
- **Strategic levers:** improvements are assumed as a result of the delivery of the three strategic levers:
  - **Customer service:** sales and service improvements
  - **Customer value:** pricing and product, enhancing gross margin for the Group and
  - **Operational efficiency:** operating cost savings and working capital reduction
- **Dividends:** no change in the stated dividend policy.
- **Availability of financing:** the Group's Revolving Credit Facility of £350m matures in May 2021 and £44.9m of private placement debt is due to be repaid in 2020 and 2021, within the viability period. The Group does not foresee refinancing to be an issue and expects to secure sufficient facilities to meet its future requirements. On this basis it is assumed that SIG has sufficient funding headroom and liquidity in place to support its plans over the medium term.

# Financial review

## Assessment of viability

In order to assess the resilience of the Group to threats to its viability posed by those risks in severe but plausible scenarios, this model was subjected to thorough multi-variant stress and sensitivity analysis together with an assessment of potential mitigating actions. This multi-variant stress and sensitivity analysis included scenarios arising from combinations of the following:

Variant	Link to principal risks and uncertainties
SIG's recent track record highlights the challenge in delivering lasting change. On this basis, the sensitivity analysis has been modelled as if the improvements from the Group's strategic levers will not be achieved during the assessment period.	Delivery of the change agenda Market downturn Working capital management
The implications of both a challenging economic environment and a growing market on the Group's revenues (both pricing and volume impacts) have been modelled by assuming a severe but plausible reduction in sales volume throughout the period. The potential implications of macro-economic uncertainty due to Brexit have also been considered.	Market downturn
The impact of the competitive environment within which the Group's businesses operate and the interaction with the Group's gross margin has been modelled by assuming a severe but plausible reduction in revenue and gross margins throughout the period.	Delivery of the change agenda Market downturn
The impact of a severe and prolonged economic downturn on the Group's financial results was modelled using a scenario based on the 2008/2009 global financial crisis.	Market downturn

The resulting impact on key metrics was considered with particular focus on solvency measures including debt headroom and covenants such as leverage. The impact of a severe prolonged downturn in the markets in which the Group operates would affect the carrying value of the Group's assets and have an impact on the consolidated net worth covenant.

The Group has controls in place to monitor these risks. In the case of these scenarios arising, various mitigating actions are available to the Group, including further cost reduction programmes, a reduction in non-essential capital expenditure and a moderation of dividend payments.

After conducting their viability review, and taking into account the Group's current position and principal risks, 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 31 December 2021.

## Going concern basis

In determining whether the Group's 2018 Annual Report and Accounts can be prepared on a going concern basis, the directors 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 Chairman's Statement and Strategic report on pages 46 to 47 and in the Notes to the Financial Statements.

The key factors considered by the directors were:

- 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, including macro-economic uncertainty due to Brexit;
- Projections of working capital requirements taking into account normal seasonality trends and short term working capital management;
- 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.

Having considered all the factors above impacting the Group's businesses, 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, they continue to adopt the going concern basis in preparing the Group's 2018 Annual Report and Accounts.

## 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 facing it. 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 46 to 47 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 (comprising pages 1 to 57) was approved by a duly authorised committee of the Board of Directors on 7 March 2019 and signed on the Board's behalf by Meinie Oldersma and Nick Maddock.

**Meinie Oldersma**  
Chief Executive Officer

7 March 2019

**Nick Maddock**  
Chief Financial Officer

7 March 2019

# Establishment of pan- European Air Handling division

SIG's integrated Air Handling division is the largest distribution-led specialist provider of air handling products and solutions in Europe.

In line with our strategic approach to simplify the business and to place greater focus on our key business activities, we have incorporated the branch network and manufacturing subsidiaries of Ovest Isol & Ventil, the Group's specialist distributor of ventilation, air conditioning and technical insulation products in France, and SK Sales, our specialist supplier of heating, ventilating and air conditioning (HVAC) in the UK, into our existing European Air Handling business.



## Our offerings

We are market leaders in the delivery of specialist products and solutions, creating sustained value for a wide range of customers. Our customer value proposition offers whole-system solutions from design to supply, enhanced by a wide product offering, e-commerce, own fabrication and own-label products.

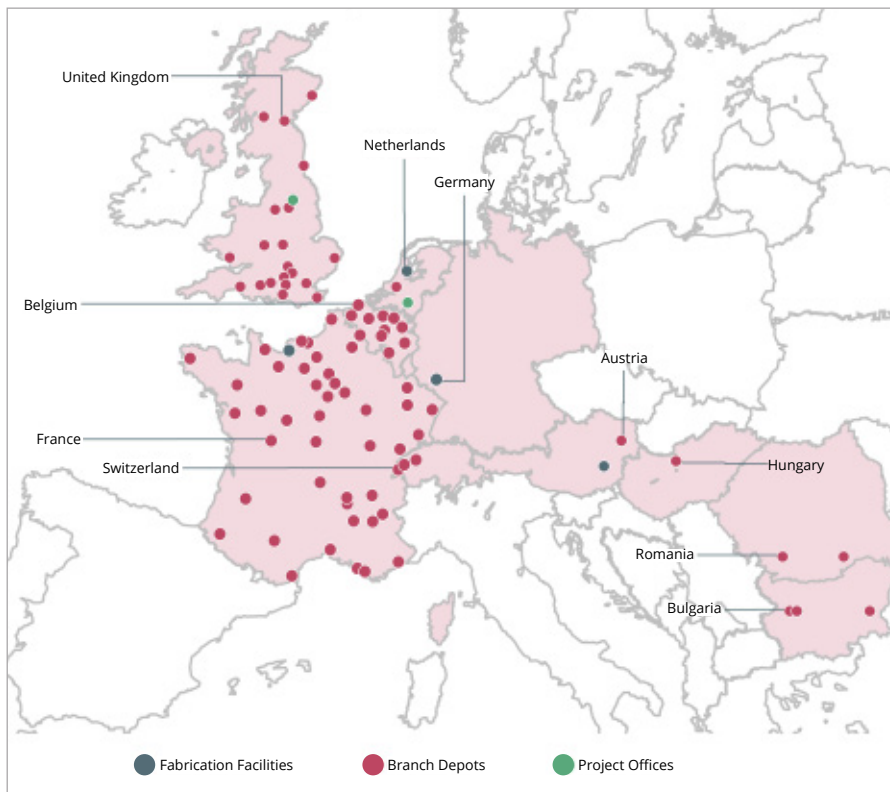
## Specialist distribution

Specialist distributor of air handling parts and products, with a growing own-brand and fabricated product offering, supplying installers and building contractors with tailored solutions. Our 'hub and spoke' business model provides a 'one-stop-shop' for our customer base in the distribution of 3rd party and private label HVAC and complementary technical insulation products.

## Specialist projects

In conjunction with our distribution offering, we provide technical solutions for the design, supply and installation of specialist air handling systems across a multitude of sectors and project sizes. We hold the leading market position in the specialist, high value niches of car park systems and climate ceilings, with a proposition that is exported worldwide.

## Our markets



## SIG's combined Air Handling division now operates across:

**92**  
sites and

**10**  
European countries

## Diversified mix of end markets



Car parks



Shopping malls



Sports facilities



Industrial



Homes



Schools



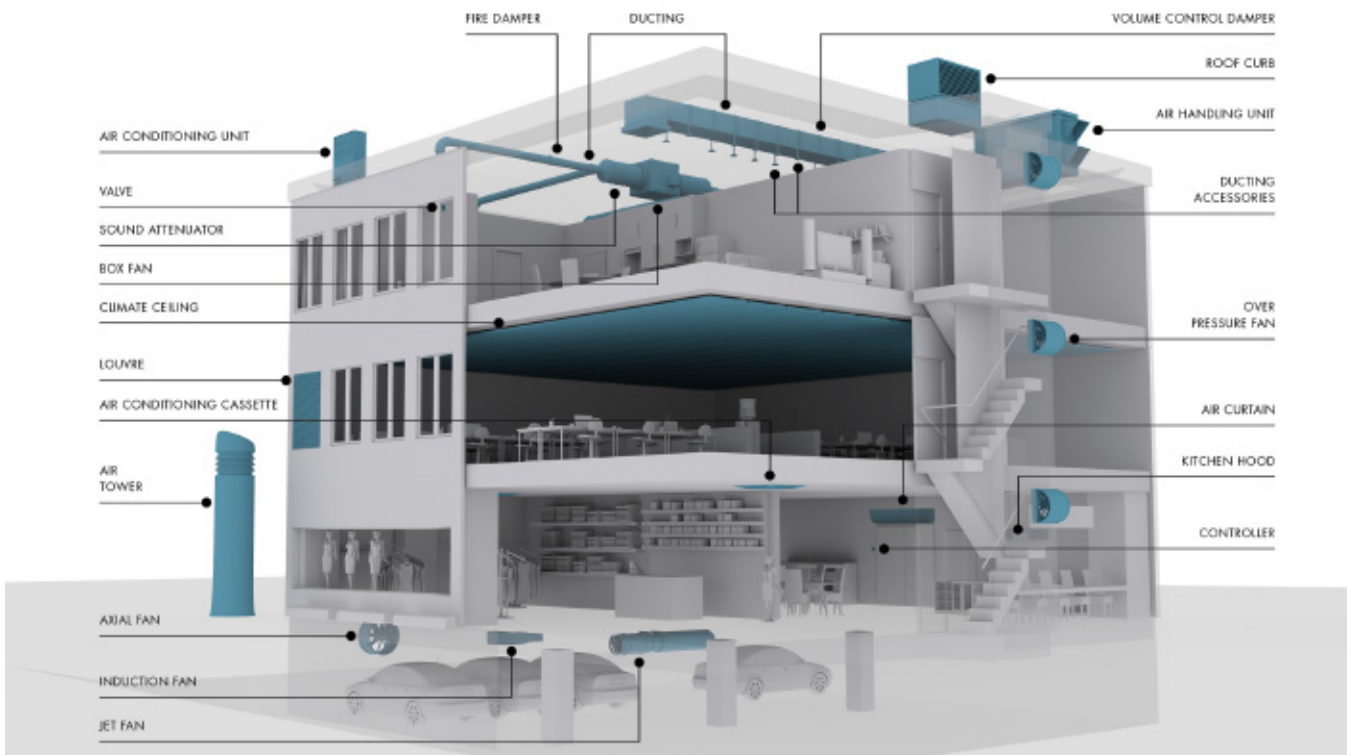
Hospitals



Offices

## Our products

The Air Handling business supplies a range of >15,000 products and HVAC related project solutions with a strong and growing fabricated and own label range of products for end-to-end air handling systems across a wide variety of internal settings.



### CASE STUDY



### Customer value – Innovating for our customers

In 2018, we used innovation to supplement our core product offering for our customers in the development of diffuser simulation software under our own brand label, Cairox. The software targets technical consultants, architects and contractors by supporting their design of a ventilated environment. The software enables our customers to visualise the impact a product will have on a space, taking into account the dimensions of a room and air flow. We currently have more than 600 subscribers in Belgium, driving a trend towards

repeat business within the user base, and increasing sales of diffuser products. Innovation in this way has enabled the Air Handling business to respond flexibly to changes in the trading environment and the requirements of customers.

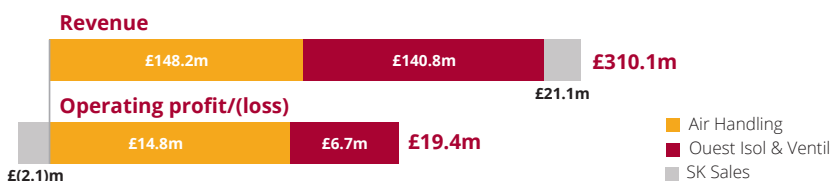
#### Key statistics:

- Increase in sales of product category – up 5.1% year on year
- Number of active subscribers – 600



## Our financials

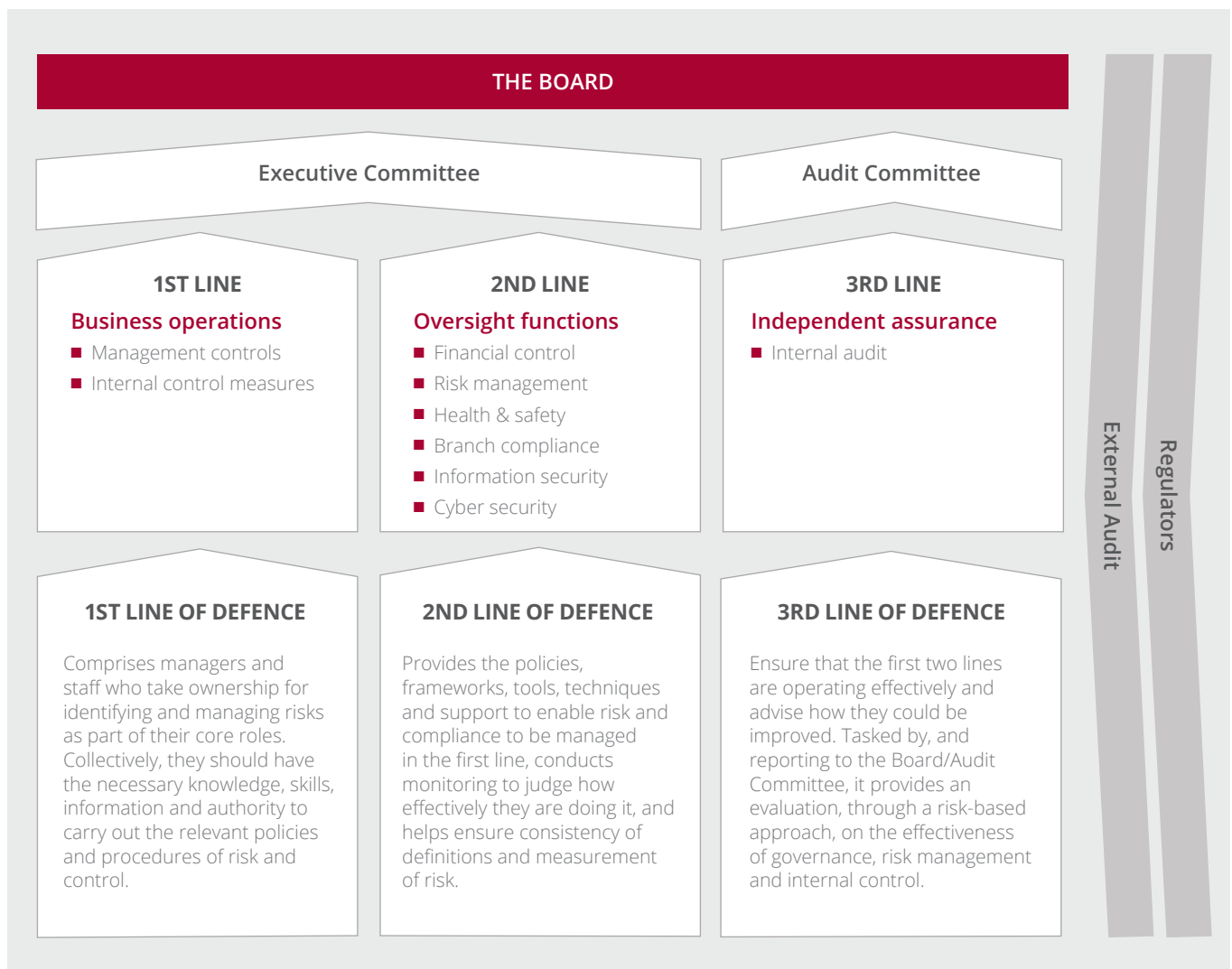
Using the 2018 financial results as a guide, on a consolidated proforma basis, the Air Handling division's revenues were in excess of £300m. With the highest gross margins in the Group, at c.38%, and a tight cost base, its profits for the year were c.£19m, providing a healthy return on sales of 6.3%.



We now have the foundations on which to build a stronger platform to allow for improved customer service, accelerated profitable growth and a strengthened value proposition. The integration of all of our European Air Handling operations into a single line of business will allow us to strengthen our ability to share best practice and capture synergies. We also see further value creation potential through strengthening our air handling solutions platform across European markets.

# Principal risks and uncertainties

Risk management plays an integral part in SIG's planning, decision making and management processes. All colleagues have a responsibility to ensure they understand the risks in their area of activity and in ensuring controls to manage the risks are operating effectively but the Board maintains overall responsibility for ensuring risk management and internal control systems are robust.



The Board sets the strategy for the Group and ensures the risks for the delivery of this strategy are effectively identified and managed through the implementation of the risk management framework.

The Group employs a three lines of defence model to provide a simple and effective way to enhance the risk management process and ensure roles and responsibilities are clear. Activity is coordinated to ensure there are no gaps or duplication of controls.

## Risk management framework

The SIG risk management framework is based on the identification of Group risks through regular discussion at local operating company leadership, Executive Committee and Transformation Committee meetings. New and emerging risks are identified through the use of

horizon scanning, attendance at risk forums and risk workshops held with management teams. Emerging risks identified and monitored throughout 2018 include Brexit.

Group risks are owned by an Executive Committee member and sponsored by either the Chief Executive Officer or Chief Financial Officer. These risks are assessed at both a gross and net level using an agreed risk scoring methodology. Mitigating actions currently in place are documented and regularly assessed. Where it is not possible to manage risks to an acceptable level through existing controls, risk owners identify actions to enhance the control environment.

On a monthly basis the Executive Committee examines, in detail, an individual risk from the Group risk register, and all Group risks are formally reviewed by the Group Risk Team with updates reported back to the Executive Committee and Board twice annually. This includes a review of whether the documented controls are in place and an update of the actions required. The completeness of the risk register and the appropriateness of the scoring are also reviewed at this time.

The Group monitors Key Risk Indicators (KRIs) for its principal risks which help identify when a risk profile may be changing. The KRIs are monitored monthly through the management accounts and considered as part of the Executive Committee monthly meetings.

A similar process occurs at the operating company level where the risk registers comprise risks for the local Medium Term Plans and strategic objectives. Group Risk periodically reviews these risks with local management and performs a reconciliation with the Group risk register.

### Assurance activity

Internal audit bases its annual audit plan on the Group and individual operating company risk registers. It also reviews all key controls (documented in the key controls framework) in each operating company on a two-year cycle. Whilst most of the work is performed by an in-house team of qualified auditors, expertise for specialist areas such as IT and change programmes is obtained through a co-source arrangement. The plan for 2019 covers a number of Group risks, with a significant focus on the change agenda.

The audit team obtains updates from management on progress towards completion of agreed actions and collects evidence to support successfully implemented actions. The status of management agreed actions is monitored on a monthly basis through the Executive Committee meeting and reported quarterly to the Audit Committee.

Whilst independent assurance on control activity comes from Group internal audit, second lines of defence provide additional comfort to management that controls are designed appropriately and are working effectively. Examples include the programme of branch visits by the Health and Safety team and the review of the key controls framework in each OpCo by the Group Controls Manager.

### Developments in 2018

Key developments of the management of risk and internal control in 2018 included:

- Documentation of risk management framework and internal audit manual;
- Implementation of a Transformation Governance Committee to monitor projects effectively across the Group and identify the associated project risks;
- Appointment of a Chief Information Security Officer to further enhance cyber security controls;
- Appointment of a Group Controls Manager to improve the key controls framework and ensure it is embedded across the Group. An exercise was completed with a third party to document and support improvement of financial reporting controls in larger operating companies;
- Implementation of a revised Delegation of Authority Policy to reinforce authorisation principles for operating and capital expenditure; and
- Revision of the branch assurance activity in parts of the UK to give greater first line assurance to senior management; and
- Introduction of an online tool to track actions from internal audit reviews.

### Improvements planned for 2019

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

- Further development of data quality and capabilities to improve Group reporting and allow greater oversight by second line functions;
- Development of assurance mapping capabilities to identify any gaps or inefficiencies;
- Further automation and development of the KRI reporting;
- Formal definition of risk appetite; and
- Development of a Group-wide branch audit framework.

### Brexit risk

There remains significant uncertainty around the timing and nature of the terms on which the UK will exit the European Union. Since the rejection by the House of Commons of the initial draft agreement, there is a greater risk that the UK's departure is delayed or in the worst case that the UK could leave the EU with No Deal. The Board has regularly reviewed the potential impact of Brexit on its UK and Irish businesses since the initial vote and impact assessments have been completed for core areas of the Group that will be affected by the exit and these have been updated as negotiations progress.

Whilst the majority of the Group's profits are generated by its mainland European businesses which are to a large extent not expected to be affected by Brexit, a significant proportion is derived from SIG Distribution, SIG Exteriors and SIG Ireland. The UK businesses will potentially face challenges from the UK's exit from the EU whilst SIG Ireland will potentially face challenges as a result of its significant level of imports from the UK and its distribution activities covering the whole island of Ireland (including Northern Ireland within the UK).

The major potential areas of exposure to the UK business are monitored on a regular basis and are considered to be:

- Declining market conditions – the least quantifiable and most uncertain of the risks that may have an impact on the Group is the potential decline in market trading conditions. In a worst case scenario, the UK market could decline abruptly and substantially. The uncertainty of any potential terms of the final agreement may mean large projects in the UK and Europe are postponed, impacting demand for materials. Market data is continually monitored to ensure that contingency plans are appropriate and can be triggered if such a decline occurs.
- Heightened borders – with the nature of the UK/EU borders yet to be confirmed there is a risk that goods supplied from Europe (directly or indirectly) may have longer lead times or become unavailable immediately after the exit. The majority of materials sold in the UK are purchased in-country but some raw materials are sourced by suppliers from the EU. Discussions with suppliers have been held to identify potential risk areas and plans have been implemented to ensure stock levels can be increased prior to the exit date to enable the business to continue to meet demand.

Whilst the Irish business is considerably smaller than those in the UK, considerable steps have been taken to ensure continuity of supply, product compliance with EU regulations and tariff pass through to customers. The business has maintained continued dialogue with its customers to help them understand its approach to maintaining good customer service and value. The Group will update its risk assessment on a regular basis as negotiations develop and will continue to work to minimise any disruption to its operations.

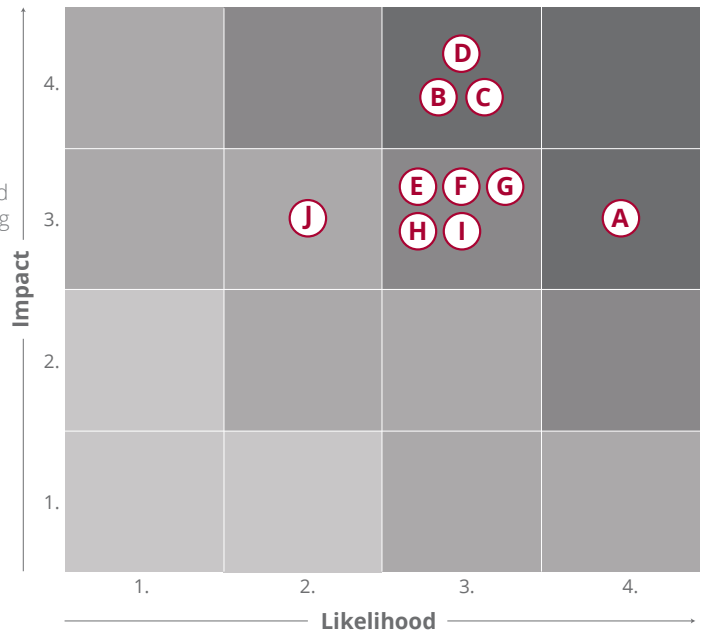
# Principal risks and uncertainties

## Principal risks

The Board monitors 15 risks on the Group Risk Register, which includes the principal risks to the Group set out in this Report. These risks, if they materialise, could have a significant impact on the Group's ability to meet its strategic objectives. The assessed net risk scores (likelihood and impact of the risk occurring after taking account of mitigating actions) are outlined in the adjacent matrix and details of how the risks might materialise, what the current mitigating actions in place are, as well as any planned improvements, are included in the table below.

### Principal risks

- A** Delivery of the change agenda
- B** Working capital management
- C** Data quality
- D** Cyber security
- E** Market downturn
- F** Pricing management
- G** Systems capability
- H** Supplier rebates
- I** Retention of talent
- J** Health and safety



RISK TITLE	DESCRIPTION	KEY CONTROLS	ACTIONS FOR 2019
<b>A</b> <b>Delivery of the change agenda</b> CS CV OE ↔	Without appropriate and sufficient capability, capacity and culture, the Group could suffer initiative overload resulting in management stretch and failure to meet core objectives	<ul style="list-style-type: none"> <li>■ Appointment of transformation directors at each operating company level</li> <li>■ Consultation with external experts to aid project strategy and implementation</li> <li>■ Introduction of Group transformation committee meetings to govern project portfolio</li> </ul>	<ul style="list-style-type: none"> <li>■ Review of delivery framework</li> <li>■ Further development of Group communications</li> </ul>
<b>B</b> <b>Working capital management</b> CS OE ↑	Failure to manage working capital effectively, leading to an increase in net debt, reducing the Group's funding headroom and liquidity	<ul style="list-style-type: none"> <li>■ Budgets set for all areas of the business with accountability for performance established</li> <li>■ Inventory task force set up to manage stock effectively across the Group</li> <li>■ Key metrics and reporting reviewed regularly in management accounts and at management meetings</li> </ul>	<ul style="list-style-type: none"> <li>■ Further development of cash flow forecasting capabilities</li> <li>■ Further centralisation of responsibility for inventory planning in operating companies</li> <li>■ Streamlining of shared service processes to given greater control over debtors and creditors</li> </ul>
<b>C</b> <b>Data quality</b> CS CV OE ↔	Lack of availability and reliability of data may have an adverse impact on the ability of the business to make properly informed and consistent decisions	<ul style="list-style-type: none"> <li>■ Implementation of data entry controls</li> <li>■ Introduction of data warehouse with controlled data sources</li> </ul>	<ul style="list-style-type: none"> <li>■ Additional data to be introduced to data warehouse</li> <li>■ Introduction of new reporting tools for operating companies</li> </ul>
<b>D</b> <b>Cyber security</b> CS OE N	Internal or external cyber-attacks could result in system disruption or loss of sensitive data	<ul style="list-style-type: none"> <li>■ Appointment of experienced Chief Information Security Officer</li> <li>■ Training, communications and schedule to ensure staff awareness of risks</li> <li>■ Disaster recovery plans in place and secure backups conducted to ensure continuity of service</li> </ul>	<ul style="list-style-type: none"> <li>■ Upgrade antivirus software</li> <li>■ Enhance cyber-attack monitoring</li> <li>■ Cyber security strategy in place</li> </ul>



RISK TITLE	DESCRIPTION	KEY CONTROLS	ACTIONS FOR 2019
<b>E</b> <b>Market downturn</b> (CV) (OE) (↔)	Changes in the market impact the Group's ability to meet performance expectations	<ul style="list-style-type: none"> <li>■ The Group's geographical diversity across Europe reduces the impact of changes in market conditions in any one country</li> <li>■ Cost reduction plans across the Group to reduce cost base</li> <li>■ Industry based KPIs monitored monthly at a Group and operating company level</li> </ul>	<ul style="list-style-type: none"> <li>■ Continue to monitor Brexit risk and develop mitigation plans accordingly</li> <li>■ Further development of performance indicators and market modelling to assess better the impact of market changes</li> </ul>
<b>F</b> <b>Pricing management</b> (CV) (N)	Prices cannot be adequately controlled to remain both competitive in the market and achieve margin improvement targets	<ul style="list-style-type: none"> <li>■ Implementation of pricing tools and centralisation of control by operating company</li> <li>■ Review and monitoring of margin by customer</li> </ul>	<ul style="list-style-type: none"> <li>■ Further improvement in data capabilities to provide greater visibility</li> </ul>
<b>G</b> <b>Systems capability</b> (CS) (CV) (↓)	Systems become heavily customised and outdated and are unable to support critical business activity and decision making	<ul style="list-style-type: none"> <li>■ Strategy to bring in new off-the-shelf systems to fill existing gaps</li> <li>■ New systems and changes to existing systems require central approval</li> </ul>	<ul style="list-style-type: none"> <li>■ Upgrade core ERP systems</li> <li>■ Design Group roadmap for system replacement or upgrade</li> </ul>
<b>H</b> <b>Supplier rebates</b> (CV) (↔)	Rebate income may not be accurately accounted leading to an overstatement or understatement of profits	<ul style="list-style-type: none"> <li>■ Reducing the reliance on rebate income through off-invoice discounting</li> <li>■ Rebate debtors and income regularly reviewed by commercial and finance teams</li> <li>■ Changes to rebate assumptions approved by the rebates committee</li> </ul>	<ul style="list-style-type: none"> <li>■ Roll out of rebate management software</li> <li>■ Further reduction of the reliance on long term rebate agreements</li> </ul>
<b>I</b> <b>Retention of talent</b> (CV) (CS) (N)	Failure to attract and retain people with the right skills, drive and capability to re-shape and grow the business	<ul style="list-style-type: none"> <li>■ Appointment of a new Group HR Director</li> <li>■ Engagement survey completed with associated action plan developed</li> <li>■ Improved remuneration packages and retention plans for critical roles</li> </ul>	<ul style="list-style-type: none"> <li>■ Development of an overarching improvement plan for recruitment, reward, talent development and communications</li> </ul>
<b>J</b> <b>Health and safety</b> (CS) (OE) (↔)	Danger of incident or accident, resulting in injury or loss of life to employees, customers or the general public	<ul style="list-style-type: none"> <li>■ Health and Safety policies and procedures in place and available to all staff</li> <li>■ Well established training programme during induction and on an ongoing basis</li> <li>■ Monitoring and reporting on incidents and investigations into route cause carried out to continually improve processes</li> <li>■ Health and Safety audits completed by independent teams</li> </ul>	<ul style="list-style-type: none"> <li>■ Review of consistency and accuracy of controls in targeted areas</li> </ul>

### Relevance to strategy

- (CS) CUSTOMER SERVICE
- (CV) CUSTOMER VALUE
- (OE) OPERATIONAL EFFICIENCY

### Understanding movements in business risks

- (↑) Increase
- (↓) Decrease
- (↔) No change
- (N) New

# Sustainability: Principles

## Sustainability

SIG's medium term strategy is to deliver significant improvement in operational and financial performance. Strong progress has been made this year to achieve this transformation, providing the foundations for future long term value generation. Through transformation, SIG are working to improve the experience of all of its stakeholders, including its suppliers, customers, shareholders and employees.

SIG recognises its corporate responsibilities towards its shareholders, employees, customers and suppliers and is committed to socially responsible business practice. In 2018 SIG continued to integrate Corporate Responsibility across the Group.

The Group implements policies that include social and environmental issues in our decision-making processes, 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 corporate responsibility, including how it monitors and improves performance reporting.

## SIG code of conduct

SIG has a Code of Conduct which sets out our ethical standards and expected behaviours from all employees around the Group. The Code provides guidance on how to manage certain situations and where to go for advice, and outlines our obligations across a number of business policies, including anti-bribery and corruption and ethical trading and human rights, amongst others. The Code is supported by our Group and local policies, procedures and guidelines that are designed to protect the business and our employees from legal, financial and reputational risk.

A confidential and independent hotline service is available to all employees so that they can raise any concerns 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.

The Code of Conduct can be viewed on the Company's website ([www.sigplc.com](http://www.sigplc.com)).

## Diversity and equal opportunities policy

SIG aims to provide an inclusive and supportive working environment for all, with equal opportunities for all existing and prospective employees. SIG's priority is always to ensure that its business and its processes do not discriminate against any individual, and promote a culture of equal opportunity.

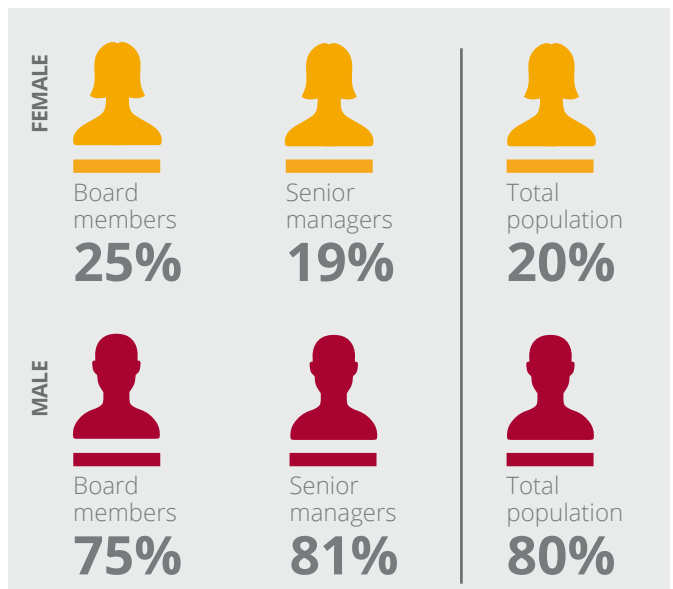
The Group's diversity and equal opportunities policy can be found on its website ([www.sigplc.com](http://www.sigplc.com)).

## Gender diversity

SIG are committed to equality and recognise the value that can be created from diversity. As it operates in the construction industry, SIG has typically attracted a higher population of male employees.

SIG's average gender pay gap in 2018 of 5.4% was significantly lower than the national average of 17.1%, and the average for the industry at 16.0%. This reflects a reduction in its gender pay gap from 2018 (7.9%). In 2018, SIG defined the key areas of focus which will develop diversity and inclusion across the Group, and which seeks to address its gender pay gap further, including challenging its recruitment processes, developing its policies, the ongoing assessment of remuneration and a focus on training and awareness particularly for its management population. SIG will work towards these actions in 2019 to create a more diverse and inclusive organisation that helps it to attract talent and maximise their potential.

The Gender Pay Report is published on the Company's website ([www.sigplc.com](http://www.sigplc.com)).



## Ethical trading and human rights policy

The ethical trading and 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 sets out 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.

# Sustainability:

## Our people

### Anti-bribery and 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 and 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 for all senior management through to branch managers and external sales people. 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 resulting prosecution
- Taking firm and vigorous action against any individual(s) involved in bribery or corruption.

A copy of the anti-bribery and corruption policy is available to view on the Company's website ([www.sigplc.com](http://www.sigplc.com)).

### Modern Slavery Act 2015

The Group has published its Group anti-slavery statement in respect of the year ended 31 December 2017 on its website ([www.sigplc.com](http://www.sigplc.com)), in line with Home Office guidance. The Group continues to work with its supply chain to ensure there is a zero tolerance policy to slavery. The Board is in the process of reviewing progress in order to provide an updated statement to 31 December 2018. The statement will be uploaded to the Company website within six months of the financial year end.

# Sustainability:

## Our people

### Vision and values

At SIG, our vision is Stronger Together, which is underpinned by six values that guide the behaviours that we expect from our employees and the way in which we work with colleagues, customers, suppliers in the communities in which we operate.

These values are Trust, Respect, Integrity, Commitment, Teamwork and Fun.

### Improved capability

We recognise that our competitive advantage lies in fostering a performance management culture that enables value to be created for our customers, suppliers and communities in which we operate, through employee contribution. In order to achieve this, we must ensure that SIG has the right people, optimally deployed and properly engaged to deliver the strategy and business results.

As part of our strategy, building on our potential, the capability of our workforce is a key enabler. During the course of 2018, our organisation went through significant transformation. In line with our strategic approach, we took considerable steps to simplify the organisation and increase opportunities for improved operational efficiencies. The reduction in headcount across the business and restructures in many of our operating companies have allowed us to remove historical hierarchy and begin to drive improved ways of working going forward.

In October 2018, we outsourced our UK Finance shared service centre, providing the opportunity for us to re-evaluate our activities and ways of working to improve efficiencies and finance controls. In addition, a number of our operating companies centralised functions from individual branches, such as sales and inventory management.

We are confident that these fundamental steps are providing us with the right structure on which to develop our people capabilities through strengthened functional accountability and dedicated expertise.

### Strengthened leadership

With operations across mainland Europe, we benefit from a broad range of skills and experience and recognise that leveraging these capabilities, and developing our people to reach their potential, is fundamental in driving a performance management culture that adds real value.

Throughout 2018 we saw a significant change in our leadership from Board level down. We welcomed two new Board members in 2018, bringing extensive knowledge of and experience in the construction industry. In addition, a significant proportion of the senior leadership team changed throughout the year, adding further skills and capabilities. We believe that with this strengthened population, we have the right leaders across the business to deliver our ambitious transformation plans.

### Talent development

The leadership population is assessed as part of our talent review in order for us to identify the talent capability and development areas for future potential. In addition, our programme dedicated to developing high potential employees in the business, RISE, aims to identify and progress our future leaders and support the delivery of our strategic goals.

In 2018, the first cohort concluded this programme, with six cohort members graduating from the scheme. After completing six extensive development modules over the course of an 18 month programme, which included a six-month language course and a stretch project linked to delivery of our medium term plans, the programme culminated in a presentation to the Group Executive Committee. Following the completion of the programme, the participating employees were then given access to one-to-one executive coaching for a further six months, to take their learning into the workplace.

In addition, as we bring senior leaders into the business, it is important that we equip them with the right knowledge and tools in order for them to perform in their roles quickly. As such, in 2018 we launched a review of the senior leadership induction programme, with the aim of identifying key areas of improvement.

Our international graduate programme continues to offer its members the chance to develop valuable skills in learning, teamwork, leadership and problem solving that will help support their work in the business, and provides the business with a consistent pipeline of new talent across a range of functions. The two year programme offers graduates the opportunity to experience working in different placements across SIG, from Finance, Category Management, Marketing, Corporate Development, Project Management, Operations, Supply Chain and HR, where they complete a six month placement in an area of the business outside of their home country.

Alongside their placements, graduates also take part in regular development activities and modules outside of the workplace.

## CASE STUDY



## Case study – International graduate scheme

### Claudia Cogliati – international graduate, France

Claudia joined the international graduate scheme in September 2016. As part of the six monthly rotations, Claudia worked across a number of functions, including marketing, procurement and supply chain. Claudia now holds the position of Buyer for exterior building materials in France.

“Being part of the international graduate scheme at SIG has provided me with an amazing opportunity to develop my skills and experience across an international business.

I gained valuable experience from a number of functions across the Group, and gained the most value in the procurement and supply chain functions where I found my passion for the negotiation and development of procurement strategies. As a result, following the completion of the scheme, I entered into the role of Buyer for exterior building materials, managing a portfolio of €30m.

Throughout the scheme, feedback and coaching from leaders in the business has influenced my experience and allowed me to explore areas for development that will shape my career path going forward. I continue to gain valuable experience from my role and see a number of opportunities for roles that I could move into, for example, Category Manager.

Recruiting graduates into the scheme means we are constantly bringing a fresh perspective and new skills into the business, and in turn, we can help them develop their abilities in the workplace.

“I’m looking forward to welcoming the next graduate cohort to the business.”



Members of the RISE programme cohort who completed their 18-month programme.

Fran Galbraith, Group Talent and Development Director said: “A massive congratulations to the colleagues on cohort one for completing our first RISE programme. We’re committed to developing our people at every stage in their career and RISE is a dedicated programme which equips our ambitious high performers with the tools they need.”

The team then went on to participate in the one-to-one leadership coaching for a further 6 months.

**Cohort 1 completed their RISE programme during the year.** Left to right: Meinie Oldersma, Group Chief Executive; Gemma Prince - Senior Procurement Manager - Insulation, SIGD UK; Steve Pearson - Procurement Director, SIGE UK (2018); Nick Maddock, Group Chief Financial Officer; Bartosz Pilch - SIG Poland, eCommerce Director, SIG Poland; Maarten van Evren - Manager, IT and Business Control, SIG Air Handling

# Sustainability:

## Our people

### Engaging our people

In 2018 we conducted our annual engagement survey 'SIG Listens'. This was our third survey, which was delivered in eight languages across the Group and aimed to provide data and insight into the wider employee experience to help inform key strategic decisions.

The survey received a response rate of 66% and an engagement index of 69%, thus providing a valuable baseline for us to build on which to build in 2019.

Recognising our employees' contributions is also a key element of engaging and retaining our people. Our Values in Practice recognition programme allows peer-to-peer recognition of colleagues who have gone above and beyond in demonstrating our values. Managers present the awards and the winners are then recognised and celebrated through newsletters and intranet articles across the organisation. In 2018, c.700 nominations were made and we continue to encourage recognition in all areas of the business.

Embarking on and embedding transformation relies on the contribution of each and every employee. Therefore, it is important that we recognise performance and behaviours that drive us towards realising our strategy.

It is important that we remain competitive in the employment markets in which we operate. We adopt a fair and consistent approach to remuneration throughout the organisation, and our remuneration offerings are benchmarked regularly both internally and externally. Throughout 2018, in line with the organisational restructures, we simplified many job titles and families across the Group and introduced clearer pay structures to support our fixed and variable pay.

The bonus schemes we operate are designed to reward exceptional performance and contribution across the business and focus specifically on deliverables and local performance results.

In addition, the Share Incentive Plan (SIP) is open to all UK employees and gives one matching share for each share purchased by the employee up to a maximum of £20 per month. As at 31 December 2018, there were 527 employees participating in the SIP.

In 2018, we launched a new SIG plc Management Incentive Plan (MIP) for our senior leadership population to better support strategy execution. The MIP provides an integrated approach to incentives and replaced the annual bonus and Long-Term Incentive Plans (LTIP). The MIP consists of three elements – cash bonus, deferred share award and restricted share award. The MIP strengthens the link between performance and reward and allows a range of annual performance conditions to be set based on financial, operational and strategic requirements.

### Leveraging our strategic enablers

Our strategic enablers focus on better IT, improved data and improved capability. Our focus on improving our people capability across the Group also relies on providing our leaders and employees with key data and information in order to make effective and informed decisions about the business and in the management of our people.

In 2018 we embarked on a transformation project to replace our core HR information systems which aims to streamline our processes and provide enhanced data to our managers and employees, in order for them to optimise performance and inform decision making.

### Charity and community involvement

Across the SIG Group, our employees continue to participate in a wide variety of charitable activities that add value to the communities in which we operate.

In the UK, employees in SIG Exteriors in Cardiff and Swansea took part in a charity football match, to raise money for Muscular Dystrophy UK and Cancer Research UK. Between the teams, they raised over £1,000 for the charities. Many employees have taken on personal challenges, including midnight walks, 10k races, charity treks, marathons, and an eight-day expedition race through 400km of the Scottish Highlands undertaken by an employee in our SIG Exteriors business. Through the efforts of our colleagues, and with the support of the company's matched funding scheme, we have raised over £7,000 for local and national charities throughout the year.

Employees in Ireland donated to a number of charities, dedicated to providing funding and support for children with severe illnesses, including CMRF Crumlin, Laura Lynn House, Template Street Children's University Hospital Foundation and Helping Hand.

SIG Poland contributed towards a number of charities through their local branches and continue to offer their time to local volunteer programmes. At the end of the year, the team participated in the 'Noble Package' scheme, which aims to provide families in need with packages of food and appliances.

Employees in SIG Germany ran a month-long contest to encourage usage and involvement with the new social intranet, launched locally in September 2018. Whilst a prize was offered to the winners, the eight members of the winning team donated the equivalent value of the prizes to two charitable organisations; one supporting the homeless and one supporting children and their families coping with leukaemia. The business doubled the amount of each donation to the charities.



Left to right: Sonja von der Hagen, Sabine Noack and Iwona Wagner, located at our Service Centre in Bremen, Germany

# Sustainability:

## Health, safety and the environment



We prioritise the health, safety and welfare of our employees, visitors, contractors and members of the public who may be impacted by our operations. We also have an obligation to care for the environment through the prevention of pollution and the monitoring of good environmental practices.

### Health and safety

We have embedded a Zero Harm programme across the Group, ensuring that we maintain the highest standards of health and safety. As part of that programme, we have moved away from reactive auditing towards a risk-based process, to ensure that local management is held accountable for its actions.

Since the start of our Zero Harm programme in 2014, we have seen significant improvements in the number and rate of accidents. In 2018, we continued to see an improvement in the Group's rate for RIDDOR equivalent accidents and a 4% increase in the number of accidents in the AIR\* category with the rate disproportionately affected by the reduction in employee numbers.

As part of Zero Harm, we commit to twelve 'Life Saving Rules', developed to target our risk profile. We communicate frequently with our people, through a combination of means, including for example: tool box talks, workshops and e-learning. Further, we operate a number of training programmes for our people, including a RoSPA accredited modular training programme (the SIG certificate in Health, Safety and Environmental Management), and other regional training workshops including 'Supervising Safely', 'Working Safely' and 'Working at Height'.

Since the launch of the Zero Harm programme, SIG has retained the RoSPA Gold standard for occupational health and safety.

The Group uses a health and safety management system that is modelled on the internationally recognised Health and Safety Standard BS-OHSAS 18001:2007. The UK business's management system has been accredited to the standard for more than 10 years through its partnership with Intertek.

Our dedicated Health, Safety and Environmental (HSE) professionals assist in delivering the risk assessment and management review programme. Our HSE programme ensures that we aim for continuous improvement in the management of health and safety risk. Our risk profile is reviewed annually, and informs our HSE programme. This year, we targeted occupational road risk, deliveries and traffic management, and improved safety with the introduction of 360 degree vehicle cameras, providing driver awareness training and improving vehicle management and driver engagement at our branches.

Our accident review panel, involving senior management, ensures that learning points from accidents and near misses are acted on.

Our accident review panel reviews accidents and statistics to identify high-risk areas, to enable us to focus on enacting change when it is needed. Significant issues are communicated to the Board and our insurers.

Our policy is to take a zero tolerance approach to anyone being unfit for work due to drugs or alcohol. We reserve the right to provide for testing of individuals subject to the legislative constraints within our operating countries. A routine programme of random testing is provided in the UK & Ireland for employees and others engaged in safety critical roles. 'For cause' testing is also provided for instance following an accident or where there is reasonable suspicion.

SIG Trading Limited was prosecuted by the HSE and fined £600k plus costs of £24k on 1 February 2019 in Carlisle Crown Court. The prosecution was in respect of an accident at A Steadman and Son in Warnell, Cumbria, which occurred in October 2015. Whilst using an electrically-powered folding machine to bend metal a machine operator suffered a severe hand injury. An immediate and thorough investigation was conducted at the time and the failings in communication and implementation of risk controls were effectively addressed. The Company accepts the findings of the court and the safety of machining processes continues to be a primary focus for the Group.

\* The Accident Incident Rate (AIR) is calculated as per 1,000 for 'over three day' and 'specified major injury'.

### Occupational road risk

We recognise that driving is among the most hazardous tasks performed by our employees. Our drivers are assessed for competence and selected through an authorisation and licence check procedure. We routinely inspect our vehicle fleet and audit business compliance with fleet procedures. We manage our fleet maintenance and inspection programme centrally.

We recognise that our drivers act as representatives for our business whilst they are on the road and we promote a culture of safe and courteous driving through our training programme.

We adopt road safety schemes, including the voluntary Fleet Operator Recognition Scheme (FORS). As an active champion of the Construction Logistics and Cyclist Safety Group, we aim to promote the status of vulnerable road users. We consider their Safer Urban Driving courses to be essential to our driver training, and we continue to work with vehicle manufacturers in their development of solutions to improve visibility towards other road users.

# Sustainability:

## Health, safety and the environment

### Accidents and incidents

UK and Ireland	Rate per 1,000 employees			
	2018	2017	2016	2015
Major injury	1.7	1.6	2.3	2.3
Injury resulting in over three absence days from work	7.5	6.4	6.8	10.8
All RIDDORs	6.3	5.8	6.5	9.3
Average UK & Ireland headcount	4,121	4,968	5,569	5,174
Lost work day rate – number of work days per 100 employees	23.0	19.2	22.2	26.3
Accident incident rate – injury resulting in over 3 absence days from work or major injury per 100 employees	9.7	6.9	8.7	12.5

Mainland Europe	Rate per 1,000 employees			
	2018	2017	2016	2015
Major injury	1.3	1.1	1.7	1.8
Injury resulting in over three absence days from work	12.8	12.4	12.6	13.2
All RIDDORs (equivalent)*	10.4	12.2	11	13
Average Mainland Europe headcount	4,601	4,688	4,746	4,467
Lost work day rate – number of work days per 100 employees	24.9	27.5	28.1	29.9
Accident incident rate – injury resulting in over 3 absence days from work or major injury per 100 employees	12.9	13.3	14.2	15.1

Group	Rate per 1,000 employees			
	2018	2017	2016	2015
Major injury	1.5	1.3	2	2.1
Injury resulting in over three absence days from work	10.3	9.3	9.5	11.9

Group	Rate per 1,000 employees			
	2018	2017	2016	2015
All RIDDORs (equivalent)*	8.5	8.9	8.5	11
Average Group headcount	8,722	9,674	10,315	9,641

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

### Quality assurance and management systems

We periodically review and audit our management systems to ensure they are maintained to a high standard. Where possible, systems are externally certificated to ISO 9001:2015, FSC0STD 40-004 and PEFC-ST 2002:2013 standards. We also integrate these standards into our daily business, ensuring that our products and services meet our customers' expectations. In turn, this ensures that we conduct our procurement processes responsibly.

### Environment

We commit to maintaining appropriate environmental management standards across our operations to meet both our statutory legal obligations and best practice. During 2018, our environmental legal compliance record remained excellent, with no prosecutions or actions from the authorities.

We operate a combined Health, Safety and Environmental (HSE) Policy. Our management system is accredited to OHSAS 18001 for health and safety and to ISO 14001 for the environment, and those accreditations are externally verified by Intertek. Our ISO 14001 management system successfully migrated to 14001(2015) ahead of renewal in 2018.

The Board member responsible for HSE is the Chief Executive Officer, who places paramount importance on the safety of our people. A copy of our HSE Policy is displayed in the local language at each operating branch.

Our HSE programme encompasses environmental matters and is reviewed annually to ensure that it aligns to our strategy. We aim to improve continuously, and this is achieved through objectives set at Group, operating company and local level with regular reviews against key performance indicators, including those set out in this report and on our website.

We regularly risk assess our business against qualitative and quantitative, generic, model and task-specific criteria, via the Group's aspects and impacts register. Significant findings are communicated to management and operatives. We operate a Group-wide audit programme to ensure that the integrity of control measures is maintained. Significant risks and progress made to address them are reviewed at Board level.

Our aspects and impacts register and our corporate environmental risk assessment set out the potential impact that our operations could have on the local and global environment.



## Carbon management

We set our environmental objectives from our low carbon sustainability policy, which aims to reduce our consumption of fuel, energy, water and waste, thus reducing our environmental impact.

Our carbon footprint accounting process is annually verified to ISO 14064-3 to a limited level of assurance. 2018, represents our fifth successive year of achieving the standard.

Our carbon accounting and reporting programme meets the requirements of the UK Government's statutory Energy Saving Opportunities Scheme (ESOS). Our business objectives take into account any energy saving efficiencies identified during the compliance process.

Our environmental metrics are published externally through the voluntary Carbon Disclosure Project (CDP). CDP works with investors, companies and governments to put in place environmental disclosure and action that will deliver a sustainable economy, prevent dangerous climate change and protect natural resources. We achieved a performance rating of band 'C' for 2018.

As we invest in the refurbishment of our existing buildings and fit out new sites, we seek energy efficient solutions. Our greenhouse gas emissions have reduced in recent years as a result of pursuing this strategy, along with progressively upgrading our road vehicle fleet.

## Transport

Our primary metric is vehicle fuel consumption, as emissions from road vehicle fuel consumption makes up 76.0% of the Group's total carbon footprint. This year, we have reduced our absolute consumption of road vehicle fuel by 7.1%. We have achieved this reduction through projects to consolidate the number of our branches and the size of our vehicle fleet, the introduction of energy efficient vehicles where possible and the continual upgrade of our property portfolio.

We also provide driver eco training courses, designed to influence driver behaviour, including the 'Driver Certificate of Professional Competence' training programme. Trainers are also provided an auditing and advice programme on a continual basis.

## Energy

Our second highest priority for carbon management is electricity consumption, accounting for 11.8% of our Scope 1 and 2 emissions in 2018 (2017: 12.8%).

In compliance with both voluntary and statutory carbon accounting schemes, we audit our energy consumption and work in close partnership with our external partners to reduce our environmental impact and improve our data collection and accounting processes. As a result, we have achieved the ISO verification standard.

As we upgrade our locations, we make energy efficient choices, including installing movement and daylight sensor LED lighting systems, efficient heating and cooling systems and efficient hand driers. As a result, emissions from electricity consumption reduced by 15.4% in 2018.

## Greenhouse gas (GHG) emissions

Our carbon footprint includes all emission sources as required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. Emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2014 along with factors from The International Energy Agency (IEA) list for 2018 have been used to calculate our GHG disclosures.

We are committed to providing full and accurate data for our carbon footprint, with minimal reliance on estimates. For the fifth year in succession we have achieved external verification of our carbon account to the ISO 14064-3 standard.

Our carbon footprint includes Scope 1 CO<sub>2</sub> emissions, for which businesses are directly responsible, and Scope 2 CO<sub>2</sub> emissions from the generation of electricity by a third party resulting in indirect emissions. We have also disclosed Scope 3 CO<sub>2</sub> emissions over which the business has limited control, being third party air and rail transportation.

Our emission accounting period is non-coterminous with the Group's financial year, with current year data reflecting the year to 30 September 2018. This enables us to dedicate the appropriate time and resource to enable more accurate carbon reporting and to audit the process. In 2018, 93.5% of calculations are based on actual data (2017: 95.1%). Estimates are prepared on the basis of agreed and verified accounting processes.

This year we are pleased to report a decrease of 8.0% in Scope 1 and 2 emissions in the last reporting year. Our overall footprint for Scope 1, 2 and 3 emissions showed a decrease of 8.0% in the last reporting year.

	Metric tonnes 2018	Metric tonnes 2017	Metric tonnes 2016
<b>CO<sub>2</sub> Emissions – Scope 1 – Direct</b>			
Road vehicle fuel emissions <sup>1</sup>	55,745	59,997	60,782
Plant vehicle fuel emissions <sup>2</sup>	4,910	5,202	5,329
Natural gas <sup>3</sup>	2,848	3,047	2,810
Coal/coke for heating <sup>4</sup>	56	46	51
Heating fuels (Kerosene & LPG) <sup>5</sup>	632	689	722
<b>Total</b>	<b>64,191</b>	<b>68,981</b>	<b>69,694</b>

Data source and collection methods

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

# Sustainability:

## Health, Safety and the Environment

	Metric tonnes 2018	Metric tonnes 2017	Metric tonnes 2016
<b>CO<sub>2</sub> Emissions – Scope 2 – Indirect</b>			
Electricity <sup>6</sup>	8,567	10,129	11,522

Data source and collection methods

6. Consumption in kWh converted according to BEIS guidelines.

	Metric tonnes 2018	Metric tonnes 2017	Metric tonnes 2016
<b>CO<sub>2</sub> Emissions – Scope 3 – Other indirect</b>			
Third-party provided transport (air and rail) <sup>1</sup>	567	570	586

Data source and collection methods

1. Distance travelled converted according to BEIS guidelines.

	Metric tonnes 2018	Metric tonnes 2017	Metric tonnes 2016
<b>Emission per £m of revenue</b>			
Scope 1	23.4	24.1	25.4
Scope 2	3.1	3.5	4.2
Scopes 1 and 2 as required by GHG Protocol	26.5	27.6	29.6
Scope 3	0.2	0.2	0.2
Scopes 1, 2 and 3	26.7	27.8	29.8

The data relating to CO<sub>2</sub> emissions has been collected, where practicable, 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 2018 data includes the businesses classified as non-core in the Financial Statements for the year ended 31 December 2018.

## Water consumption

We have two manufacturing sites in Southport (UK) and Alizay (France) that use a small amount of water as part of the manufacturing process. Both installations maintain water filtering, recycling and reuse practices to minimise any wastage of potable water.

More than 95% of the Group's water consumption is for welfare purposes. Water efficiency is a key requirement for new and refurbished properties and facilities, including dual flush and cistern management systems for toilet facilities. We continue to identify significant opportunities for water consumption efficiencies through the branch audit and bill validation process.

	Litres ('000) 2018	Litres ('000) 2017	Litres ('000) 2016
Third-party provided water supply from national network for processes and welfare	113,306	114,113	116,122

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



### CASE STUDY



## Health and safety

The Royal Society for the Prevention of Accidents (RoSPA) presented us with a fourth consecutive Gold Award for our commitment to safety. RoSPA Awards are prestigious and internationally recognised, demonstrating well developed occupational health and safety management systems and culture, outstanding control of risk and very low levels of error, harm and loss.

The Gold Standard is an endorsement of our strong commitment to health and safety standards. The award reflects the hard work of our colleagues and shows great steps to our goal of Zero Harm.

## Waste management

We aim to reduce the amount of waste we produce. As a break bulk supplier of products, our primary source of waste is through packaging opened on our premises. Where we can, we reuse these materials or return them to our supplier.

Where reuse is not an option, materials are segregated for recycling in partnership with waste management businesses. Our waste contracts are managed and monitored centrally. Waste bailers and compactors are provided where practicable, to maximise waste segregation and recycling opportunities and minimise storage and welfare hazards.

We also offer waste take-back schemes to our customers for 'off-cut' materials (including plasterboard, plaster products and fibre ceiling tiles) and packaging, pallets and bearers. Where possible, we adopt paperless delivery processes, online activity reports, and we consolidate printing and photocopying facilities.

As it is difficult to measure and quantify the amount of waste disposed of in a year, the performance metric for waste management remains the percentage of waste diverted from landfill.

We are a member of the Valpak compliance scheme and we comply with our commitments under the Producer Responsibility Obligations (Packaging Waste) Regulations.

	Absolute tonnes* 2018	Absolute tonnes* 2017	Absolute tonnes* 2016	Absolute tonnes* 2015
<b>Hazardous waste</b>				
Landfill	25.0	0.0	5.0	2.0
Recycled	41.5	147.4	87.0	28.0
Incinerated	0.0	0.0	0.0	0.0
Total	66.5	147.4	92.0	30.0
<b>Hazardous waste per £m of revenue</b>				
	0.02	0.05	0.03	0.01
<b>Non-hazardous waste</b>				
Landfill	1,660.41	3,635.35	4,426.00	4,469.00
Incinerated	12	0.00	8.00	15.00
Total	1,672.41	3,635.35	4,434.00	4,484.00
<b>Other waste diverted from landfill</b>				
WEEE (Waste, Electrical and Electronic Equipment)	1.04	1.80	7.00	2.00
Glass	4.20	0.20	5.00	1.00
Wood	1,735.00	1,893.00	1,586.00	1,145.00
Metal	1,459.10	870.00	1,072.00	1,249.00
Plasterboard <sup>^</sup>	293.70	461.00	195.00	973.00
Paper/cardboard	723.50	970.00	1,212.00	747.00
Plastic	208.40	295.00	267.00	353.00
Other	6,167.22	10,643.00	8,601.00	8,284.00
Total	10,592.16	15,134.00	12,945.00	12,754.00
<b>Non-hazardous waste</b>				
Non-hazardous and other waste per £1m of revenue	3.9	6.5	6.1	5.0

\* Volume per annum converted to tonnes.

<sup>^</sup> Recycling facility withdrawn in 2015.

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

# Governance

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# Board of Directors



## Andrew Allner BA FCA Non-Executive Chairman

Age 65

Became Non-Executive Chairman on 1 November 2017.

### External roles

Andrew is Chairman at The Go-Ahead Group plc and Fox Marble Holdings plc.

### Experience and past roles

Andrew has significant current listed company Board experience as Chairman and as Non-Executive Director. He was previously Chairman at Marshalls plc and Non-Executive Director of Northgate plc, AZ Electronic Materials SA and CSR plc. Previous executive roles include Group Finance Director

of RHM plc and CEO of Enodis plc. He has also held Senior Executive positions with Dalgety plc, Amersham International plc and Guinness plc.

### Key strengths

Substantial Board and general management experience.



## Meinie Oldersma Chief Executive Officer

Age 59

Appointed a Director and Chief Executive Officer on 3 April 2017.

### External roles

Meinie is the Director of Oldersma Management & Consultancy Ltd.

### Experience and past roles

Meinie was previously the Group Chief Executive of Brammer Limited, Europe's leading specialist distributor of industrial maintenance, repair and overhaul products. Prior to that, Meinie was CEO at 20:20 Mobile Group and President of

Ingram Micro China Group. Meinie was also previously the Non-Executive Chairman of Kondor HOLDCO Ltd and a Non-Executive Director of Bunzl Plc and KidsFoundation Holdings B.V.

### Key strengths

Considerable executive management and distribution experience combined with substantial operational and financial turnaround track record.



## Nick Maddock MA, ACA Chief Financial Officer

Age 48

Appointed a Director and Chief Financial Officer on 1 February 2017.

### External roles

Nick does not currently hold any external directorships.

### Experience and past roles

Prior to joining SIG, Nick was Chief Financial Officer of McCarthy & Stone plc, steering it towards its re-listing on the London Stock Exchange in November 2015. Before this, Nick held senior finance roles at Centrica plc and was a Director

in Mergers and Acquisitions at ING Barings. Nick trained as a chartered accountant and chartered tax advisor at Ernst & Young.

### Key strengths

Extensive experience in delivering improved operational and financial performance across a range of industries for public, private and private equity shareholders.



## Alan Lovell MA, FCA Senior Independent Non-Executive Director

Age 65

Became a Non-Executive Director on 1 August 2018.

### External roles

Alan is Non-Executive Chairman of Safestyle UK plc and National Chair of the Consumer Council for Water.

### Experience and past roles

Alan has previously been the Chief Executive Officer of six companies – Tamar Energy Limited, Infinis plc, Jarvis plc, Dunlop Slazenger Group Ltd, Costain Group plc and Conder Group plc. Alan was also previously Chairman of Sepura plc and Flowgroup plc.

### Key strengths

Significant listed company Board experience. Extensive construction industry and turnaround experience in the UK and Europe.



### Andrea Abt MBA Non-Executive Director

Age 58

Became a Non-Executive Director on 12 March 2015.

#### External roles

Andrea is a Non-Executive Director of John Laing Group plc and Petrofac Limited, and is a member of the Supervisory Board of Gerresheimer AG.

#### Experience and past roles

Andrea was previously a Non-Executive Director of Brammer plc. 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 in Finance, Productivity and Supply Chain Management in Germany and internationally.

#### Key strengths

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



### Janet Ashdown BSc (Hons) Non-Executive Director

Age 59

Became a Non-Executive Director on 11 July 2011.

#### External roles

Janet is the Senior Independent Non-Executive Director, and Chair of the Remuneration Committee of Marshalls plc. She is a Non-Executive Director and Chair of the Safety, Security and Environment Committee of the Nuclear Decommissioning Authority and a Non-Executive Director of Vitrex plc, where she also Chairs the Remuneration Committee. Janet has been nominated for appointment as a Non-Executive Director and Chair of the Sustainability

Committee of RHI Magnesita N.V. for which shareholder approval will be sought at their 2019 Annual General Meeting.

Janet does not intend to seek re-election as a Non-Executive Director of the Company and will therefore retire from the Board at the AGM in May 2019.

#### Experience and past roles

Janet was previously a Non-Executive Director of Coventry Building Society. 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 plc 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.



### Ian Duncan MA, ACA Non-Executive Director

Age 57

Became a Non-Executive Director on 1 January 2017.

#### External roles

Ian is the Senior Independent Non-Executive Director and Chair of the Audit Committee of Bodycote plc and a Non-Executive Director and Chair of the Audit Committee of Babcock International plc.

#### Experience and past roles

Having developed a portfolio career since 2010, Ian was previously a Non-Executive Director and Chair of the Audit

Committee at WANdisco plc and Fiberweb plc. Ian's last executive role was as Group Finance Director of Royal Mail Group plc.

#### Key strengths

Extensive financial and change management experience (including recent and relevant financial experience).



### Cyrille Ragoucy MA Non-Executive Director

Age 63

Became a Non-Executive Director on 1 August 2018.

#### External roles

Cyrille is Non-Executive Chairman and interim Chief Executive of Balta Group NV. He is also the Non-Executive Chairman of Chryso Group.

#### Experience and past roles

Cyrille was Chief Executive Officer of Tarmac Ltd until 2016.

#### Key strengths

25 years' experience at senior levels in the European building materials sector across the US, Canada, China, UK, France and Spain. Highly international and trilingual in French, English and Spanish.

## Board Committees

#### Audit Committee

Mr I.B. Duncan – Chair  
Ms A. Abt  
Ms J.E. Ashdown  
Mr A.C. Lovell  
Mr C.M.P. Ragoucy

#### Remuneration Committee

Ms J.E. Ashdown – Chair  
Ms A. Abt  
Mr I.B. Duncan  
Mr A.C. Lovell  
Mr C.M.P. Ragoucy

#### Nominations Committee

Mr A.J. Allner – Chair  
Ms A. Abt  
Ms J.E. Ashdown  
Mr I.B. Duncan  
Mr A.C. Lovell  
Mr M. Oldersma  
Mr C.M.P. Ragoucy

# Introduction to governance



“Your Board is committed to the highest possible standards of corporate governance. Good governance is essential to the effective running of the business as we continue the turnaround and deliver the strategy for the future.”

**Andrew Allner**  
Chairman

## Dear Shareholder,

I am pleased to introduce on behalf of the Board, SIG's corporate governance report for the financial year ended 31 December 2018, and to update you on actions we have taken throughout the year. As a Group we are committed to strong ethical values, integrity and professionalism in everything we do. As a Board we recognise the essential role that we play in embedding these values through strong leadership underpinned by an effective governance structure.

This year has seen further changes to the Board with the retirement of Chris Geoghegan and Mel Ewell after many years of service. The Board has subsequently been further strengthened by the appointment of Alan Lovell, our new Senior Independent Director, and Cyrille Ragoucy, both of whom bring extensive construction industry and turnaround experience in the UK and Europe. The governance standards we wish to retain are part of the induction process for all new directors.

As we disclosed in the 2017 Annual Report, accounting irregularities were identified in two areas early in 2018 requiring adjustment to the historic results for the year ended 31 December 2016 and prior years. Following the appointment of Ernst & Young LLP, the Group has identified additional prior period restatements set out in this 2018 Annual Report. Whilst the requirement to restate financial results for a second year is not acceptable, the business has applied significant effort throughout 2018 to ensure that material financial reporting control weaknesses are identified and remedied. The control environment has been significantly improved through investment in internal resource and external support, the institution of new processes including a key controls framework, and increased senior management focus and attention. Further actions are planned for 2019 in order to further improve the control environment within the business to a high standard.

At the Company's Annual General Meeting (AGM) on 10 May 2018, Resolution 11 (Re-appointment of Deloitte LLP as the Company's Auditor) was not passed by shareholders and there was a significant vote against Resolution 1 (To receive the Financial Statements for the financial year ended 31 December 2017).

The Board acknowledged these voting outcomes in the announcement of the results of the AGM, noting that it took the views of shareholders extremely seriously, and confirmed that it was committed to carrying out an EU Audit Regulation compliant tender for the role of external Auditor, as soon as practicable (the 'Audit Tender').

Through its engagement with key shareholders, the Board understood that the AGM voting results were primarily attributable to the accounting irregularities which the Group announced earlier in 2018. The Board also engaged with key shareholders in relation to the timing and process for the Audit Tender.

On 4 July 2018, the Company announced that Ernst & Young LLP had been appointed as the Group's external Auditor. The Board believes that the completion of the Audit Tender (further detail on which is set out in the Audit Committee report), and the appointment of Ernst & Young LLP as auditors, addresses the concerns raised by shareholders, but intends to keep the situation under review.



## Compliance with the UK Corporate Governance Code

The Board considers its corporate governance policies and procedures are appropriate and that, throughout the year under review, the Group has complied with the provisions of the 2016 UK Corporate Governance Code (the Code) issued by the Financial Reporting Council (FRC) available at [www.frc.org.uk](http://www.frc.org.uk).

The Board has considered in detail the requirements of the new UK Corporate Governance Code published in July 2018 ("the 2018 Code") and supports the FRC's approach to building long-term sustainable growth in the UK economy. We note the emphasis on businesses building trust by forging strong relationships with key stakeholders and the call for companies to establish a corporate culture that is aligned with the company purpose, business strategy, promotes integrity and values diversity. The Board has taken a number of actions to address the requirements of the 2018 Code and, throughout 2019, work will continue on articulating and embedding corporate culture, developing the succession pipeline to achieve the diversity objectives of the business, and building on existing mechanisms to better engage with the workforce and other key stakeholders.

The Board has also considered the new reporting requirements being introduced in relation to the performance of the directors' Section 172 duty contained in the Companies Act 2006, employee engagement and consideration of relationships with suppliers, customers and others. In connection with these new reporting requirements, the Board received training on Section 172 earlier this year and when making decisions, the Board ensures that the interests of stakeholders are considered appropriately. Preparations are underway to enable the Group to report in accordance with these new reporting requirements in the Group's next annual report.

### Board evaluation

An external review of Board effectiveness was undertaken by Condign Board Consulting during the year. I am pleased to be able to report that the review fundamentally concluded that this has become a much more functional and effective Board in the last year and that it comprises committed, experienced and perceptive individuals.

Further details of the evaluation, including areas for improvement, are set out on pages 68 to 69 of this corporate governance report.

### Diversity

The Board of SIG acknowledges the importance of diversity across our colleague base and in the boardroom. Diversity encompasses diversity of perspective, experience, background, psychological type and personal attributes. The right mix of skills and experience on the Board is essential for the Board to operate effectively and to deliver the improvements we are seeking in the business.

Female representation on the Board has remained at 25% throughout the year. This is something we keep under review and we acknowledge the findings of the third Hampton-Alexander review on FTSE women leaders and the target of 33% female representation on FTSE 350 boards by the end of 2020.

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 and ethnicity will be considered in determining the optimum composition of the Board and the aim will be to balance them appropriately.

The Board diversity policy is published on the Group's website ([www.sigplc.com](http://www.sigplc.com)).

### 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 and overall to its stakeholders for good governance and this Report, the Directors' remuneration report on pages 84 to 105, the Audit Committee report on pages 76 to 80 and the Nominations Committee Report on pages 81 to 83 describe how the principles of good governance set out in the Code are applied within SIG.

The Group's external Auditor, Ernst & Young LLP, is required to review whether the above statement reflects the Group's compliance with the provisions of the Code specified for their review by the Listing Rules (as contained within the Financial Conduct Authority's Handbook) and to report if it does not reflect such compliance. No such report has been made.

#### Andrew Allner

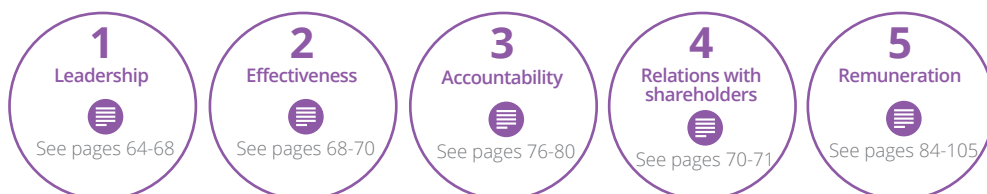
Chairman

7 March 2019

 Further details of the evaluation are set out on page 68 of this corporate governance report.

## Compliance statement

Our Governance sections over the following pages explain how the Group has applied the principles and complied with the provisions of the Code. We are fully compliant with the Code.



# Corporate Governance report

## The Board

At 31 December 2018, 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 A.J. Allner**

Non-Executive Chairman

**Mr M. Oldersma**

Chief Executive Officer

**Mr N.W. Maddock**

Chief Financial Officer

**Ms A. Abt**

Independent Non-Executive Director

**Ms J.E. Ashdown**

Independent Non-Executive Director

**Mr I.B. Duncan**

Independent Non-Executive Director

**Mr A.C. Lovell**

Senior Independent Non-Executive Director (appointed 1 August 2018)

**Mr C.M.P. Ragoucy**

Independent Non-Executive Director (appointed 1 August 2018)

**Mr M. Ewell**

Independent Non-Executive Director (retired 31 July 2018)

**Mr C. V. Geoghegan**

Independent Non-Executive Director (retired 9 March 2018)

Mr A.C. Lovell was appointed as the Senior Independent Non-Executive Director with effect from 1 August 2018 succeeding Mr M. Ewell who fulfilled the role following the retirement of Mr C.V. Geoghegan on 9 March 2018. Mr M. Ewell retired from the Board on 31 July 2018. Mr C.M.P. Ragoucy was appointed as a Non-Executive Director on 1 August 2018.

Ms J.E. Ashdown intends to retire from the Board at the conclusion of the AGM on 8 May 2019, as a Non-Executive Director and Chair of the Remuneration Committee.

Biographical details of the directors holding office at the date of this report, which illustrate their range of experience, appear on pages 60 and 61. Details of Committee memberships are set out on pages 67 and 68.

At 31 December 2018, SIG had two female Board members, equating to 25% female representation of its directors.

Each of the Non-Executive Directors is considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

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 brings 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 Board is also satisfied that each of the Non-Executive Directors is able to dedicate sufficient time to their role and responsibilities.

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.

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 84 to 105.



The roles of the Chairman and Chief Executive Officer 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 Officer 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 Officer 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.
- Ensures a healthy culture of challenge and debate at Board and Committee meetings.

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

### Chief Executive Officer

- 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 agreed by the Board.
- Maintains good relationships and communications with investors.
- Works closely with the Chief Financial Officer to ensure appropriate financial controls are in place.
- 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) shareholders and other stakeholders 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.
- Available to chair the Board in the absence of the Chairman.

The Senior Independent Director is Mr A.C. Lovell.

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 reappointment by the shareholders.

### 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 2019 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 election or 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 judgement. After reviewing the outcome of performance evaluations, the Board confirms that the contributions made by the directors offering themselves for election or re-election at the AGM in May 2019 continue to be effective and that the Group supports their re-election.

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 104 to 105. Full details of directors' remuneration, interests in the share capital of the Company and of share options held are set out on pages 101 to 105 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 8 May 2019.

### Board procedures and responsibilities

The Board meets regularly during the year, as well as on an ad hoc basis as required by time-critical business needs. The Board met formally on nine occasions during the year and individual attendance at those and the Board committee meetings is set out in the table on page 67. 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 typically 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 Group's website ([www.sigplc.com](http://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;
- Corporate governance matters;
- Whistleblowing arrangements and follow-up action;
- Review of workforce policies and practices; and
- Approval of Group policies and risk management strategies.

# Corporate Governance report

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

The Board has delegated the following matters to the Group Executive Committee:

- The development and implementation of strategy, operational plans, policies, procedures and budgets as agreed by the Board.
- The monitoring of operating and financial performance.
- The assessment and control of risk.
- The development and assessment of the Group's health and safety and corporate responsibility policies and performance.

The terms of reference for each of the Board committees are available on the SIG website ([www.sigplc.com](http://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 to ensure 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 Group. 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.

The Group has operated a paperless meeting system for the Board, Board Committees and Group Executive Committee for a number of years, and currently uses Diligent software. Using an electronic system for meeting packs 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 (the Act) 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 by directors at meetings of the Board and committees in 2018

The following table shows the attendance of directors at meetings of the Board, Audit, Remuneration and Nominations Committees during the year to 31 December 2018:

	Board (9 meetings) <sup>1</sup>	Audit (6 meetings)	Remuneration (5 meetings)	Nominations (2 meetings)
A. Abt	9/9	6/6	5/5	2/2
A.J. Allner	9/9	N/A	N/A	2/2
J.E. Ashdown	9/9	6/6	5/5	2/2
I.B. Duncan	9/9	6/6	5/5	2/2
A.C. Lovell <sup>2</sup>	5/5	3/3	3/3	-
N.W. Maddock	9/9	N/A	N/A	N/A
M. Oldersma	9/9	N/A	N/A	2/2
C.M.P. Ragoucy <sup>3</sup>	4/5	3/3	3/3	-
Mr M. Ewell <sup>4</sup>	4/4	3/3	2/2	2/2
Mr C.V. Geoghegan <sup>5</sup>	3/3	2/2	2/2	1/1

- The Board held a number of conference calls throughout the year to deal with specific matters arising between scheduled meetings. All Board members either attended the call or alternatively, if unavailable, discussed the matter with the Chairman prior to the call, with the Chairman then being able to represent their views.
- Mr A.C. Lovell was appointed to the Board on 1 August 2018 and attended all meetings to which he was entitled to attend.
- Mr C.M.P. Ragoucy was appointed to the Board on 1 August 2018. Mr Ragoucy was unable to attend one meeting due to a clash with a pre-existing commitment which was made known to the Company prior to his appointment.
- Mr M. Ewell resigned from the Board on 31 July 2018.
- Mr C.V. Geoghegan resigned from the Board on 9 March 2018.

Of the nine Board meetings held in 2018, one was 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. 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 in the UK & Ireland and Mainland Europe to help all Board members gain a deeper understanding of the business. The Board 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 senior leadership Group management conferences whenever possible.

All directors in office at the date of the 2018 AGM attended the meeting 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 Chair 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 76 to 80.

The Group has an internal audit function and co-sourced specialist support from KPMG LLP. The Board annually reviews the need for such a function and the effectiveness of the co-sourced 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 I.B. Duncan (Chair)  
 Ms A. Abt  
 Ms J.E. Ashdown  
 Mr A.C. Lovell (from 1 August 2018)  
 Mr C.M.P. Ragoucy (from 1 August 2018)  
 Mr M. Ewell (to 31 July 2018)  
 Mr C.V. Geoghegan (to 9 March 2018)

#### Nominations Committee

The Nominations Committee operates under written terms of reference, which are consistent with current best practice. The committee comprises the Chair, the Chief Executive Officer and the independent Non-Executive Directors. The meetings of the committee are chaired by the Non-Executive Chair. The Chair 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 81 to 83.

#### 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 A.J. Allner (Chair)  
 Ms A. Abt  
 Ms J.E. Ashdown  
 Mr I.B. Duncan  
 Mr A.C. Lovell (from 1 August 2018)  
 Mr M. Oldersma  
 Mr C.M.P. Ragoucy (from 1 August 2018)  
 Mr M. Ewell (to 31 July 2018)  
 Mr C.V. Geoghegan (to 9 March 2018)

# Corporate Governance report

## 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 Chair 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 84 to 105.

### 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:

Ms J.E. Ashdown (Chair)  
Ms A. Abt  
Mr I.B. Duncan  
Mr A.C. Lovell (from 1 August 2018)  
Mr C.M.P. Ragoucy (from 1 August 2018)  
Mr M. Ewell (to 31 July 2018)  
Mr C.V. Geoghegan (to 9 March 2018)

## Group Executive Committee

The Executive Committee operates under written terms of reference, details of which are provided on page 66. The committee addresses operational issues and is responsible for implementing Group strategy and policies, day-to-day management and monitoring performance. The committee met 20 times during 2018.

From 1 January 2019, the Executive Committee meeting structure has been revised to improve efficiency in supporting the business agenda. The changes will ensure that the core focus of the committee is on reviewing health and safety, governance, strategy, performance and transformation progress; that transformation work-streams are aligned between business units; and that key stakeholders are regularly updated on overall Group performance and key developments.

### Members:

**Mr M. Oldersma (Chair)**  
Chief Executive Officer

**Mr N.W. Maddock**  
Chief Financial Officer

**Mr P. Alcaydé**  
Group Health, Safety & Environment Director (from 15 October 2018)

**Mr G. Bruce**  
Managing Director, SIG Exteriors (from 24 July 2018)

**Mr A. Doyle**  
Managing Director, SIG Ireland (from 4 September 2018)

**Mr R. Hellwig**  
Managing Director, SIG Germany (from 1 October 2018)

**Mr L. Hemels**  
Managing Director, SIG Air Handling

**Mr C. Horn**  
Group Operations Director

**Mr E. Hutt**  
Group Chief Information Officer

**Mr J. Monteiro**  
Managing Director, France (from 11 December 2018)

**Mr J. Neves**  
Managing Director, SIG Benelux

**Mr M. Szczgiel**  
Managing Director, SIG Poland

### Ms C. Taylor

Group Human Resources Director (from 1 August 2018)

### Mr D. Walmsley

Managing Director, SIG Distribution (from 5 March 2018)

### Mr R.T. Barclay

Managing Director, SIG UK & Ireland (to 31 March 2018)

### Mr P. Déneché

Managing Director, France (to 10 December 2018)

### Mr A. Wakelin

Managing Director, SIG Exteriors (to 31 August 2018)

## Group Tax and Treasury Committee

The Tax and Treasury Committee operates under the written treasury policy. The committee considers liquidity and funding, interest rate risk management, tax risks, foreign exchange risk management, counterparty credit risk management and any other current Group tax or treasury issues.

### Members:

#### Ms V. George (Chair)

Group Financial Controller (from 3 September 2018)

#### Mr N.W. Maddock

Chief Financial Officer

#### Mr P. Mitchell

Interim Group Treasurer (from 11 May 2018)

#### Mr M. Wilson

Group Tax Manager

#### Mr R.C. Monro

Company Secretary

#### Mr I. Jackson

Group Financial Controller (to 3 September 2018)

#### Ms H. Jones

Group Treasurer (to 20 April 2018)

## Board effectiveness and performance evaluation

The Board reviews its own performance, and that of its committees and directors, annually. In 2018, an external review of Board effectiveness was undertaken by Duncan Reed of Condign Board Consulting. Neither Duncan Reed nor Condign has any other connection to the Company.

Effectiveness was assessed, and a number of key areas were addressed. These were alignment of Board and business priorities, Board dynamics including challenge and support, Board assurance and independence, engagement with strategy, culture, resources and motivation, Board governance and controls, Board's use of time, operating rhythm and information, shareholder relationships and communications and succession planning.

The process was conducted via focused one-to-one interviews with the directors, selected senior managers and external advisors, and attendance at Board and committee meetings. The results were presented to the Board in January 2019.

The review fundamentally concluded that this has become a much more functional and effective Board in the last year, under the Chairman's leadership, and that it comprises committed, experienced and perceptive individuals. Most of the actions from the Chairman's last internal review had been addressed, while a number remain work in progress.

It also concluded that this is a Board which takes seriously its role both to oversee the control functions of the business but also to provide a framework of entrepreneurial leadership – as the Code enjoins. In this sense, the ‘tone from the top’ is good, as a sense of shared purpose is still evident even where roles, functions and perspectives differ.

The review identified areas for improvement. These included: communication across the business and the Board’s visibility within the business; promoting as close an alignment as possible between business and Board priorities in relation to the use of time and agenda focus. It also confirmed the need for ongoing focus on strategy, vision and culture.

The proposed Board priorities for 2019 will therefore be to improve certain Board processes to support these areas, as well as to progress work on strategy, vision and culture.

Condign made various specific recommendations, and examples taken up by the Board as agreed action points include the following:

1. Greater discipline and rigour is required around the preparation and maintenance of the Board’s planning calendar, including topics to be discussed; attendance and presentations by management below Executive Director level; attendance by third parties; Board site visits; and training events. The planning calendar should be regularly updated and used as a means to ensure the Board is getting the assurance required from others within the organisation and outside and that the Non-Executive Directors have a good feel for the business and hear the views of employees.
2. Greater clarity around the Group’s strategic planning process is required. The current work to develop a purpose, vision, and strategy for individual businesses (both in the UK and Europe) needs to be brought to a conclusion, as does the work on the Group’s longer term Corporate strategy, together with a list of strategic agenda issues to be incorporated into the Board planning process at the appropriate time.

During the year the Board received specific training in connection with the new Corporate Governance Code with a focus on their Section 172 Directors Duties and stakeholder considerations. Directors attend training courses and seminars on various subjects that they identify as important to maintain their knowledge and understanding or areas where training would increase the knowledge and effectiveness of the director. In addition, the Non-Executive Directors are required to carry out a number of visits to the Group’s operating sites and are required to report back to the Board on their findings and observations. This is in addition to the offsite Board meetings held in the Group’s operating businesses. Further training and site visits are programmed for 2019.

‘Peer-to-peer’ director evaluation was included in the review process. Using the feedback gathered to support the usual annual process and inputs to it, the Chairman has reviewed the performance of individual directors. The Senior Independent Director, following a meeting with the Non-Executive Directors other than the Chairman, and obtaining feedback from the Executive Directors, reviewed the performance of the Chairman.

## 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.

## Annual assessment of the effectiveness of systems of risk management and internal control systems

During 2018, the Board conducted a review of the effectiveness of the Group’s system of risk management and internal control. This review covered all controls including operational, compliance and risk management procedures, as well as financial controls. The Board will continue to regularly assess the effectiveness of systems of internal control.

To complete the review the Board and Audit Committee requested, received and reviewed reports from the Group Controls Manager, Group Internal Audit, senior management, advisors and the external Auditor. Through the ongoing processes outlined on pages 69 to 70, improvements in risk management and internal controls are continuously identified with action plans appropriately designed and communicated. Progress towards completion of actions is regularly monitored by management and the Board.

The Board considers that the information that it receives is sufficient to enable it to review the effectiveness of the Group’s risk management internal controls systems in accordance with the internal control guidance for directors on the Code issued by the FRC.

## Key elements of ongoing process for risk management and internal control

The key elements of the existing systems for risk management and internal control, in accordance with the FRC’s Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014), are as follows:

### Risk management

- A risk management framework is in place to outline the core responsibilities of each function and the processes that should be in place to effectively manage risk in the Group.
- The risk management process is cascaded throughout the Group, with operating company leadership teams responsible for maintaining their own risk registers.
- The Board maintains an overall Group risk register, the content of which is determined and assessed through regular discussions between senior management, the Group Board and the Audit Committee. This is also formally reviewed twice yearly by the Audit Committee/the Board.
- The Group risk register contains the principal risks faced by the Group and assesses the potential impact and likelihood at both a gross level and net level. It outlines the current controls in place to mitigate the risk and any further actions required to bring the risk to an acceptable level. These principal risks are outlined in the Strategic report on pages 46 to 47.
- New and emerging risks are identified through horizon scanning, review of relevant media publications and risk workshops held with management teams.

### Internal control

- A defined organisation structure with levels of approval governed by the Group Delegation of Authority policy.
- 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 which includes an annual process for operating company budgets to be approved by the CEO.
- In-depth reviews of operating company performance are

# Corporate Governance report

completed with the CEO and CFO attending local management meetings to discuss any significant changes and adverse variances against budget.

- Monthly provision to management and the Board of relevant, accurate and timely information, including relevant key performance indicators.
- Regular monthly reports at each Board meeting from the CEO and CFO.
- Regular cash and treasury reporting to the CFO and periodic reporting to the Board on the Group's tax and treasury position.
- Continued improvement and embedding of the key controls framework which includes a number of control areas against which operating companies are required to self-certify on a quarterly basis. This self-certification process is administered by Group Finance with a summary reported to the Audit Committee.
- Development of control improvement plans which are, in part, an output of the key controls framework self-certification process and focus on continuous improvement of an operating company's internal control environment. The list of actions included in the control improvement plans should be discussed regularly at operating company management meetings.
- Any significant issues or control weaknesses identified are reported to the Audit Committee. Where appropriate, issues are also included in reports to the Executive Committee and the Board.
- A structured and approved programme of audits is undertaken by Group internal audit, which includes regular visits to and interaction with the operating companies across the Group. The implementation of recommended actions are 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 69 to 70, 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 Financial Statements comply with all relevant regulatory reporting requirements.
- The policies and procedures are comprehensively detailed in the Group Finance Manual, which is used by all businesses in the preparation of their results.
- Financial reporting control requirements are also set out in the Group Finance Manual.

## 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 Group's website ([www.sigplc.com](http://www.sigplc.com)).

The Group 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 2018 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 2018 Group,

employees used this system to raise concerns about a number of separate issues, all of which were appropriately responded to. In response to the 2018 UK Corporate Governance Code, future reporting on whistleblowing will be to the Board.

## 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.

## Overall assessment

Notwithstanding the prior period restatements, and the need for further improvements to the control environment during 2019, as set out in this Report, the systems and processes outlined in this corporate governance report give reasonable assurance that the structure of risk management and internal control systems in operation is appropriate to the Group's situation. 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 Group/Board 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](http://www.sigplc.com)).

The Chief Executive Officer and Chief Financial Officer 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, the Chief Executive Officer and the Chief Financial Officer and discussed at its meetings. Formal presentations are made to institutional shareholders following the announcement of the Group's annual and interim results. Informal dialogue and meetings are held with shareholders and potential investors throughout the year. The Board aims to maintain a relationship of accessibility and transparency with its shareholders.

During the year, the Chairman and Chair of the Remuneration Committee engaged with SIG's largest institutional shareholders to consult on the new directors' remuneration policy which was approved by shareholders at a General Meeting in November 2018. Further detail is contained in the Directors' Remuneration Report on pages 84 to 105.

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.

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 Group's website immediately after the AGM.

## Substantial shareholdings

At the date of approval of the 2018 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 2018 and 7 March 2019:

Shareholder	Interests disclosed to the Company as at 31 December 2018		Interests disclosed to the Company as at 7 March 2019	
		%		%
Investec Asset Management	58,891,526	9.96%	58,891,526	9.96%
IKO Enterprises Limited	40,539,710	6.85%	40,539,710	6.85%
FIL Limited	29,955,004	5.06%	Below notifiable threshold	n/a
Tameside MBC re Greater Manchester Pension Fund	29,241,877	5.06%	29,241,877	5.06%
Templeton Investment Counsel LLP	29,358,556	4.96%	29,358,556	4.96%
Blackrock	29,358,556	4.94%	29,358,556	4.94%
Artemis Investment Management LLP	28,820,324	4.87%	28,820,324	4.87%
Massachusetts Financial Services Company	26,799,365	4.53%	26,799,365	4.53%
Coltrane Asset Management	23,890,830	4.03%	51,525,026	8.71%
Schroder Investment Management Limited	23,005,522	3.89%	23,005,522	3.89%
Norges Bank	19,786,142	3.34%	19,786,142	3.34%

## Statement of the directors on the disclosure of information to the external auditor

The Directors who held office at the date of approval of the Directors' Report confirm that:

- So far as they are each aware, there is no relevant audit information of which the Company's external 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 external 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

The going concern statement can be found on page 40 of the Strategic report.

## Viability statement

The viability statement can be found on pages 39 to 40 of the Strategic report.

## Independent external auditor

On the recommendation of the Audit Committee (see page 80), in accordance with Section 489 of the Companies Act 2006, resolutions are to be proposed at the AGM for the appointment of Ernst & Young LLP as external auditor of the Company (who have filled the casual vacancy since 4 July 2018) and to authorise the Audit

Committee to fix its remuneration. The remuneration of the external auditor for the year ended 31 December 2018 is fully disclosed in Note 4 to the Financial Statements on page 134.

## Publication of annual report and notice of AGM

Shareholders are to note that the SIG plc Annual Report 2018 together with the Notice convening the AGM have been published on the Group's website ([www.sigplc.com](http://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 offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London, EC2A 2EG at 12 noon on Wednesday 8 May 2019, 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. The document will also be available on the SIG plc website ([www.sigplc.com](http://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.

# Corporate Governance report

## Directors' report disclosures

### Principal activity and business review

The principal activity of the Group is the supply of specialist materials to trade customers in the construction sector across Europe. The main markets supplied are insulation and interiors, roofing and exteriors and air handling solutions.

The Chairman's statement and Strategic report on pages 2 to 57 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 Group 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.

### Political donations

It is the Group's policy not to make political donations and no political donations were made during the year (2017: £nil).

Details of the Group's policies in relation to corporate governance are disclosed on pages 48 to 49.

### Group results and dividends

The Consolidated Income Statement for the year ended 31 December 2018 is shown on page 108. The movement in Group reserves during the year is shown on page 111 in the Consolidated Statement of Changes in Equity. Segmental information is set out in Note 1 to the Financial Statements on pages 126 to 131.

The Board is recommending a final dividend of 2.50p per share (2017: 2.50p) which, together with the interim dividend of 1.25p per share (2017: 1.25p), makes a total for the year ended 31 December 2018 of 3.75p (2017: 3.75p). Payment of the final dividend, if approved at the AGM, will be made on 5 July 2019 to shareholders registered at the close of business on 7 June 2019.

### Greenhouse gases

Details of the Group's greenhouse gas emissions are detailed on pages 55 to 56 of the corporate responsibility report.

### Employees

Details of the Group's policies in relation to employees (including disabled employees) are disclosed in the corporate responsibility report on pages 48 to 52.

### Post balance sheet events

Details of post balance sheet events are included on page 113 of the Financial Statements.

### Related party transactions

Except as disclosed in Note 30 to the Financial Statements on page 173 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 date 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 38 to 39 and in Note 19 to the Financial Statements on pages 153 to 160.

## Acquisitions and disposals

Details of acquisitions made and businesses identified for sale or closure are covered in Note 11 on pages 143 to 145 and Note 14 on page 149 of the Financial Statements.

## Group companies

A full list of Group companies (and their registered office addresses) is disclosed on pages 206 to 207.

## Share capital

The Company has a single class of share capital which is divided into ordinary shares of 10p each. At 31 December 2018, the Company had a called up share capital of 591,556,982 ordinary shares of 10p each (2017: 591,548,235).

During the year ended 31 December 2018, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 8,747 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 139 to 141 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 (ie in certificated form) or held in electronic (ie 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 12 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 in certain circumstances set out in the Company's articles.

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).

# Corporate Governance report

## 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. Bank consent is required for any major acquisition or disposal of assets.

## 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.

## 2019 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](http://www.sigplc.com).

## Acquisition by the Company of its own ordinary shares

Shareholders' authority for the purchase by the Company of 59,154,823 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 2019 AGM.

## Authority to allot ordinary shares

Shareholders' authority to allot ordinary shares up to an aggregate nominal amount of £39,436,549 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 2019 AGM.

During the year ended 31 December 2018, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 8,747 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 139 to 141 which also contains details of options granted over unissued share capital.

## Fair, balanced and understandable

The directors have a responsibility for preparing the 2018 Annual Report and Accounts and for making certain confirmations concerning it. In accordance with C.1.1 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 80.

## Cautionary statement

The cautionary statement can be found on page 41 of the Strategic report.

## Content of Directors' report

The Corporate governance report (including the Board biographies), which can be found on pages 60 to 74, the Audit Committee report on pages 76 to 80, the Nominations Committee report on pages 81 to 83, and the Directors' responsibility statement on page 106 are incorporated by reference and form part of this Directors' report.

The Board has prepared a Strategic report (including the Chief Executive Officer's statement) which provides an overview of the development and performance of the Company's business in the year ended 31 December 2018 and its position at the end of the year, and which covers likely future developments in the business of the Company and Group. The Sustainability 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	Not applicable
(2)	Publication of unaudited financial information	Not applicable
(3)	Details of long-term incentive schemes	Directors' remuneration report, pages 84 to 105
(4)	Waiver of emoluments by a director	Not applicable
(5)	Waiver of future emoluments by a director	Not applicable
(6)	Non pre-emptive issues of equity for cash	Not applicable
(7)	Item (7) in relation to major subsidiary undertakings	Not applicable
(8)	Parent participation in a placing by a listed subsidiary	Not applicable
(9)	Contracts of significance	Not applicable
(10)	Provision of services by a controlling shareholder	Not applicable
(11)	Shareholder waivers of dividends	Not applicable
(12)	Shareholder waivers of future dividends	Not applicable
(13)	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 performance indicators 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 Officer, 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 60 to 106 was approved by the Board of Directors on 7 March 2019 and signed on its behalf by the Company Secretary, Richard Monro.

**Richard Monro**  
Company Secretary

7 March 2019

# Audit Committee report



“Progress has been made this year in strengthening the control environment and culture of the Group but improvements must continue.”

**Ian Duncan**  
Chair of the Audit Committee

## Dear Shareholder,

I am pleased to present the Audit Committee report for the year ended 31 December 2018, on behalf of the Board.

The Audit Committee provides effective oversight and governance over the financial integrity of the Group's financial reporting to ensure that the interests of the Company's shareholders are protected at all times. It assesses the quality of the internal and external audit processes and ensures that the risks which our businesses face are being effectively managed.

The composition of the Audit Committee meets with the requirements of the UK Corporate Governance Code (July 2018) ("the 2018 Code") but, in line with good practice, membership is reviewed annually.

As expected, a significant area of focus of the Committee this year has been on the Group's internal control environment. Progress has been made this year in

strengthening the control environment and culture of the Group but improvements must continue, and this will be a key focus in 2019. In particular, the Committee has worked to ensure that:

- Inconsistencies in the application of cash cut-off procedures and the treatment of debt-like items were identified and the balance sheet at 31 December 2017 was appropriately restated.
- Controls in areas of particular weakness have been significantly strengthened. Controls over supplier rebates within each operating company have been a key area of focus. Intra-department integrity meetings are now held in order to maintain robustness in the recognition of supplier rebates, and tools have been implemented to support their tracking.
- Investment in talent is made within the business to enable adequate focus to be placed on controls. In particular, the Group Risk & Internal Audit function has been strengthened through the recruitment of experienced auditors and targeted use of a co-source arrangement with KPMG for subject specialist input. The approach to planning has been revised and audits are now more clearly aligned to risks identified on the Group risk register. A new tracking tool has been introduced to ensure that actions to address control weaknesses are completed. The Group risk and internal audit function reports regularly to the Board and to the Audit Committee.
- The control environment has been evaluated and financial reporting control weaknesses have been identified and remedied. With the assistance of KPMG and BDO, the business has worked to identify and remedy a number of material financial reporting control weaknesses and standardise financial reporting processes. The business employs designated internal resource focused on improving and monitoring the effectiveness of financial controls. During the year, a key controls framework was introduced, enabling controls to be monitored through a system of quarterly self-certification. Going forward, the key controls framework will be audited by the Group internal audit function on a two year cyclical cycle.

Priorities for the Committee in 2019 will initially focus on the control observations highlighted by the external auditor, in particular the weaknesses in the UK balance sheet reconciliation process. Priorities will also include further standardisation of financial reporting procedures of the business, the provision of improved guidance around the reporting of accounting judgements, and the extension of controls improvement into smaller operating units and branches.

Although going concern is a matter for the whole Board (see page 40), 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.

Following the vote against the re-appointment of Deloitte LLP as our external auditor at the 2018 Annual General Meeting, the Audit Committee carried out an audit tender process, in accordance with applicable legal and regulatory requirements. The Group announced the appointment of Ernst & Young LLP as its external auditor on 4 July 2018 with immediate effect. Further detail on the audit tender process is provided on page 78.

The Company has complied during the financial year ended 31 December 2018 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.

**Ian Duncan**  
Chair of the Audit Committee

7 March 2019

## Purpose and aim

The purpose of the Committee is to make recommendations on the reporting, control, risk management and compliance aspects of the Directors' and 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, a robust risk management framework and effective compliance monitoring. The Committee believes that excellence in these areas enhances the effectiveness and reduces the risks of the business.

## Key responsibilities

- The accounting principles, practices and policies applied in, and the integrity of, the Group's Financial Statements.
- The adequacy and effectiveness of the internal control environment.
- The effectiveness of whistleblowing procedures.
- The effectiveness of the Group's internal audit function.
- The appointment, independence, effectiveness and remuneration of the Group's external auditor, including the policy on non-audit services.
- The supervision of any tender process for the Group's internal and external auditor.
- External financial reporting and associated announcements.
- The Group's risk management processes and performance.
- The Group's compliance with the audit related provisions of the UK Corporate Governance Code.

## Audit Committee membership

As at 31 December 2018, the Committee comprised the five independent Non-Executive Directors of the Company.

Chair of the Committee	Members
Mr I.B. Duncan	Ms A. Abt Ms J.E. Ashdown Mr A.C. Lovell Mr C.M.P. Ragoucy

The Board considers that each member of the Committee was throughout the year, and remains, independent within the definition set out in the UK Corporate Governance Code (April 2016) ("the Code"). The knowledge and experience of the Committee members means that the Committee as a whole is competent in the sector in which the Company operates. Mr I.B. Duncan has recent and relevant financial experience for the purposes of the Code.

## Audit Committee structure

The Committee operates under terms of reference which can be found on the Company's website ([www.sigplc.com](http://www.sigplc.com)). They are reviewed annually by the Committee 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 2018 the Committee engaged the services of BDO LLP to provide advice on the adequacy of the Group's internal controls environment, to supplement services provided by the external auditor and by KPMG LLP, who support the Group's internal audit function.

As part of corporate governance the Committee reviews its own performance annually and considers where improvements can be made. The Committee's performance was reviewed in January 2019 as part of the external review of Board and Committee effectiveness.

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.

## Audit Committee evaluation

As required, the Committee's activities and effectiveness were evaluated as part of the overall external Board evaluation as set out on pages 68 to 69. Based on this evaluation, it was concluded that the Committee acted in accordance with its terms of reference and carried out its responsibilities effectively.

# Audit Committee report

## Meetings

The Committee meets regularly throughout the year, with six meetings being held during 2018 along with the audit close meeting in early 2019. Its agenda is linked to events in the Company's financial calendar.

The Committee addressed the following key agenda items during its six meetings in 2018:

31-Jan-18	06-Mar-18	25-Jun-18	02-Aug-18	14-Sep-18	20-Dec-18
<ul style="list-style-type: none"> <li>Consider forensic reports concerning the historical overstatements of profit and cash</li> </ul>	<ul style="list-style-type: none"> <li>Risk and internal audit update</li> </ul>	<ul style="list-style-type: none"> <li>Risk and internal audit update</li> </ul>	<ul style="list-style-type: none"> <li>Risk and Internal audit update</li> </ul>	<ul style="list-style-type: none"> <li>Review of 2018 interim results</li> </ul>	<ul style="list-style-type: none"> <li>Risk and internal audit update</li> </ul>
<ul style="list-style-type: none"> <li>Update on risk management</li> </ul>	<ul style="list-style-type: none"> <li>Review of going concern basis of accounting and viability statement</li> </ul>	<ul style="list-style-type: none"> <li>Update on audit tender process</li> </ul>	<ul style="list-style-type: none"> <li>Cyber risk review</li> </ul>	<ul style="list-style-type: none"> <li>Goodwill and intangible assets impairment review</li> </ul>	<ul style="list-style-type: none"> <li>Change management</li> </ul>
<ul style="list-style-type: none"> <li>Review 2018 internal audit plan</li> </ul>	<ul style="list-style-type: none"> <li>Goodwill and intangible assets impairment review</li> </ul>	<ul style="list-style-type: none"> <li>Review of the Committee's terms of reference</li> </ul>	<ul style="list-style-type: none"> <li>Update on interim audit</li> </ul>	<ul style="list-style-type: none"> <li>Review of going concern basis of accounting</li> </ul>	<ul style="list-style-type: none"> <li>Internal controls update</li> </ul>
<ul style="list-style-type: none"> <li>Internal control review</li> </ul>	<ul style="list-style-type: none"> <li>Risk management and internal control review</li> </ul>	<ul style="list-style-type: none"> <li>Review of whistleblowing and non-audit services policies</li> </ul>		<ul style="list-style-type: none"> <li>Review of the external auditor's interim work and report and year end planning</li> </ul>	<ul style="list-style-type: none"> <li>Review external audit plan</li> </ul>
<ul style="list-style-type: none"> <li>Review revised external audit plan</li> </ul>	<ul style="list-style-type: none"> <li>Review of 2017 audit process and results</li> <li>Review Audit Committee report</li> <li>Review of the 2017 external auditor report</li> <li>Review of the 2017 Annual Report (including fair, balanced and understandable) and preliminary results announcement</li> </ul>			<ul style="list-style-type: none"> <li>Group internal controls review</li> </ul>	<ul style="list-style-type: none"> <li>Review non-audit services policy</li> </ul>

Attendance by individual members of the Committee is disclosed in the table on page 67. The Committee Chair regularly invites senior company executives to attend meetings of the Committee to discuss or present specific items, and in particular the Chief Financial Officer, Mr N.W. Maddock, attended all six of the meetings in 2018. The external auditor and the Director of Risk & Internal Audit also attended all six meetings of the Committee in 2018 and has direct access to the Committee Chair. The Committee also meets with the external auditor and the Director of Risk & Internal Audit without the Executive Directors being present. The Committee Chairman also meets with the external auditor and the Director of Risk & Internal Audit in advance of Committee meetings. During the year, the Committee also held one additional unscheduled meeting to discuss the external audit tender.

## External audit tender

Following the vote against the re-appointment of Deloitte LLP as the Group's external auditor at the 2018 Annual General Meeting, the Audit Committee commenced the process of carrying out an audit tender process in accordance with applicable law and regulation. The Audit Committee initiated the tender process in May 2018 with an accelerated timetable to ensure that the new external auditor would be appointed as soon as possible.

The Audit Committee appointed an independent project leader and an evaluation committee was formed, led by the Chairman of the Audit Committee and comprising the Chief Financial Officer, Director of Risk & Internal Audit, Group Financial Controller, Group Company Secretary and Finance Director (Planning & Performance). Eight firms were approached initially by the selection committee to take on the role of external auditor and five were shortlisted, including candidates from inside and outside the 'Big Four'.

The Audit Chairman, Group CFO and independent project lead then met separately with the audit partner of each shortlisted firm in advance of issuing an invitation to tender or Request for Proposal (RFP).

Four firms were subsequently invited to tender for the audit and each firm was sent the RFP which set out the process, timescales, requirements and evaluation criteria. The criteria included the experience and knowledge of the lead partner and audit team, the global account management capability, audit approach and accounting policies, audit coverage and transition.

Each firm was invited to meet all of the senior team including the Chairman, Audit Committee Chairman, Chief Executive Officer and Chief Financial Officer as well as the relevant finance teams across the material operations and at Group. Site visits were made to the UK, France and Germany. Access was given to a comprehensive data room with information to help them gain an understanding of SIG as a business.

All four firms presented to the Audit Committee including a 'question and answer' session. The Audit Committee later met to evaluate each firm using agreed evaluation criteria and to reach its recommendation to the Board.

At the conclusion of the process the Audit Committee (having consulted with management) recommended to the Board two choices for external auditor, with a reasoned preference that Ernst & Young LLP be appointed as external auditors immediately for the 2018 financial year. The Board accepted the Audit Committee's recommendation to appoint Ernst & Young LLP as external Auditor on a casual vacancy basis and this was announced in July 2018. Shareholders will be formally asked to approve their appointment at the May 2019 Annual General Meeting.

The Audit Committee would like to thank all of the firms that participated and specifically Deloitte LLP for their contribution to the Group over the years.



## 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.

The Committee considered the adequacy of work performed in the year to strengthen the way in which the recoverability of supplier rebates is controlled, including the institution of new internal review processes and the introduction of technology to assist in the calculation of supplier rebate income. The Committee supports the external auditor in their decision to perform an enhanced review of the valuation of the rebate receivable.

### Carrying value of goodwill and intangible assets\*

The carrying value of goodwill and intangible assets 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. Specific focus has been given to Larivière, SIG Distribution and SIG Exteriors. The Committee considered the appropriateness of the assumptions including growth rates.

### Recognition of cash in transit

During the year, the Group revised its policy in respect of the presentation of cash, to ensure that funds in transit are only included as cash if the Group has control of the funds at the balance sheet date. The Committee considered the adequacy of this revised policy and determined that it was appropriate. The Committee assessed whether, as a result of the change in policy, restatement to prior year results was required, and determined it was. The balance sheet as at 31 December 2017 as presented in this Annual Report has been accordingly restated to take account of this change in policy, with cash reducing by £13.6m, and a corresponding increase in trade receivables.

### Prior year restatements

Through the transition to Ernst & Young LLP, the Group's accounting policies and judgements were reviewed resulting in six restatements to previously reported numbers. As part of the 2018 year end close, the policy for accounting for future dilapidations costs on property leases has also been reviewed. Restatements included within this report comprise:

- The inclusion of 'debt like' trade payable balances within the calculation of net debt at 31 December 2017. Specifically, £8.0m of supplier balances in SIG France settled through a credit card working capital facility have been reclassified as a financial liability within this report.
- Our policy of including funds in transit as cash has been revised, to ensure that only funds within the control of the Group are included in cash at the balance sheet date. This report reflects a restatement to reduce cash and increase trade payables by £13.6m as a consequence.

- The accounting for sale and leaseback transactions has been reassessed and two transactions are now considered to meet the criteria for recognition as a finance lease rather than an operating lease.
- The Group has reassessed its deferred tax asset position and has recognised a deferred tax asset in relation to losses and fixed asset timing differences.
- The Group previously accounted for early settlement discounts when paid, this has been corrected to recognise at the time of recognition of the related revenue.
- The policy for accounting for dilapidations costs has been corrected to account for the cost of reinstating capital modifications on inception of the lease instead of accruing costs over the life of the lease. This has resulted in an increase to fixed assets of £2.6m and to liabilities of £7.9m at 31 December 2017.

### Disclosure of Other items\*

The Committee gave careful consideration to the judgements 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.

The Committee considered the nature of items included/excluded within/from Other items, including the presentation of property profits and consider that the split between underlying profit and Other items is appropriate.

### Recognition and measurement of trade receivables\*

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

### Control deficiency

Regular reports on internal controls issues are presented to and discussed at the Audit Committee and a follow up process in place to ensure internal and external audit recommendations are fully implemented. Ongoing progress and active focus, in particular following the interim review, on the internal control process has been continued throughout the year. The Group's external auditor communicated, as part of their audit of the Financial Statements several control deficiencies. The Board, in reviewing key control observations, can confirm that actions are being undertaken to remedy the weaknesses identified. One of the key areas identified relates to a significant deficiency relating to balance sheet reconciliation process in the UK. In response, the reconciliation and review policy has been updated and reissued to all finance employees to improve quality and reduce errors. The policy reinforces that balance sheet account owners are to be assigned to ensure the completeness and accuracy of reconciliations. During 2019, further work will be undertaken to implement better controls in this area, establish enhanced levels of review and provide additional training where required. These changes will be supported by the internal risk and controls team to ensure improved awareness and greater accountability.

\* Items marked as such are areas where judgement is involved in arriving at the accounting conclusion.

# Audit Committee report

## Going concern and longer term viability

The Group is subject to financial covenants related to its committed bank facilities and private placement notes as set out on page 39. The Group had net debt of £189.4m at 31 December 2018 and reported a headline financial leverage of 1.7x for the period against the covenant maximum of 3.0x. The Committee reviewed the Group's cash flow, net debt and leverage forecast and note that there is sufficient headroom forecast against the Group's financial covenants throughout the viability period. The assessment has placed additional focus on the covenant test points of 30 June (with particular reference to the working capital seasonality of the business which would ordinarily see leverage rise at the half year) and 31 December. The Committee has also reviewed the Group's potential mitigating actions to reduce leverage in the short term and consider these to be achievable and commercially viable. The Committee is satisfied that the assumptions taken are appropriate.

## Corporate culture

The Committee considered measures undertaken to transform the culture of the business in the year, launched partly in response to the accounting irregularities that were identified in January 2018. The Committee noted two changes in particular: firstly, significant strengthening of the senior leadership team, and secondly, through careful management, wider reorganisation to remove historic working silos and hierarchy. The Committee is reassured by the positive changes that have been made to date, but is also mindful that cultural change will inevitably take time to embed.

## 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 capability of the internal audit function was improved in the year through the appointment of additional, appropriately qualified resource. KPMG LLP who were appointed on 1 January 2014 as an outsourced internal audit function, continue to provide additional co-sourced support to the Group to cover specialised areas.

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.

## Oversight of external auditor

As mentioned on page 78, during the year the Audit Committee commenced an audit tender process, ultimately resulting in the appointment of Ernst & Young LLP as the Group's auditor in July 2018.

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 2018. 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 fees permissible for non-audit services should not exceed

70% of the average audit fees paid to the Group's external auditor in the last three consecutive financial years. The policy, which was reviewed at the December 2018 meeting and can be viewed on the Company's website ([www.sigplc.com](http://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. In all cases, any instruction must be pre-approved by the Chief Financial Officer and the Audit Committee before the external auditors are engaged. 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 fees payable by the Group to its external auditor for non-audit services in 2018 were £0.4m, primarily the Interim Review (2017: £0.1m). The total fees payable to them for audit services in respect of the same period were £1.6m (2017: £1.6m). The ratio of audit to non-audit fee was 4:1. Details of each non-audit service and reasons for using the Group's external auditor are provided in Note 4 to the Financial Statements on page 134.

A full breakdown of external auditor fees are disclosed in Note 4 to the Financial Statements on page 134.

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. Ernst & Young LLP has formally confirmed its independence to the Board in respect of the period covered by these Financial Statements.

## 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 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.
- A final draft is reviewed by the Audit Committee members prior to consideration by the Board.

On behalf of the Board

**Ian Duncan**  
Chair of the Audit Committee

7 March 2019

# Nominations Committee report



“The Committee understands the importance of its role in ensuring the Board contains the right mix of skills and experience to support the business strategy.”

**Andrew Allner**  
Chair of the Nominations Committee

## Dear Shareholder,

I am pleased to present the Nominations Committee report for the year ended 31 December 2018, on behalf of the Board.

The composition of the Nominations Committee meets with the requirements of the UK Corporate Governance Code (July 2018) ("the Code") but, in line with good practice, membership is reviewed annually.

During 2018, the Committee dealt with the recruitment of two new Non-Executive Directors and I am delighted to welcome Mr A.C. Lovell and Mr C.M.P. Ragoucy to the Board. Further detail on the recruitment process is provided in this report.

Ms J.E. Ashdown will retire from the Board as a Non-Executive Director and Chair of the Remuneration Committee, at the conclusion of the forthcoming Annual General Meeting on 8 May 2019. The search for a new Non-Executive Director and Chair of Remuneration Committee is well advanced.

The Committee's work for 2019 will be focused on succession planning, talent and diversity and we will carefully consider the changes in the Committee's remit arising from the new UK Corporate Governance Code.

**Andrew Allner**  
Chair of the Nominations Committee

7 March 2019

# Nominations Committee report

## Purpose and aim

The terms of reference of the Nominations Committee, which are reviewed regularly, are set out on the Company's website ([www.sigplc.com](http://www.sigplc.com)). The Committee will be adopting new Terms of Reference for 2019, in particular, to reflect its wider responsibilities under the new UK Corporate Governance Code in relation to succession planning and diversity across the Group. The principal responsibility of the Nominations Committee is to ensure that, collectively and at any given time, the members of the Board possess the necessary balance of knowledge, skills and experience to support and develop the strategy of the Company. In seeking to achieve this, the Nominations Committee will recommend new Board appointments as and when considered appropriate and will ensure that appropriate succession planning procedures are in place. In accordance with our Terms of Reference, I, as the Chairman of the Nominations Committee, report our conclusions to the Board and it is the Board as a whole which is responsible for making new appointments upon our recommendation.

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 two occasions. A quorum is three members, the majority of whom must be independent Non-Executive Directors. Members of the Committee are not involved in matters affecting their own position.

As at 31 December 2018, the Committee comprised the Chairman, the Chief Executive Officer and the five independent Non-Executive Directors of the Company.

Chairman of the Committee	Members
Mr A.J. Allner	Ms A. Abt
	Ms J.E. Ashdown
	Mr I.B. Duncan
	Mr A.C. Lovell
	Mr M. Oldersma
	Mr C.M.P. Ragoucy

During the year, the Nominations Committee considered the Board's structure and recommendations for re-election of directors at the 2018 AGM, and recommended the appointments of Mr A.C. Lovell and Mr C.M.P. Ragoucy.

## Board succession planning

The Nominations Committee gives full consideration to succession planning for directors, both Non-Executive and Executive, and other senior management of the Company in the course of its work, taking into account the challenges and opportunities facing the Company and determining what skills and expertise will thus be required on the Board in the future.

Mr C.V. Geoghegan retired from the Board on 9 March 2018. Mr M. Ewell replaced Mr Geoghegan as Senior Independent Director until his subsequent retirement from the Board on 31 July 2018. This was part of a succession process whereby Mr Ewell agreed to serve on the Board until a new Non-Executive Director had been identified and appointed. Mr A.C. Lovell was appointed the Senior Independent Director on joining the Board on 1 August 2018. Mr C.M.P. Ragoucy was also appointed a Non-Executive Director on 1 August 2018. Mr Lovell and Mr Ragoucy will offer themselves for election at the May 2019 Annual General Meeting.

In making recommendations for the annual re-election of the Chairman and Non-Executive Directors, the Committee considers the skills, knowledge, experience, independence and also the time commitments of each director to ensure that they have sufficient time to fulfil their responsibilities to the business. During 2018, I significantly reduced my external commitments following my retirement as Chairman and Non-Executive Director of Marshalls plc in May 2018 and as Non-Executive Director of Northgate plc in December 2018. I retain my roles as Chairman of Fox Marble plc and of The Go-Ahead Group plc. As a small company traded on AIM, my time commitments in respect of Fox Marble plc are relatively low. I have also demonstrated a significant time commitment to SIG during the year through my involvement in the audit tender and the shareholder consultation on a new Directors' remuneration policy. Following his appointment as a Non-Executive Director of SIG and as discussed with the Company in advance, Mr Ragoucy has been appointed interim CEO of Balta Group NV, where he also serves as Chairman. This is a temporary position which will cease once a new CEO for Balta Group NV is identified.

Taking into account the above and having considered the time commitments of the other Non-Executive Directors, the Committee and the Board have confirmed they are satisfied that I and the other Non-Executive Directors have sufficient time to fulfil our responsibilities to the business.

All directors will be put forward for re-election at the 2019 AGM with the exception of Ms J.E. Ashdown who will retire at the conclusion of the AGM.

## 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.

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 appointments of Mr A.C. Lovell and Mr C.M.P. Ragoucy, the Committee used the services of Lygon Group (who have no other connection with the Company).

The process described above was followed in respect of the appointments of Mr A.C. Lovell and Mr C.M.P. Ragoucy as Non-Executive Directors with effect from 1 August 2018.

Following the appointment of a new director, the Chairman, in conjunction with the Company Secretary and the Group Human Resources Director, 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 & Internal Audit and Strategic & 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 term of office.

## Diversity

The Board 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 policy on Board diversity is available on the Company's website ([www.sigplc.com](http://www.sigplc.com)). The policy states, amongst other things, that the Board will keep under review and evaluate its balance and composition to ensure that both it and its Committees have the appropriate mix of skills, experience, independence and knowledge to ensure their continued effectiveness. In doing so, the Board will take into account diversity, including diversity of gender and cultural background, amongst other relevant factors.

The Board recognises that gender diversity is a significant aspect of diversity and acknowledges Hampton-Alexander Review recommendations which aim to increase the number of women in leadership positions in FTSE 350 companies, including a target of 33% representation of women on FTSE 350 company boards by 2020. The Board also notes recommendations of the Parker Review on ethnic diversity on UK boards.

The Board supports the Hampton-Alexander recommendations and Parker Review recommendations. Female representation on the Board is currently at 25%. The Committee will continue to consider diversity when recommending any future Board appointments. The Committee is seeking to increase female representation, in particular at senior management level across the Group.

As part of corporate governance, the Committee reviews its own performance annually and considers where improvements can be made. The Committee's performance was reviewed in January 2019 as part of the external review of Board and Committee effectiveness.

## 2019 objectives

It is the Nominations Committee's intention to continue to oversee the composition and structure of the Board, ensuring that the Group is at all times structured to successfully deliver its strategy and to compete effectively in the marketplaces within which it operates. The Nominations Committee will also continue to closely monitor the structure, membership and succession plans of senior management and the Board Committees, making recommendations to the Board where considered appropriate.

The proposed activities for the Committee in 2019 are:

- review the succession plans for Board and senior management in light of the requirements of the 2018 UK Corporate Governance Code (the '2018 Code') to ensure that they are based on merit and objective criteria and promote the Group's diversity objectives;
- review the Group's talent objectives and pipeline;
- review the Terms of Reference of the Committee to ensure they reflect best practice under the 2018 Code;
- continue to monitor and assess the Board's composition and diversity in light of the third report of the Hampton-Alexander Review and the Parker Review; and
- longer term succession planning.

### Andrew Allner

Chair of the Nominations Committee

7 March 2019

# Directors' remuneration report

## Where is the information?

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What is our Remuneration Policy?	92	How did we implement the Policy in 2018 and how will we in 2019?	92
Additional context on our Executive Directors' pay	95	Additional information	104

## Who is on the Committee, how many times did we meet and what did we do?

The Committee addressed the following key agenda items during its five meetings in 2018:

31 January 2018	6 March 2018	2 August 2018	27 November 2018	20 December 2018
Consideration of long-term incentive plan structures	Review and approval of incentive outcomes for the annual bonus in respect of performance for the year to 31 December 2017.	Shareholder consultation on long-term incentive plan structure for Executive Directors.	Review of Executive Director and GEC member salaries.	Consideration of award levels and performance targets for 2019 Management Incentive Plan awards for participants below Board.
	Consideration and approval of the Management Incentive Plan for participants below Board.	Appointment of PwC as Remuneration Committee advisors.	Consideration of participants under Management Incentive Plan for 2019.	Review of 2018 Directors' remuneration report.
	Consideration of long-term incentive plan structures for Executive Directors.	Update on remuneration-related sections of the new UK Corporate Governance Code.	Update on approval of the new Directors' Remuneration Policy at the General Meeting on 7 November 2018.	Consideration of the new Corporate Governance Code.
	Review and approval of the 2017 Directors' remuneration report.			Consideration of external market developments and best practice in remuneration.

As at 31 December 2018, the Committee comprised the five independent Non-Executive Directors of the Company.

Chair of the Committee	Members	Departed during the year (date)	Joined during the year (date)
Ms J.E. Ashdown	Ms A. Abt		
	Mr I.B. Duncan		
	Mr A.C. Lovell		1 August 2018
	Mr C.M.P. Ragoucy		1 August 2018
	Mr M. Ewell	31 July 2018	
	Mr C.V. Geoghegan	9 March 2018	

## Who supports the Committee?

### Internal

During the year, we sought internal support from the CEO, CFO and Group HR Director, whose attendance at Committee meetings was by invitation from the Chair, to advise on specific questions raised by the Committee and on matters relating to the performance and remuneration of the senior management team. The Company Secretary attended each meeting as Secretary to the Committee. No director was present for any discussions that related directly to their own remuneration.

### External

Mercer Kepler, an independent firm of remuneration consultants appointed by the Committee, was the remuneration advisor until July 2018. On 2 August 2018 PwC LLP were appointed remuneration advisor.

Both attended Committee meetings as required and provided advice on remuneration for Executive Directors, analysis on all elements of the Remuneration Policy and regular market and best practice updates. Both report directly to the Committee Chair and are signatories to, and abide by, the Code of Conduct for Remuneration Consultants of UK-listed companies (which can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com)). Mercer Kepler's parent, the MMC Group, does not provide any other non-remuneration-related services to the Company. During the financial year PwC LLP also provided advice relating to corporate tax, pensions, gender pay, strategy consulting and distributable reserves. The Committee is satisfied that the advice it received from Mercer Kepler and PwC LLP is independent. Mercer Kepler's fees for the year were charged on a time and materials basis and totalled £8,316 in respect of 2018 (2017: £34,525). PwC's fees were £45,000.

## What are the Committee's responsibilities?

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](http://www.sigplc.com)). The Committee has adopted new Terms of Reference for 2019 to reflect the wider responsibilities under the new UK Corporate Governance Code in relation to wider workforce remuneration and the operation of incentive plans throughout the Company.

## Compliance statement

This Report, prepared by the Committee on behalf of the Board, 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 (Financial Statements 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 183 to 192 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.

# Directors' remuneration report

Annual statement



“Our aim is to ensure that the remuneration arrangements support the strategic aims of the Company and enable the recruitment, motivation and retention of senior executives to deliver sustainable long term performance in line with the purpose and culture of the Company.”

**Janet Ashdown**

Chair of the Remuneration Committee

## Dear Shareholder,

I am writing to you as the Chair of SIG plc Remuneration Committee and am pleased to set out in this report how the Committee has carried out its objectives and responsibilities during 2018.

This report is divided into two; an introduction and a new “AT A GLANCE” summary of our activities and our Annual remuneration report, showing how our Policy was applied during the year and outcomes for our Executive Directors. During the year we received shareholder approval for a new Policy. I have, therefore, set out in my Statement the link to the Company's performance in 2018 with the key remuneration outcomes for this year and then the background to the new Policy, engagement with shareholders, and in the new “AT A GLANCE” section the principal details of the new policy and how the Committee is proposing to operate it for the 2019 financial year.

## 2018 performance

### Financial highlights

- Underlying revenue down 1.2% due to challenging market conditions and focus on profitability over volume
- Underlying gross margin up 50bps and operating costs down
- Underlying PBT (excluding property profits) up 25% to £72.7m (2017: £58.1m)
- Return on sales (excluding property profits) up to 3.3% (2017: 2.7%)
- Net debt sharply lower at £189.4m (2017: £258.7m) and headline financial leverage down to 1.7x (2017: 2.3x)
- ROCE up 100bps to 10.3% (2017: 9.3). EPS up to 3.0p (2017: (10.2)p)
- Final dividend of 2.5p, bringing the total for the year to 3.75p (2017: 3.75p)

### Operational highlights

- Significant operational and financial progress in the year as the transformation starts to deliver
- Strengthened senior leadership team and enhanced capability provide the platform for the business to build on its potential
- Improvement in operational efficiency reflected in reduced costs and working capital
- Refocus of portfolio of businesses largely complete. Air Handling fully integrated as pan-European business
- Improved IT and management information helping to sustain the transformation for the longer term

Please see Chairman's statement on pages 2 to 4 for further information.

It is against this background that the Committee has made its decisions on remuneration for 2018.

### 2018 bonus

The bonus performance conditions for 2018 were:-

- 50% Profit before Tax (PBT);
- 50% Return on Capital Employed (ROCE);
- Any bonus is subject to a health and safety gateway which has to be met before any bonus can be earned.



Performance against the targets is set out below in the following table:

Performance condition	Threshold	Target	Maximum	Actual	% age of salary earned	Bonus earned CEO	Bonus earned CFO
PBT	£85m	£90m	£95m	£72.7m	0	0	0
ROCE	11.3%	11.8%	12.3%	10.3%	0	0	0
					<b>Total</b>	<b>0</b>	<b>0</b>

\* It should be noted that the health and safety gateway was satisfied for 2018.

### 2018 LTIP vesting

Mr M. Oldersma (the "CEO") was appointed to the Board on 3 April 2017 and Mr N.W. Maddock (the "CFO") on 1 February 2017. Therefore, there were no LTIP awards capable of vesting during the year for the Executive Directors.

### New policy

At the General Meeting of the Company on 7 November 2018, a new Remuneration policy was approved by shareholders which included the new SIG plc bonus plan (the "Bonus Plan") and the SIG plc 2018 Long Term Incentive Plan (the "2018 LTIP"). This followed extensive consultation by me on behalf of the Committee during the year. At the end of a successful consultation process for which I would like to thank the Company's shareholders and the main shareholder representative bodies, the policy and its component parts received strong shareholder support:

- Remuneration policy – 85.45%
- Bonus plan – 85.79%
- 2018 LTIP – 87.67%

### Background to the new policy

SIG plc has been through a turbulent period over the last few years which has seen the make-up of its Board change significantly. A new management team articulated the Company's new plan at the Group's strategy day in November 2017 and has begun the execution of this plan.

It is the view of the Board that the key measure of the success of the implementation of the strategy over the next period will be the generation of substantial and sustained total shareholder return. The Board is under no illusion that the Company is in a turnaround situation.

The Board believes that in the CEO and CFO they have a highly entrepreneurial team who have the skills necessary to implement the strategy and achieve a turn-around in the Company's performance.

The Remuneration Committee thought hard about the appropriate way to incentivise the CEO, CFO and our core key management to deliver the strategy over the next period. Any incentive arrangement needed to deal with the following challenges:

- Strategy implementation is not linear and priorities change over the period therefore setting targets on the grant of a standard 3 year LTIP is extremely challenging as they may not be the right targets during the performance period;

- The nature of the strategy implementation may result in the need to adjust performance conditions during the standard 3 year LTIP performance period; this process makes the targets and their satisfaction opaque to all stakeholders including the participants and shareholders;
- It is the Board's view that the key output of the effective implementation of the strategy is substantial and sustained total shareholder return. The Board does not feel it is appropriate given the current position of the Company to reward Executive Directors for the delivery of objectives which do not result in this;
- There is a substantial risk of failure for the Executive Directors given the unsuccessful attempts to turn around the Company in the past; the Committee was therefore keen to ensure that there is sufficient upside reward to balance this risk; and
- Any incentive arrangement needs to incentivise and retain a highly entrepreneurial CEO and CFO. It is the Committee's view that it is essential to lock in and incentivise the new Executive Directors over the next period to enable them to implement the strategic plan and generate sustainable long-term returns for shareholders. In the Committee's opinion the best way to measure the new Executive Directors' success is to quantify the output of the new strategy in maximising the long-term sustainable value of the business through the delivery of absolute shareholder return.

The above principles were built into the Bonus Plan and 2018 LTIP approved by shareholders, full details of which are set out in the Notice of General Meeting dated 15 October 2018 and which are summarised in the "AT A GLANCE" section following my statement on page 90.

The Committee is also aware of the changes to the recently updated UK Corporate Governance Code. The Committee has monitored the updates with interest and was comfortable that the changes to the Company's Remuneration Policy and new incentive plans are in line with the Code's updated provisions in relation to remuneration.

# Directors' remuneration report

## Annual statement

### Shareholder engagement on the new policy

The Committee consulted extensively with shareholders and the main shareholder representative bodies on the amendments to the Remuneration policy and new incentive plans and the original proposals were changed materially as a result of the feedback received.

The original approach of a value sharing plan proposed by the Committee was changed to the Incentive Plans approved by shareholders due to a desire by a number of the Company's shareholders to see an approach more in line with a standard FTSE 250 Bonus Plan and LTIP with a reduced potential quantum compared to the original value sharing plan. Whilst the majority of shareholders recognised the Company was in a recovery stage and therefore a leveraged plan focused on driving absolute total shareholder return would be appropriate, there was a view that there should be a number of comparative and absolute underpins

to any plan using this measure. All shareholders supported the Committee's desire for an incentive approach resulting in the long-term build-up and retention of material shareholdings by the Executive Directors.

The Committee and I felt that the shareholder engagement process resulted in an approach that supported the Company's objectives and met the desires of the majority of the Company's stakeholders as demonstrated by the votes received at the November General Meeting.

The following table sets out how the new incentive plans meet the Committee's objectives set out above and addressed the points raised during the shareholder consultation:

Objective	Bonus Plan	LTIP
<b>Simple measurement of success</b>	<p>The Committee will use the Bonus Plan to set short term financial, strategic and operational performance conditions. This is designed to ensure that the Executive Directors are incentivised to make the correct decisions today to ensure the long-term sustainable future for the Company.</p> <p>A significant proportion of the bonus is payable in shares subject to a five year retention period which helps ensure that a material amount of the value that Executive Directors receive will be dependent on whether the operational changes and short term financial performance for which the bonus was earned flows through to long-term sustainable shareholder value; which will be reflected in the share price and therefore the ultimate value of the deferred shares awarded to the Executive Directors.</p> <p>Ensures a meaningful amount of the overall incentive opportunity is focused on delivering the financial performance of the Company; recognising the challenge of using the LTIP for this purpose given the requirement to set multi-year performance targets and the lack of visibility.</p>	<p>The primary performance condition for the LTIP is absolute TSR. Therefore, if the value of the Company increases the Executive Directors will receive their LTIP award (subject to the safeguards built around the gateway conditions).</p>
<b>Substantial and sustained total shareholder return</b>	<p>56% of the maximum bonus will be payable in shares which will not be fully vested and released to participants for five years.</p> <p>This results in a material long-term locked-in shareholding for the Executive Directors ensuring they share the same ownership experience as other shareholders over this period.</p>	<p>No LTIP award will be earned unless absolute TSR performance targets are met.</p> <p>To ensure that this is a comparatively strong level of performance comparative TSR performance conditions will have to be satisfied.</p> <p>To ensure that TSR is not at the expense of financial stability a ROCE performance condition has to be satisfied.</p>
<b>Lock-in &amp; retention</b>	<p>56% of the maximum bonus is provided in long-term shares earned on an annual basis. This means for new Executive Directors that they have the potential to build up a material locked-in shareholding in a short period of time. This shareholding will provide alignment with shareholders' interests and a retentive effect.</p> <p>The long tail of shares from the operation of the Bonus Plan:</p> <ul style="list-style-type: none"> <li>■ Provides a strong retentive component; and</li> <li>■ Encourages long-term thinking from the Executive Directors to ensure that the foundations build are maintained over the longer term and past their departure from the Company.</li> </ul>	<p>Shares under the LTIP will not be fully vested and released to participants for five years, providing a long-term lock-in of participants.</p> <p>This is supported by a market leading level of minimum shareholding requirement of 300% of salary.</p>
<b>Risk vs. reward</b>	<p>The Committee has set a total incentive opportunity at a maximum of 450% of salary. This has been set in the upper quartile for the FTSE 250 to provide a substantial reward to the entrepreneurial Executive Directors if they deliver above upper quartile absolute and comparative performance.</p>	

## Application of the new policy

The first award under the 2018 LTIP was made on 8 November 2018 (key terms are summarised in the “AT A GLANCE” section on page 90 with full details provided in the Annual Report on Remuneration on page 101. The Bonus Plan will be operated for the first time in respect of the 2019 financial year (key terms are summarised in the “AT A GLANCE” section on page 90).

## Wider workforce considerations

SIG is committed to creating an inclusive working environment and to rewarding our employees throughout the organisation in a fair manner. In making decisions on executive pay, the Remuneration Committee considers wider workforce remuneration and conditions. We believe that employees throughout the Company should be able to share in the success of the Company and in 2005 we introduced a Share Incentive Plan for this purpose. We also believe that employees should have the opportunity to save for their futures and to this end we operate pension saving mechanisms for all employees.

As part of our commitment to fairness, we have introduced a new section to this Report (see page 96) which sets out more information on our wider workforce pay conditions, our CEO to employee pay ratio, our gender pay statistics, and our diversity initiatives. Whilst we recognise there is much work still to do, we believe that transparency is an important first step towards making improvements in relation to these important issues.

## Shareholders

I would like to thank our shareholders for their continued support during the year. I will be available at the Company's Annual General Meeting on 8 May 2019 to answer any questions in relation to this Remuneration report.

### Janet Ashdown

Chair of the Remuneration Committee

7 March 2019

# Directors' remuneration report

## Annual statement

### Voting outcomes

The following table shows the results of the advisory vote on the Annual Report on Remuneration of the 2017 Directors' remuneration report at the 10 May 2018 AGM and the results of the binding vote on the Remuneration policy at the 7 November 2018 General Meeting:

		For	Against	Total votes cast	Votes withheld
Annual Report on Remuneration	Total number of votes	456,590,411	10,396,427	466,986,838	38,130,624
	% of votes cast	97.77%	2.23%	100%	
Current Remuneration policy	Total number of votes	454,060,422	77,305,353	531,365,775	204,667
	% of votes cast	85.45%	14.55%	100%	

### At a glance

The Remuneration Committee report is colour coded as follows:		Business context 2018 out-turns against KPIs	KPI and out-turn
SIG Executive pay components of remuneration	<b>Salary</b>		Like-for-Like sales
	<b>Pension</b>		Return on sales
	<b>Benefits</b>		ROCE
	<b>Bonus</b>		Headline financial leverage
	<b>Long-Term Incentive Plan</b>		AIR
<b>Shareholding ownership requirements</b>			
			£(2.1)%
			3.3%
			10.3%
			1.7x
			11.3

### How do our incentive performance measures align to our strategy?

In executing our strategy, we aim to create value and positive outcomes for our shareholders and all other stakeholders. We continually consider the performance measures we use for our incentives to ensure they support the delivery of our strategy.

#### Our strategic priorities

Strong positions in our core markets: as a specialist distributor of insulation and interiors products, a merchant of roofing and exteriors products and a pan-European specialist provider of air handling solutions.

Partner of choice: We add value as the supply chain partner of choice for specialist building materials across Europe.

Experienced and passionate workforce: We have a capable and experienced team, committed to partnership with our customers and suppliers and with a strong focus on health and safety.

Creating long-term value: through delivery of the operational and financial transformation of our businesses.

#### Our key performance indicators

Like-for-Like sales  
Return on sales  
ROCE  
Headline financial leverage  
Accident incident rate

#### Annual bonus

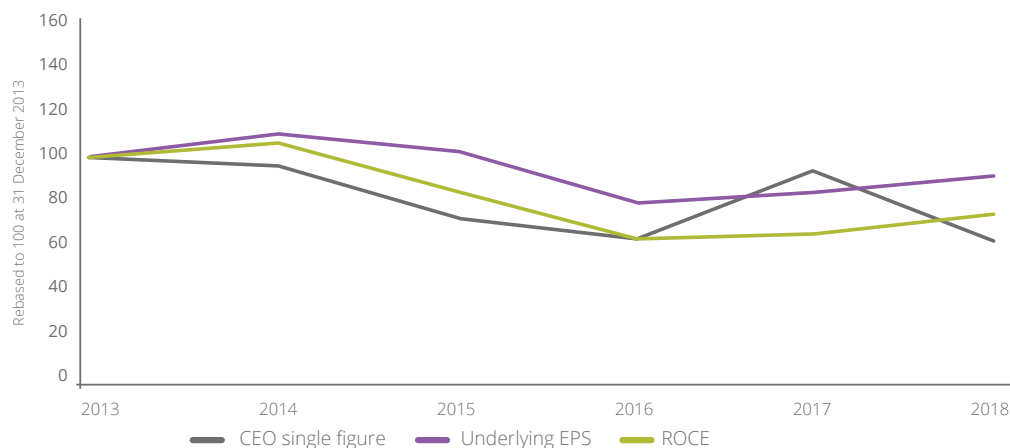
#### Long-Term Incentives

Measures	Link to strategy	Link to KPIs
<b>PBT</b>	<ul style="list-style-type: none"> <li>■ Focus on growth in sales and returns</li> <li>■ Key measure of organic growth</li> <li>■ Linked to shareholder value</li> </ul>	✓
<b>ROCE</b>	<ul style="list-style-type: none"> <li>■ Focus on operational efficiency</li> <li>■ Focus on sustainable investment</li> <li>■ Linked to shareholder value</li> </ul>	✓
<b>Health &amp; Safety</b>	<ul style="list-style-type: none"> <li>■ All employees, customers and suppliers should be able to work in a safely managed environment across every part of the SIG Group</li> </ul>	✓

Measures	Link to strategy	Link to KPIs
<b>Absolute TSR</b>	<ul style="list-style-type: none"> <li>■ Linked to the delivery of long-term shareholder value/dividend strategy</li> </ul>	✓
<b>Relative TSR</b>	<ul style="list-style-type: none"> <li>■ Focus on outperformance of the market</li> </ul>	✓
<b>ROCE</b>	<ul style="list-style-type: none"> <li>■ Focus on operational efficiency</li> <li>■ Focus on sustainable investment</li> <li>■ Linked to shareholder value</li> </ul>	✓
<b>Shareholding guidelines</b>	<ul style="list-style-type: none"> <li>■ Linked to shareholder value</li> </ul>	✓

## Long term performance

The following charts show the single figure of remuneration for 2013 to 2018 compared to the Company's EPS and ROCE over the same period (rebased to 100 as at 31 December 2013). The charts demonstrate a strong correlation between Company performance demonstrated by these measures and the remuneration paid to our Executive Directors.



## Remuneration in respect of 2018

What did our Executive Directors earn during the year?

### Fixed components

Mr M. Oldersma	
<b>Salary:</b>	£568,400
<b>Pension:</b>	£85,260
<b>Benefits:</b>	£15,602

### Fixed components

Mr N.W. Maddock	
<b>Salary:</b>	£365,400
<b>Pension:</b>	£54,810
<b>Benefits:</b>	£16,250

2018 Bonus out-turn							
		Threshold (25% payable)	Target (50% payable)	Maximum (100% payable)	Outcome (% salary)	CEO Actual £'000	CFO Actual £'000
<b>PBT</b>	Actual: 72.7m	Threshold: £85m	Target: £90m	Max: £95m	0	0	0
<b>ROCE</b>	Actual: 10.3%	Threshold: 11.3%	Target: 11.8%	Max: 12.3%	0	0	0
<b>Health &amp; Safety gateway</b>	Met						
<b>Total</b>						0	0

LTIP out-turn		CEO Actual £'000	CFO Actual £'000
No LTIP award vested during the year.			

Total single figure of remuneration		CEO £'000	CFO £'000
2018		669	436
2017		794	626

# Directors' remuneration report

## Directors' remuneration policy

### What is our Remuneration policy?

In this section we provide a summary of the key elements of the new Remuneration policy for Executive Directors approved by shareholders at our 2018 General Meeting on 7 November 2018. In addition, we have set out how the current policy was operated in 2018 and how it is intended that the new Remuneration policy is to be operated in 2019. You can find the full new Remuneration policy in the Company's Notice of General Meeting dated 15 October 2018 at [www.sigplc.com/investors/information-for-shareholders/agm-notices-and-results](http://www.sigplc.com/investors/information-for-shareholders/agm-notices-and-results).

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. A significant proportion of remuneration takes the form of variable pay, which is linked to the achievement of specific and stretching targets that align with the creation of shareholder value and the Company's strategic goals.

Element and link to strategy	Period over which earned	How we implemented the current policy in 2018	How we will implement the new policy in 2019
	18 19 20 21 22 23 24		
<p><b>Salary</b> To attract and retain talent in the labour market in which the Executive Director is employed.</p> <p>It is anticipated that salary increases will generally be in line with the general employee population.</p>	→	<p><b>Executive Director salaries for 2018 were as follows:</b></p> <ul style="list-style-type: none"> <li>■ CEO – £568,400;</li> <li>■ CFO – £365,400.</li> </ul> <p>Salary increases were 1.5% in 2018, in line with inflation and increases for UK employees generally.</p>	<p>A salary increase of 1.5% will be applied at the salary review date. From 1 January 2019, Executive Director salaries will be</p> <ul style="list-style-type: none"> <li>■ CEO – £577,000;</li> <li>■ CFO – £371,000.</li> </ul> <p>The general employee base salary increase was 1.5%.</p>
<p><b>Pension</b> To provide retirement benefits that are appropriately competitive within the relevant labour market.</p>	→	The maximum Company contribution or pension allowance is 15% of salary.	<p>No change for current Executive Directors.</p> <p>When recruiting or promoting new Executive Directors the Committee will aim at aligning the pension contribution to be provided to those of employees.</p>
<p><b>Benefits</b> To provide benefits that are appropriately competitive within the relevant labour market.</p> <p>Benefits include (but are not limited to) a company car, medical and permanent health insurance. Benefits are reviewed annually and their value is not pensionable.</p>	→	Benefits may vary by role. The cost of benefits may vary as a result of factors outside the Company's control (e.g. increases in healthcare insurance premiums), though it is not anticipated that the cost of benefits will exceed £35,000 per annum per Executive Director over the term of the policy.	No change.

Element and link to strategy	Period over which earned						How we implemented the current policy in 2018	How we will implement the new policy in 2019
	18	19	20	21	22	23		
<p><b>Annual bonus</b> See page 88 for rationale behind the new Bonus Plan.</p> <p><b>Bonus operation for 2018</b></p> <ul style="list-style-type: none"> <li>2/3rds payable in cash;</li> <li>1/3rd payable in shares deferred for 3 years and subject to continued employment.</li> </ul> <p><b>Bonus operation for 2019</b></p> <ul style="list-style-type: none"> <li>2/3rds payable in cash up to a maximum of 66% of salary;</li> <li>1/3rd payable in shares up to 100% of salary;</li> <li>100% of any bonus above 100% of salary deferred in shares;</li> <li>All shares deferred for 3 years and subject to continued employment;</li> <li>2 year holding period following vesting for deferred shares.</li> </ul>	→	→	→	→	→	→	<p><b>Maximum opportunity in 2018 was as follows:</b></p> <ul style="list-style-type: none"> <li>CEO – 100% of base salary</li> <li>CFO – 100% of base salary</li> </ul> <p><b>The performance measures were:</b></p> <ul style="list-style-type: none"> <li>EPS (50%)</li> <li>ROCE (50%)</li> <li>Any bonus is subject to a health and safety gateway which has to be met before any bonus can be earned</li> </ul> <p>See page 101 for bonus outcomes for 2018.</p>	<p>Maximum opportunity in 2019 will be as follows:</p> <ul style="list-style-type: none"> <li>CEO – 150% of base salary</li> <li>CFO – 150% of base salary</li> </ul> <p>The performance measures remain the same as for 2018.</p> <p>It is the view of the Committee that the targets for the bonus are commercially sensitive as they are primarily related to budgeted future profit and debt levels in the Company and therefore their disclosure in advance is not in the interests of the Company or shareholders. The Committee will, however, provide full retrospective disclosure to enable shareholders to judge the level of award against the targets set.</p>
<p><b>2018 Long-Term Incentive Plan</b> See page 88 for rationale behind the new 2018 LTIP.</p> <ul style="list-style-type: none"> <li>Maximum Initial Award 200% of salary with the ability to increase by a multiple of 1.5x for exceptional performance giving an overall maximum of 300%;</li> <li>3 year performance period;</li> <li>2 year holding period.</li> </ul>	→	→	→	→	→	→	<p><b>LTIP award granted in 2018 was as follows:</b></p> <ul style="list-style-type: none"> <li>CEO – Initial Award 200% of base salary (with multiplier 300%)</li> <li>CFO – Initial Award 200% of base salary (with multiplier 300%)</li> </ul> <p><b>Performance conditions:-</b></p> <p><b>Initial Award:</b></p> <ul style="list-style-type: none"> <li>Median TSR compared to the FTSE 250 or no award capable of vesting</li> <li>ROCE of 10% p.a. or no award capable of vesting</li> <li>Vesting based on absolute TSR growth 8% p.a. (25% of the award vests) with full vesting at 14% p.a.</li> </ul> <p><b>Multiplier:</b></p> <ul style="list-style-type: none"> <li>Upper quartile TSR compared to the FTSE 250 or no award capable of vesting</li> <li>ROCE of 12.5% p.a. or no award capable vesting</li> <li>Initial Award multiplied by 1.0x for absolute TSR growth of 14% p.a. with a multiplier of 1.5x for 18% p.a.</li> </ul> <p>See page 101 for further details of the 2018 LTIP grant.</p>	<p>Proposed LTIP award for 2019:</p> <ul style="list-style-type: none"> <li>CEO – Initial Award 200% of base salary (with multiplier 300%);</li> <li>CFO – Initial Award 200% of base salary (with multiplier 300%)</li> </ul> <p>Same performance conditions as for 2018 grant.</p>

# Directors' remuneration report

## Directors' remuneration policy

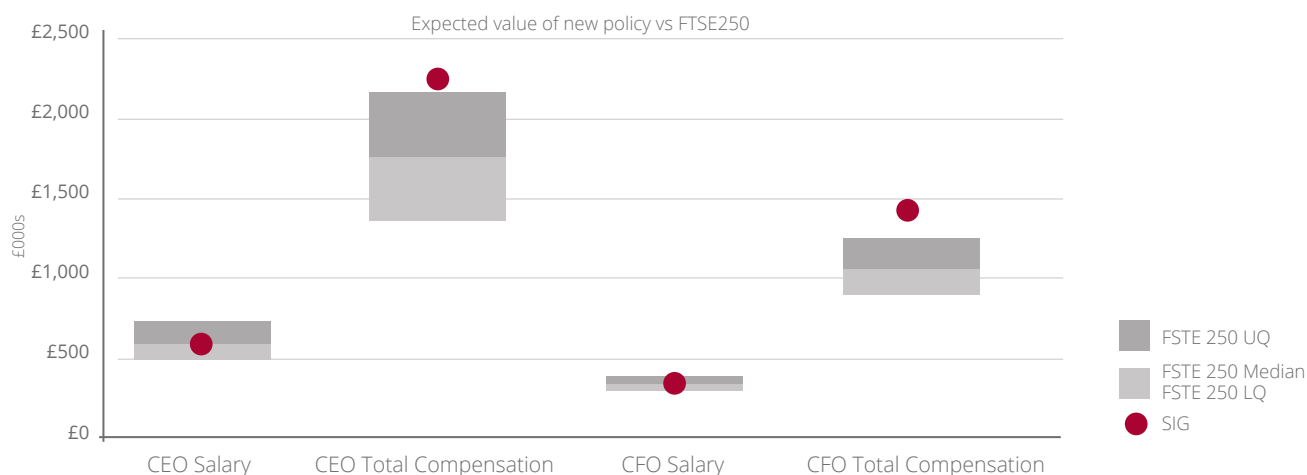
Element and link to strategy	Period over which earned							How we implemented the current policy in 2018	How we will implement the new policy in 2019
	18	19	20	21	22	23	24		
<p><b>Share ownership requirements</b></p> <p>To further align Executive Directors' interests with those of shareholders, the Company has established the principle of requiring Executive Directors to build up and maintain a beneficial holding of shares in the Company. It is expected that this should be achieved within five years of the approval of the new policy. In addition, there is an intervening check in the shareholding requirement that at two years from the adoption of the new policy, Executive Directors should hold 100% of salary in shares.</p>	→ → →							<p><b>Share ownership requirements:</b></p> <ul style="list-style-type: none"> <li>■ CEO – 200% of base salary;</li> <li>■ CFO – 200% of base salary.</li> </ul>	<p><b>Share ownership requirements:</b></p> <ul style="list-style-type: none"> <li>■ CEO – 300% of base salary;</li> <li>■ CFO – 300% of base salary.</li> </ul>
<p><b>Chairman and NED fees</b></p> <p>To attract and retain NEDs of the highest calibre with experience relevant to the Company.</p> <p>It is anticipated that increases to Chairman and NED fee levels will typically be in line with market levels of fee inflation.</p>								<p><b>Fees were increased in May 2018 to the following:</b></p> <ul style="list-style-type: none"> <li>■ Chairman £215,000</li> <li>■ NED Fee £60,000</li> <li>■ SID Fee £10,000</li> <li>■ Rem Co Chair Fee £12,000</li> <li>■ Audit Co Chair Fee £12,000</li> </ul> <p>For actual fees paid during the year please refer to the single figure table on page 102.</p>	<p>Fees will be reviewed in May 2019 and reported in the Directors' remuneration report for 2019.</p>



## Additional context to our Executive Directors' pay

### How does our target total compensation compare to our peers?

The following chart shows the relative position of salary and target total compensation for our Executive Directors compared to our peers.



When we set the target total compensation for the Executive Directors, one of the factors the Committee considers is the competitive market for our Executive Directors, which we believe is the FTSE 250, and the size of the Company compared to these peers. The Committee hopes the Executives will deliver above target performance.

The chart demonstrates the Committee's policy of ensuring that salary and benefits are set at or below the market level with the incentives allowing an overall above market positioning when the Company has performed.

### What is our 2018 single figure compared to our current policy?

When shareholders approved our Remuneration policy in 2017, we set out scenarios for the potential remuneration to be earned by our Executive Directors under the policy for various performance assumptions. We have set out the actual single figure of remuneration for the Executive Directors for 2018 against these scenarios to demonstrate how the actual remuneration paid lines up with our policy.

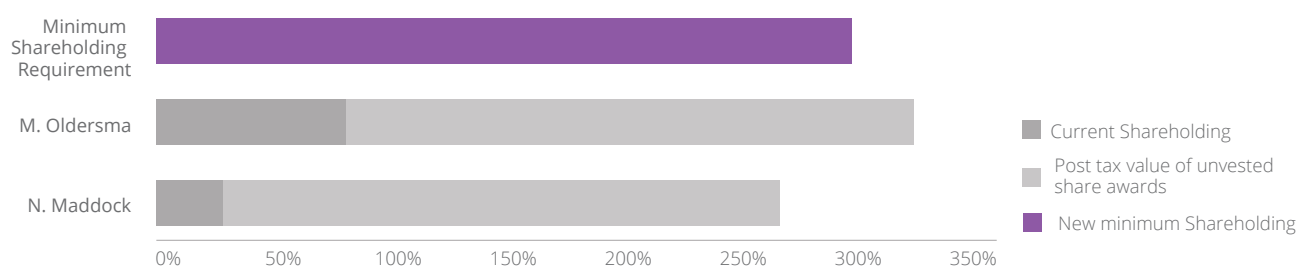


# Directors' remuneration report

## Directors' remuneration policy

### What is our minimum share ownership requirement and has it been met?

The following table shows that our Executive Directors have not yet met their new minimum share ownership requirements, given its recent adoption and their comparatively short tenure with the Company. In addition, the table shows the substantial amount of equity which can potentially be earned by our Executive Directors over the next period, further increasing their exposure to the share price performance of the Company and ensuring that their holdings will increase over time.



### Fairness, diversity and wider workforce considerations

Area	Considerations																				
<b>Competitive pay and cascade of incentives</b>	The Committee ensures that pay is fair throughout the Company and makes decisions in relation to the structure of executive pay in the context of the cascade of pay structures throughout the business. The Committee's remit extends to Executive Directors and senior management for whom it recommends and monitors the level and structure of remuneration.																				
	<table border="1"> <thead> <tr> <th>Level (number)</th> <th>Bonus Plan</th> <th>LTIP</th> <th>Management Incentive Plan (cash bonus, deferred shares, restricted shares)</th> <th>Participation in all employee equity plan (Share Incentive Plan)</th> </tr> </thead> <tbody> <tr> <td><b>Executive Directors (2)</b></td> <td>150% of salary</td> <td>200% of salary (300%)</td> <td></td> <td></td> </tr> <tr> <td><b>Senior Management (77)</b></td> <td></td> <td></td> <td>10% to 75% of salary</td> <td></td> </tr> <tr> <td><b>Employees (543 current participants)</b></td> <td></td> <td></td> <td></td> <td>Partnership and matching shares</td> </tr> </tbody> </table>	Level (number)	Bonus Plan	LTIP	Management Incentive Plan (cash bonus, deferred shares, restricted shares)	Participation in all employee equity plan (Share Incentive Plan)	<b>Executive Directors (2)</b>	150% of salary	200% of salary (300%)			<b>Senior Management (77)</b>			10% to 75% of salary		<b>Employees (543 current participants)</b>				Partnership and matching shares
	Level (number)	Bonus Plan	LTIP	Management Incentive Plan (cash bonus, deferred shares, restricted shares)	Participation in all employee equity plan (Share Incentive Plan)																
	<b>Executive Directors (2)</b>	150% of salary	200% of salary (300%)																		
<b>Senior Management (77)</b>			10% to 75% of salary																		
<b>Employees (543 current participants)</b>				Partnership and matching shares																	
<b>Saving for the future</b>	The Group has pension savings mechanism for all employees.																				
<b>Share Incentive Plan</b>	The SIG Share Incentive Plan encourages wider ownership of SIG shares across the entire workforce, which ensures that the interests of employees remain firmly aligned with those of shareholders.																				

Area	Considerations										
Pay comparisons	<p><b>CEO ratio</b></p> <p>Our CEO to employee pay ratios for 2018 are set out in the table below:</p> <table border="1" data-bbox="336 443 1458 528"> <thead> <tr> <th data-bbox="336 443 507 479">Financial Year</th> <th data-bbox="518 443 794 479">Method Used</th> <th data-bbox="805 443 1007 479">25th percentile pay ratio</th> <th data-bbox="1018 443 1219 479">50th percentile pay ratio</th> <th data-bbox="1230 443 1431 479">75th percentile pay ratio</th> </tr> </thead> <tbody> <tr> <td data-bbox="336 495 507 530">2018</td> <td data-bbox="518 495 794 530">Option B (Gender Pay data)</td> <td data-bbox="805 495 1007 530">33:1</td> <td data-bbox="1018 495 1219 530">27.:1</td> <td data-bbox="1230 495 1431 530">20:1</td> </tr> </tbody> </table> <p>For 2018, the Company has used Option B given the availability of data and on the basis that it is early adopting this disclosure. The Company feels that using Gender Pay data ensures that these individuals are reasonably representative of pay levels at the 25th, 50th and 75th percentiles. We have determined the individuals at the 25th, 50th and 75th percentiles as at 26 October 2018.</p> <p>In determining the quartile figures the hourly rates were annualised using the same number of contractual hours as the CEO. One employee with the relevant annual salary was then chosen for each quartile and the single total remuneration figure was calculated for them to compare to the CEO.</p> <p>For the purpose of the calculations the following elements of pay were included for all employees:</p> <ul style="list-style-type: none"> <li>■ Annual basic salary</li> <li>■ Private medical insurance value</li> <li>■ Car/car allowance</li> <li>■ Employer pension contribution</li> <li>■ Bonus earned in the year in question</li> <li>■ LTIP value</li> <li>■ Management incentive plan value</li> <li>■ Group Life Assurance value</li> </ul> <p>In future years, we will provide context to the ratios and set out a table showing changes over time and narrative explaining them, together with a chart tracking CEO to employee pay ratios alongside SIG's TSR performance over the same period. The Committee continues to be committed to ensuring that CEO pay is commensurate with performance.</p> <p>We are expecting there to be significant volatility in this ratio over time and we believe that this will be caused by the following:</p> <ul style="list-style-type: none"> <li>■ Our CEO pay is made up of a higher proportion of incentive pay than that of our employees, in line with the expectations of our shareholders. This introduces a higher degree of variability in his pay each year which affects the ratio. The value of long-term incentives which measure performance over three years is disclosed in pay in the year it vests, which increases the CEO pay in that year, again impacting the ratio for that year;</li> <li>■ Long-term incentives are provided in shares, and therefore an increase in share price over the three years magnifies the impact of a long-term incentive award vesting in a year.</li> <li>■ We recognise that the ratio is driven by the different structure of the pay of our CEO versus that of our employees, as well as the make-up of our workforce. This ratio varies between businesses even in the same sector. What is important from our perspective is that this ratio is influenced only by the differences in structure, and not by divergence in fixed pay between the CEO and wider workforce.</li> <li>■ Where the structure of remuneration is similar, as for the Executive Committee and the CEO, the ratio is much more stable over time.</li> </ul>	Financial Year	Method Used	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio	2018	Option B (Gender Pay data)	33:1	27.:1	20:1
	Financial Year	Method Used	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio						
2018	Option B (Gender Pay data)	33:1	27.:1	20:1							

# Directors' remuneration report

## Directors' remuneration policy

Area	Considerations													
<b>Pay comparisons</b> continued	<b>CEO pay in the last 10 years</b>													
	This table shows how pay for the CEO role has changed in the last 10 years.													
	Year	2009 £'000	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2016 £'000	2017 £'000	2017 £'000	<b>2018 £'000</b>
	Incumbent	C.J. Davies	C.J. Davies	C.J. Davies	C.J. Davies	C.J. Davies <sup>1</sup>	S.R. Mitchell <sup>2</sup>	S.R. Mitchell	S.R. Mitchell	S.R. Mitchell <sup>4</sup>	M. Ewell <sup>5</sup>	M. Ewell	M. Oldersma <sup>6</sup>	M. Oldersma
	Single figure of remuneration	1,354	1,087	1,065	1,024	1,031	987	968	765	581	100	150	794	<b>669</b>
	% of maximum annual bonus earned	45	54	96	54	50	60.5	57	0 <sup>3</sup>	n/a	n/a	n/a	70	<b>0</b>
	% of maximum LTIP awards vesting	0	0	0	0	0	n/a	n/a	19.5	n/a	n/a	n/a	n/a	<b>n/a</b>
	<ol style="list-style-type: none"> <li>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).</li> <li>Mr S.R. Mitchell was appointed to the Board on 10 December 2012 and became the Chief Executive Officer on 1 March 2013. The 2013 figure pertains to the period 1 January 2013 to 31 December 2013.</li> <li>Mr S.R. Mitchell took the decision to waive his entitlement to the 2015 annual bonus.</li> <li>Mr S.R. Mitchell stepped down as Chief Executive Officer with effect from 11 November 2016, and his remuneration relates to the period served. He did not receive a bonus for 2016, and his outstanding LTIP awards lapsed.</li> <li>Mr M. Ewell was appointed as Interim Chief Executive Officer with effect from 11 November 2016 and stepped down on 31 March 2017. He continued as an Executive Director until 20 April 2017, and his remuneration relates to the period served as CEO. Mr M. Ewell did not participate in any Group incentive schemes.</li> <li>Mr M. Oldersma was appointed Chief Executive Officer on 3 April 2017. The 2017 figure pertains to the period 3 April 2017 to 31 December 2017.</li> </ol>													

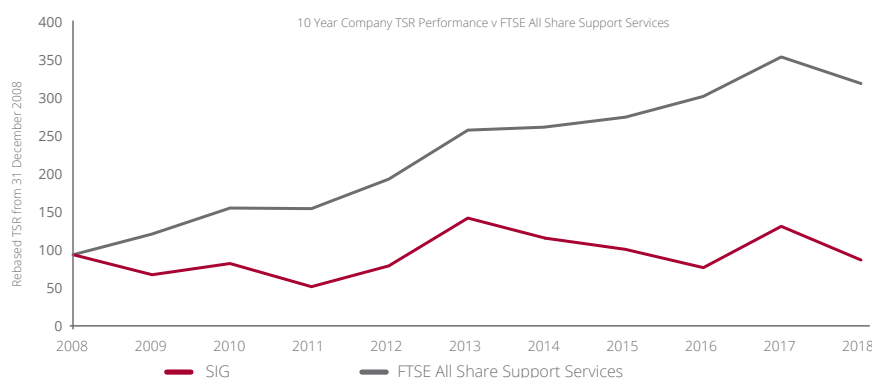
## Area

## Considerations

Pay comparisons  
continued

## Total Shareholder Return

The graph below 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 nine year period to 31 December 2018. 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.



## Percentage change in CEO's remuneration

The table below shows how the percentage change in the CEO's salary, benefits and bonus between 2018 and 2017 compares with the percentage change in the average of each of those components of pay for the UK-based employees of the Group as a whole.

	Salary £'000			Taxable benefits £'000			Bonus <sup>2</sup> £'000		
	2018	2017	Percentage change %	2018	2017	Percentage change %	2018	2017	Percentage change %
CEO pay	568	560 <sup>1</sup>	1.5	16	24 <sup>1</sup>	(33)	0	391 <sup>3</sup>	(100)
UK total pay	96,441	121,505	(20.6)	1,094	6,593	(83.4)	2,898	4,239	(31.6)
Number of employees	3,286	4,364	(24.7)	3,286	4,364	(24.7)	3,286	4,364	(24.7)
Average per employee	29.3	27.8	5.4	0.3	1.5	(77.9)	0.9	1.0	(10.0)

## Notes:

- Mr M. Oldersma was appointed Chief Executive Officer on 3 April 2017. The figures shown for 2017 represent his salary and taxable benefits on an annual basis for comparative purposes. The actual salary and taxable benefits paid to Mr Oldersma for 2017 are disclosed in the single figure table on page 101.
- The bonus figures are for UK-based employees who participate in a bonus arrangement.
- The bonus figure shown above for 2017 is an annualised amount used for comparative purposes. The actual payment for 2017 was determined pro-rata to period in office and is disclosed in the single figure table on page 101.

## What is the year-on-year change in our CEO remuneration?

The Committee monitors the changes year-on-year between our CEO pay and average employee pay, shown in the table. As per our policy, salary increases applied to Executive Directors will typically be in line with those of the wider workforce.

# Directors' remuneration report

## Directors' remuneration policy

Area	Considerations																					
<p><b>Gender pay</b></p>	<p>The UK Government Equalities Office legislation requires employers with more than 250 employees to disclose annually information on their gender pay gap. The second disclosure of the pay gap will be based on amounts paid in the April 2018 payroll. The bonus gap will be based on incentives paid in the year to 31st March 2018.</p> <p>The mean gender pay gap at SIG is 5.4%. This is lower than the UK average and mostly due to demographics within the Company. This can clearly be seen in the quartiles set out below</p> <div data-bbox="373 533 1449 987"> <table border="1"> <caption>Gender Distribution by Quartile</caption> <thead> <tr> <th>Quartile</th> <th>Female (%)</th> <th>Male (%)</th> </tr> </thead> <tbody> <tr> <td>Upper</td> <td>16.8%</td> <td>83.2%</td> </tr> <tr> <td>Upper middle</td> <td>25.9%</td> <td>74.1%</td> </tr> <tr> <td>Lower middle</td> <td>22.4%</td> <td>77.6%</td> </tr> <tr> <td>Lower</td> <td>15.9%</td> <td>84.1%</td> </tr> </tbody> </table>   <table border="1"> <caption>Mean Gaps</caption> <thead> <tr> <th>Category</th> <th>Value (%)</th> </tr> </thead> <tbody> <tr> <td>Mean pay gap</td> <td>5.4%</td> </tr> <tr> <td>Mean bonus gap</td> <td>47.8%</td> </tr> </tbody> </table> </div> <p>More information can be found on page 48 of the Sustainability report.</p> <p>More information on our Diversity and Inclusion plan can be found below.</p>	Quartile	Female (%)	Male (%)	Upper	16.8%	83.2%	Upper middle	25.9%	74.1%	Lower middle	22.4%	77.6%	Lower	15.9%	84.1%	Category	Value (%)	Mean pay gap	5.4%	Mean bonus gap	47.8%
Quartile	Female (%)	Male (%)																				
Upper	16.8%	83.2%																				
Upper middle	25.9%	74.1%																				
Lower middle	22.4%	77.6%																				
Lower	15.9%	84.1%																				
Category	Value (%)																					
Mean pay gap	5.4%																					
Mean bonus gap	47.8%																					
<p><b>Diversity initiatives</b></p>	<p><b>Equality</b></p> <p>The Group has policies that promote equality and diversity in the workforce as well as prohibiting discrimination in any form. We welcome and give full and fair consideration to applications from individuals with recognised disabilities to ensure they have equal opportunity for employment and development in our business. Wherever practicable we offer training and make adjustments to ensure disabled employees are not disadvantaged in the workplace.</p> <p>See Sustainability report for more information on pages 48 to 57.</p>																					

## Annual Report on remuneration

The following section provides details of how SIG's 2017 Remuneration policy was implemented during the financial year ended 31 December 2018, and how the Remuneration Committee intends to implement the new Remuneration policy in 2019.

### 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 2018 and the prior year:

Executive Director		Base salary <sup>1</sup> £'000	Taxable benefits <sup>2</sup> £'000	Pension <sup>3</sup> £'000	Annual bonus <sup>4</sup> £'000	LTIP <sup>5</sup> £'000	Other <sup>6</sup> £'000	Total remuneration £'000
Mr M. Oldersma <sup>7</sup>	<b>2018</b>	<b>568</b>	<b>16</b>	<b>85</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>669</b>
	2017	420	18	63	293	0	0	794
Mr N.W. Maddock <sup>8</sup>	<b>2018</b>	<b>365</b>	<b>16</b>	<b>55</b>	<b>0</b>	<b>0</b>	<b>0.23</b>	<b>436</b>
	2017	330	14	50	232	0	0.13	626

The figures in the table above have been calculated as follows:

1. Base salary/fee: amount earned for the year.
2. Benefits: include, but are not limited to, company car or car allowance and medical 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). The Bonus is calculated as a percentage of base salary. For 2017 the payment was determined pro-rata to period in office.
5. LTIP: There is no vesting in respect of either 2017 or 2018.
6. Other: includes SIP, value based on the face value of matching shares at grant.
7. Mr M. Oldersma was appointed as CEO on 3 April 2017. The figures for 2017 relate to the period following his appointment i.e. 3 April 2017 to 31 December 2017.
8. Mr N. Maddock was appointed as CFO on 1 February 2017. The figures for 2017 relate to the period following his appointment i.e. 1 February 2017 to 31 December 2017.

### Incentive outcomes for 2018 (AUDITED)

#### Annual bonus in respect of 2018

See page 91.

#### Long Term Incentive Plan: 2016 Awards

No awards vested during the year for the current Executive Directors.

#### 2018 Long Term Incentive Plan: 2018 Awards

On 8 November 2018, Mr M. Oldersma and Mr N.W. Maddock were granted awards under the LTIP of 1,494,478 and 960,735 shares respectively; details are provided in the table below. The three-year period over which performance will be measured will be 8 November 2018 to 8 November 2021. See page 93 for details of the performance conditions.

Executive Director	Date of grant	Shares subject to award	Market price at date of award	Face value at date of award	Face value at date of award (% of salary)
Mr M. Oldersma	8 November 2018	1,494,478	114.1p	£1,705,200	300%
Mr N.W. Maddock	8 November 2018	960,735	114.1p	£1,096,200	300%

# Directors' remuneration report

## Annual Report on Remuneration

### Single total figure of remuneration for Non-Executive Directors (AUDITED)

The table below sets out the single total figure of remuneration received by each Non-Executive Director for services rendered to the Company as a Non-Executive Director for the year to 31 December 2018 and the prior year:

Non-Executive Director	Base fee £'000		Committee Chair/ Senior Independent Director fees £'000		Additional Advisory Board fees £'000		Total fees £'000	
	2018	2017	2018	2017	2018	2017	2018	2017
Mr A.J. Allner (Chairman) <sup>1</sup>	202	29	-	-	-	-	202	29
Ms A. Abt	56	49	-	-	-	-	56	49
Ms J.E. Ashdown <sup>2</sup>	56	49	11	-	-	-	67	49
Mr I.B. Duncan <sup>3</sup>	56	49	12	7	-	-	68	56
Mr A.C. Lovell <sup>4</sup>	25	-	4	-	-	-	29	-
Mr C.M.P. Ragoucy <sup>5</sup>	25	-	-	-	-	-	25	-
Mr L. Van de Walle <sup>6</sup>	-	141	-	-	-	-	-	141
Mr M. Ewell <sup>7</sup>	31	32	3	-	-	-	34	32
Mr C.V. Geoghegan <sup>8</sup>	9	49	1	10	-	25	10	84
Mr J.C. Nicholls <sup>9</sup>	-	12	-	3	-	-	-	15

1. Mr A.J. Allner was appointed as Chairman on 31 October 2017.

2. Ms J.E. Ashdown was appointed Chair of the Remuneration Committee with effect from 19 December 2017.

3. Mr I.B. Duncan was appointed Chair of the Audit Committee with effect from 1 April 2017.

4. Mr A.C. Lovell was appointed a Non-Executive Director and Senior Independent Director on 1 August 2018.

5. Mr C.M.P. Ragoucy was appointed a Non-Executive Director on 1 August 2018.

6. Mr L. Van de Walle retired as Chairman on 31 October 2017.

7. Mr M. Ewell retired as a Non-Executive Director and the Senior Independent Director (a position he held since Mr C.V. Geoghegan's retirement on 9 March 2018) on 31 July 2018. The figures for 2017 relate to fees paid to Mr Ewell in his capacity as a Non-Executive Director, a position he resumed from 1 May 2017 following a period as an interim Executive Director.

8. Mr C.V. Geoghegan retired as a Non-Executive Director and the Senior Independent Director on 9 March 2018. He received a fee of £25,000 in 2017 for his additional services as the Non-Executive Chairman of the SIG Offsite Board.

9. Mr J.C. Nicholls retired as a Director and Chair of the Audit Committee on 31 March 2017.

### 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 2017 to the financial year ended 31 December 2018.

	2018 £m	2017 £m	% change
Distribution to shareholders	22.2	18.2	22%
Employee remuneration	366.1	398.2	(8%)

The directors are proposing a final dividend for the year ended 31 December 2018 of 2.50p per share (2017: 2.50p).



## Directors' interests in SIG shares (AUDITED)

The interests of the directors in office during the year to 31 December 2018, and their families, in the ordinary shares of the Company at the dates below were as follows:

	31 December 2018	1 January 2018
Ms A. Abt	8,500	8,500
Mr A.J. Allner	43,954	6,000
Ms J.E. Ashdown	44,450	44,450
Mr I.B. Duncan	-	-
Mr M. Ewell <sup>1</sup>	27,450	27,450
Mr C.V. Geoghegan <sup>2</sup>	-	40,000
Mr A.C. Lovell <sup>3</sup>	20,000	-
Mr N.W. Maddock <sup>4</sup>	78,563	718
Mr M. Oldersma	371,388	39,000
Mr C.M.P. Ragoucy <sup>3</sup>	-	-

1. Mr M. Ewell retired as a director on 31 July 2018.

2. Mr C.V. Geoghegan retired as a director on 9 March 2018.

3. Mr A.C. Lovell and Mr C.M.P. Ragoucy were appointed as directors on 1 August 2018.

4. Includes partnership and matching shares acquired under the SIP.

There have been no changes to shareholdings between 1 January 2019 and 7 March 2019 save that on 15 January 2019 and 15 February 2019 Mr N.W. Maddock acquired a further 127 and 125 shares, respectively, 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 below.

## Directors' shareholding (AUDITED)

The table below shows the shareholding of each director against their respective shareholding requirement as at 31 December 2018:

	Shares held		Nil-cost options held				Shareholding required (% basic salary) <sup>1</sup>	Current shareholding as a percentage of basic salary	Requirement met <sup>2</sup>
	Owning outright or vested	Vested but subject to holding period	Vested but not exercised	Unvested and subject to performance conditions	Unvested and subject to deferral				
Mr M. Oldersma	371,388	-	-	2,448,481	70,476	300	79%	No	
Mr N.W. Maddock	78,303	-	-	1,420,700	56,924	300	33%	No	
Ms A. Abt	8,500								
Mr A.J. Allner	43,954								
Ms J.E. Ashdown	44,450								
Mr I.B. Duncan	0								
Mr M. Ewell <sup>3</sup>	27,450								
Mr C.V. Geoghegan <sup>4</sup>	0								
Mr A.C. Lovell	20,000								
Mr C.M.P. Ragoucy	0								

1. Executive Directors are expected to achieve target shareholding within 5 years of approval of the remuneration policy.

2. Based on SIG share price of 109.8p as at 31 December 2018. Note that both the Executive Directors were appointed in 2017, consequently they have not yet built up the required holding.

3. Mr M Ewell retired as a director on 31 July 2018.

4. Mr C.V. Geoghegan retired as a director on 9 March 2018

# Directors' remuneration report

## Annual Report on Remuneration

### Directors' interests in SIG shares and option plans (AUDITED)

	Date of grant	Share price	Number of nil-cost options awarded	Face value at grant £	Performance period <sup>1</sup>	Exercise period
<b>LTIP</b>						
Mr M. Oldersma	24/04/2017 08/11/2018	117.4p 114.1p	954,003 1,494,478	1,120,000 1,705,200	01/01/2017–31/12/2019 08/11/2018–08/11/2021	24/04/2020–23/04/2027 08/11/2021–08/11/2028
Mr N.W. Maddock	24/04/2017 08/11/2018	117.4p 114.1p	459,965 960,735	540,000 1,096,200	01/01/2017–31/12/2019 08/11/2018–08/11/2021	24/04/2020–23/04/2027 08/11/2021–08/11/2028
<b>Deferred Share Bonus Plan</b>						
Mr M. Oldersma	11/04/2018	138.67p	70,476	97,729	11/04/2018–11/04/2021	11/04/2021–11/04/2028
Mr N.W. Maddock	11/04/2018	138.67p	56,924	78,937	11/04/2018–11/04/2021	11/04/2021–11/04/2028

<sup>1</sup> Pro-rated from appointment as Executive Director.

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 N.W. Maddock participated in the SIP in 2018.

The market price of shares at 31 December 2018 was 109.8p and the range during 2018 was 176.2p to 102.2p.

There were no options exercised by the directors in 2018 (2017: nil).

### External directorships

During 2018 Mr M. Oldersma held external directorships at Kondor HOLDCO Ltd and KidsFoundation Holdings B.V. for which he received £27,046 and £66,000 respectively, which he retained. Both directorships ceased during the year. He is also a director of Oldersma Management & Consultancy Ltd which is a personal services company and was used to invoice KidsFoundation Holdings B.V.

### Additional information

The following table sets out the additional information required in the Annual Report on Remuneration and where relevant its location:

Element	Information / Page
Payments for loss of office	None
Payment to former directors	None
Implementation of Remuneration policy in 2019	See pages 92 to 94
Percentage change in CEO remuneration	See page 99
TSR performance graph	See page 99

### Executive Director service contracts

Executive Directors have service agreements with an indefinite term and which are terminable by either the Group or the Executive Director on six months' notice in the case of the Chief Executive Officer and on 12 months' notice in the case of the Chief Financial Officer.

Executive Director	Date of service contract
Mr N.W. Maddock	6 October 2016
Mr M. Oldersma	13 March 2017

## 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.

NED letters of appointment are available to view at the Company's registered office.

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 A.J. Allner	10 October 2017	1 November 2017	12 May 2020
Ms A. Abt	5 March 2015	12 March 2015	May 2021
Ms J.E. Ashdown	3 April 2017	11 July 2011	12 May 2020
Mr I.B. Duncan	9 December 2016	1 January 2017	12 May 2020
Mr A.C. Lovell	28 June 2018	1 August 2018	May 2021
Mr C.M.P. Ragoucy	28 June 2018	1 August 2018	May 2021
Mr M. Ewell <sup>1</sup>	2 May 2017	1 August 2011	n/a
Mr C.V. Geoghegan <sup>2</sup>	4 April 2016	1 July 2009	n/a

<sup>1</sup> Mr M. Ewell retired from the Board on 31 July 2018.

<sup>2</sup> Mr C.V. Geoghegan retired from the Board on 9 March 2018.

## Approval of the Directors' remuneration report

The Directors' remuneration report set out on pages 84 to 105 was approved by the Board of Directors on 7 March 2019 and signed on its behalf by Janet Ashdown, Chair of the Remuneration Committee.

### Janet Ashdown

Chair of the Remuneration Committee

7 March 2019

# Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company Financial Statements 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 Financial Statements unless they are satisfied that they give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company for that period.

In preparing the Parent Company Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group Financial Statements, 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 IFRS 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 Group at that time and enable them to ensure that the Financial Statements 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 Financial Statements may differ from legislation in other jurisdictions.

## Responsibility statement

We confirm that to the best of our knowledge:

- the Financial Statements, 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; and
- the Strategic report 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.

This responsibility statement was approved by the Board of Directors on 7 March 2018 and is signed on its behalf by:

**Meinie Oldersma**  
Chief Executive Officer

7 March 2019

**Nick Maddock**  
Chief Financial Officer

7 March 2019

# Financials

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# Consolidated Income Statement

for the year ended 31 December 2018

	Note	Underlying* 2018 £m	Other items** 2018 £m	Total 2018 £m	Underlying* 2017^ Restated £m	Other items** 2017^ Restated £m	Total 2017^ Restated £m
<b>Revenue</b>	1	<b>2,683.2</b>	<b>58.7</b>	<b>2,741.9</b>	2,716.4	162.0	2,878.4
Cost of sales		<b>(1,966.5)</b>	<b>(40.5)</b>	<b>(2,007.0)</b>	(2,004.7)	(121.2)	(2,125.9)
<b>Gross profit</b>		<b>716.7</b>	<b>18.2</b>	<b>734.9</b>	711.7	40.8	752.5
Other operating expenses	2	<b>(626.1)</b>	<b>(64.5)</b>	<b>(690.6)</b>	(626.1)	(162.7)	(788.8)
<b>Operating profit/(loss)</b>		<b>90.6</b>	<b>(46.3)</b>	<b>44.3</b>	85.6	(121.9)	(36.3)
Finance income	3	<b>0.6</b>	-	<b>0.6</b>	0.5	0.1	0.6
Finance costs	3	<b>(15.9)</b>	<b>(0.5)</b>	<b>(16.4)</b>	(16.7)	(2.3)	(19.0)
<b>Profit/(loss) before tax</b>	4	<b>75.3</b>	<b>(46.8)</b>	<b>28.5</b>	69.4	(124.1)	(54.7)
Income tax (expense)/credit	6	<b>(19.8)</b>	<b>9.2</b>	<b>(10.6)</b>	(17.7)	13.2	(4.5)
<b>Profit/(loss) after tax</b>		<b>55.5</b>	<b>(37.6)</b>	<b>17.9</b>	51.7	(110.9)	(59.2)
<b>Attributable to:</b>							
Equity holders of the Company		<b>55.1</b>	<b>(37.6)</b>	<b>17.5</b>	50.7	(110.9)	(60.2)
Non-controlling interests		<b>0.4</b>	-	<b>0.4</b>	1.0	-	1.0
<b>Earnings/(loss) per share</b>							
Basic and diluted earnings/(loss) per share	8			<b>3.0p</b>			(10.2)p

^ The Group has initially applied IFRS 15 "Revenue from contracts with customers" using the modified retrospective method. Under this method, the comparative information is not restated. The Group has applied IFRS 9 "Financial instruments" retrospectively but without restating comparative information. See the Statement of Significant Accounting Policies for further details.

\* Underlying represents the results before Other items (see the Statement of Significant Accounting Policies for further details).

\*\* Other items relate to the amortisation of acquired intangibles, impairment charges, profits and losses on agreed sale or closure of non-core businesses and associated impairment charges, net operating losses attributable to businesses identified as non-core, net restructuring costs, acquisition expenses and contingent consideration, other specific items, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, 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 pages 118 and 119.

All results are from continuing operations.

The 2017 results have been restated as set out in the Statement of Significant Accounting Policies and Note 33.

The accompanying Statement of Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Consolidated Income Statement.

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	Note	2018 £m	2017 <sup>^</sup> Restated £m
<b>Profit/(loss) after tax</b>		<b>17.9</b>	(59.2)
<b>Items that will not subsequently be reclassified to the Consolidated Income Statement:</b>			
Remeasurement of defined benefit pension liability	29c	0.1	5.5
Deferred tax movement associated with remeasurement of defined benefit pension liability	23	0.1	(0.9)
Effect of change in rate on deferred tax	23	-	(0.2)
		<b>0.2</b>	4.4
<b>Items that may subsequently be reclassified to the Consolidated Income Statement:</b>			
Exchange difference on retranslation of foreign currency goodwill and intangibles		1.3	5.4
Exchange difference on retranslation of foreign currency net investments (excluding goodwill and intangibles)		(0.6)	13.6
Exchange and fair value movements associated with borrowings and derivative financial instruments		1.8	(9.2)
Tax (charge)/credit on exchange and fair value movements arising on borrowings and derivative financial instruments		(0.4)	1.8
Exchange differences reclassified to the Consolidated Income Statement in respect of the disposal of foreign operations		-	0.1
Gains and losses on cash flow hedges		2.0	(1.6)
Transfer to profit and loss on cash flow hedges		(0.7)	4.1
		<b>3.4</b>	14.2
<b>Other comprehensive income</b>		<b>3.6</b>	18.6
<b>Total comprehensive income/(expense)</b>		<b>21.5</b>	(40.6)
<b>Attributable to:</b>			
Equity holders of the Company		21.1	(41.6)
Non-controlling interests		0.4	1.0
		<b>21.5</b>	(40.6)

<sup>^</sup> The Group has initially applied IFRS 15 "Revenue from contracts with customers" using the modified retrospective method. Under this method, the comparative information is not restated. The Group has applied IFRS 9 "Financial instruments" retrospectively but without restating comparative information. See the Statement of Significant Accounting Policies for further details.

The 2017 results have been restated as set out in the Statement of Significant Accounting Policies and Note 33.

The accompanying Statement of Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Consolidated Statement of Comprehensive Income.

# Consolidated Balance Sheet

as at 31 December 2018

	Note	2018 £m	2017 <sup>^</sup> Restated £m
<b>Non-current assets</b>			
Property, plant and equipment	10	105.4	118.1
Goodwill	12	293.9	312.2
Intangible assets	13	46.2	57.0
Deferred tax assets	23	14.6	13.7
Derivative financial instruments	19	1.9	0.1
Deferred consideration	19	0.7	1.4
		<b>462.7</b>	502.5
<b>Current assets</b>			
Inventories	15	207.2	243.5
Trade and other receivables	16	477.7	480.4
Contract assets	16	1.8	-
Current tax assets	16	5.5	5.2
Derivative financial instruments	19	-	1.2
Deferred consideration	19	0.8	0.1
Cash at bank and on hand	19	83.3	108.2
Assets classified as held for sale	10	1.9	0.3
		<b>778.2</b>	838.9
<b>Total assets</b>		<b>1,240.9</b>	1,341.4
<b>Current liabilities</b>			
Trade and other payables	17	428.3	421.5
Contract liabilities	17	1.6	-
Obligations under finance lease contracts	17	3.2	3.2
Bank overdrafts	17	4.5	29.6
Bank loans	17	56.5	84.2
Private placement notes	17	-	21.1
Loan notes and deferred consideration	17	0.9	17.0
Other financial liabilities	17	1.1	8.0
Derivative financial instruments	17	0.3	0.2
Current tax liabilities	17	4.9	7.2
Provisions	17	11.0	12.0
Liabilities directly associated with assets classified as held for sale	17	-	0.1
		<b>512.3</b>	604.1
<b>Non-current liabilities</b>			
Obligations under finance lease contracts	18	20.2	20.0
Bank loans	18	-	-
Private placement notes	18	185.6	183.1
Derivative financial instruments	18	3.8	3.3
Deferred tax liabilities	23	1.4	1.4
Other payables	18	5.6	6.9
Retirement benefit obligations	29c	28.7	30.4
Provisions	18	20.4	21.7
		<b>265.7</b>	266.8
<b>Total liabilities</b>		<b>778.0</b>	870.9
<b>Net assets</b>		<b>462.9</b>	470.5
<b>Capital and reserves</b>			
Called up share capital	25	59.2	59.2
Share premium account		447.3	447.3
Capital redemption reserve		0.3	0.3
Share option reserve		1.7	1.3
Hedging and translation reserve		21.7	19.6
Cost of hedging reserve		1.0	-
Retained losses		(68.3)	(58.1)
<b>Attributable to equity holders of the Company</b>		<b>462.9</b>	469.6
<b>Non-controlling interests</b>		-	0.9
<b>Total equity</b>		<b>462.9</b>	470.5

<sup>^</sup> The Group has initially applied IFRS 15 "Revenue from contracts with customers" using the modified retrospective method. Under this method, the comparative information is not restated. The Group has applied IFRS 9 "Financial instruments" retrospectively but without restating comparative information. See the Statement of Significant Accounting Policies for further details.

The 2017 Consolidated Balance Sheet has been restated as set out in the Statement of Significant Accounting Policies and Note 33.

The accompanying Statement of Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Consolidated Balance Sheet.

The Financial Statements were approved by the Board of Directors on 7 March 2019 and signed on its behalf by:

**MEINIE OLDERSMA**  
Director

**NICK MADDOCK**  
Director

Registered in England: 00998314



# Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Share option reserve £m	Hedging and translation reserve £m	Cost of hedging reserve £m	Retained (losses)/ profits £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2017 (restated) <sup>^</sup>	59.1	447.3	0.3	1.1	7.9	-	13.2	528.9	0.8	529.7
Loss after tax	-	-	-	-	-	-	(60.2)	(60.2)	1.0	(59.2)
Other comprehensive income	-	-	-	-	11.7	-	6.9	18.6	-	18.6
Total comprehensive income/ (expense)	-	-	-	-	11.7	-	(53.3)	(41.6)	1.0	(40.6)
Share capital issued in the year	0.1	-	-	-	-	-	-	0.1	-	0.1
Credit to share option reserve	-	-	-	0.2	-	-	-	0.2	-	0.2
Exercise of share options	-	-	-	-	-	-	-	-	-	-
Current and deferred tax on share options	-	-	-	-	-	-	0.2	0.2	-	0.2
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	(0.9)	(0.9)
Dividends paid to equity holders of the Company	-	-	-	-	-	-	(18.2)	(18.2)	-	(18.2)
At 31 December 2017 (restated)	59.2	447.3	0.3	1.3	19.6	-	(58.1)	469.6	0.9	470.5
Impact of adoption of IFRS 15	-	-	-	-	-	-	(0.7)	(0.7)	-	(0.7)
Impact of adoption of IFRS 9	-	-	-	-	-	0.9	(0.7)	0.2	-	0.2
Adjusted balance at 1 January 2018	59.2	447.3	0.3	1.3	19.6	0.9	(59.5)	469.1	0.9	470.0
Profit after tax	-	-	-	-	-	-	17.5	17.5	0.4	17.9
Other comprehensive income	-	-	-	-	2.1	0.1	1.4	3.6	-	3.6
Total comprehensive income	-	-	-	-	2.1	0.1	18.9	21.1	0.4	21.5
Share capital issued in the year	-	-	-	-	-	-	-	-	-	-
Credit to share option reserve	-	-	-	0.4	-	-	-	0.4	-	0.4
Exercise of share options	-	-	-	-	-	-	-	-	-	-
Current and deferred tax on share options	-	-	-	-	-	-	(0.2)	(0.2)	-	(0.2)
Movement in reserves	-	-	-	-	-	-	(1.7)	(1.7)	1.7	-
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	(0.3)	(0.3)
Transaction between equity holders	-	-	-	-	-	-	(3.6)	(3.6)	(2.7)	(6.3)
Dividends paid to equity holders of the Company	-	-	-	-	-	-	(22.2)	(22.2)	-	(22.2)
<b>At 31 December 2018</b>	<b>59.2</b>	<b>447.3</b>	<b>0.3</b>	<b>1.7</b>	<b>21.7</b>	<b>1.0</b>	<b>(68.3)</b>	<b>462.9</b>	<b>-</b>	<b>462.9</b>

<sup>^</sup> The Group has initially applied IFRS 15 "Revenue from contracts with customers" using the modified retrospective method. Under this method, the comparative information is not restated. The Group has applied IFRS 9 "Financial instruments" retrospectively but without restating comparative information. See the Statement of Significant Accounting Policies for further details.

Total equity at 1 January 2017 and 31 December 2017 has been restated as set out in the Statement of Significant Accounting Policies and Note 33.

The share option reserve represents the cumulative equity-settled share option charge under IFRS 2 "Share-based payment" 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 page 118.

The accompanying Statement of Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Consolidated Statement of Changes in Equity.

# Consolidated Cash Flow Statement

for the year ended 31 December 2018

	Note	2018 £m	2017 <sup>^</sup> Restated £m
<b>Net cash flow from operating activities</b>			
Cash generated from operating activities	26	109.6	93.4
Income tax paid		(14.0)	(18.8)
Net cash generated from operating activities		95.6	74.6
<b>Cash flows from investing activities</b>			
Finance income received		1.0	0.5
Purchase of property, plant and equipment and computer software		(22.7)	(19.9)
Proceeds from sale of property, plant and equipment		5.1	34.6
Settlement of amounts payable for previous purchases of businesses		(17.2)	(6.9)
Net cash flow arising on the sale of businesses		35.8	17.6
Net cash generated from investing activities		2.0	25.9
<b>Cash flows from financing activities</b>			
Finance costs paid		(14.1)	(13.1)
Capital element of finance lease rental payments		(1.5)	(3.5)
Issue of share capital	25	-	-
Acquisition of non-controlling interests		(2.5)	-
Repayment of loans/settlement of derivative financial instruments		(57.1)	(87.9)
New loans		-	8.2
Dividends paid to equity holders of the Company	7	(22.2)	(18.2)
Dividends paid to non-controlling interest		(0.3)	(0.9)
Net cash used in financing activities		(97.7)	(115.4)
<b>Decrease in cash and cash equivalents in the year</b>	27	<b>(0.1)</b>	(14.9)
Cash and cash equivalents at beginning of the year	28	78.6	89.0
Effect of foreign exchange rate changes	28	0.3	4.5
<b>Cash and cash equivalents at end of the year*</b>	28	<b>78.8</b>	78.6

<sup>^</sup> The Group has initially applied IFRS 15 "Revenue from contracts with customers" using the modified retrospective method. Under this method, the comparative information is not restated. The Group has applied IFRS 9 "Financial instruments" retrospectively but without restating comparative information. See the Statement of Significant Accounting Policies for further details.

\* Cash and cash equivalents comprise cash at bank and on hand of £83.3m (2017: £108.2m) less bank overdrafts of £4.5m (2017: £29.6m).

The 2017 results have been restated as set out in the Statement of Significant Accounting Policies and Note 33.

The accompanying Statement of Significant Accounting Policies and Notes to the Financial Statements are an integral part of this Consolidated Cash Flow Statement.

# Statement of Significant Accounting Policies

The significant accounting policies adopted in this Annual Report and Accounts for the year ended 31 December 2018 are set out below.

## Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and therefore the Financial Statements comply with Article 4 of the EU IAS Regulation.

The Financial Statements have been prepared under the historical cost convention except for derivative financial instruments which are stated at their fair value. The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Financial Statements have been prepared on a going concern basis as set out on page 40.

The following subsidiaries of the Company are entitled to exemption from audit under s479A of the Companies Act 2006 relating to subsidiary companies: Building Systems Limited (registered number: 07976470) and Metecho Limited (registered number: 06464338).

The Group is committed to managing its capital structure to ensure that entities in the Group are able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Further details can be found on page 37.

There are no post balance sheet events requiring disclosure in these Financial Statements.

## Prior year restatements

As part of the transition to new auditors, the Group has reviewed certain accounting policies and judgements, resulting in a number of errors being corrected by prior year restatements to previously reported numbers. A summary of the changes made is provided below. These have been restated in these Financial Statements and full details of the effect on each financial line item affected are shown in Note 33.

### i) Definition of net debt

The Group's previous definition of net debt, as included in the 2017 Annual Report and Accounts, included the following: Derivative financial instruments (assets and liabilities), deferred consideration assets, other financial assets, cash and cash equivalents, obligations under finance lease contracts, bank overdrafts, bank loans, private placement notes, loan notes and deferred consideration liabilities.

At 31 December 2017, £8.0m of supplier balances in SIG France had been settled via a credit card working capital facility. As our previous definition of net debt did not refer to such facilities, this balance was included in trade payables at 31 December 2017.

It has been determined it would be more appropriate to treat such solutions as other financial liabilities and include within net debt. The Consolidated Balance Sheet at 31 December 2017 has therefore been restated to reclassify these balances from trade payables to other financial liabilities and to increase net debt by £8.0m, with no overall impact to net assets.

This has no impact on the Consolidated Income Statement, but resulted in a change in classification between working capital and debt movements on the Consolidated Cash Flow Statement for the year ended 31 December 2017. There was no impact on other previously reported periods as there were no such arrangements in

place at previous period ends. There are no such arrangements in place at 31 December 2018 and we have updated our definition of net debt to incorporate other financial liabilities, including this type of working capital facility.

### ii) Cash in transit

The Group has reconsidered the appropriateness of its cash policy in relation to the treatment of cash in transit by reference to current guidance, acknowledging there may be mixed custom and practice in this area. It has been determined that in some cases cash in transit was being included in cash in advance of obtaining control of funds or cheques.

The Group no longer considers this to be appropriate and has determined that cash should only include electronic receipts that are cleared funds and cheques that are physically received by the period end date. Prior year figures have been restated accordingly. This has resulted in a reduction in cash and an increase in trade receivables of £15.3m at 1 January 2017 and £13.6m at 31 December 2017. There is no impact on the Consolidated Income Statement or net assets. The Consolidated Cash Flow Statement has also been restated, with cash and cash equivalents reducing by £13.6m at 31 December 2017, resulting in an increase in net cash from operating activities of £1.7m for the year ended 31 December 2017.

### iii) Classification of lease arrangements

The accounting for sale and leaseback transactions, in particular relating to property, has been reassessed. Two transactions, in June 2017 and December 2016, are now considered to meet the criteria for recognition as a finance lease rather than an operating lease at the date of inception of the leaseback. The Consolidated Income Statement for the year to 31 December 2017, and the Consolidated Balance Sheet at that date, have been restated for this reclassification.

The restatement results in an increase in tangible fixed assets and finance lease liabilities of £13.1m at 31 December 2017.

The impact on the Consolidated Income Statement for the year ended 31 December 2017 is a reduction in underlying operating profit of £1.9m and an increase in finance costs of £0.7m, due to the add back of operating lease rentals replaced by charges for depreciation and interest, together with a change in the recognition of the profit on the sale which is now spread over the life of the finance lease instead of being recorded in full in the period of the transaction.

### iv) Provision for uncertain tax position

At 31 December 2017 there was a reported deferred tax asset of £9.2m. The Group has reassessed its deferred tax asset position and as a result believes that an increased deferred tax asset should have been recognised in relation to losses and fixed asset timing differences.

The impact of recognising this is to increase the deferred tax asset at 31 December 2017 to £12.0m, and to increase profit after tax for the year ended 31 December 2017 by £2.8m.

### v) Recognition of early settlement discounts

The Group previously accounted for early settlement discounts when paid, however, under IAS 18 "Revenue", revenue should take into account expected discounts allowed. This has no impact on the Consolidated Income Statement or Consolidated Cash Flow Statement for the year ended 31 December 2017. The Consolidated Balance Sheet has been restated at 1 January 2017 and 31 December 2017, resulting in an increase in retained losses of £1.0m at each reporting date.

# Statement of Significant Accounting Policies

## vi) Provision for leasehold dilapidations

The Group has corrected its policy for recognising provisions in relation to contractual obligations to reinstate leasehold properties to their original state of repair. Previously the provision was calculated with reference to the expired portion of individual lease agreements, where such a clause exists in the lease contract. The Group has reviewed the contractual obligations and provisions and considers that where a liability exists to rectify or reinstate leasehold improvements and modifications carried out at the inception of the lease, provision should be made at the inception of the lease, with a corresponding asset recognised in fixed assets and depreciated over the term of the lease. Provisions to rectify repairs and general wear and tear continue to be recognised as incurred over the life of the lease. Provisions for dilapidations are also required in Germany which were not previously recognised. This prior period restatement has resulted in an increase to fixed assets of £2.6m, an increase to liabilities of £7.9m and an increase in retained losses of £5.3m at 31 December 2017, and a increase to the loss after tax for the year ended 31 December 2017 of £0.5m.

## vii) Review of operating segments

The operating segments disclosure has been expanded in a manner consistent with the Group's internal reporting. Other Mainland Europe has been separated into Air Handling, Benelux and Poland, and the comparatives for previous periods have been reclassified to reflect this.

The above restatements impacted net debt and EBITDA which had an impact on headline financial leverage and interest cover covenant calculations, but the Group remained within covenant requirements for all relevant periods. The overall impact of the restatements was to increase net debt by £34.9m to £258.7m at 31 December 2017. Additional interest payable as a result of the restatements has been accrued in the relevant period (£0.4m for the year ended 31 December 2017).

## New Standards, Interpretations and Amendments adopted

The Group has initially applied IFRS 15 and IFRS 9 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's Financial Statements.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these Financial Statements has not been restated to reflect the requirements of the new standards.

### IFRS 15 "Revenue from contracts with customers"

The Group has adopted IFRS 15 using the modified retrospective method approach and therefore the 2017 comparative information has not been restated and the opening equity at 1 January 2018 is adjusted for the cumulative effect of applying IFRS 15 at that date. The comparative information continues to be reported under IAS 18 and IAS 11. The details of the significant changes and quantitative impact of the changes are set out below.

IFRS 15 applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

In the comparative period, revenue was measured at the fair value of the consideration received or receivable for goods or services, net of discounts and customer rebates, VAT and other sales-related taxes. Revenue from the sale of goods was recognised on receipt of goods by the customer. Customer rebates were accounted for as a separate component of the sales transaction, with a portion of the fair value of the consideration allocated to customer rebates and recognised in the period as earned. Revenue generated from a contract to provide services was recognised by reference to the stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenue from construction contracts was recognised by reference to the stage of completion of the contract activity at the reporting date. Stage of completion was normally measured by the proportion of contract costs incurred for work performed to date compared to the estimated total contract costs, except where this would not be representative of the stage of completion.

The cumulative catch-up adjustment to the opening balance of retained earnings as at 1 January 2018 is shown in the Statement of Changes in Equity for the year ended 31 December 2018 and resulted in an increase in opening retained losses at 1 January 2018 of £0.7m. The Group elected to apply the cumulative catch-up method only to contracts that were not completed at 1 January 2018.

The details of the significant changes and quantitative impact of the changes are set out below.

#### a) Sale of goods

The majority of the Group's revenue arises from contracts with customers for the sale of goods, with one performance obligation. Revenue is recognised at the point in time that control of the goods passes to the customer, usually on delivery to the customer. The adoption of IFRS 15 did not have an impact on the timing of revenue recognition in relation to the sale of goods, although the amount of revenue recognised is impacted by the following:

#### *Volume rebates*

The Group provides retrospective volume rebates to certain customers. Under IFRS 15, retrospective volume rebates give rise to variable consideration.

Prior to the adoption of IFRS 15, the Group estimated the expected volume rebates using an expected value approach and included a provision for rebates as a reduction to trade receivables. This continues to be appropriate under IFRS 15.

#### *Early settlement discounts*

Under IFRS 15, early settlement discounts are estimated using the expected value approach and recognised at the time of recognising the revenue, subject to the constraint regarding variable consideration that it is highly probable that a change in estimate would not result in a significant reversal of the cumulative revenue recognised. As part of our review of the application of IFRS 15 it was considered that the previous treatment of early settlement discounts under IAS 18 was inappropriate and this has been amended accordingly by a restatement of the prior year reported numbers, as noted in Prior year restatements (v) above.

## b) Construction contracts

The Group has the following revenue streams which fall under the category of "construction contracts":

- i) **Manufacture and installation of roofing systems**  
Prior to the adoption of IFRS 15, revenue was recognised in two stages - on completion of manufacture and on installation. Under IFRS 15, the Group has assessed that there is one performance obligation, being the installation of the roofing system, and that revenue can continue to be recognised over time on a milestone basis, provided appropriate terms are included in the contract to confirm entitlement to payment for performance to date. Contract terms have been amended from 1 January 2018, but an adjustment is recorded on transition in relation to contracts in progress under previous contract terms, increasing retained losses at 1 January 2018 by £0.7m. The business carrying out these contracts was sold in December 2018 and this revenue stream is not relevant going forward.
- ii) **Air Handling projects**  
The goods and services supplied as part of an air handling contract are significantly integrated and considered to be one performance obligation. The criteria for recognition over time are considered to apply as the entity's performance creates and/or enhances an asset controlled by the customer, the assets created do not have an alternative use as the installations are on the customers' premises, and the entity has an enforceable right to payment for performance completed to date. Progress towards completion is measured on the basis of costs incurred. The adoption of IFRS 15 does therefore not have an impact on the timing of revenue recognition for these contracts.
- iii) **Manufacture and supply of modular housing**  
Under IFRS 15 the Group has assessed that there is one performance obligation, and that revenue is recognised over time as control passes on a milestone basis as each housing module is supplied. Progress towards completion is

measured based on the percentage of total costs incurred. The adoption of IFRS 15 does not have an impact on the timing or measurement of revenue recognition for these contracts. The business carrying out these contracts was sold in February 2018 and this revenue stream is therefore not relevant going forward.

- iv) **Contracts for provision of industrial services**  
The Group's Ireland & Other segment provides industrial painting, coating and repair services. Under IFRS 15, the Group concluded that revenue from these contracts will continue to be recognised over time, as the entity's performance enhances a customer-controlled asset, using an output method to measure progress towards completion depending on individual contract terms.  
  
Under IFRS 15, any earned consideration that is conditional is recorded as a contract asset. A contract asset becomes a receivable when receipt is conditional only on the passage of time. Therefore, upon adoption of IFRS 15, revenue recognised from construction contracts described above which has not yet been invoiced is recognised as a contract asset, which is shown as a separate line item on the Consolidated Balance Sheet rather than as part of trade and other receivables.
- v) **Presentation and disclosure requirements**  
The Group has disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group has also disclosed information about the relationship between the disclosure of disaggregated revenue and the revenue information disclosed for each reportable segment. Refer to Note 1 for the disclosure on disaggregated revenue.

The following tables summarise the impacts of adopting IFRS 15 on the Consolidated Financial Statements for the year ending 31 December 2018:

### a) Consolidated Balance Sheet

	Impact of changes in accounting policies		
	As reported £m	Adjustments £m	Balances without adoption of IFRS 15 £m
<b>At 31 December 2018</b>			
Trade and other receivables	477.7	2.2	479.9
Contract assets	1.8	(1.8)	-
Other assets	761.4	-	761.4
<b>Total assets</b>	<b>1,240.9</b>	<b>0.4</b>	<b>1,241.3</b>
Trade and other payables	428.3	1.8	430.1
Contract liabilities	1.6	(1.6)	-
Other liabilities	348.1	-	348.1
<b>Total liabilities</b>	<b>778.0</b>	<b>0.2</b>	<b>778.2</b>
<b>Net assets</b>	<b>462.9</b>	<b>0.2</b>	<b>463.1</b>
Retained losses	(68.3)	0.2	(68.1)
Other capital and reserves	531.2	-	531.2
<b>Total equity</b>	<b>462.9</b>	<b>0.2</b>	<b>463.1</b>

# Statement of Significant Accounting Policies

## b) Consolidated Income Statement and Other Comprehensive Income

	Impact of changes in accounting policies		
	As reported £m	Adjustments £m	Balances without adoption of IFRS 15 £m
<b>For the period ended 31 December 2018</b>			
Revenue	2,741.9	(2.1)	2,739.8
Cost of sales	(2,007.0)	1.5	(2,005.5)
Operating expenses	(690.6)	-	(690.6)
Income tax (expense)/credit	(10.6)	0.1	(10.5)
Other expense	(15.8)	-	(15.8)
<b>Profit for the period</b>	<b>17.9</b>	<b>(0.5)</b>	<b>17.4</b>
<b>Total comprehensive income</b>	<b>21.5</b>	<b>(0.5)</b>	<b>21.0</b>

## c) Consolidated Statement of Changes in Equity

	Impact of changes in accounting policies		
	As reported £m	Adjustments £m	Balances without adoption of IFRS 15 £m
<b>For the period ended 31 December 2018</b>			
Retained losses at 1 January 2018	(59.5)	0.7	(58.8)
Profit for the period	17.9	(0.5)	17.4
Other movements in equity	504.5	-	504.5
<b>Total equity at 31 December 2018</b>	<b>462.9</b>	<b>0.2</b>	<b>463.1</b>

### IFRS 9 “Financial Instruments”

The Group has adopted IFRS 9 “Financial Instruments” with a date of initial application of 1 January 2018. IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement”, bringing together all three aspects of the accounting for financial instruments: classification and measurement; hedge accounting; and impairment.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018, but has chosen not to restate comparative information.

The nature and effects of the key changes to the Group’s accounting policies resulting from its adoption of IFRS 9 are summarised below.

#### a) Classification and measurement

Under IFRS 9, all financial assets are initially recognised at fair value, plus or minus (in the case of a financial asset not at fair value through profit or loss) transaction costs that are directly attributable to the acquisition of the financial instrument. Debt financial assets are subsequently measured at amortised cost, fair value through profit and loss (FVPL) or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group’s business model for managing the assets and whether the contractual cash flows represent “solely payments of principal and interest” on the principal amount outstanding (the “SPPI criterion”). This replaces the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

The classification of the Group’s financial assets under IFRS 9 is as follows:

- Amortised cost: trade and other receivables and deferred consideration
- Fair value through profit and loss: derivative financial instruments

The above classification does not have any impact on the classification, presentation or carrying value of financial assets on the Consolidated Balance Sheet.

The accounting for financial liabilities remains the same as it was under IAS 39 and therefore this has not had an impact on the Group’s accounting policies or Financial Statements.

#### b) Hedge accounting

The Group has chosen to apply the hedge accounting requirements of IFRS 9 and has applied this prospectively. The new hedge accounting rules require the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

At the date of initial application, 1 January 2018, all existing hedging relationships are eligible to be treated as continuing hedging relationships under IFRS 9. The adoption of the hedge accounting requirements of IFRS 9 has resulted in a reclassification within equity between other reserves representing the deferred cost of hedging (£0.9m reclassified to cost of hedging reserve at 1 January 2018).

Under IAS 39 all gains and losses arising from the Group’s cash flow hedging relationships were eligible to be reclassified subsequently to profit or loss. However, under IFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets (for example a fixed asset or inventory) need to be incorporated into the initial carrying amounts of the non-financial assets. This change only applies prospectively from the date of initial application of IFRS 9 and has no impact on the presentation of comparative figures.

### c) Impairment

IFRS 9 replaces the 'incurred losses' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For contract assets and trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward looking factors specific to the debtors and economic environment.

The adoption of the ECL requirements of IFRS 9 has not resulted in any material change to the impairment allowances for trade receivables and contract assets.

### Other amendments

Several other potentially relevant amendments and interpretations apply for the first time in 2018, but do not have an impact on the Financial Statements of the Group:

- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Considerations"
- Amendments to IAS 40 "Transfers of Investment Property"
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"

## New Standards, Amendments and Interpretations not yet adopted

At the date of authorisation of these Financial Statements, the following significant standards and interpretations, which have not been applied in these Financial Statements, were in issue but not yet effective (and in some cases have not yet been adopted by the EU):

### IFRS 16 "Leases" – effective for accounting periods beginning on or after 1 January 2019

The Group is required to adopt IFRS 16 "Leases" from 1 January 2019 which replaces IAS 17 "Leases". The standard eliminates the classification of leases as either operating leases or finance leases for lessees and introduces a single lease accounting model where the lessee is required to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset is of low value.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous, instead, the Group will include payments due under the lease in its lease liability and impair the value of the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events. The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Group estimates that it will recognise a total lease liability of c.£314m as at 1 January 2019, reflecting the total future lease payments discounted to present value, and a "right-of-use asset" of c.£308m based on the lease liability plus asset restoration costs less impairment. Therefore, no significant change in overall net assets is expected at 1 January 2019.

Due to the adoption of IFRS 16, Group operating profit for 2019 is expected to increase by c.£7m as rent is removed and part replaced by depreciation. Group profit before tax is expected to decrease by c.£4m as total depreciation and interest is greater than the previous rent cost due to the timing and maturity of the lease portfolio.

Net debt is expected to increase by c. £291m at 1 January 2019. Financial covenants in relation to the debt facilities described in Note 32 are based on existing accounting standards until maturity (impacting from October 2020) and therefore the adoption of IFRS 16 will not have an impact on compliance with existing covenants.

### Other Standards

There are no other standards or interpretations issued but not yet effective which are expected to have a material impact on the Group.

## Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements 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.

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.

# Statement of Significant Accounting Policies

All results are from continuing operations under International Accounting Standards as the businesses classified as non-core in 2018 or 2017 did not meet the disclosure criteria of being 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 within Other items in the Consolidated Income Statement. The comparatives for the year ended 31 December 2017 have been re-analysed to present net operating profits of £6.3m attributable to businesses classified as non-core during 2018 within Other items.

## 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.

## Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

## 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.

On consolidation, assets and liabilities of overseas subsidiary undertakings are translated into Sterling at the rate of exchange prevailing at the balance sheet date. Income and expense items are translated into Sterling at the average rate of exchange for the year as an approximation where actual rates do not fluctuate significantly.

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.

## Consolidated Income Statement disclosure

Income statement items are presented in the middle column of the Consolidated Income Statement entitled Other items where they are significant in size and nature, and either they do not form part of the trading activities of the Group or their separate presentation enhances understanding of the financial performance of the Group.

Items classified as Other items are as follows:

### ■ Costs related to acquisitions

The Group has made a number of acquisitions in previous years. There are a number of specific costs relating to these acquisitions which make comparison of performance of the businesses and segments difficult. Therefore, the following items are recorded as Other items to provide a more comparable view of the businesses and enhance the clarity of the performance of the Group and its businesses to the readers of the Financial Statements. The Group has grown both organically with the development of new operating subsidiaries and through acquisition. However, there is significant inconsistency between the accounting treatment of the goodwill and intangibles associated with the acquisition of businesses and those generated internally. On an unadjusted basis, a business acquired under IFRS 3 would report substantially lower operating profits and a lower return on capital than a business acquired prior to the introduction of IFRS 3 and also to those businesses which have been developed by the Group, thus making comparison of performance of the businesses and segments difficult:

- (i) amortisation of intangible assets acquired through business combinations;
- (ii) expenses related to contingent consideration required to be treated as remuneration for acquired businesses;
- (iii) costs and credits arising from the re-estimation of deferred and contingent consideration payable in respect of acquisitions; and
- (iv) costs related to the acquisition of businesses.

### ■ Impairment charges

Impairment charges related to non-current assets are non-cash items and tend to be significant in size. The presentation of these as Other items further enhances the understanding of the ongoing performance of the Group. Impairments of property, intangible assets and other tangible fixed assets are included in Other items if related to a fundamental restructuring project or other fundamental project. Other impairments are included in underlying results.



#### ■ Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges

The gain or loss on the sale or closure of businesses tends to be significant in size and irregular in nature and is related to businesses that will not be part of the continuing Group. The gain or loss on the sale or closure of these businesses is therefore included within Other items.

#### ■ Net operating losses attributable to businesses identified as non-core

Operating results from businesses identified as non-core do not form part of the ongoing trading activities of the Group and they are therefore recorded separately in Other items in order to enhance the understanding of the ongoing financial performance of the Group and its businesses. Non-core businesses are those businesses that have been closed or disposed of or where the Board has resolved to close or dispose of the business prior to signing the Annual Report and Accounts. The presentation is applied retrospectively, so businesses classified as non-core subsequent to the period end before the Financial Statements are signed are included in the Other items column in the reporting period, and prior year comparatives are restated for businesses identified as non-core subsequent to signing of the prior year Annual Report and Accounts.

#### ■ Net restructuring costs

Restructuring costs are classified as "Other items" if they relate to a fundamental change in the organisational structure of the Group or a fundamental change in the operating model of a business within the Group. Costs may include redundancy, property closure costs and consultancy costs, which are significant in size and will not be incurred under the ongoing structure or operating model of the Group. These costs are therefore recorded as Other items in order to provide a better understanding of the ongoing financial performance of the Group. Careful consideration is applied by management in assessing whether these costs relate to fundamental restructuring and changing the structure and operating model of the business as opposed to costs incurred in the normal course of business.

#### ■ Other specific items

Other specific items, for example profit on sale of property not related to ongoing operations, are recorded in Other items where they do not form part of the underlying trading activities of the Group in order to enhance the understanding of the financial performance of the Group. This includes, for example, profit on sale of property not related to ongoing operations (ie. related to a branch or business closure) or property sold as part of a fundamental restructuring programme. Profit on the sale of property in connection with branch or office moves in the normal course of business is included within underlying results. A full breakdown of other specific items is included in Note 2 to the Consolidated Financial Statements.

#### ■ Other items within finance income and finance costs

The recycling of amounts previously recorded in reserves in respect of interest rate derivative contracts cancelled following the Group's equity issuance in 2009 are recorded within Other items as the amounts relate to a fundamental refinancing, rather than the ongoing hedging activities of the Group. The amounts relating to this have ceased in 2018 as they have become fully recycled. The unwinding of provision discounting for provisions that have been included as "Other items" is included within "Other items" consistent with the classification of the provision. Other provision discounting is included within underlying finance costs.

#### ■ Taxation

The taxation effect of Other items, the effect of the change in rates of taxation on deferred tax and tax adjustments in respect of previous years' Other items are shown within Other items in order to enhance the understanding of the underlying tax position of the Group.

The prior year comparatives have been reclassified to include in Other items the revenue, results and associated taxation of businesses that have been identified as non-core since the signing of the 2017 Financial Statements.

### Revenue recognition

For the year ended 31 December 2018, revenue is recognised in accordance with IFRS 15 "Revenue from contracts with customers" as described in the section "New standards, interpretations and amendments adopted". This section also describes the policies applied in the previous year and the changes as a result of adopting IFRS 15 in the current year.

### 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.

Outstanding amounts at the balance sheet date are included in trade payables when the Group has the right to offset against amounts owing to the supplier and therefore settles on a net basis, in line with IAS 32 criteria. Where the supplier rebates are not netted off the amounts owing to that supplier, the outstanding amount is included within prepayments and accrued income. The carrying value of inventory is reduced by the associated amount where the inventory has yet to be sold at the balance sheet date.

### Operating profit

Operating profit is stated after charging distribution costs, selling and marketing costs and administrative expenses, but before finance income and finance costs.

### 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 or the Statement of Changes in Equity.

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.

Current 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.

# Statement of Significant Accounting Policies

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; or
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future and the Group is able to control the reversal.

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.

## Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). Equity settled share based payments 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. The fair value of the options is measured using the Black-Scholes or Monte Carlo option pricing model as appropriate.

The amount recognised as an expense is adjusted to reflect the actual number of share options that vest. 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.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

## 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 years
Non-compete contracts	Life of the contract	3 years
Computer software	Useful life of the software	3-10 years

Assets in the course of construction are carried at cost, with amortisation commencing once the assets are ready for their intended use.

## 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 or length of lease

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.

## Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, the Group has chosen to apply the cost model. Investment properties are therefore recognised at cost and depreciated over the useful life, and are impaired when appropriate in accordance with IAS 16 "Property, plant and equipment".

Transfers are made to or from investment property only when there is a change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

## 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.

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 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.

## 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.

## 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.

Cash held but not available for use by the Group is disclosed as restricted cash within Note 19.

## Financial assets

As described in the section "New standards, amendments and interpretations", financial assets are classified as either financial assets at amortised cost or financial assets at fair value through profit and loss in accordance with IFRS 9 from 1 January 2018. In the previous financial year financial assets were classified as either financial assets at fair value through profit or loss or loans and receivables.

The classification at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

The Group's financial assets are all measured at amortised cost, except for derivative financial instruments. The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets include trade receivables, deferred consideration and cash and cash equivalents. In the previous financial year these were classified as loans and receivables and were initially measured at fair value and subsequently at amortised cost using the effective interest method, consistent with IFRS 9.

## Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments held at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. For trade receivables and contract assets, the Group applies the standard's simplified approach and calculates ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward looking factors specific to the debtors and economic environment.

# Statement of Significant Accounting Policies

Previously, financial assets (including trade receivables) were assessed for indicators of impairment on an ongoing basis. Financial assets were impaired where there was 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 had been negatively impacted. When there was objective evidence of impairment, appropriate allowances were 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 was reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount was reduced through the use of an allowance account. When a trade receivable was considered to be uncollectible it was written off against the allowance account. Subsequent recoveries of amounts previously written off were credited to the Consolidated Income Statement.

## Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Trade receivables that are factored out to banks and other financial institutions without recourse to the Group are derecognised at the point of factoring as the risks and rewards of the receivables have been fully transferred. In assessing whether the receivables qualify for derecognition the Group has considered the receivables and receivable insurance contracts as two separate units of account. Therefore, the insurance is not included as part of the derecognition assessment on the basis that the insurance is not similar to the receivables. The Group has elected to recognise cash inflows from the sale of factored receivables as an operating cash flow.

## Financial liabilities

Financial liabilities are classified at initial recognition as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities, except for derivative financial instruments (see below), are recognised initially at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

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.

## Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Consolidated Balance Sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

## Derivative financial instruments

The Group uses derivative financial instruments including interest rate swaps, forward foreign exchange contracts, and cross-currency swaps to hedge its exposure to foreign currency exchange and interest rate 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, any derivative financial instruments 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 12 months and they are not expected to be otherwise realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Derivative financial instruments are recognised immediately at fair value. 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 Other items in the Consolidated Income Statement.

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.

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation

At the inception of the hedge relationship the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting, along with its risk management objectives and its strategy for undertaking the hedging transaction.

Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or

cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting periods for which they were designated. From 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item

Hedges that meet all the qualifying criteria for hedge accounting are accounted for as described below:

#### Fair value hedges

The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is recognised in the Consolidated Income Statement within Other items. The change in the fair value of the hedging instrument is also recognised in the Consolidated Income Statement within Other items.

#### Cash flow hedges

The effective part of any gain or loss on the hedging instrument is recognised directly in the Consolidated Statement of Comprehensive Income in the hedging and translation reserve. 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 Other items in the Consolidated Income Statement.

#### Hedges 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 Other items within the Consolidated Income Statement. Gains and losses deferred in the hedging and translation reserve are recognised immediately in the Consolidated Income Statement when foreign operations are disposed of.

### 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. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

### Pension schemes

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, at the earlier of when the plan amendment or curtailment occurs and when the entity recognises related restructuring costs or termination benefits.

The full service cost of the pension schemes is charged to operating profit. Net interest 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.

### Dividends

Dividends proposed by the Board of Directors that have not been paid by the end of the year are not recognised in the Financial Statements until they have been approved by the shareholders at the Annual General Meeting.

# Statement of Significant Accounting Policies

## Segment reporting

In accordance with IFRS 8 "Operating Segments", the Group identifies its reportable segments based on the components of the business on which financial information is regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to assess performance and make decisions about how resources are allocated. For SIG, the CODM is considered to be the Group Executive Committee. Following review of the Group's internal reporting, the Group has concluded that the appropriate reported operating segments are SIG Distribution, SIG Exteriors, Ireland & Other, France, Germany, Air Handling, Benelux and Poland. The prior year comparatives have been restated to expand Mainland Europe into the constituent components consistent with the current year presentation.

## Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described on pages 113 to 124, the directors are required to make judgements (other than those involving estimates) that have a significant impact on the amounts recognised and to make 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 judgements in applying the Group's accounting policies

The following is the critical judgement that the directors have made in the process of applying the Group's accounting policies and that has had a significant effect on the amounts recognised in the Financial Statements. The judgements involving estimations are dealt with separately below.

### Classification of Other items in the Consolidated Income Statement

As described in the Statement of Significant Accounting Policies, certain items are presented in the separate column of the Consolidated Income Statement entitled Other items where they are significant in size or nature, and either they do not form part of the trading activities of the Group or their separate presentation enhances understanding of the financial performance of the Group. Operating results from businesses identified as non-core (see Note 32 to the Financial Statements) do not form part of the ongoing trading activities of the Group and are therefore also recorded separately in Other items in order to enhance the understanding of the ongoing financial performance of the Group. The nature and amounts of the items included in Other items, together with the overall impact on the results for the year, is disclosed in Note 2 to the Financial Statements.

## Key sources of estimation uncertainty

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of the assets and liabilities within the next financial year are detailed below.

### Rebates 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, trade and other receivables, and inventories. The amounts payable 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 estimation over the level of future purchases and sales. At the balance sheet date the directors estimate the amount of rebate that will become payable by and due to the Group under these agreements based upon prices, volumes and product mix. At 31 December 2018 trade payables is presented net of £52.8m (2017: £58.8m) due from suppliers in respect of supplier rebates where the Group has the right to net settlement, and included within prepayments and accrued income is £59.3m (2017: £55.2m) due in relation to supplier rebates where there is no right to offset against trade payable balances. Of these balances, £25.9m relates to agreements which are non-coterminous with the financial year end and therefore involves estimates regarding future purchase and sales, and the amount received could therefore vary from the amount recorded, positively or negatively by c.£5m.

### 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 123, 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 have been made to determine the defined benefit obligation, in particular with regard to discount rate, inflation and mortality. Management considers the key assumption to be the discount rate applied. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds excluding university bonds. If the discount rate were to be increased/decreased by 0.1%, this would decrease/increase the Group's gross pension scheme deficit by £2.7m as disclosed in Note 29c. At 31 December 2018 the Group's retirement benefit obligations were £28.7m (2017: £30.4m).

### Impairment of non-current assets

The Group tests goodwill, intangible assets and property, plant and equipment annually for impairment, or more frequently if there are indications that an impairment may be required.

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 growth rates, and expected changes to selling prices and direct costs to reflect the operational gearing of the business. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money for the Group.

For the majority of the CGUs, the Group performs goodwill impairment reviews by forecasting cash flows based upon the following year's budget, which anticipates sales growth, and a projection of cash flows based upon industry growth expectations (0%-2.9%) 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, there is no sales growth rates applied to the cash flow forecasts and operating profit growth is no more than 2.5% in perpetuity. The discount rates applied to all CGUs represent post-tax rates.

Assumptions regarding sales and operating profit growth, gross margin, and discount rate are considered to be the key areas of estimation in the impairment review process, and appropriate sensitivities have been performed and disclosed in Note 12.

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 2018 is £445.5m (2017: restated £487.3m). The most recent results of the impairment review process are disclosed in Note 12 and indicate that the carrying value of non-current assets associated with the Group's CGU's are supportable. Impairment reviews performed during the year indicated that the carrying value of the Group's other non-current assets at 31 December 2018 were considered supportable. Whilst the directors consider the assumptions used in the impairment review to be realistic, if actual results are different from expectations then it is possible that the value of goodwill and other intangible assets included in the Consolidated Balance Sheet could become impaired. These sensitivities are disclosed in Note 12.

### Provisions against receivables

At 31 December 2018 the Group has recognised trade receivables with a carrying value of £384.3m (2017: restated £374.7m). The Group recognises an allowance for expected credit losses (ECLs) in relation to trade receivables. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward looking factors specific to the debtors and economic environment. Changes in the economic environment or customer-specific circumstances could have an impact on the recoverability of amounts included on the Consolidated Balance Sheet at 31 December 2018. The total allowance for expected credit losses recorded at 31 December 2018 is £31.4m (2017: £41.1m). The bad debt to sales ratio of the Group has varied by up to 0.2% over recent periods, therefore this gives an indication that the bad debt experience could vary by c.£5m. Further detail on trade receivables and the allowance for expected credit losses recognised is disclosed in Note 16.

### Dilapidations provisions

The Group has a significant number of leasehold properties with contractual obligations to reinstate the properties to their original state of repair at the end of the lease contract. The Group has recognised a provision of £20.9m at 31 December 2018 in relation to this obligation, with the 2017 liability restated to £20.5m as noted in the Statement of Significant Accounting Policies. The total provision includes both the estimated cost of rectifying or reinstating leasehold modifications and improvements carried out, which is recognised at the inception of the lease with a corresponding asset recognised in fixed assets and depreciated over the term of the lease, together with the estimated cost of rectifying general wear and tear which is recognised as incurred over the life of the lease. Estimates are based on a combination of a sample of assessments by third party independent property surveyors, internal assessments by the Group's property experts and previous settlement history. Whilst the directors consider the estimates to be reasonable based on latest available information, actual amounts payable could be different to the amount provided depending on specific circumstances of individual properties and counterparties at the expiry of each lease contract. Any difference is not expected to be material year on year.

# Notes to the Financial Statements

## 1 Revenue and segmental information

### Revenue

	UK & Ireland				Mainland Europe						Eliminations £m	Total £m
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other £m	Total £m	France £m	Germany £m	Poland £m	Air Handling £m	Benelux £m	Total £m		
2018												
<b>Type of product</b>												
Interiors	678.2	-	60.6	738.8	242.6	426.6	151.0	-	108.4	928.6	-	1,667.4
Exteriors	-	378.7	39.2	417.9	347.8	-	-	-	-	347.8	-	765.7
Heating, ventilation and air conditioning	23.0	-	0.1	23.1	73.2	-	5.6	148.2	-	227.0	-	250.1
Inter-segment revenue <sup>^</sup>	10.2	3.7	0.6	14.5	9.5	0.2	-	0.2	0.3	10.2	(24.7)	-
<b>Total underlying revenue</b>	<b>711.4</b>	<b>382.4</b>	<b>100.5</b>	<b>1,194.3</b>	<b>673.1</b>	<b>426.8</b>	<b>156.6</b>	<b>148.4</b>	<b>108.7</b>	<b>1,513.6</b>	<b>(24.7)</b>	<b>2,683.2</b>
Revenue attributable to businesses identified as non-core*	51.5	3.4	3.5	58.4	-	0.3	-	-	-	0.3	-	58.7
<b>Total</b>	<b>762.9</b>	<b>385.8</b>	<b>104.0</b>	<b>1,252.7</b>	<b>673.1</b>	<b>427.1</b>	<b>156.6</b>	<b>148.4</b>	<b>108.7</b>	<b>1,513.9</b>	<b>(24.7)</b>	<b>2,741.9</b>
<b>Nature of revenue</b>												
Goods for resale	738.9	385.8	96.0	1,220.7	673.1	427.1	156.6	122.8	108.7	1,488.3	(24.7)	2,684.3
Construction contracts	24.0	-	8.0	32.0	-	-	-	25.6	-	25.6	-	57.6
<b>Total</b>	<b>762.9</b>	<b>385.8</b>	<b>104.0</b>	<b>1,252.7</b>	<b>673.1</b>	<b>427.1</b>	<b>156.6</b>	<b>148.4</b>	<b>108.7</b>	<b>1,513.9</b>	<b>(24.7)</b>	<b>2,741.9</b>
<b>Timing of revenue recognition</b>												
Goods transferred at a point in time	738.9	385.8	96.0	1,220.7	673.1	427.1	156.6	122.8	108.7	1,488.3	(24.7)	2,684.3
Goods and services transferred over time	24.0	-	8.0	32.0	-	-	-	25.6	-	25.6	-	57.6
<b>Total</b>	<b>762.9</b>	<b>385.8</b>	<b>104.0</b>	<b>1,252.7</b>	<b>673.1</b>	<b>427.1</b>	<b>156.6</b>	<b>148.4</b>	<b>108.7</b>	<b>1,513.9</b>	<b>(24.7)</b>	<b>2,741.9</b>

<sup>^</sup> Inter-segment revenue is charged at the prevailing market rates.

\* Revenue attributable to businesses identified as non-core: £28.8m relates to exteriors and £29.9m relates to interiors product types.

	UK & Ireland				Mainland Europe						Eliminations £m	Total £m
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other £m	Total £m	France £m	Germany £m	Poland £m	Air Handling £m	Benelux £m	Total £m		
2017												
<b>Type of product</b>												
Interiors	716.1	-	58.2	774.3	241.5	425.0	137.5	-	101.7	905.7	-	1,680.0
Exteriors	-	403.9	40.1	444.0	347.3	-	-	-	-	347.3	-	791.3
Heating, ventilation and air conditioning	25.8	-	-	25.8	71.9	-	5.3	142.1	-	219.3	-	245.1
Inter-segment revenue <sup>^</sup>	15.3	5.2	-	20.5	12.5	0.2	0.6	0.3	0.1	13.7	(34.2)	-
<b>Total underlying revenue</b>	<b>757.2</b>	<b>409.1</b>	<b>98.3</b>	<b>1,264.6</b>	<b>673.2</b>	<b>425.2</b>	<b>143.4</b>	<b>142.4</b>	<b>101.8</b>	<b>1,486.0</b>	<b>(34.2)</b>	<b>2,716.4</b>
Revenue attributable to businesses identified as non-core*	60.0	40.1	41.4	141.5	-	8.5	-	12.0	-	20.5	-	162.0
<b>Total</b>	<b>817.2</b>	<b>449.2</b>	<b>139.7</b>	<b>1,406.1</b>	<b>673.2</b>	<b>433.7</b>	<b>143.4</b>	<b>154.4</b>	<b>101.8</b>	<b>1,506.5</b>	<b>(34.2)</b>	<b>2,878.4</b>
<b>Nature of revenue</b>												
Goods for resale	799.6	449.2	125.1	1,373.9	673.2	433.7	143.4	122.3	101.8	1,474.4	(34.2)	2,814.1
Construction contracts	17.6	-	14.6	32.2	-	-	-	32.1	-	32.1	-	64.3
<b>Total</b>	<b>817.2</b>	<b>449.2</b>	<b>139.7</b>	<b>1,406.1</b>	<b>673.2</b>	<b>433.7</b>	<b>143.4</b>	<b>154.4</b>	<b>101.8</b>	<b>1,506.5</b>	<b>(34.2)</b>	<b>2,878.4</b>
<b>Timing of revenue recognition</b>												
Goods transferred at a point in time	799.6	449.2	125.1	1,373.9	673.2	433.7	143.4	122.3	101.8	1,474.4	(34.2)	2,814.1
Goods and services transferred over time	17.6	-	14.6	32.2	-	-	-	32.1	-	32.1	-	64.3
<b>Total</b>	<b>817.2</b>	<b>449.2</b>	<b>139.7</b>	<b>1,406.1</b>	<b>673.2</b>	<b>433.7</b>	<b>143.4</b>	<b>154.4</b>	<b>101.8</b>	<b>1,506.5</b>	<b>(34.2)</b>	<b>2,878.4</b>

<sup>^</sup> Inter-segment revenue is charged at the prevailing market rates.

\* Revenue attributable to businesses identified as non-core: £12.0m relates to heating, ventilation and air conditioning, £67.0m to exteriors and £83.0m relates to interiors product types.



## Segmental information

### a) Segmental analysis

2018	UK & Ireland				Mainland Europe						Eliminations £m	Total £m	
	Distribution £m	SIG Exteriors £m	SIG & Other £m	Ireland £m	Total £m	France £m	Germany £m	Poland £m	Air Handling* £m	Benelux £m			Total £m
<b>Revenue</b>													
Underlying revenue	701.2	378.7	99.9	1,179.8	663.6	426.6	156.6	148.2	108.4	1,503.4	-	2,683.2	
Revenue attributable to businesses identified as non-core	51.5	3.4	3.5	58.4	-	0.3	-	-	-	0.3	-	58.7	
Inter-segment revenue <sup>^</sup>	10.2	3.7	0.6	14.5	9.5	0.2	-	0.2	0.3	10.2	(24.7)	-	
<b>Total revenue</b>	<b>762.9</b>	<b>385.8</b>	<b>104.0</b>	<b>1,252.7</b>	<b>673.1</b>	<b>427.1</b>	<b>156.6</b>	<b>148.4</b>	<b>108.7</b>	<b>1,513.9</b>	<b>(24.7)</b>	<b>2,741.9</b>	
<b>Result</b>													
<b>Segment result before Other items</b>	<b>20.9</b>	<b>17.3</b>	<b>6.1</b>	<b>44.3</b>	<b>27.8</b>	<b>9.1</b>	<b>3.3</b>	<b>14.8</b>	<b>4.5</b>	<b>59.5</b>	-	<b>103.8</b>	
Amortisation of acquired intangibles	(1.4)	(4.8)	(0.4)	(6.6)	(0.8)	-	-	(1.3)	(0.2)	(2.3)	-	(8.9)	
Impairment charges	(3.9)	-	-	(3.9)	-	(0.1)	-	-	-	(0.1)	-	(4.0)	
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11)	(1.8)	(4.8)	0.4	(6.2)	-	(0.1)	-	(0.4)	-	(0.5)	-	(6.7)	
Net operating losses attributable to businesses identified as non-core (Note 11)	4.0	(0.5)	(2.0)	1.5	-	(0.3)	-	-	-	(0.3)	-	1.2	
Net restructuring costs	(10.1)	(7.7)	(0.4)	(18.2)	(2.3)	(6.0)	-	-	(1.2)	(9.5)	-	(27.7)	
Acquisition expenses and contingent consideration (Note 14)	-	-	-	-	-	-	-	-	-	-	-	-	
Other specific items	(0.5)	-	-	(0.5)	(0.7)	-	-	1.1	(0.1)	0.3	-	(0.2)	
<b>Segment operating profit</b>	<b>7.2</b>	<b>(0.5)</b>	<b>3.7</b>	<b>10.4</b>	<b>24.0</b>	<b>2.6</b>	<b>3.3</b>	<b>14.2</b>	<b>3.0</b>	<b>47.1</b>	-	<b>57.5</b>	
Parent Company costs												(13.2)	
<b>Operating profit</b>												<b>44.3</b>	
Net finance costs before Other items												(15.3)	
Net fair value losses on derivative financial instruments												(0.3)	
Unwinding of provision discounting												(0.2)	
<b>Profit before tax</b>												<b>28.5</b>	
Income tax expense												(10.6)	
Non-controlling interests												(0.4)	
<b>Profit for the year</b>												<b>17.5</b>	

<sup>^</sup> Inter-segment revenue is charged at the prevailing market rates.

\* Represents the business managed from The Netherlands. Further air handling product category trading results are incorporated within the other operating segments.

# Notes to the Financial Statements

2017	UK & Ireland				Mainland Europe						Eliminations £m	Total £m
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other £m	Total £m	France £m	Germany £m	Poland £m	Air Handling* £m	Benelux £m	Total £m		
Revenue												
Underlying revenue	741.9	403.9	98.3	1,244.1	660.7	425.0	142.8	142.1	101.7	1,472.3	-	2,716.4
Revenue attributable to businesses identified as non- core	60.0	40.1	41.4	141.5	-	8.5	-	12.0	-	20.5	-	162.0
Inter-segment revenue <sup>^</sup>	15.3	5.2	-	20.5	12.5	0.2	0.6	0.3	0.1	13.7	(34.2)	-
<b>Total revenue</b>	<b>817.2</b>	<b>449.2</b>	<b>139.7</b>	<b>1,406.1</b>	<b>673.2</b>	<b>433.7</b>	<b>143.4</b>	<b>154.4</b>	<b>101.8</b>	<b>1,506.5</b>	<b>(34.2)</b>	<b>2,878.4</b>
Result (restated)**												
Segment result before Other items	3.5	30.1	4.8	38.4	26.2	12.0	1.0	14.4	6.3	59.9	-	98.3
Amortisation of acquired intangibles	(2.0)	(4.9)	(0.1)	(7.0)	(0.8)	-	-	(1.3)	(0.2)	(2.3)	-	(9.3)
Impairment charges	(6.8)	-	-	(6.8)	-	-	-	-	-	-	-	(6.8)
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11)	(7.6)	(28.6)	(31.9)	(68.1)	-	(1.2)	-	(3.1)	-	(4.3)	-	(72.4)
Net operating losses attributable to businesses identified as non-core (Note 11)	5.5	1.5	(13.8)	(6.8)	-	(0.8)	-	(0.4)	-	(1.2)	-	(8.0)
Net restructuring costs	(16.8)	(1.3)	(0.8)	(18.9)	(0.2)	(1.0)	(0.9)	(0.1)	-	(2.2)	-	(21.1)
Acquisition expenses and contingent consideration (Note 14)	(1.1)	(1.6)	1.9	(0.8)	-	-	-	(9.0)	-	(9.0)	-	(9.8)
Other specific items	0.1	5.4	-	5.5	-	-	-	-	-	-	-	5.5
<b>Segment operating profit/(loss)</b>	<b>(25.2)</b>	<b>0.6</b>	<b>(39.9)</b>	<b>(64.5)</b>	<b>25.2</b>	<b>9.0</b>	<b>0.1</b>	<b>0.5</b>	<b>6.1</b>	<b>40.9</b>	<b>-</b>	<b>(23.6)</b>
Parent Company costs												(12.7)
<b>Operating loss</b>												<b>(36.3)</b>
Net finance costs before Other items												(16.2)
Net fair value losses on derivative financial instruments												(1.7)
Unwinding of provision discounting												(0.5)
<b>Loss before tax</b>												<b>(54.7)</b>
Income tax expense												(4.5)
Non-controlling interests												(1.0)
<b>Loss for the year</b>												<b>(60.2)</b>

<sup>^</sup> Inter-segment revenue is charged at the prevailing market rates.

\* Represents the business managed from The Netherlands. Further air handling product category trading results are incorporated within the other operating segments.

\*\* The 2017 results have been restated as set out in the Statement of Significant Accounting Policies and Note 33.

2018	UK & Ireland				Mainland Europe						Total £m	
	Distribution £m	SIG Exteriors £m	Ireland & Other £m	Total £m	France £m	Germany £m	Poland £m	Air Handling* £m	Benelux £m	Total £m		
<b>Balance sheet</b>												
<b>Assets</b>												
Segment assets	336.6	218.1	37.0	591.7	320.4	103.2	58.3	90.5	50.8	623.2	1,214.9	
<i>Unallocated assets:</i>												
Property, plant and equipment											2.7	
Derivative financial instruments											1.9	
Cash and cash equivalents											14.9	
Deferred tax assets											3.8	
Other assets											2.7	
Consolidated total assets											1,240.9	
<b>Liabilities</b>												
Segment liabilities	163.2	77.9	17.1	258.2	152.7	35.2	29.3	20.8	10.8	248.8	507.0	
<i>Unallocated liabilities:</i>												
Private placement notes											185.6	
Bank loans											56.5	
Derivative financial instruments											4.1	
Other liabilities											24.8	
Consolidated total liabilities											778.0	
<b>Other segment information</b>												
<i>Capital expenditure on:</i>												
Property, plant and equipment	4.7	3.8	1.1	9.6	5.5	2.2	1.1	0.9	0.7	10.4	20.0	
Computer software	2.0	-	2.5	4.5	0.2	0.3	-	0.3	-	0.8	5.3	
Goodwill and intangible assets (excluding computer software)	-	-	-	-	-	-	-	-	-	-	-	
<i>Non-cash expenditure:</i>												
Depreciation	5.3	2.4	0.9	8.6	5.6	2.5	1.1	1.3	0.6	11.1	19.7	
Impairment of property, plant and equipment and computer software	4.4	-	-	4.4	-	-	-	0.1	-	0.1	4.5	
Amortisation of acquired intangibles and computer software	4.4	4.8	0.5	9.7	1.5	0.3	0.1	1.5	0.2	3.6	13.3	
Impairment of goodwill and intangibles (excluding computer software)	-	-	-	-	-	-	-	-	-	-	-	

\* Represents the business managed from The Netherlands. Further air handling product category trading results are incorporated within the other operating segments.

# Notes to the Financial Statements

2017	UK & Ireland				Mainland Europe							Total £m
	SIG Distribution £m	SIG Exteriors £m	Ireland & Other £m	Total £m	France £m	Germany £m	Poland £m	Air Handling* £m	Benelux £m	Total £m		
<b>Balance sheet</b>												
<b>Assets (restated)**</b>												
Segment assets	360.6	230.0	59.6	650.2	339.0	123.1	55.0	110.1	38.6	665.8	1,316.0	
<i>Unallocated assets:</i>												
Property, plant and equipment											0.1	
Derivative financial instruments											1.3	
Cash and cash equivalents											10.2	
Deferred tax assets											3.1	
Other assets											10.7	
<b>Consolidated total assets</b>											<b>1,341.4</b>	
<b>Liabilities (restated)**</b>												
Segment liabilities	196.5	70.6	45.0	312.1	144.8	36.4	23.8	28.8	8.4	242.2	554.3	
<i>Unallocated liabilities:</i>												
Private placement notes											204.2	
Bank loans											75.7	
Derivative financial instruments											3.5	
Other liabilities											33.2	
<b>Consolidated total liabilities</b>											<b>870.9</b>	
<b>Other segment information</b>												
<i>Capital expenditure on:</i>												
Property, plant and equipment	7.0	11.5	1.1	19.6	5.4	2.1	0.7	0.9	0.4	9.5	29.1	
Computer software	2.3	-	-	2.3	0.2	0.1	-	0.6	-	0.9	3.2	
Goodwill and intangible assets (excluding computer software)	-	-	-	-	-	0.1	-	-	-	0.1	0.1	
<i>Non-cash expenditure:</i>												
Depreciation	8.2	2.2	1.2	11.6	6.0	3.0	1.3	1.1	0.7	12.1	23.7	
Impairment of property, plant and equipment and computer software	7.6	-	2.7	10.3	-	-	-	0.3	-	0.3	10.6	
Amortisation of acquired intangibles and computer software	4.1	4.9	0.6	9.6	1.4	0.4	-	1.4	0.2	3.4	13.0	
Impairment of goodwill and intangibles (excluding computer software)	5.6	-	1.0	6.6	-	-	-	-	-	-	6.6	

\* Represents the business managed from The Netherlands. Further air handling product category trading results are incorporated within the other operating segments.

\*\* 2017 has been restated for the historical overstatements, as noted in the Statement of Significant Accounting Policies and Note 33.

## b) Geographic information

The Group's non-current operating assets (including property, plant and equipment, goodwill and intangible assets but excluding deferred tax, derivative financial instruments and deferred consideration) by geographical location are as follows:

Country	2018 Non-current assets £m	2017 Restated Non-current assets £m
United Kingdom	248.6	256.6
Ireland	2.8	2.8
France	124.3	126.0
Germany	14.4	18.5
Poland	6.3	6.7
Benelux*	49.1	52.3
<b>Total underlying</b>	<b>445.5</b>	462.9
Attributable to businesses identified as non-core (Note 11)	-	24.4
<b>Total</b>	<b>445.5</b>	487.3

\*Includes the air handling business managed from The Netherlands.

## 2. Other operating expenses

### 2a. Analysis of other operating expenses

	2018			2017		
	Before Other items £m	Other items £m	Total £m	Before Other items £m	Other items £m	Total £m
<b>Other operating expenses:</b>						
- distribution costs	249.2	5.1	254.3	252.4	34.5	286.9
- selling and marketing costs	195.1	3.1	198.2	209.7	10.6	220.3
- management, administrative and central costs	184.4	57.4	241.8	175.3	123.4	298.7
- property profits	(2.6)	(1.1)	(3.7)	(11.3)	(5.8)	(17.1)
	<b>626.1</b>	<b>64.5</b>	<b>690.6</b>	626.1	162.7	788.8

# Notes to the Financial Statements

## 2b. Other items

Profit/(loss) 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 (as explained in the Statement of Accounting Policies):

	Other items £m	2018 Tax impact £m	Tax impact %	Other items £m	2017 Tax impact £m	Tax impact %
Amortisation of acquired intangibles (Note 13)	(8.9)	1.8	(20.2)	(9.3)	1.9	(20.4)
Impairment charges	(4.0)	-	-	(6.8)	1.3	(19.1)
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11)	(6.7)	1.3	(19.4)	(72.4)	2.0	(2.8)
Net operating profits/(losses) attributable to businesses identified as non-core (Note 11)	1.2	-	-	(8.0)	1.5	(18.8)
Net restructuring costs <sup>^</sup>	(27.7)	6.3	(22.7)	(21.1)	4.1	(19.4)
Acquisition expenses and contingent consideration (Note 14)	-	-	-	(9.8)	-	-
Other specific items*	(0.2)	(0.5)	250.0	5.5	(1.1)	(20.0)
<b>Impact on operating profit/(loss)</b>	<b>(46.3)</b>	<b>8.9</b>	<b>(19.2)</b>	<b>(121.9)</b>	<b>9.7</b>	<b>(8.0)</b>
Net fair value losses on derivative financial instruments	(0.3)	0.1	(33.3)	(1.7)	0.3	(17.6)
Unwinding of provision discounting	(0.2)	-	-	(0.5)	-	-
<b>Impact on profit/(loss) before tax</b>	<b>(46.8)</b>	<b>9.0</b>	<b>(19.2)</b>	<b>(124.1)</b>	<b>10.0</b>	<b>(8.1)</b>
Effect of change in rate on deferred tax	-	0.3	-	-	(1.0)	-
Other tax adjustments in respect of previous years	-	(0.1)	-	-	4.2	-
<b>Impact on profit/(loss) after tax</b>	<b>(46.8)</b>	<b>9.2</b>	<b>(19.7)</b>	<b>(124.1)</b>	<b>13.2</b>	<b>(10.6)</b>

<sup>^</sup> Included within net restructuring costs are costs associated with supply chain review of £nil (2017: £11.7m), property closure costs of £5.5m (2017: £2.8m), redundancy and related staff costs of £11.5m (2017: £3.9m), impairment of non-current assets due to restructuring of £0.6m (2017: £nil) and £10.1m (2017: £2.7m) in relation to restructuring consultancy costs, mainly incurred in connection with the fundamental restructuring of the target operating model of the major operating companies in the UK, Germany and France.

\*Other specific items comprises the following:

	2018 £m	2017 £m
Profit on sale of property	1.1	5.8
Other specific costs	(0.3)	-
Impairment charge and other costs following the cessation of the UK eCommerce project	-	(0.3)
GMP equalisation (Note 29c)	(1.0)	-
<b>Total other specific items</b>	<b>(0.2)</b>	<b>5.5</b>

### 3. Finance income and finance costs

	2018			2017 (restated)		
	Underlying £m	Other items £m	Total £m	Underlying £m	Other items £m	Total £m
<b>Finance income</b>						
Interest on bank deposits	0.6	-	0.6	0.5	-	0.5
Unwinding of provision discounting	-	-	-	-	0.1	0.1
<b>Total finance income</b>	<b>0.6</b>	<b>-</b>	<b>0.6</b>	0.5	0.1	0.6
<b>Finance costs</b>						
On bank loans, overdrafts and other associated items <sup>^</sup>	6.9	-	6.9	7.4	-	7.4
On private placement notes	6.8	-	6.8	7.0	-	7.0
On obligations under finance lease contracts	1.4	-	1.4	1.2	-	1.2
<b>Total interest expense</b>	<b>15.1</b>	<b>-</b>	<b>15.1</b>	15.6	-	15.6
Net finance charge on defined benefit pension schemes	0.5	-	0.5	0.7	-	0.7
Unwinding of provision discounting	-	0.2	0.2	-	0.6	0.6
Fair value losses on derivative financial instruments <sup>*</sup>	0.3	0.3	0.6	0.4	1.7	2.1
<b>Total finance costs</b>	<b>15.9</b>	<b>0.5</b>	<b>16.4</b>	16.7	2.3	19.0
<b>Net finance costs</b>	<b>15.3</b>	<b>0.5</b>	<b>15.8</b>	16.2	2.2	18.4

<sup>^</sup> Other associated items includes the amortisation of arrangement fees of £0.9m (2017: £0.8m).

<sup>\*</sup> Fair value losses on derivative financial instruments before Other items includes £0.3m (2017: £0.4m) relating to the recycling of amounts previously recorded in reserves in respect of two interest rate derivative contracts cancelled in 2015 as part of the ongoing management of the Group's interest rate hedging policy. Included within Other items is £0.3m (2017: £1.7m) relating to the recycling of amounts previously recorded in reserves in respect of interest rate derivative contracts cancelled following the Group's equity issuance in 2009. 2018 is the last year these losses are recognised as the amounts have now been fully recycled.

# Notes to the Financial Statements

## 4. Profit/(loss) before tax

	2018 £m	2017 Restated £m
<b>Profit/(loss) before tax is stated after crediting:</b>		
Unwinding of provision discounting	–	0.1
Net decrease in provision for inventories	5.3	–
Gains on disposal of property, plant and equipment	7.5	17.8
Net operating profits attributable to businesses identified as non-core (Note 11)	1.2	–
Acquisition expenses and contingent consideration (Note 14)	–	1.9
Other specific items (Note 2)	1.7	5.8
<b>And after charging:</b>		
Cost of inventories recognised as an expense	2,673.0	2,118.4
Net increase in provision for inventories	–	3.1
Depreciation of property, plant and equipment:		
– owned	16.0	20.0
– held under finance leases and hire purchase agreements	3.7	3.7
Amortisation of acquired intangibles	8.9	9.3
Amortisation of computer software	4.4	3.7
Operating lease rentals:		
– land and buildings	53.6	52.7
– plant and machinery	20.2	19.2
Auditor remuneration for audit services	1.6	1.6
Non-audit fees	0.4	0.1
Net increase in provision for receivables (Note 16)	5.2	16.8
Foreign exchange rate losses	0.1	0.5
Fair value losses on derivative financial instruments	0.6	2.1
Unwinding of provision discounting	0.2	0.6
Impairment charges (Note 2)	4.0	6.8
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges (Note 11)	6.7	72.4
Net operating losses attributable to businesses identified as non-core (Note 11)	–	8.0
Net restructuring costs (Note 2)	27.7	21.1
Acquisition expenses and contingent consideration (Note 14)	–	9.8
Other specific items (Note 2)	1.9	0.3
Staff costs excluding contingent consideration treated as remuneration (Note 5)	366.1	390.1

A more detailed analysis of Auditor remuneration is provided below:

	2018 Ernst & Young LLP £m	2017 Deloitte LLP £m
Fees payable to the Company's Auditor and their associates for the audit of the Company and Group Financial Statements	0.4	0.2
Fees payable to the Company's Auditor and their associates for other services to the Group:		
– The audit of the Company's subsidiaries	1.2	1.4
<b>Total audit fees</b>	1.6	1.6
– Audit-related assurance services (including interim review) <sup>^</sup>	0.4	0.1
<b>Total non-audit fees</b>	0.4	0.1
<b>Total fees</b>	2.0	1.7

<sup>^</sup> The audit-related assurance services in the current year relate to the interim review; it is usual practice for a company's Auditor to perform this work. In the prior year these related to the interim review and grant claim assurance work.

The Audit Committee report on pages 78 to 80 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:

	2018 £m	2017 £m
<b>Employee costs during the year amounted to:</b>		
Wages and salaries	300.9	323.9
Social security costs	56.9	57.8
IFRS 2 share option charge	0.4	0.2
Pension costs (Note 29c)	7.9	8.2
Total staff costs excluding contingent consideration	366.1	390.1
Contingent consideration treated as remuneration (Note 14)	-	8.1
<b>Total staff costs including contingent consideration</b>	<b>366.1</b>	<b>398.2</b>

In addition to the above, redundancy costs of £11.5m (2017: £3.9m) have been included within Other items (Note 2).

Of the pension costs noted above, a charge of £0.1m (2017: £0.4m) relates to defined benefit schemes and a charge of £7.8m (2017: £7.8m) relates to defined contribution schemes. See Note 29c for more details.

The average monthly number of persons employed by the Group during the year was as follows:

	2018 Number	2017 Number
Production	544	910
Distribution	2,938	2,811
Sales	3,472	3,944
Administration	1,768	2,009
<b>Total</b>	<b>8,722</b>	<b>9,674</b>

The average numbers above include 150 staff that were employed in businesses classified as non-core (2017: 631).

### Directors' emoluments

Details of the individual directors' emoluments are given in the Directors' remuneration report on page 101 and 102.

The employee costs shown above include the following emoluments in respect of directors of the Company:

	2018 £m	2017 £m
Directors' remuneration (excluding IFRS 2 share option charge)	1.6	2.1
Directors' compensation for loss of office	-	-
<b>Total</b>	<b>1.6</b>	<b>2.1</b>

# Notes to the Financial Statements

## 6. Income tax

The income tax expense comprises:

	2018 £m	2017 Restated £m
<b>Current tax</b>		
UK & Ireland:		
- charge for the year	1.3	0.6
- adjustments in respect of previous years	(0.2)	0.1
	1.1	0.7
Mainland Europe:		
- charge for the year	11.2	13.8
- adjustments in respect of previous years	(0.7)	0.5
	10.5	14.3
<b>Total current tax</b>	<b>11.6</b>	15.0
<b>Deferred tax</b>		
Current year	(2.0)	(4.9)
Adjustments in respect of previous years	0.8	(6.9)
Deferred tax charge in respect of pension schemes	0.5	0.3
Effect of change in rate	(0.3)	1.0
<b>Total deferred tax</b>	<b>(1.0)</b>	(10.5)
<b>Total income tax expense</b>	<b>10.6</b>	4.5

As the Group's profits and losses are earned across a number of tax jurisdictions an aggregated income tax reconciliation is disclosed, reflecting the applicable rates for the countries in which the Group operates.

The total tax charge for the year differs from the expected tax using a weighted average tax rate which reflects the applicable statutory corporate tax rates on the accounting profits/losses in the countries in which the Group operates. The differences are explained in the following aggregated reconciliation of the income tax expense:

	2018		2017 Restated	
	£m	%	£m	%
Profit/(loss) before tax	28.5		(54.7)	
Expected tax charge/(credit)	8.8	30.9	(2.6)	4.8
Factors affecting the income tax expense for the year:				
- expenses not deductible for tax purposes <sup>^</sup>	3.5	12.3	3.9	(7.1)
- non-taxable income <sup>*</sup>	(3.7)	(13.0)	(1.8)	3.3
- impairment and disposal charges not deductible for tax purposes <sup>**</sup>	2.7	9.5	9.1	(16.6)
- losses arising in the year not recognised for deferred tax purposes	-	-	0.5	(0.9)
- release of deferred tax asset no longer recognised	0.3	1.1	-	-
- losses utilised not previously recognised for deferred tax purposes	(0.6)	(2.1)	-	-
- other adjustments in respect of previous years	(0.2)	(0.7)	(6.2)	11.3
- tax on branch profits	0.1	0.4	0.6	(1.1)
- effect of change in rate on deferred tax	(0.3)	(1.1)	1.0	(1.8)
<b>Total income tax expense</b>	<b>10.6</b>	<b>37.2</b>	4.5	(8.2)

<sup>^</sup> The majority of the Group's expenses that are not deductible for tax purposes are primarily in relation to the divestments of businesses, impairments of property and non-deductible interest payments.

<sup>\*</sup> The majority of the Group's non-taxable income relates to the divestments of businesses and French employment tax credits.

<sup>\*\*</sup> During the year the Group incurred disposal costs of £19.5m in relation to goodwill (2017: impairment charges of £6.0m and disposal costs of £39.5m) as set out in Note 12. These impairment and disposal charges are not deductible for tax purposes.

The effective tax rate for the Group on the total profit before tax of £28.5m is 37.2% (2017: negative 8.2%). The effective tax charge for the Group on profit before tax before Other items of £75.3m is 26.3% (2017: 25.5%), which comprises a tax charge of 26.6% (2017: 27.5%) in respect of current year profits and a tax credit of 0.3% (2016: 2.0%) in respect of prior years.

Factors affecting the Group's future total tax charge as a percentage of underlying profits are:

- the mix of profits and losses between the tax jurisdictions in which the Group operates; in particular the tax rates in France, Germany and Belgium are relatively high when compared to the Group's underlying effective rate;
- the impact of non-deductible expenditure and non-taxable income;
- agreement of open tax computations with the respective tax authorities; and
- the recognition or utilisation (with corresponding reduction in cash tax payments) of unrecognised deferred tax assets (see Note 23).

On 26 October 2017, the European Commission (EC) announced an investigation into the UK's controlled foreign company (CFC) rules. The UK's CFC rules provide an exemption for 75% of the CFC charge where the CFC is carrying out financing activities. The EC is investigating whether the UK's exemption is in breach of EU State Aid rules. This exemption has been claimed by SIG and the Group is monitoring developments in relation to the EC's investigation. The Group does not currently consider that a provision against the potential liability is required.

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.

	<b>2018</b>	2017
	<b>£m</b>	Restated £m
Deferred tax movement associated with re-measurement of defined benefit pension liabilities*	<b>0.1</b>	(0.9)
Deferred tax on share options	<b>(0.2)</b>	0.2
Tax credit/(charge) on exchange and fair value movements arising on borrowings and derivative financial instruments	<b>0.4</b>	(1.8)
Impact of adoption of IFRS 15	<b>0.2</b>	-
Effect of change in rate on deferred tax*	<b>-</b>	(0.2)
<b>Total</b>	<b>0.5</b>	(2.7)

\*These items will not subsequently be reclassified to the Consolidated Income Statement.

# Notes to the Financial Statements

## 7. Dividends

An interim dividend of 1.25p per ordinary share was paid on 9 November 2018 (2017: 1.25p). The directors have proposed a final dividend for the year ended 31 December 2018 of 2.5p per ordinary share (2017: 2.5p). 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. Total dividends paid during the year, including the final dividend for 2017, were £22.2m (2017: £18.2m). No dividends have been paid between 31 December 2018 and the date of signing the Financial Statements.

At 31 December 2018 the Company has c.£43.4m of distributable reserves, as set out in Note 12 to the Company Financial Statements, and when required the Company can further increase these distributable reserves by appropriate repatriation of funds from subsidiary undertakings.

## 8. Earnings/(loss) per share

The calculations of earnings/(loss) per share are based on the following profits/(losses) and numbers of shares:

	Basic and diluted	
	2018 £m	2017 Restated £m
Profit/(loss) after tax	17.9	(59.2)
Non-controlling interests	(0.4)	(1.0)
	17.5	(60.2)
	Basic and diluted before Other items	
	2018 £m	2017 Restated £m
Profit/(loss) after tax	17.9	(59.2)
Non-controlling interests	(0.4)	(1.0)
Add back:		
Other items (Note 2)	37.6	110.9
	55.1	50.7
Weighted average number of shares	2018 Number	2017 Number
For basic and diluted earnings/(loss) per share	591,548,834	591,489,053
	2018	2017 Restated
Earnings/(loss) per share		
Basic and diluted earnings/(loss) per share	3.0p	(10.2)p
Earnings per share before Other items <sup>^</sup>		
Basic and diluted earnings per share	9.3p	8.6p

<sup>^</sup> Earnings per share before Other items (also referred to as underlying earnings per share) has been disclosed in order to present the underlying performance of the Group.

## 9. Share-based payments

The Group had four share-based payment schemes in existence during the year ended 31 December 2018 (2017: two). The Group recognised a total charge of £0.4m (2017: charge of £0.2m) 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 73p (2017: 106p). Details of each of the schemes are provided below.

### a) 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 200% of base salary.

There were 1,413,968 LTIP awards in 2017 and no options awarded in 2016. The criteria and vesting conditions of the LTIP options are as follows:

	2017 Awards	
	EPS	ROCE
Weighting of criteria	33%	67%
Vesting conditions:		
- Does not vest	<31p	<10.0%
- Vests proportionately	31p – 38p	10.0% – 13.5%
- Vests in full	≥38p	≥13.5%
Proportion that vests at entry level	0%	0%
Exercise period	3 – 10 years*	

\* The 2017 awards vest after three years and are then subject to a further two year holding period.

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.

On 8 November 2018, the new 2018 Long Term Incentive Plan was approved (2018 LTIP). Under this plan Executive Directors can be awarded an annual grant of nil paid shares, with a maximum initial award of 200% and a potential multiplier on vesting of up to 300% of base salary.

There were 2,455,213 2018 LTIP awards in 2018. The initial award will vest at the end of a three year performance period provided that the director remains employed at that date and the primary performance conditions are satisfied. The two primary performance conditions are median TSR performance against the FTSE 250 and average Return on Capital Employed (ROCE) of 10% per annum over the three year period. Once these gateways have been achieved, the vesting of the initial award is determined based on the Company's absolute TSR performance as follows:

	2018 LTIP Awards Absolute TSR growth
Vesting level of initial award:	
- Does not vest	Below 8% p.a.
- Vests proportionately (25%)	8% p.a.
- Vests in full	14% p.a. or above
Straight-line vesting between 8% p.a. and 14% p.a.	
Exercise period	3 – 10 years*

\* The 2018 awards vest after three years and are then subject to a further two year holding period.

# Notes to the Financial Statements

## LTIP options (issued after 7 November 2002)

	2018		2017	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
At 1 January	3,198,249	0.0	3,335,562	0.0
Granted during the year	2,455,213	0.0	1,413,968	0.0
Exercised during the year (Note 25)	(8,747)	0.0	(87,934)	0.0
Lapsed during the year	(1,775,534)	0.0	(1,463,347)	0.0
<b>At 31 December</b>	<b>3,869,181</b>	<b>0.0</b>	<b>3,198,249</b>	<b>0.0</b>

Of the above share options outstanding at the end of the year nil (2017: 8,747) are exercisable at 31 December 2018. The options outstanding at 31 December 2018 had a weighted average exercise price of nil p (2017: nil p) and a weighted average remaining contractual life of 2.3 years (2017: 1.4 years). In the year, 8,747 options were exercised.

The assumptions used in the models used to calculate the fair value of the LTIP options are as follows:

	2018 LTIP Award	2017 Award
Share price (on date of official grant)	<b>116p</b> <b>(8 November 2018)</b>	117p (24 April 2017)
Exercise price	<b>0.0p</b>	0.0p
Expected volatility	<b>36.1%</b>	41.8%
Actual life	<b>3-5 years</b>	3 - 5 years
Risk free rate	<b>0.9%</b>	1.1%
Dividend yield	<b>3.8%</b>	3.4%
Model used	<b>Monte Carlo</b>	Black Scholes
Expected percentage options exercised versus granted at date of grant	<b>100%</b>	50%
Revised expectation of percentage of options to be exercised as at 31 December 2018	<b>100%</b>	34%

The weighted average fair value of LTIP options granted during the year, on a maximum number of awards basis, was 34p (2017: 106p). The expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years. The expected percentage of total options exercised is based on the directors' best estimate for the effects of behavioural considerations.

## b) Management Incentive Plan (MIP)

On 16 May 2018 the Management Incentive Plan (MIP) was approved. Under this Plan, senior leadership and wider leadership team members can be awarded an annual grant of restricted and deferred share options up to a certain percentage of base salary. Restricted share options have no performance conditions other than the employee remaining in employment for the three year vesting period. The deferred share options are formally granted 12 months after the granting of the restricted share options, with the number of options granted based on the achievement of certain performance criteria for the relevant financial year. The deferred share options vest after a further two years provided the employee remains in employment. The vesting period for both options is considered to be the three years from the granting of the restricted share options as this is the date on which both parties have a shared understanding of the terms and conditions of the arrangement. There were 1,529,155 awards of restricted and deferred shares in 2018.

The criteria and vesting conditions of the MIP deferred share options are as follows:

	2018 Awards		
	Local EBIT and ROCE	Group PBT	Group ROCE
Weighting of criteria	<b>50%</b>	<b>25%</b>	<b>25%</b>
Vesting conditions:			
- Does not vest	<b>Various*</b>	<b>&lt;£85.5m</b>	<b>&lt;11.5%</b>
- Vests proportionately	<b>Various*</b>	<b>£85.5m – 94.5m</b>	<b>11.5% – 12.5%</b>
- Vests in full	<b>Various*</b>	<b>≥£94.5m</b>	<b>≥12.5%</b>
Proportion that vests at entry level	<b>25%</b>	<b>25%</b>	<b>25%</b>
Exercise period	<b>3 – 10 years</b>		

\* There are different local targets for EBIT and ROCE for different businesses within the Group based on local budgets

## MIP options

	2018 Awards	
	Options	Weighted average exercise price (p)
At 1 January		
Granted during the year	1,529,155	0.0
Lapsed during the year	-	0.0
<b>At 31 December</b>	<b>1,529,155</b>	<b>0.0</b>

Of the above share options outstanding at the end of the year nil (2017: n/a) are exercisable at 31 December 2018. The options outstanding at 31 December 2018 had a weighted average exercise price of nil p (2017: n/a) and a weighted average remaining contractual life of 2.4 years (2017: n/a). In the year, no options were exercised.

The assumptions used in the Black-Scholes model in relation to the MIP options are as follows:

	2018 MIP Awards	
	1 October 2018	15 May 2018
Share price (on date of official grant)	1.29p	1.38p
Exercise price	0.0p	0.0p
Expected volatility	37.1%	38.4%
Actual life	3 years	3 years
Risk-free rate	0.9%	1.1%
Dividend	3.4%	3.4%
Expected percentage options exercised versus granted at date of grant	94%	96%
Revised expectation of percentage of options to be exercised as at 31 December 2018	94%	96%

The weighted average fair value of LTIP options granted during the year, on a maximum number of awards basis, was 34p (2017: 106p). The expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two 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 a HM Revenue & 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 2018, 69,619 (2017: 138,366) 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.

# Notes to the Financial Statements

## 10. Property, plant and equipment

The movements in the year and the preceding year were as follows:

	Land and buildings			Total Restated £m
	Freehold £m	Leasehold Restated £m	Plant and machinery £m	
<b>Cost</b>				
At 1 January 2017	59.6	59.9	209.0	328.5
Exchange differences	2.6	1.3	7.9	11.8
Additions	0.4	12.8	15.9	29.1
Reclassified as held for sale	(0.3)	–	–	(0.3)
Transfers	–	–	2.7	2.7
Disposals	(22.7)	(8.7)	(30.4)	(61.8)
At 31 December 2017	39.6	65.3	205.1	310.0
Exchange differences	0.3	0.2	0.8	1.3
Additions	1.6	5.9	12.5	20.0
Reclassified as held for sale	(1.9)	–	–	(1.9)
Reclassifications	4.7	1.5	(6.7)	(0.5)
Disposals	(1.4)	(3.1)	(24.5)	(29.0)
<b>At 31 December 2018</b>	<b>42.9</b>	<b>69.8</b>	<b>187.2</b>	<b>299.9</b>
<b>Accumulated depreciation and impairment</b>				
At 1 January 2017	17.6	31.4	145.2	194.2
Charge for the year	1.6	4.7	17.4	23.7
Impairment charges	1.6	0.4	1.8	3.8
Exchange differences	1.3	1.2	6.4	8.9
On assets reclassified as held for sale	(0.1)	–	–	(0.1)
Disposals	(8.0)	(7.9)	(22.7)	(38.6)
At 31 December 2017	14.0	29.8	148.1	191.9
Charge for the year	0.9	3.6	15.2	19.7
Impairment charges	–	3.2	0.2	3.4
Exchange differences	0.2	0.1	0.7	1.0
Reclassifications	4.2	4.8	(9.0)	–
Disposals	(1.6)	(1.6)	(18.3)	(21.5)
<b>At 31 December 2018</b>	<b>17.7</b>	<b>39.9</b>	<b>136.9</b>	<b>194.5</b>
<b>Net book value</b>				
<b>At 31 December 2018</b>	<b>25.2</b>	<b>29.9</b>	<b>50.3</b>	<b>105.4</b>
At 31 December 2017	25.6	35.5	57.0	118.1

The net book value of leasehold land and buildings at 31 December 2018 includes an amount of £9.7m (2017: £13.1m) and the net book value of plant and machinery includes an amount of £9.6m (2017: £10.0m) in respect of assets held under finance lease contracts. Included within plant and machinery additions are assets in the course of construction of £0.1m (2017: £0.1m).

Included with leasehold land and buildings is property held under a finance lease which has been classified as investment property during the second half of the year as it is no longer being occupied for use by the Group. The Group has chosen to account for investment property using the cost model. £nil has been recognised in rental income and £2.8m (2017: £nil) incurred in Other items during the year due to impairment of the asset. The property is being depreciated on a straight-line basis over the term of the lease (25 years). The property had a cost of £4.2m, accumulated depreciation of £0.3m and impairment of £2.8m on transfer to investment property and at the end of the year. The fair value of the investment property at 31 December 2018 is estimated to be £1.1m based on future expected rental returns. No independent third party valuation has been carried out.

At 31 December 2018 land in Germany previously included within freehold land and buildings with a net book value of £1.9m has been classified as an asset held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" as it is being marketed for sale and is expected to be sold during 2019. At 31 December 2017 fixed assets with a net book value of £0.2m were classified as assets held for sale in connection with the divestment of the IBSL division of SIG Distribution (see Note 11).

Of the £3.4m impairment charges, £2.8m on leasehold properties is attributable to an asset no longer being held for use within the business. The remaining impairment charges relate to impairments of assets due to the restructuring within the UK SIG Distribution business. Impairments in 2017 relate to disposals of businesses subsequent to the year end and assets that were identified as being surplus to requirements.



## 11. Divestments and exit of non-core businesses

The Group has recognised a total charge of £6.7m (2017: £72.4m) in respect of losses on agreed sale or closure of non-core businesses and associated impairment charges within Other items of the Consolidated Income Statement.

### Businesses disposed during the year

The Group has divested of the following businesses during the year:

#### GRM

As disclosed in the 2017 Annual Report and Accounts, on 2 February 2018 the Group completed the disposal of GRM Insulation Solutions (GRM), a division of SIG Trading Limited and part of the SIG Distribution segment. In 2017 the goodwill, fixed assets and inventories were impaired to reflect the recoverable amount indicated by the sale proceeds and the expected costs of the sale were accrued, resulting in a loss on sale of £5.7m being recognised in 2017. During the period to 31 December 2018 inventory previously impaired has been sold and, therefore, £0.2m of this provision has been released as a credit to Other items in 2018.

#### IBSL

As disclosed in the 2017 Annual Report and Accounts, on 2 March 2018 the Group completed the disposal of IBSL, a small industrial insulation division operated by SIG Trading Limited and part of the SIG Distribution segment. In 2017 the assets of the business were impaired to reflect the recoverable amount indicated by the sale proceeds less costs to sell and a loss on sale of £1.9m recognised within Other items of the 2017 Consolidated Income Statement. The assets and liabilities were classified as held for sale at 31 December 2017 (comprising fixed assets of £0.2m, inventories of £0.1m and liabilities of £0.1m). During the period to 31 December 2018, further costs of £0.1m have been recognised.

#### Building Systems

As disclosed in the 2017 Annual Report and Accounts, on 2 March 2018 the Group completed the disposal of the trade and assets of SIG Building Systems Limited (Building Systems), a subsidiary of the Group. In 2017 the assets of the business were impaired to reflect the recoverable amount indicated by the sale proceeds less costs to sell, resulting in a loss on sale of £7.9m. An additional credit of £1.2m has been recognised during the period to 31 December 2018, largely due to the release of an onerous lease provision due to properties being sublet.

#### VJ Technology

On 29 June 2018 the Group completed the disposal of the trade and assets of VJ Technology, a division of SIG Trading Limited UK and part of the SIG Distribution segment. Consideration for the sale less costs to sell was £29.3m resulting in a profit on disposal of £5.2m which is included within Other items in the Consolidated Income Statement.

#### Roofspace

On 14 December 2018 the Group completed the disposal of 100% of the share capital of SIG Roofspace Limited (Roofspace), a subsidiary of SIG Trading Limited and included within the SIG Distribution segment. Consideration for the sale was £14.6m, resulting in a loss on sale of £7.1m which is included within Other items in the Consolidated Income Statement.

#### Proteus

On 18 December 2018 the Group completed the disposal of the trade and assets of Proteus Engineered Facades (Proteus), a division of SIG Trading Limited included within the SIG Exteriors segment, for consideration of £0.5m. The consideration is due for payment in May 2019 and is included within deferred consideration at 31 December 2018. The loss arising on the sale of £4.8m is included within Other items in the Consolidated Income Statement.

The net assets of the six businesses at the date of disposal were as follows:

	At date of disposal £m	At 31 December 2017 £m
Attributable goodwill	21.5	22.2
Property, plant and equipment	2.7	2.0
Cash	6.8	2.3
Inventories	7.7	6.7
Trade and other receivables	16.7	15.6
Trade and other payables	(5.3)	(12.4)
Net assets	50.1	36.4
Other costs	0.3	
Total loss on disposals	(5.4)	
Sale proceeds	45.0	
Satisfied by:		
Cash and cash equivalents	44.5	
Deferred consideration (vendor loan note)	0.5	
	45.0	

# Notes to the Financial Statements

## Other business closures

The Group has also agreed to exit the following businesses:

### SIG Cut Solutions

In June 2018 the Group closed SIG Cut Solutions, the Group's German insulation conversion business. The stock and fixed assets of the business was sold and the associated goodwill written off leading to an expense of £0.1m recognised within Other items in the Consolidated Income Statement.

### Commercial Drainage

The Group has announced the closure of its Commercial Drainage business, part of the SIG Distribution segment. All assets are held at recoverable value and the operating losses for the year have been included in Other items in the Consolidated Income Statement.

## Prior year divestments

### Middle East

As disclosed in the 2017 Annual Report and Accounts, the Group has commenced the closure of its business in the Middle East. The assets of the business were impaired at 31 December 2017 to reflect the recoverable amount indicated by the period end impairment review process, resulting in a total loss on wind down of £17.1m for the year ended 31 December 2017. During the period to 31 December 2018 a net expense of £0.9m has been recognised in Other items, comprising additional costs associated with the closure, offset with the release of a bad debt provision where amounts have been collected.

### Air Handling Turkey

On 21 December 2017 the Group disposed of its shareholding in Air Trade Centre East BV and A.T.C. Air Trade Centre Havealandirma Sistemleri Ticaret Limited Sirketi (together, 'Air Handling Turkey'). The disposal led to a loss on disposal of £3.1m being included within Other items in the Consolidated Income Statement at 31 December 2017. During the period to 31 December 2018 an additional expense of £0.4m has been incurred due to the re-translation of the vendor loan which is repayable over 48 months from October 2018.

### Other

Additional credits of £0.1m have been recognised and included within Other items in relation to the disposals of the Carpet & Flooring and Metecho businesses in the prior year.

## Contribution to revenue and operating loss

The results of the above businesses for the current and prior periods have been disclosed within Other items in the Consolidated Income Statement in order to provide an indication of the underlying earnings of the Group. The revenue and net operating profit/(loss) of the non-core businesses for the years ended 31 December 2018 and 31 December 2017 are as follows:

	2018		2017	
	Revenue £m	Net operating profit/(loss) £m	Revenue £m	Net operating profit/(loss) £m
Carpet & Flooring	-	-	11.4	(0.7)
Drywall Qatar	-	-	1.2	(1.4)
Building Plastics	-	-	34.5	0.9
WeGo Austria	-	-	7.6	(0.2)
Air Handling Turkey	-	-	12.0	(0.4)
Building Systems	1.4	(1.2)	8.0	(7.6)
GRM	0.3	(0.2)	2.6	(0.8)
Metecho	-	-	1.3	(3.4)
Middle East	2.1	(0.8)	19.5	(0.7)
IBSL	0.2	(0.2)	1.8	-
Businesses identified as non-core in 2017	4.0	(2.4)	99.9	(14.3)
VJ Technology	17.0	3.1	30.6	5.0
Roofspace	24.0	2.1	17.6	2.0
Proteus	3.4	(0.5)	5.6	0.6
Commercial Drainage	10.0	(0.8)	7.4	(0.7)
SIG Cut Solutions	0.3	(0.3)	0.9	(0.6)
Businesses identified as non-core in 2018	54.7	3.6	62.1	6.3
Total attributable to non-core businesses	58.7	1.2	162.0	(8.0)

## Cash flows associated with divestments and exit of non-core businesses

The net cash inflow in the year ended 31 December 2018 in respect of divestments and the exit of non-core businesses is as follows:

	GRM £m	IBSL £m	Building Systems £m	Vj Technology £m	Roofspace £m	Proteus £m	Other non-core businesses £m	Total £m
Cash consideration received for divestments	0.1	0.3	0.2	29.3	14.6	0.5	-	<b>45.0</b>
Cash at date of disposal	-	-	-	(4.5)	(2.3)	-	-	<b>(6.8)</b>
Other income received/(disposal costs paid)	0.2	(0.1)	1.0	(0.6)	(0.8)	-	(2.1)	<b>(2.4)</b>
Net cash inflow/(outflow)	0.3	0.2	1.2	24.2	11.5	0.5	(2.1)	<b>35.8</b>

The losses arising on the agreed sale or closure of non-core businesses and associated impairment charges, along with their results for the current and prior periods, have been disclosed within Other items in the Consolidated Income Statement in order to present the underlying earnings of the Group.

## 12. Goodwill

	£m
<b>Cost</b>	
At 1 January 2017	554.4
Acquisitions	0.1
Businesses disposed	(61.6)
Adjustments in respect of prior period acquisitions	-
Exchange differences	10.9
At 31 December 2017	503.8
Businesses disposed	(24.5)
Exchange differences	(3.7)
<b>At 31 December 2018</b>	<b>475.6</b>
<b>Accumulated impairment losses</b>	
At 1 January 2017	201.7
Impairment charges	6.0
Businesses disposed	(22.1)
Exchange differences	6.0
At 31 December 2017	191.6
Businesses disposed	(5.0)
Exchange differences	(4.9)
<b>At 31 December 2018</b>	<b>181.7</b>
<b>Net book value</b>	
<b>At 31 December 2018</b>	<b>293.9</b>
At 31 December 2017	312.2

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 9 CGUs (2017: 15), this reduction is due to disposals of businesses.

# Notes to the Financial Statements

## 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:

	2018 £m	2017 £m
UK Distribution	91.3	97.5
UK Exteriors	68.2	68.2
Building Solutions	11.0	12.7
Larivière	72.1	71.5
France	10.7	10.6
Germany	2.9	3.3
Poland	1.2	1.2
Air Handling	22.3	22.1
Benelux	14.2	14.1
Other CGUs	-	11.0
<b>Total goodwill</b>	<b>293.9</b>	312.2

## 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 all the CGUs, the Group performs goodwill impairment reviews by forecasting cash flows based upon the following year's budget, which anticipates sales growth, and a projection of sales and cash flows based upon industry growth expectations (0%-2.9%) 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 2.5% in perpetuity.

	Long-term operating profit growth rate (%)	Post-tax discount rate (%)
UK	2.0	9.8
France	1.9	8.4
Germany	2.0	7.8
Poland	2.5	10.3
Air Handling	2.1	8.5
Benelux	2.1	8.5

## 2018 impairment review results

In the prior year, a goodwill impairment charge of £1.0m was recognised in relation to the wind down of the Metecho business and £5.0m was recognised in relation to the post year end disposal of the GRM and IBSL businesses.

The results of the 2018 impairment review indicate that the carrying values of all ongoing CGUs remain supportable.

## Sensitivity analysis

A number of reasonably possible sensitivities have been performed on the Group's CGUs to highlight the changes in market conditions that would lead to the value in use equalling the carrying value. For the more sensitive CGUs, the table below sets out the amount that the assumption would have to change by for there to be no headroom. The results are as follows:

### 2018

	Like-for-like market volume (average % per annum)			Discount rate (%)		Gross margin (%)		Long-term operating profit growth rate (average % per annum)	
	Headroom	Assumption	Sensitivity	Assumption	Sensitivity	Assumption	Sensitivity	Assumption	Sensitivity
UK Distribution	£175.8m	2.0	(11.7)	9.8	9.4	25.1	(2.4)	2.0	(18.3)
UK Exteriors	£48.5m	(0.2)	(5.9)	9.8	3.6	29.6	(1.5)	2.0	(5.3)
Building Solutions	£26.2m	14.5	(15.0)	9.8	8.6	28.7	(3.6)	2.0	(15.8)
Larivière	€39.5m	1.7	(4.1)	8.4	2.0	24.9	(0.8)	1.9	(2.7)
Germany	€43.4m	2.7	(3.2)	7.8	5.3	28.0	(0.8)	2.0	(7.8)

### 2017

	Like-for-like market volume (average % per annum)			Discount rate (%)		Gross margin (%)		Long-term operating profit growth rate (average % per annum)	
	Headroom	Assumption	Sensitivity	Assumption	Sensitivity	Assumption	Sensitivity	Assumption	Sensitivity
UK Distribution	£22.8m	0.2	(1.4)	9.2	1.2	24.0	(0.3)	1.8	(1.1)
UK Exteriors	£88.6m	(1.8)	(9.2)	9.2	6.6	29.5	(2.3)	1.8	(6.3)
Building Solutions	£6.3m	(2.6)	(3.2)	9.2	2.3	29.9	(0.8)	1.8	(2.2)
Larivière	€9.3m	0.9	(1.1)	8.7	0.5	23.4	(0.2)	1.4	(0.7)
Germany	€20.3m	0.9	(1.8)	8.1	2.5	26.8	(0.4)	1.4	(2.4)
Poland	PLN 20.3m	-	(1.9)	10.7	4.4	19.4	(0.3)	3.4	(4.2)

The sensitivities noted above are the amounts by which the related assumption would have to vary before an impairment is indicated.

Gross margin is the key assumption in the forecasts used in the goodwill impairment reviews, and therefore a 50bps reduction in gross margin has been determined as a reasonably possible change for the purposes of the disclosure requirements of IAS 36 "Impairment of assets".

If a 50bps reduction in gross margin were to arise from that forecast in the goodwill impairment reviews, no impairments would arise. If this was combined with a 200bps reduction in sales, the Larivière CGU would show an impairment of €3.6m.

Brexit uncertainty has resolved the Construction Products Association (CPA) to downgrade its UK construction output forecast from growth of 2.3% (in autumn 2018) to 0.3%, driven largely by a decline in the commercial sector, partially offset by continued growth in private housing construction. As such, a decline in trading profit per annum of 2% was modelled across the UK and Ireland CGUs and this showed no impairment across the Group.

The extent to which these risks materialise will depend on the nature of the eventual Brexit deal and it is considered that there is sufficient headroom in the UK businesses to cover the increased risk and uncertainty from Brexit. For further details on the considerations of Brexit on the business see page 45.

The Board has actively reviewed the forecasts associated with the CGUs noting the conservative assumptions used, the continued pattern of strong results in challenging economic environments in which they operate, and is satisfied that no impairments are necessary.

# Notes to the Financial Statements

## 13. 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 which is recognised separately from associated hardware.

	Customer relationships £m	Non-compete clauses £m	Computer software £m	Total £m
<b>Cost</b>				
At 1 January 2017	239.0	12.1	53.7	304.8
Additions	-	-	3.2	3.2
Disposals	(0.4)	-	(0.6)	(1.0)
Transfers	-	-	(2.7)	(2.7)
Exchange differences	3.7	-	-	3.7
At 31 December 2017	242.3	12.1	53.6	308.0
Additions	-	-	5.3	5.3
Disposals	(13.0)	(0.4)	(0.7)	(14.1)
Reclassifications	-	-	0.5	0.5
Exchange differences	(1.2)	-	-	(1.2)
<b>At 31 December 2018</b>	<b>228.1</b>	<b>11.7</b>	<b>58.7</b>	<b>298.5</b>
<b>Amortisation</b>				
At 1 January 2017	188.5	11.7	27.7	227.9
Charge for the year	8.9	0.4	3.7	13.0
Impairment charges	0.6	-	6.8	7.4
Disposals	(0.1)	-	(0.4)	(0.5)
Exchange differences	3.2	-	-	3.2
At 31 December 2017	201.1	12.1	37.8	251.0
Charge for the year	8.9	-	4.4	13.3
Impairment charges	-	-	1.1	1.1
Disposals	(10.5)	(0.4)	(0.3)	(11.2)
Reclassifications	-	-	(0.5)	(0.5)
Exchange differences	(1.2)	-	(0.2)	(1.4)
<b>At 31 December 2018</b>	<b>198.3</b>	<b>11.7</b>	<b>42.3</b>	<b>252.3</b>
<b>Net book value</b>				
<b>At 31 December 2018</b>	<b>29.8</b>	<b>-</b>	<b>16.4</b>	<b>46.2</b>
At 31 December 2017	41.2	-	15.8	57.0

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 120.

Included within computer software additions are assets in the course of construction of £nil (2017: £0.3m).

The £0.6m customer relationships impairment charge in the prior year relates to the post year end disposal of IBSL (see Note 11).

The computer software impairment charge is in relation to the TM1 data warehouse which is no longer being used due to the change in IT digital strategy and in relation to reduced utilisation of the UK ERP system following certain business disposals. The prior year charge related to the review of the utilisation of the UK ERP system, Kerridge K8, which identified that certain modules were not being used.

## 14. Acquisitions

The Group has not made any business acquisitions during 2018 or 2017.

During 2017 a charge of £9.8m relating to contingent consideration payable to vendors of businesses previously acquired was recognised within the Consolidated Income Statement and presented within the column entitled Other items. This amount was settled during 2018.

During 2018 £17.2m was paid as settlement of amounts payable for previous purchases of businesses. This included the £17.0m deferred consideration at 31 December 2018 (Note 28) and £0.2m exchange movements on this during the year.

On 12 April 2018 the Group acquired the non-controlling interest of the Bulgaria Air Handling business for total consideration of £6.3m, comprising £2.5m cash, £2.9m in relation to property transferred as part of the transaction and £0.9m contingent on the results of the business for the period to 31 December 2018. £0.8m is included within deferred consideration at 31 December 2018 as the performance criteria have been met.

	2018 £m	2017 £m
Contingent on vendors remaining within the business (below)	-	8.1
Re-assessment of post-acquisition performance of acquired businesses	-	1.7
<b>Total charge to Consolidated Income Statement</b>	<b>-</b>	<b>9.8</b>

### Consideration dependent on vendors remaining within the business

Amounts which may be paid to the vendors of recent acquisitions who are employed by the Group and are contingent upon the vendors remaining within the business are, as required by IFRS 3, treated as remuneration and charged to the Consolidated Income Statement as earned. There were no such amounts paid during 2018 and no amounts outstanding at 31 December 2018.

	2018 £m	2017 £m
At 1 January	-	4.4
New amounts accrued	<b>0.9</b>	10.3
Interest accrued	-	-
Amounts paid	-	(2.7)
Accruals released	-	(2.2)
Transferred to deferred consideration	<b>(0.8)</b>	(9.8)
Exchange differences	<b>(0.1)</b>	-
<b>At 31 December</b>	<b>-</b>	<b>-</b>

## 15. Inventories

	2018 £m	2017 £m
Raw materials and consumables	<b>3.2</b>	4.8
Work in progress	<b>0.7</b>	0.9
Finished goods and goods for resale	<b>203.3</b>	237.9
Inventories classified as part of a disposal business held for sale (Note 11)	-	(0.1)
	<b>207.2</b>	243.5

The estimated replacement cost of inventories is not materially different from the balance sheet value stated above.

# Notes to the Financial Statements

## 16. Trade and other receivables

	2018 £m	2017 Restated £m
Trade receivables	384.3	374.7
Amounts due from construction contract customers	-	6.2
VAT	9.3	5.2
Other receivables	9.2	13.5
Prepayments and accrued income	74.9	80.8
<b>Trade and other receivables</b>	<b>477.7</b>	480.4
Contract assets	1.8	-
Current tax assets	5.5	5.2
Assets classified as held for sale (Note 10)	1.9	0.3
<b>Total receivables</b>	<b>486.9</b>	485.9

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on made-to-order products. In previous years these were included in Trade and other receivables and £4.0m related to the Roofspace and Building Systems businesses which have been sold during the year (see Note 11). IFRS 15 has been adopted using the modified retrospective method, therefore prior year comparatives have not been restated (see Statement of Significant Accounting Policies).

Included within prepayments and accrued income is £59.3m (2017: £55.2m) due in relation to supplier rebates where there is no right to offset against trade payable balances. The remainder of the balance relates to prepayments.

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. The average credit period on sale of goods and services for underlying operations on a constant currency basis is 44 days (2017: 39 days).

An allowance has been made for estimated credit losses from trade receivables and contract assets of £31.4m at 31 December 2018 (2017: £41.1m).

### Movement in the allowance for expected credit losses

	2018 £m	2017 £m
At 1 January	(41.1)	(33.9)
Utilised	15.6	9.3
Unused amounts released to the Consolidated Income Statement	9.4	3.0
Released on disposal of non-core businesses (Note 11)	-	0.9
Charged to the Consolidated Income Statement	(14.6)	(19.8)
Exchange differences	(0.7)	(0.6)
<b>At 31 December</b>	<b>(31.4)</b>	(41.1)

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

The expected loss rates have been assessed by each operating segment and are based on the payment profiles of sales over a period prior to 31 December 2018, the availability of credit insurance and the historical credit losses experiences within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables and 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.



31 December 2018	Days past due				Total £m
	< 30 days	30-60 days	61-90 days	> 91 days	
	£m	£m	£m	£m	
Expected credit loss rate	0.4%	2.0%	3.8%	51.9%	
Total gross carrying amount	271.4	65.7	26.5	53.9	417.5
Expected credit loss	1.1	1.3	1.0	28.0	31.4

The 2017 allowance for bad debts under IAS39 on an incurred loss basis was as follows:

31 December 2017	Days past due				Total £m
	< 30 days	30-60 days	61-90 days	> 91 days	
	£m	£m	£m	£m	
Allowance as a percentage of gross carrying amount	0.5%	5.3%	10.4%	87.3%	
Total gross carrying amount	340.3	20.8	19.3	41.6	422.0
Allowance for bad debt	1.7	1.1	2.0	36.3	41.1

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

### Transfer of trade receivables

The Group sold without recourse trade receivables to banks and other financial institutions for cash proceeds. These trade receivables of £49.7m (2017: £48.7m) have been derecognised from the Consolidated Balance Sheet, because the Group has transferred the risks and rewards.

### 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.

# Notes to the Financial Statements

## 17. Current liabilities

	2018 £m	2017 Restated £m
Trade payables	308.1	283.7
Amounts due to construction contract customers	-	1.3
Bills of exchange payable	-	4.5
VAT	20.1	23.4
Social security and payroll taxes	27.1	18.3
Accruals and other payables	73.0	90.3
<b>Trade and other payables</b>	<b>428.3</b>	421.5
Contract liabilities	1.6	-
Obligations under finance lease contracts (Note 24)	3.2	3.2
Bank overdrafts	4.5	29.6
Bank loans	56.5	84.2
Private placement notes	-	21.1
Loan notes and deferred consideration	0.9	17.0
Other financial liabilities	1.1	8.0
Derivative financial instruments	0.3	0.2
Current tax liabilities	4.9	7.2
Provisions (Note 22)	11.0	12.0
Liabilities directly associated with assets classified as held for sale	-	0.1
<b>Current liabilities</b>	<b>512.3</b>	604.1

The contract liabilities primarily relate to the advance consideration received from customers for construction of air handling units, for which revenue is recognised over time. In previous years these were included in Trade and other payables. IFRS 15 has been adopted using the modified retrospective method, therefore prior year comparatives have not been restated (see Statement of Significant Accounting Policies).

Trade payables is presented net of £52.8m (2017: £58.8m) due from suppliers in respect of supplier rebates where the Group has the right to net settlement.

£nil (2017: £0.4m) of the above bank loans and overdrafts are secured on the assets of subsidiary undertakings, all of the above finance lease contracts are secured on the underlying assets and the remaining balances are unsecured. All of the above private placement notes, derivative financial instruments, and £56.5m (2017: £83.7m) of the bank loans 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 2018 ranged from 0.55% to 1.5% (2017: between 0.0% and 1.9%).

£27.6m (2017: £38.4m) of the bank loans and deferred consideration due within one year (after taking into account derivative financial instruments) are at variable rates of interest.

£28.9m (2017: £62.8m) 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 3.0% (2017: 3.1%).

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 underlying operations on a constant currency basis is 47 days (2017: 42 days).

The directors consider that the carrying amount of current liabilities approximates to their fair value.

## 18. Non-current liabilities

	2018 £m	2017 Restated £m
Obligations under finance lease contracts (Note 24):		
–due after one and within two years	2.7	2.7
–due after two and within five years	4.4	4.3
–due after five years	13.1	13.0
Bank loans	–	–
Private placement notes	185.6	183.1
Derivative financial instruments	3.8	3.3
Deferred tax liabilities (Note 23)	1.4	1.4
Other payables	5.6	6.9
Retirement benefit obligations (Note 29c)	28.7	30.4
Provisions (Note 22)	20.4	21.7
<b>Non-current liabilities</b>	<b>265.7</b>	266.8

All of the above private placement notes and derivative financial instruments are guaranteed by certain companies of the Group.

Details of the private placement notes (before applying associated derivative financial instruments and prepaid arrangement fees) are as follows:

	2018		2017	
	£m	Fixed interest rate %	£m	Fixed interest rate %
Repaid in 2018	–	–	21.1	5.5
Repayable in 2020	26.9	3.7	26.7	3.7
Repayable in 2021	18.0	3.9	17.8	3.9
Repayable in 2023	44.9	4.2	44.4	4.2
Repayable in 2026	96.2	3.3	94.2	3.3
<b>Total</b>	<b>186.0</b>	<b>3.6</b>	204.2	3.8

The £23.5m (2017: £22.2m) of private placement debt repayable in 2026 that was denominated in US Dollar was swapped into Sterling through the use of cross-currency swaps. The remainder of the private placement debt at 31 December 2018 is denominated in Euros. The private placement debt in the table above is valued before application of the cross-currency swaps associated with the US Dollar denominated debt but after application of the interest rate swap associated with the Sterling denominated private placement debt, and therefore differs from the value of private placement debt of £183.8m as disclosed in Note 19 Financial assets and financial liabilities.

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 19 on page 155.

## 19. Financial assets and financial liabilities

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade receivables, deferred consideration and cash and cash equivalents that derive directly from its operations.

The Group is exposed to credit risk, liquidity risk, interest rate and foreign currency risk. The Group Board oversees the management of these risks. The Board manages the risks through implementation of the Group Treasury Policy, supported by the Group Tax and Treasury Committee, which monitors and reviews the activities of the Group Treasury Function to ensure they are performed in accordance with the policy and reports to the Group Board on a regular basis. The "Treasury risk management" section of the Financial Review on pages 37 and 38 includes a review of all treasury, 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 Financial Review on page 37. Credit risk is discussed further in Note 16.

# Notes to the Financial Statements

## a) Financial assets

The Group holds the following financial assets:

	Note	2018 £m	2017 £m
Financial assets at amortised cost			
Trade receivables	16	384.3	374.7
Deferred consideration		1.5	1.5
Cash at bank and on hand		83.3	108.2
Derivative financial instruments designated as hedging instruments	19(c)	1.9	1.3
Derivative financial instruments not designated as hedging instruments		-	-
<b>Total</b>		<b>471.0</b>	485.7

Included within cash at bank and on hand is cash restricted for use of £4.1m (2017: £6.1m) relating to cash received in relation to factoring arrangements. The interest received on cash deposits is at variable rates of interest of up to 1.5% (2017: 1.6%).

The directors consider that the fair values of cash at bank and on hand, trade receivables and deferred consideration approximate their carrying value, largely due to the short term maturities of these instruments. All of the deferred consideration relates to vendor loan notes in connection with the sale of businesses in 2017 and 2018 (Note 11). The fair value is not significantly different to the carrying amount.

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. Information about the Group's exposure to credit risk in relation to trade receivables is given in Note 16.

Of the above cash at bank on hand, £20.1m (2017: restated £27.7m) is denominated in Sterling, £41.2m (2017: restated £59.8m) in Euros, £18m (2017: £16.9m) in Polish Zloty, and £4.0m (2017: £3.8m) in other currencies. Of the deferred consideration, £0.5m (2017: £nil) is denominated in Sterling and £1.0m (2017: £1.5m) in other currencies.

## b) Financial liabilities

The Group holds the following financial liabilities:

	Note	2018 £m	2017 £m
Financial liabilities at amortised cost			
Trade and other payables*	17	381.1	379.8
Borrowings		271.2	349.2
Loan notes and deferred consideration		0.9	17.0
Derivative financial instruments designated as hedging instruments	19(c)	4.1	3.5
Derivative financial instruments not designated as hedging instruments		-	-
<b>Total</b>		<b>657.3</b>	749.5

\* Excluding non-financial liabilities

The directors consider that the fair values of trade and other payables and loan notes and deferred consideration approximate their carrying value due to their short term nature. The fair value of borrowings is considered below.

## 2018 interest rate and currency profile

The interest rate and currency profile of the Group's financial liabilities at 31 December 2018, after taking account of interest rate and currency derivative financial instruments (including derivative assets of £1.9m 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	<b>Sterling</b>	<b>21.3</b>	-	<b>21.3</b>	<b>4.2</b>	<b>7.6</b>	-	<b>21.3</b>
Other borrowings	<b>Sterling</b>	<b>61.0</b>	<b>28.0</b>	<b>33.0</b>	<b>3.0</b>	<b>2.2</b>	-	<b>61.0</b>
Finance lease contracts	<b>Sterling</b>	<b>13.3</b>	-	<b>13.3</b>	<b>3.5</b>	<b>23.2</b>	<b>0.1</b>	<b>13.2</b>
Private placement notes	<b>Euro</b>	<b>162.5</b>	-	<b>162.5</b>	<b>3.5</b>	<b>5.4</b>	-	<b>162.5</b>
Other borrowings	<b>Euro</b>	<b>5.8</b>	<b>4.9</b>	<b>0.9</b>	-	<b>0.3</b>	<b>0.9</b>	<b>4.9</b>
Finance lease contracts	<b>Euro</b>	<b>8.2</b>	-	<b>8.2</b>	<b>4.4</b>	<b>6.1</b>	<b>8.2</b>	-
Other borrowings	<b>Polish Zloty</b>	<b>0.2</b>	<b>0.2</b>	-	-	-	<b>0.2</b>	-
Finance lease contracts	<b>Polish Zloty</b>	<b>2.0</b>	-	<b>2.0</b>	<b>3.8</b>	<b>4.5</b>	<b>2.0</b>	-
<b>Total</b>		<b>274.3</b>	<b>33.1</b>	<b>241.2</b>			<b>11.4</b>	<b>262.9</b>

In addition to the currency exposures above, the Group held two cross-currency derivative financial instruments for 2018 which alter the currency profile of the Group's financial liabilities. These amount to an asset of £20.9m and a liability of €26.6m. The fair value of these derivatives was a net liability of £3.5m which is included in the Sterling value of other borrowings in the table above. The Group's net debt at 31 December 2018 was £189.4m and, after taking account of these cross-currency derivatives, the Group had net Euro financial liabilities of £159.1m.

Of the above finance lease contracts, £10.3m (2017: £9.9m), 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 2018 is estimated to be £217.3m (2017: c.£240m) and is classified as a Level 2 fair value measurement for disclosure purposes. The remaining fixed rate debt amounts to £57.4m (2017: restated £89.4m) and relates to finance lease contracts, fixed rate loans (after applying derivative 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.

## 2017 interest rate and currency profile (restated)

The interest rate and currency profile of the Group's financial liabilities at 31 December 2017, after taking account of interest rate and currency derivative financial instruments (including derivative assets of £1.3m 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	42.1	20.0	22.1	4.2	8.6	-	42.1
Other borrowings	Sterling	116.2	66.9	49.3	2.8	2.0	-	116.2
Finance lease contracts	Sterling	13.4	-	13.4	6.9	24.1	0.1	13.3
Private placement notes	Euro	160.9	-	160.9	3.5	6.4	-	160.9
Other borrowings	Euro	17.8	0.8	17.0	3.0	1.0	0.1	17.7
Finance lease contracts	Euro	7.6	-	7.6	5.0	4.8	7.6	-
Other borrowings	Polish Zloty	0.3	0.3	-	n/a	-	0.3	-
Finance lease contracts	Polish Zloty	2.2	-	2.2	3.5	4.3	2.2	-
Other borrowings	US Dollar	7.9	-	7.9	4.0	0.1	-	7.9
<b>Total</b>		<b>368.4</b>	<b>88.0</b>	<b>280.4</b>			<b>10.3</b>	<b>358.1</b>

In addition to the currency exposures above, the Group held two cross-currency derivative financial instruments for 2017 which altered the currency profile of the Group's financial liabilities. These amounted to an asset of £20.9m and a liability of €26.6m. The fair value of these derivatives was a liability of £2.7m which is included in the Sterling value of other borrowings in the table above.

The Group's net debt at 31 December 2017 was £258.7m and, after taking account of these cross-currency derivatives, the Group had net Euro financial liabilities of £142.1m.

In both 2018 and 2017, the interest rate on floating rate financial liabilities is based upon appropriate local market rates.

# Notes to the Financial Statements

## c) Hedging activities and derivatives

The Group is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments are foreign currency risk and interest rate risk. The Group's risk management strategy and how it is applied to manage risk is explained in the 'Management of treasury risks' section of the Financial review.

The Group does not trade in derivative financial instruments for speculative purposes. Where derivatives meet the hedge accounting criteria under the rules of IFRS 9, movements in the fair values of these derivative financial instruments (for cash flow and net investment hedges) are recognised in the Consolidated Statement of Comprehensive Income. Where the criteria for hedge accounting are not met, they are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

In order to manage the Group's exposure to interest rate and exchange rate changes, the Group utilises both currency and interest rate 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).
- 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 below are categorised as Level 2.

## i) Net investment hedges

The Group has investments in Euro-denominated subsidiaries. As at 31 December 2018 the Group held two (31 December 2017: two) cross-currency derivative financial instruments which receive fixed £20.9m and pay fixed €26.6m. These derivative financial instruments were designated as the hedging instruments in the net investment hedge of the Group's Euro-denominated net assets. Fair value changes on those derivatives are recognised in other comprehensive income (hedging and translation reserve) to offset any gains or losses on translation of the net investments in the subsidiaries.

At 31 December 2018 the Group also held €185.0m (2017: €181.0m) of direct Euro-denominated debt through its revolving credit facility and bilateral private placement debt. This borrowing is being used to hedge the Group's exposure to the Euro foreign exchange risk on investments in Euro-denominated subsidiaries. Gains or losses on retranslation of the borrowing are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in the subsidiaries.

There is an economic relationship between the hedged item and the hedging instruments as the net investment in Euro-denominated assets creates a translation risk that will match the foreign exchange risk on the Euro-denominated debt. The Group has established a hedge ratio of 1:1 as the underlying risk of the hedging instrument is identical to the hedged risk component. Hedge ineffectiveness will arise when the amount of the investment in Euro-denominated subsidiaries becomes lower than the amount of the cross-currency derivative.

The impact of the hedging instruments on the statement of financial position is as follows:

	Notional amount €m	Carrying amount €m	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period €m
<b>At 31 December 2018</b>				
Cross-currency swap	26.6	3.5	Derivative financial instruments	0.8
Foreign currency denominated borrowing	181.0	162.5	Private placement notes	1.6
Foreign currency denominated borrowing	4.0	3.6	Bank loans	-
<b>At 31 December 2017</b>				
Cross-currency swap	26.6	2.7	Derivative financial instruments	0.6
Foreign currency denominated borrowing	181.0	160.9	Private placement notes	6.5
Foreign currency denominated borrowing	-	-	Bank loans	1.8

The impact of the hedged item on the Statement of Financial Position is as follows:

	31 December 2018			31 December 2017		
	Change in fair value used for measuring ineffectiveness	Hedging and translation reserve	Cost of hedging reserve	Change in fair value used for measuring ineffectiveness	Hedging and translation reserve	Cost of hedging reserve
	£m	£m	£m	£m	£m	£m
Net investment in foreign subsidiaries	2.4	2.0	-	8.9	7.4	-

The hedging gain recognised in OCI before tax is equal to the change in fair value used for measuring effectiveness. There is no ineffectiveness recognised in profit or loss.

	2018 £m	2017 £m
<b>Hedge of the Group's Euro-denominated assets</b>		
Liability at 1 January	(2.7)	(2.1)
Fair value losses recognised in equity	(0.8)	(0.6)
<b>Liability at 31 December</b>	<b>(3.5)</b>	<b>(2.7)</b>

## ii) 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 that 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.

### Foreign currency risk

The Group faces a translation risk from the US Dollar in respect of interest on its private placement borrowings. As at 31 December 2018, the Group held two (31 December 2017: two) cross-currency derivative financial instruments which swap fixed US Dollar-denominated debt held in the UK into fixed Sterling-denominated debt. These derivative financial instruments form a cash flow hedge as they fix the functional currency cash flows of the Group. 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 2018, the weighted average maturity date of these swaps is 7.6 years (2017: 8.6 years).

	2018 £m	2017 £m
<b>Hedge of the Group's functional currency cash flows</b>		
Asset at 1 January	0.1	2.5
Fair value (losses)/gains recognised in equity	1.8	(2.4)
Cash settlement on maturity of cash flow hedges	-	-
<b>Asset at 31 December</b>	<b>1.9</b>	<b>0.1</b>

The cash flows associated with the cross-currency interest rate swaps are expected to occur every six months in line with the underlying interest payments on the loans which are recorded in the Consolidated Income Statement.

The Group also uses foreign exchange forward contracts to manage the exposures arising from cross-currency transactions. At 31 December 2018 the Group held a number of short term forward contracts designated as hedging instruments in cash flow hedges of forecast purchases in Euros. The forecast transactions are highly probable. Foreign exchange forward contract balances vary with the level of expected foreign currency transactions and changes in foreign exchange forward rates.

Included within current assets are derivative financial instruments of £nil (2017: £0.1m) relating to forward foreign exchange contracts.

### Interest rate risk

The Group has floating rate debt and its interest rate costs will increase in the event of rising interest rates. As at 31 December 2018, the Group held one (31 December 2017: two) interest rate derivative financial instrument which swaps variable rate debt into fixed rate debt thereby fixing the functional currency cash flows of the Group. This interest rate derivative financial instrument 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 2018, the weighted average maturity date of these swaps is 1.6 years (2017: 2.1 years).

	2018 £m	2017 £m
<b>Hedge of the Group's interest cash flows</b>		
Liability at 1 January	(0.8)	(1.5)
Fair value gains/(losses) recognised in equity	0.5	0.7
<b>Liability at 31 December</b>	<b>(0.3)</b>	<b>(0.8)</b>

# Notes to the Financial Statements

There is an economic relationship between the hedged items and hedging instruments as the terms of the cross-currency and interest rate swaps match the terms of the debt (i.e. notional amount, maturity and payment dates) and the terms of the foreign exchange forward contracts match the terms of the highly probably forecast transactions (i.e. notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the cross-currency swaps, interest rate swap and foreign exchange forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Hedge ineffectiveness can arise from differences in the timing of the cash flows of the hedged items and the hedging instruments; the counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedge items; and changes to the forecasted amount of cash flows of hedged items and hedging instruments.

The Group is holding the following cross-currency swaps, interest rate swaps and foreign exchange forward contracts:

	Notional amount \$m	Notional amount €m	Carrying amount €m	Maturity	Average hedged rate	Average forward rate
<b>At 31 December 2018</b>						
Cross-currency swaps	30.0	n/a	(20.9)	2026	n/a	1.4354
Interest rate swaps	n/a	n/a	(30.0)	2020	1.58%	n/a
Foreign exchange forward contracts	n/a	111.0	(106.4)	2019	n/a	1.0430
<b>At 31 December 2017</b>						
Cross-currency swaps	30.0	n/a	(20.9)	2026	n/a	1.4354
Interest rate swaps	n/a	n/a	(40.0)	2020	1.87%	n/a
Foreign exchange forward contracts	4.5	28.6	(25.3)	2018	n/a	1.1304

The impact of the hedging instruments on the statement of financial position is as follows:

	Carrying amount €m	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period €m
<b>At 31 December 2018</b>			
Cross-currency swaps	1.9	Derivative financial instruments	1.8
Interest rate swap	(0.3)	Derivative financial instruments	0.5
Foreign exchange forward contracts	(0.2)	Derivative financial instruments	(0.3)
<b>At 31 December 2017</b>			
Cross-currency swap	0.1	Derivative financial instruments	(2.4)
Interest rate swap	(0.8)	Derivative financial instruments	0.7
Foreign exchange forward contracts	0.1	Derivative financial instruments	0.3

The impact of the hedged item on the statement of financial position is as follows:

	31 December 2018			31 December 2017		
	Change in fair value used for measuring ineffectiveness €m	Hedging and translation reserve €m	Cost of hedging reserve €m	Change in fair value used for measuring ineffectiveness €m	Hedging and translation reserve €m	Cost of hedging reserve €m
Cross-currency swaps	1.8	1.7	0.1	(2.4)	(2.4)	-
Interest rate swap	0.5	0.5	-	0.7	0.7	-
Foreign exchange forward contracts	(0.3)	(0.3)	-	0.3	0.3	-



The effect of the cash flow hedges in the statement of profit or loss and other comprehensive income is as follows:

	Total hedging gain/ (loss) recognised in OCI €m	Ineffectiveness recognised in profit or loss €m	Line item in the statement of profit or loss	Amount reclassified from OCI to profit or loss €m	Line item in the statement of profit or loss €m
<b>At 31 December 2018</b>					
Cross-currency swaps	-	-	Finance costs	1.3	Operating expenses
Interest rate swap	-	-	Finance costs	-	Finance costs
Foreign exchange forward contracts	-	-	Finance costs	-	Operating expenses
<b>At 31 December 2017</b>					
Cross-currency swap	-	-	Finance costs	(2.0)	Operating expenses
Interest rate swap	-	-	Finance costs	-	Finance costs
Foreign exchange forward contracts	-	-	Finance costs	-	Operating expenses

#### Derivatives not designated as hedging instruments

The Group also uses some foreign exchange forward contracts to manage some of its transaction exposures which are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally within one month.

#### iii) Fair value hedges

The Group does not have any fair value hedges at 31 December 2018. At 31 December 2017, the Group held one derivative financial instrument, which was used to hedge against changes in the fair value of the fixed interest private placement notes drawn down on 1 February 2007 attributable to movements in market interest rates. This interest rate derivative financial instrument was designated and effective as a fair value hedge and the fair value movement was therefore recognised in the Consolidated Income Statement.

There was an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap matched the terms of the fixed rate loan (notional amount, maturity and payment dates). To test the hedge effectiveness, the Group used the hypothetical derivative method and compared the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk. Hedge ineffectiveness could arise from different interest rate curve applied to discount the hedged item and hedging instrument; differences in timing of cash flows of the hedged item and hedging instrument; and the counterparties' credit risk differently impacting the fair value movements of the hedging instrument and the hedged item. The ineffectiveness recognised in the Consolidated Income Statement was immaterial.

	2018 €m	2017 €m
<b>Hedge of the fair value of fixed interest borrowings</b>		
Asset at 1 January	1.1	2.0
Net fair value losses recognised in the Consolidated Income Statement	(1.1)	(0.9)
<b>Asset at 31 December</b>	-	1.1

# Notes to the Financial Statements

## iv) Impact of hedging on equity

Set out below is the reconciliation of each component of equity and the analysis of other comprehensive income:

	Retained (losses)/profits		Hedging and translation reserve		Cost of hedging reserve	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
At 1 January ^	(59.5)	13.2	19.6	7.9	0.9	-
Effective portion of changes in fair value arising from:						
Cross-currency swaps	1.7	(2.4)	-	-	0.1	-
Interest rate swaps	0.5	0.7	-	-	-	-
Foreign exchange forward contracts	(0.3)	0.3	-	-	-	-
Amount reclassified to profit or loss	-	-	-	-	-	-
Foreign currency revaluation of foreign currency denominated borrowing	-	-	1.8	(9.2)	-	-
Foreign currency revaluation of net foreign operations	-	-	0.7	19.0	-	-
Tax effect	-	-	(0.4)	1.8	-	-
Exchange differences reclassified to the Consolidated Income Statement in respect of the disposal of foreign operations	-	-	-	0.1	-	-
Other movements not associated with hedging	(10.7)	(70.6)	-	-	-	-
<b>At 31 December</b>	<b>(68.3)</b>	<b>(58.8)</b>	<b>21.7</b>	<b>19.6</b>	<b>1.0</b>	<b>-</b>

^ The Group has applied IFRS 9 "Financial Instruments" retrospectively but without restating comparative information. See the Statement of Significant Accounting Policies for further details.

The following table reconciles the net losses on derivative financial instruments recognised directly in the Consolidated Income Statement, to the movements in derivative financial instruments noted above.

	2018 £m	2017 £m
Fair value net losses on derivative financial instruments recognised in the Consolidated Income Statement	1.1	0.9
Fair value net gains attributable to the hedged item recognised in the Consolidated Income Statement	(1.1)	(0.9)
Amounts reclassified from OCI to profit and loss on cash flow hedges	(1.3)	2.0
Hedge ineffectiveness credit recognised in the Consolidated Income Statement	-	-
Spreading charges associated with cancellation of cash flow hedges*	0.6	2.1
<b>Total net losses on derivative financial instruments included in the Consolidated Income Statement</b>	<b>(0.7)</b>	<b>4.1</b>

\* £0.3m (2017: £0.4m) of the £0.6m (2017: £2.1m) spreading charge has been recognised within Finance Costs before Other items.

## 20. 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 2018 was as follows:

	2018 £m	2017 Restated £m
In one year or less	66.4	162.1
In more than one year but not more than two years	29.6	2.7
In more than two years but not more than five years	67.2	49.3
In more than five years	111.0	154.3
<b>Total</b>	<b>274.2</b>	<b>368.4</b>

The table above excludes trade payables of £323.6m (2017: restated £283.7m).

## Borrowing facilities

The Group had undrawn committed borrowing facilities at 31 December 2018 as follows:

	2018 £m	2017 £m
Expiring in more than two years but not more than five years	293.5	272.0
<b>Total</b>	<b>293.5</b>	<b>272.0</b>

At 31 December 2018 the Group had £536m of committed facilities, of which £293.5m were undrawn as disclosed above. Since 31 December 2018, a maximum of £148.9m has been drawn down against the £350m 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 below 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 this is a maturity analysis, all trade payables (including, amongst other items, payroll and sales tax accruals which are not classified as financial instruments) have been included.

## 2018 Analysis

	Balance sheet value £m	Maturity analysis				Total £m
		< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	
<b>Current liabilities</b>						
Trade and other payables	381.1	381.1	-	-	-	381.1
Obligations under finance lease contracts	3.2	3.3	-	-	-	3.3
Bank overdrafts	4.5	4.5	-	-	-	4.5
Bank loans	56.5	56.6	-	-	-	56.6
Derivative financial instruments	0.3	0.3	-	-	-	0.3
Other financial liabilities	1.1	1.1	-	-	-	1.1
Loan notes and deferred consideration	0.9	0.9	-	-	-	0.9
<b>Total</b>	<b>447.6</b>	<b>447.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>447.8</b>
<b>Non-current liabilities</b>						
Obligations under finance lease contracts	20.2	1.2	3.9	7.4	22.9	35.4
Bank loans	-	-	-	-	-	-
Private placement notes	185.6	3.5	30.4	70.8	100.2	204.9
Derivative financial instruments	3.8	0.1	(0.2)	(0.5)	2.4	1.8
<b>Total</b>	<b>209.6</b>	<b>4.8</b>	<b>34.1</b>	<b>77.7</b>	<b>125.5</b>	<b>242.1</b>
<b>Total liabilities</b>	<b>657.2</b>	<b>452.6</b>	<b>34.1</b>	<b>77.7</b>	<b>125.5</b>	<b>689.9</b>
<b>Other</b>						
Derivative financial instrument assets	(1.9)	(0.3)	(0.2)	(0.7)	(3.3)	(4.5)
Cash and cash equivalents	(83.3)	(83.3)	-	-	-	(83.3)
Deferred consideration	(1.5)	(0.7)	(0.3)	(0.5)	-	(1.5)
Trade and other receivables	(477.7)	(477.7)	-	-	-	(477.7)
<b>Total</b>	<b>(564.4)</b>	<b>(562.0)</b>	<b>(0.5)</b>	<b>(1.2)</b>	<b>(3.3)</b>	<b>(567.0)</b>
<b>Grand total</b>	<b>92.8</b>	<b>(109.4)</b>	<b>33.6</b>	<b>76.5</b>	<b>122.2</b>	<b>122.9</b>

The table above includes: cross-currency interest rate swaps in relation to derivative financial assets with a fair value at 31 December 2018 of £1.8m (2017: £0.1m) and derivative financial liabilities of £3.5m (2017: £2.7m) that will be settled gross, the final exchange on these derivatives will be payment of €26.6m and receipt of \$30.0m in August 2026; and other derivative financial assets with a fair value at 31 December 2018 of £0.6m (2017: £0.1m) and derivative financial liabilities of £nil (2017: £nil) that will be settled gross, the final exchange on these derivatives will be total receipts of €111m (2017: €28.6m), PLN 31m (2017: PLN 14.0m) and \$nil (2017: \$4.5m) and corresponding payments of £106.4m (2017: £31.6m).

# Notes to the Financial Statements

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements:

As at 31 December 2018	Gross amounts of recognised financial assets/ (liabilities) £m	Amounts available to offset through netting agreements £m	Net amount £m
Derivative financial assets	1.9	(1.6)	0.3
Derivative financial liabilities	(4.1)	1.6	(2.5)
<b>Total</b>	<b>(2.2)</b>	<b>-</b>	<b>(2.2)</b>

## 2017 Analysis (restated)

	Balance sheet value £m	Maturity analysis				Total £m
		< 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	
<b>Current liabilities</b>						
Trade and other payables	421.5	421.5	-	-	-	421.5
Obligations under finance lease contracts	3.2	4.2	-	-	-	4.2
Bank overdrafts	29.6	29.6	-	-	-	29.6
Bank loans	84.2	84.6	-	-	-	84.6
Private placement notes	21.1	21.2	-	-	-	21.2
Derivative financial instruments	0.2	0.2	-	-	-	0.2
Loan notes and deferred consideration	17.0	17.0	-	-	-	17.0
<b>Total</b>	<b>576.8</b>	<b>578.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>578.3</b>
<b>Non-current liabilities</b>						
Obligations under finance lease contracts	20.0	2.2	5.7	12.2	26.0	46.1
Private placement notes	183.1	6.6	6.6	61.7	152.8	227.7
Derivative financial instruments	3.3	0.2	-	(0.5)	1.9	1.6
<b>Total</b>	<b>206.4</b>	<b>9.0</b>	<b>12.3</b>	<b>73.4</b>	<b>180.7</b>	<b>275.4</b>
<b>Total liabilities</b>	<b>783.2</b>	<b>587.3</b>	<b>12.3</b>	<b>73.4</b>	<b>180.7</b>	<b>853.7</b>
<b>Other</b>						
Derivative financial instrument assets	(1.3)	(1.3)	(0.2)	(0.5)	(1.9)	(3.9)
Cash at bank and on hand	(108.2)	(108.2)				(108.2)
Deferred consideration	(1.5)	(0.3)	(0.5)	(1.2)	-	(2.0)
Trade and other receivables	(480.4)	(480.4)	-	-	-	(480.4)
<b>Total</b>	<b>(591.4)</b>	<b>(590.2)</b>	<b>(0.7)</b>	<b>(1.7)</b>	<b>(1.9)</b>	<b>(594.5)</b>
<b>Grand total</b>	<b>191.8</b>	<b>(2.9)</b>	<b>11.6</b>	<b>71.7</b>	<b>178.8</b>	<b>259.2</b>

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements:

As at 31 December 2017	Gross amounts of recognised financial assets/ (liabilities) £m	Amounts available to offset through netting agreements £m	Net amount £m
Derivative financial assets	1.3	(0.3)	1.0
Derivative financial liabilities	(3.5)	0.3	(3.2)
<b>Total</b>	<b>(2.2)</b>	<b>-</b>	<b>(2.2)</b>

## 21. 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.

#### 2018 analysis

	GBP		EUR		USD		Total	
	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m	+100bp £m	-100bp £m
Profit or loss	(0.2)	0.2 (i)	(0.1)	0.1 (iii)	-	-	(0.3)	0.3
Other equity	0.5	(0.5) (ii)	1.9	(2.1) (iv)	(1.7)	1.8 (ii)	0.7	(0.8)
<b>Total Shareholders' equity</b>	<b>0.3</b>	<b>(0.3)</b>	<b>1.8</b>	<b>(2.0)</b>	<b>(1.7)</b>	<b>1.8</b>	<b>0.4</b>	<b>(0.5)</b>

#### 2017 analysis

	GBP		EUR		USD		Total	
	+100bp	-100bp	+100bp	-100bp	+100bp	-100bp	+100bp	-100bp
	£m	£m	£m	£m	£m	£m	£m	£m
Profit or loss	(0.5)	0.5 (i)	-	- (iii)	-	-	(0.5)	0.5
Other equity	0.8	(0.8) (ii)	2.2	(2.3) (iv)	(1.8)	2.0 (ii)	1.2	(1.1)
<b>Total Shareholders' equity</b>	<b>0.3</b>	<b>(0.3)</b>	<b>2.2</b>	<b>(2.3)</b>	<b>(1.8)</b>	<b>2.0</b>	<b>0.7</b>	<b>(0.6)</b>

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
- (iii) floating rate Euro debt and Euro cash deposits
- (iv) changes in the value of the Group's Euro-denominated assets and liabilities

# Notes to the Financial Statements

## 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.

### 2018 analysis

	EUR		USD		PLN		Total	
	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m
<b>Assets and liabilities under the scope of IFRS 7</b>								
Profit or loss	0.6	(0.2) (i)	-	-	-	-	0.6	(0.2)
Other equity	3.4	(2.9) (ii)	-	(0.1) (ii)	3.4	(4.1) (ii)	6.8	(7.1)
Total Shareholders' equity	4.0	(3.1)	-	(0.1)	3.4	(4.1)	7.4	(7.3)
<b>Total assets and liabilities*</b>								
Profit or loss	(0.3)	0.2 (iii)	0.5	(1.7) (v)	(0.1)	0.1 (vi)	0.1	(1.4)
Other equity	(22.7)	29.8 (iv)	-	(0.1) (iv)	0.5	(0.6) (iv)	(22.2)	29.1
Total Shareholders' equity	(23.0)	30.0	0.5	(1.8)	0.4	(0.5)	(22.1)	27.7

### 2017 analysis

	EUR		USD		PLN		Total	
	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m	+10% £m	-10% £m
<b>Assets and liabilities under the scope of IFRS 7</b>								
Profit or loss	0.5	(0.7) (i)	-	-	-	-	0.5	(0.7)
Other equity	3.5	(4.3) (ii)	1.9	(2.2) (ii)	(2.0)	2.5 (ii)	3.4	(4.0)
Total Shareholders' equity	4.0	(5.0)	1.9	(2.2)	(2.0)	2.5	3.9	(4.7)
<b>Total assets and liabilities*</b>								
Profit or loss	(2.7)	3.3 (iii)	1.1	(1.3) (v)	(0.1)	0.1 (vi)	(1.7)	2.1
Other equity	(17.7)	21.6 (iv)	1.9	(2.2) (iv)	(3.0)	3.7 (iv)	(18.8)	23.1
Total Shareholders' equity	(20.4)	24.9	3.0	(3.5)	(3.1)	3.8	(20.5)	25.2

\* 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 and transaction exposure relating to purchases in Euros
- (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
- (v) transaction exposure relating to purchases in US dollars
- (vi) retranslation of Polish Zloty profit streams

## 22. Provisions for liabilities and charges

	Onerous leases £m	Leasehold dilapidations £m	Other amounts £m	Total £m
At 1 January 2018 (restated)	7.8	20.5	5.4	33.7
Unused amounts reversed in the period	(2.8)	(6.0)	(0.5)	(9.3)
Utilised	(3.8)	(0.7)	(3.0)	(7.5)
Reclassified	(1.7)	1.7	–	–
New provisions	6.9	5.5	2.1	14.5
Unwinding of provision discounting	0.1	0.1		0.2
Exchange differences	(0.1)	(0.5)	0.1	(0.5)
<b>At 31 December 2018</b>	<b>6.4</b>	<b>20.9</b>	<b>4.1</b>	<b>31.4</b>

	2018 £m	2017 Restated £m
Included in current liabilities	11.0	12.0
Included in non-current liabilities	20.4	21.7
<b>Total</b>	<b>31.4</b>	33.7

### 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 until 2029 (2017: 2029). 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 29b.

### Leasehold dilapidations

This provision relates to contractual obligations to reinstate leasehold properties to their original state of repair. The provision is calculated based on both the liability to rectify or reinstate leasehold improvements and modifications carried out on the inception of the lease (recognised on inception with corresponding fixed asset) and the liability to rectify general wear and tear which is recognised as incurred over the life of the lease. The transfer of economic benefits will be made both at the end of the leases as set out in Note 29b (reinstated) and during the lease term (wear and tear).

### Other amounts

Other amounts relate principally to claims and warranty provisions. The transfer of economic benefit is expected to be made between one and four years' time.

## 23. Deferred tax

The net deferred tax asset at the end of the year is analysed as follows:

	2018 £m	2017 Restated £m
Deferred tax assets	14.6	13.7
Deferred tax liabilities	(1.4)	(1.4)
<b>Net deferred tax asset</b>	<b>13.2</b>	12.3

The prior year presentation of the deferred tax assets and deferred tax liabilities has been restated so that, in accordance with IAS 12, deferred tax assets and deferred tax liabilities arising in the same tax jurisdiction have been offset.

# Notes to the Financial Statements

## 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	Short term timing differences £m	Retirement benefit obligations £m	Losses £m	Other £m	Total £m
At 1 January 2017	(10.7)	(1.3)	3.9	7.2	4.6	(1.4)	2.3
Credit/(charge) to income	2.1	13.0	0.4	(0.3)	(1.8)	(2.9)	10.5
(Charge)/credit to equity	-	-	-	(0.9)	-	0.7	(0.2)
Exchange differences	(0.1)	(0.1)	-	0.1	0.1	(0.1)	(0.1)
Change of rate charged to equity	-	-	-	(0.2)	-	-	(0.2)
At 31 December 2017	(8.7)	11.6	4.3	5.9	2.9	(3.7)	12.3
Credit/(charge) to income	2.6	(1.4)	(0.8)	(0.6)	0.4	0.8	1.0
(Charge)/credit to equity	-	-	-	0.1	-	(0.2)	(0.1)
Exchange differences	-	-	-	-	-	-	-
Change of rate charged to equity	-	-	-	-	-	-	-
<b>At 31 December 2018</b>	<b>(6.1)</b>	<b>10.2</b>	<b>3.5</b>	<b>5.4</b>	<b>3.3</b>	<b>(3.1)</b>	<b>13.2</b>

The deferred tax charge within the Consolidated Income Statement for 2018 includes a credit of £0.3m (2017: charge £1.0m) arising from the change in domestic tax rates in the countries in which the Group operates.

Of the deferred tax asset of £14.6m, £3.3m relates to unused tax losses carried forward which have been recognised on the basis that realisation of the related tax benefit through future taxable profits is probable. The directors have considered whether it is appropriate to recognise deferred tax assets given the results in the current and prior year. Given current and forecast trading the directors consider the recognition of deferred tax assets to be appropriate.

The majority of the deferred tax asset associated with the retirement benefit obligations is in respect of the UK defined benefit scheme. Payments against the deficit will be deductible for tax purposes on a paid basis and the Group expects to receive the tax benefit, therefore the associated deferred tax asset has been recognised.

Deferred tax has not been recognised on £7m of tax losses being carried forward on the basis that the realisation of their future economic benefit is uncertain. The unrecognised potential deferred tax asset in relation to these tax losses is £1.7m (2017: £1.7m).

At the balance sheet date, no deferred tax liability is recognised on temporary differences relating to £163m of undistributed 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.

## 24. Obligations under finance lease contracts

	Minimum lease payments		Present value of minimum lease payments	
	2018 £m	2017 Restated £m	2018 £m	2017 Restated £m
Amounts payable under finance lease contracts:				
- within one year	4.5	4.5	3.2	3.2
- after one year and within five years	11.2	10.9	7.1	7.0
- after five years	22.9	23.6	13.1	13.0
	38.6	39.0	23.4	23.2
Less: future finance charges	(15.2)	(15.8)		
Present value of lease obligations	23.4	23.2		

The Group leases certain motor vehicles, fixtures and equipment under finance lease contracts, which are denominated in Sterling, Euros and Polish Zloty. The Group also has two properties under leasing arrangements that are considered to meet the criteria for recognition as a finance lease, which are both denominated in Sterling.

The average remaining lease term for motor vehicles, fixtures and equipment is 4.4 years (2017: 4.7 years) and for property is 22.3 years (2017: 23.3 years). For the year ended 31 December 2018, the average effective borrowing rate for motor vehicles, fixtures and equipment was 4.3% (2017: 4.7%) and for property was 6.9% (2017: 6.9%). Interest rates are fixed at the contract date.

The carrying amount of the Group's lease obligations approximates to their fair value.



## 25. Called up share capital

	2018 £m	2017 £m
Authorised:		
800,000,000 ordinary shares of 10p each (2017: 800,000,000)	80.0	80.0
Allotted, called up and fully paid:		
591,556,982 ordinary shares of 10p each (2017: 591,548,235)	59.2	59.2

There were 8,747 shares allotted during 2018 (2017: 87,934).

The Company has one class of ordinary share which carries no right to fixed income.

## 26. Reconciliation of profit/(loss) before tax to cash generated from operating activities

	2018 £m	2017 Restated £m
<b>Profit/(loss) before tax</b>	<b>28.5</b>	(54.7)
Depreciation (Note 10)	19.7	23.7
Amortisation of computer software (Note 13)	4.4	3.7
Amortisation of acquired intangibles (Note 13)	8.9	9.3
Impairment of computer software (Note 13)	1.1	6.8
Impairment of property, plant and equipment (Note 10)	3.4	3.8
Goodwill and intangible impairment charges (excluding computer software)	-	6.6
Losses on agreed sale or closure of non-core businesses <sup>^</sup> (Note 11)	6.7	63.6
Profit on sale of property, plant and equipment	(7.5)	(17.8)
Share-based payments	0.4	0.2
Decrease in provisions	(1.9)	(5.0)
Working capital movements:		
- Decrease/(increase) in inventories	30.1	(0.3)
- Decrease in receivables	9.3	46.8
- Increase in payables	6.5	6.7
<b>Cash generated from operating activities</b>	<b>109.6</b>	93.4

<sup>^</sup> In 2017 the total losses on agreed sale or closure of non-core businesses of £72.4m (Note 11) includes the £63.6m above, together with £6.6m in relation to impairment of goodwill (Note 12) and £2.2m in relation to impairment of property, plant and equipment (Note 10).

Included within the cash generated from operating activities is a defined benefit pension scheme employer's contribution of £3.1m (2017: £2.5m).

Of the total profit on sale of property, plant and equipment, £1.1m (2017: £5.8m) has been included within Other items of the Consolidated Income Statement (see Note 2).

Included within working capital movements are payments of £nil (2017: £2.7m) in settlement of contingent consideration dependent upon the vendors remaining with the business.

# Notes to the Financial Statements

## 27. Reconciliation of net cash flow to movements in net debt

	2018 £m	2017 Restated £m
Increase/(decrease) in cash and cash equivalents in the year	(0.1)	(14.9)
Cash flow from decrease in debt	75.5	86.0
Decrease in net debt resulting from cash flows	75.4	71.1
Debt relating to divested businesses	0.1	3.1
Recognition of loan notes and deferred consideration	(0.9)	(17.0)
Non-cash items <sup>^</sup>	(3.3)	(12.5)
Exchange differences	(2.0)	(4.2)
Decrease in net debt in the year	69.3	40.5
Net debt at 1 January	(258.7)	(299.2)
Net debt at 31 December	(189.4)	(258.7)

<sup>^</sup> 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 follows:

	2018 £m	2017 Restated £m
<i>Non-current assets:</i>		
Derivative financial instruments	1.9	0.1
Deferred consideration	0.7	1.4
<i>Current assets:</i>		
Derivative financial instruments	-	1.2
Deferred consideration	0.8	0.1
Cash at bank and on hand	83.3	108.2
<i>Current liabilities:</i>		
Obligations under finance lease contracts	(3.2)	(3.2)
Bank overdrafts	(4.5)	(29.6)
Bank loans	(56.5)	(84.2)
Private placement notes	-	(21.1)
Loan notes and deferred consideration	(0.9)	(17.0)
Other financial liabilities	(1.1)	(8.0)
Derivative financial instruments	(0.3)	(0.2)
<i>Non-current liabilities:</i>		
Obligations under finance lease contracts	(20.2)	(20.0)
Private placement notes	(185.6)	(183.1)
Derivative financial instruments	(3.8)	(3.3)
<b>Net debt</b>	<b>(189.4)</b>	<b>(258.7)</b>

## 28. Analysis of net debt

	At 31 December 2017 Restated £m	Cash flows £m	Net debt movements attributable to disposals £m	Recognition of loan notes and deferred consideration £m	Non-cash items* £m	Exchange differences £m	At 31 December 2018 £m
Cash at bank and on hand	108.2	(25.2)	–	–	–	0.3	<b>83.3</b>
Bank overdrafts	(29.6)	25.1	–	–	–	–	<b>(4.5)</b>
	78.6	(0.1)	–	–	–	0.3	<b>78.8</b>
Other financial assets and deferred consideration	1.5	(0.1)	0.1	–	–	–	<b>1.5</b>
	1.5	(0.1)	0.1	–	–	–	<b>1.5</b>
<b>Liabilities arising from financing activities</b>							
Financial assets – derivative financial instruments	1.3	–	–	–	(0.7)	1.3	<b>1.9</b>
Debts due within one year <sup>^</sup>	(130.5)	74.1	–	(0.9)	(1.0)	(0.5)	<b>(58.8)</b>
Debts due after one year	(186.4)	–	–	–	0.1	(3.1)	<b>(189.4)</b>
Finance lease contracts	(23.2)	1.5	–	–	(1.7)	–	<b>(23.4)</b>
	(338.8)	75.6	–	(0.9)	(3.3)	(2.3)	<b>(269.7)</b>
<b>Net debt</b>	<b>(258.7)</b>	<b>75.4</b>	<b>0.1</b>	<b>(0.9)</b>	<b>(3.3)</b>	<b>(2.0)</b>	<b>(189.4)</b>

\* 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.

<sup>^</sup> The £74.1m cash flow in relation to debts due within one year includes £17.0m settlement of deferred consideration.

## 29. Guarantees and other financial commitments

### a) Capital commitments

	2018 £m	2017 £m
The purchase of property, plant and equipment contracted but not provided for	<b>1.7</b>	2.3

### b) Lease commitments

The Group leases a number of its premises under operating leases which expire between 2019 and 2029, some contracts contain options to extend for a further lease term at the then prevailing market rate.

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	2018 £m	2017 £m
- within one year	<b>50.5</b>	50.8
- after one year and within five years	<b>124.8</b>	127.9
- after five years	<b>75.9</b>	75.7
	<b>251.2</b>	254.4

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:	2018 £m	2017 £m
- within one year	<b>16.0</b>	19.9
- after one year and within five years	<b>26.4</b>	45.5
- after five years	<b>1.9</b>	1.6
	<b>44.3</b>	67.0

# Notes to the Financial Statements

## c) Pension schemes

The Group operates a number of pension schemes, six (2017: six) of which provide defined benefits based on final pensionable salary. Of these schemes, one (2017: one) has assets held in a separate trustee-administered fund and five (2017: five) 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.

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 Financial Statements 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 increased to 104.9% as at 31 December 2018 (2017: 103.4%). No change was made to the pension premium percentage of 22.2% (2017: 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.

The Group's total pension charge for the year, including amounts charged to interest and Other items, was £9.4m (2017: £8.9m), of which a charge of £1.5m (2017: £1.1m) related to defined benefit pension schemes and £7.9m (2017: £7.8m) 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 2016 and showed that the market value of the scheme's assets was £164.1m and their actuarial value covered 97% 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 reinsured 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 bond holdings.
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 £0.4m (2017: £0.7m) relating to the defined benefit pension schemes, was £1.5m (2017: £1.1m). This charge also includes £1.0m in relation to the estimated liability impact of equalising Guaranteed Minimum Pensions (GMP), which has been calculated by the pensions management company using the C2 methodology as set out in the Lloyds Bank High Court Case judgement. This estimated increase in the liability has been charged to Other items within the Consolidated Income Statement.

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 2018 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. The five overseas book reserve schemes remain open to new members.

## Consolidated Balance Sheet liability

The balance sheet position in respect of the six defined benefit schemes can be summarised as follows:

	2018 £m	2017 £m
Pension liability before taxation	(28.7)	(30.4)
Related deferred tax asset	5.4	5.9
<b>Pension liability after taxation</b>	<b>(23.3)</b>	<b>(24.5)</b>

The actuarial gain of £0.1m (2017: £5.5m) for the year, together with the associated deferred tax credit of £0.1m (2017: charge of £0.9m) has been recognised in the Consolidated Statement of Comprehensive Income. In addition, a deferred tax charge of £0.6m (2017: £0.3m) has been recognised in the Consolidated Income Statement. In the prior year there was an additional deferred tax charge of £0.2m in respect of the change in the French standard rate of corporation tax.

Of the above pension liability before taxation, £17.2m (2017: £19.1m) relates to wholly or partly funded schemes and £11.5m (2017: £11.3m) relates to the overseas unfunded schemes.

The movement in the pension liability before taxation in the year can be summarised as follows:

	2018 £m	2017 £m
Pension liability at 1 January	(30.4)	(37.1)
Current service cost	(0.1)	(0.4)
Payment of unfunded benefits	-	0.3
Contributions	3.1	2.5
Net finance cost	(0.4)	(0.7)
GMP equalisation ruling	(1.0)	-
Actuarial gain	0.1	5.5
Effect of changes in exchange rates	-	(0.5)
<b>Pension liability at 31 December</b>	<b>(28.7)</b>	<b>(30.4)</b>

On 30 June 2016 the UK defined benefit pension scheme was closed to future benefit accrual. However, the Group is contracted to pay contributions of £2.5m per annum to January 2019. The contribution during 2018 was higher due to S75 debt in respect of the departure of SIG Trading Ireland from the plan.

The principal assumptions used for the IAS 19 actuarial valuation of the schemes were:

	2018 %	2017 %
Rate of increase in salaries*	n/a	n/a
Rate of fixed increase of pensions in payment	1.7	1.7
Rate of increase of LPI pensions in payment	3.0	3.0
Discount rate	3.0	2.6
Inflation assumption	3.2	3.2

\*Upon closure of the UK defined benefit scheme to future benefit accrual the accrued benefits of active members ceased to be linked to their final salary and will instead revalue in deferment broadly in line with movements in the Consumer Price Index.

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.

Within the principal plan the life expectancy for a male employee beyond the normal retirement age of 65 is 21.9 years (2017: 22.1 years). The life expectancy on retirement at age 65 of a male employee currently aged 45 years is 23.3 years (2017: 23.5 years).

The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, whilst holding all other assumptions constant. If the discount rate were to be increased/decreased by 0.1%, this would decrease/increase the Group's gross pension scheme deficit by £2.7m. If the rate of inflation increased/decreased by 0.1% this would increase/decrease the Group's gross pension scheme deficit by £1.3m. If the life expectancy for employees increased by one year the Group's gross pension scheme deficit would increase by £6.7m. The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The average duration of the defined benefit scheme obligation at 31 December 2018 is 19 years (2017: 19 years).

# Notes to the Financial Statements

The only assets held are within the SIG plc Retirement Benefits Plan and the defined contribution pension plans in place at SIG Air Handling. The fair value of these at each balance sheet date were:

	2018 £m	2017 £m
Equities	52.8	73.1
Corporate and government bonds	70.2	63.9
Investment funds	13.8	15.9
Property	8.7	8.1
Cash and net current assets	0.6	0.3
<b>Total fair value of assets</b>	<b>146.1</b>	161.3

All equity and debt instruments have quoted prices in active markets and can be classified as Level 2 instruments, other than property which is Level 3.

The amount included in the Consolidated Balance Sheet arising from the Group's obligation in respect of its defined benefit schemes is as follows:

	2018 £m	2017 £m
Fair value of assets	146.1	161.3
Present value of scheme liabilities	(174.8)	(191.7)
<b>Net liability recognised in the Consolidated Balance Sheet</b>	<b>(28.7)</b>	(30.4)

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:

	2018 £m	2017 £m
Current service cost	0.1	0.4
GMP equalisation ruling	1.0	-
Net finance cost	0.4	0.7
<b>Amounts recognised in the Consolidated Income Statement</b>	<b>1.5</b>	1.1

Analysis of the actuarial gain recognised in the Consolidated Statement of Comprehensive Income in respect of the schemes:

	2018 £m	2017 £m
Actual return less expected return on assets	(10.9)	10.0
Effect of changes in demographic assumptions	0.9	0.9
Effect of changes in financial assumptions	10.1	(4.7)
Impact of liability experience	-	(0.7)
<b>Remeasurement of the defined benefit liability</b>	<b>0.1</b>	5.5

The remeasurement of the net defined benefit liability is included within the Consolidated Statement of Comprehensive Income.

Movements in the present value of the schemes' liabilities were as follows:

	2018 £m	2017 £m
Present value of schemes' liabilities at 1 January	(191.7)	(201.4)
Current service cost	(0.1)	(0.4)
Interest on pension schemes' liabilities	(4.5)	(5.1)
Benefits paid	12.4	19.9
Payment of unfunded benefits	-	0.3
Effect of changes in exchange rates	-	(0.5)
GMP equalisation ruling	(1.0)	-
Remeasurement gains/(losses):		
Actuarial gain arising from changes in demographic assumptions	0.9	0.9
Actuarial loss arising from changes in financial assumptions	9.2	(4.7)
Actuarial loss due to liability experience	-	(0.7)
<b>Present value of schemes' liabilities at 31 December</b>	<b>(174.8)</b>	<b>(191.7)</b>

Movements in the fair value of the schemes' assets were as follows:

	2018 £m	2017 £m
Fair value of schemes' assets at 1 January	161.3	164.3
Finance income	4.1	4.4
Actual return less expected return on assets	(10.0)	10.0
Contributions from sponsoring companies	3.1	2.5
Benefits paid	(12.4)	(19.9)
<b>Fair value of schemes' assets at 31 December</b>	<b>146.1</b>	<b>161.3</b>

#### 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 £11.0m (2017: £12.1m). Of this amount, £8.0m (2017: £9.0m) relates to a standby letter of credit issued by HSBC Bank plc in respect of the Group's insurance arrangements.

As disclosed in the Statement of Significant Accounting Policies, Metecho Limited and SIG Building Systems Limited have taken advantage of the exemption available under Section 479A of the Companies Act 2006 in respect of the requirement for audit. As a condition of the exemption, the Company has guaranteed the year end liabilities of the relevant subsidiaries until they are settled in full.

As part of the disposal of Building Plastics a guarantee was provided to the landlord of the leasehold properties transferred with the business covering rentals over the remaining term of the leases in the event that the acquiring company enters into administration before the end of the lease term. The maximum liability that could arise from this would be approximately £7.4m. No provision has been made in these Financial Statements as it is not considered likely that any loss will be incurred in connection with this.

## 30. 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 had a shareholding of less than 0.1% in a German purchasing co-operative up until termination of the contract on 31 December 2018. Net purchases from this co-operative (on commercial terms) totalled £266.1m in 2018 (2017: £318.5m). At the balance sheet date net trade payables in respect of the co-operative amounted to £8.0m (2017: £10.1m).

In 2018, SIG incurred expenses of £0.2m (2017: £0.2m) on behalf of the SIG plc Retirement Benefits Plan, the UK defined benefit pension scheme.

# Notes to the Financial Statements

## Remuneration of key management personnel

The total remuneration of key management personnel of the Group, being the Group Executive Committee members and the Non-Executive Directors (see page 68), is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures".

	2018 £m	2017 £m
Short term employee benefits	4.8	6.2
Termination and post-employment benefits	0.5	2.4
IFRS 2 share option charge	0.4	0.2
	<b>5.7</b>	8.8

## 31. Subsidiaries

Details of the Group's subsidiaries, all of which have been included in the Financial Statements, are shown on pages 206 to 207.

## 32. Non-statutory information

The Group uses a variety of alternative performance measures, which are non-IFRS, to assess the performance of its operations.

The Group considers these performance measures to provide useful historical financial information to help investors evaluate the underlying performance of the business.

These measures, as shown below, are used to improve the comparability of information between reporting periods and geographical units, to adjust for Other items (as explained in further detail within the Statement of Significant Accounting Policies) or to adjust for businesses identified as non-core to provide information on the ongoing activities of the Group. This also reflects how the business is managed and measured on a day-to-day basis. Non-core businesses are those businesses that have been closed or disposed of or where the Board has resolved to close or dispose of the businesses prior to signing the Annual Report and Accounts.

Information regarding covenant calculations (Notes 32a, 32c and 32g) is provided to show the financial measures used to calculate financial covenants as defined by the banking agreements.

### a) Headline financial leverage covenant

The headline financial leverage covenant is one of the primary covenants applicable to the Revolving Credit Facility and the private placement notes. The monitoring of this covenant is therefore an important element of treasury risk management for the Group.

	Note	2018 £m	2017 Restated £m
Underlying operating profit		90.6	85.6
<i>Add back:</i>			
Depreciation	10	19.7	23.7
Amortisation of computer software	13	4.4	3.7
Reversal of restatement of net operating losses attributable to businesses identified as non-core*	11	-	6.3
Depreciation attributable to businesses identified as non-core*		(0.3)	(0.8)
<b>Covenant EBITDA</b>		<b>114.4</b>	118.5

\*The 2017 covenant calculation has not been restated to reflect the decisions made to exit non-core businesses after the signing of the 2017 Financial Statements (Note 11).

	Note	2018 £m	2017 Restated £m
Reported net debt	27	189.4	258.7
Other covenant financial indebtedness		10.9	11.8
Foreign exchange adjustment*		(1.8)	(1.5)
<b>Covenant net debt</b>		<b>198.5</b>	269.0

\* For the purpose of covenant calculations, leverage is calculated using net debt translated at average rather than period end rates.

	2018	2017 Restated
Headline financial leverage (covenant net debt to covenant EBITDA - maximum 3.0x)	<b>1.7x</b>	2.3x



## b) Post-tax Return on Capital Employed (ROCE)

Return on capital employed is the ratio of operating profit less taxation divided by average capital employed (average net assets plus average net debt). The ratio is used to understand the value creation to shareholders and to understand how effectively the Group is using the capital and resources it has available.

	Note	2018 £m	2017 Restated £m
Statutory operating profit/(loss)		44.3	(36.3)
Income tax expense	6	(10.6)	(4.5)
<b>Operating profit/(loss) after tax</b>		<b>33.7</b>	(40.8)

	Note	2018 £m	2017 Restated £m
Underlying operating profit		90.6	85.6
Income tax expense	6	(10.6)	(4.5)
Tax credit associated with Other items	2	(9.2)	(13.2)
<b>Underlying operating profit after tax</b>		<b>70.8</b>	67.9

	Note	2018 £m	2017 £m
Opening reported net assets (restated)		470.5	529.7
Opening reported net debt (restated)	27	258.7	299.2
Opening capital employed		729.2	828.9
Computer software impairment charges*	13	(1.1)	(7.9)
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges*	11	(6.7)	(79.1)
Adjusted opening capital employed		721.4	741.9
Closing reported net assets (2017 restated)		462.9	470.5
Closing reported net debt (2017 restated)	27	189.4	258.7
Closing capital employed		652.3	729.2
Computer software impairment charges*	13	-	(1.1)
Profits and losses on agreed sale or closure of non-core businesses and associated impairment charges*	11	-	(6.7)
Adjusted closing capital employed		652.3	721.4
<b>Average capital employed</b>		<b>690.7</b>	779.1
<b>Adjusted average capital employed*</b>		<b>686.8</b>	731.6

\* Capital employed has been adjusted to take into account the normalised impact of the goodwill and intangible impairment charges, the losses on agreed sale or closure of non-core businesses and associated impairment charges.

	2018	2017 Restated
<b>Unadjusted ROCE (operating profit/(loss) after tax to average capital employed)</b>	<b>4.9%</b>	(5.2)%
<b>ROCE (underlying operating profit after tax to adjusted average capital employed)</b>	<b>10.3%</b>	9.3%

# Notes to the Financial Statements

## c) Covenant interest cover ratio

The covenant interest cover ratio is one of the primary covenants applicable to the Revolving Credit Facility and the private placement notes. The monitoring of this covenant is therefore an important element of treasury risk management for the Group.

	Note	2018 £m	2017 Restated £m
Underlying Operating profit		90.6	85.6
<i>Add back:</i>			
Net operating profits/(losses) attributable to businesses identified as non-core (Note 11)	13	1.2	(8.0)
Contingent consideration*		-	(8.3)
<b>Consolidated EBITA</b>		<b>91.8</b>	69.3
Underlying finance costs	3	15.9	16.7
Underlying finance income	3	(0.6)	(0.5)
<i>Less:</i>			
Interest costs arising on the defined benefit pension scheme	3	(0.5)	(0.7)
Acceptance commission		(0.9)	(0.8)
Covenant net interest payable		13.9	14.7
<b>Interest cover ratio (consolidated EBITA to covenant net interest payable)</b>		<b>6.6x</b>	4.7x

\* This relates to the element of contingent consideration that is disallowed in the covenant calculation.

## d) Underlying profit before tax excluding property profits

This is used to enhance understanding of the underlying financial performance of the Group and to provide further comparability between reporting periods.

	2018 £m	2017 Restated £m
Underlying profit before tax	75.3	69.4
Underlying property profits	(2.6)	(11.3)
<b>Underlying profit before tax excluding property profits</b>	<b>72.7</b>	58.1

## e) Effective tax rates

The effective tax rate is a ratio of income tax expense to profit/(loss) before tax and is used to assess SIG's contribution to corporate taxation across the tax jurisdictions in which the Group operates.

	Note	2018 £m	2017 Restated £m
Profit/(loss) before tax		28.5	(54.7)
Other items	2	46.8	124.1
<b>Underlying profit before tax</b>		<b>75.3</b>	69.4
Income tax expense	6	(10.6)	(4.5)
Tax credit associated with Other items	6	(9.2)	(13.2)
<b>Underlying tax charge</b>		<b>(19.8)</b>	(17.7)
Effective tax rate (income tax expense to profit/(loss) before tax)		37.2%	(8.2)%
Underlying effective tax rate (underlying tax charge to underlying profit before tax)		26.3%	25.5%

## f) Like-for-like working capital to sales ratio

Like-for-like working capital to sales ratio is the ratio of closing working capital (including provisions but excluding pension scheme obligations) to annualised revenue (after adjusting for any acquisitions and disposals in the current and prior year) on a constant currency basis. The ratio is used to understand how effectively the Group is using the resources it has available.

	Note	2018 £m	2017 Restated £m
<i>Current:</i>			
Inventories	15	207.2	243.5
Trade and other receivables	16	477.7	480.4
Trade and other payables	17	(428.3)	(421.5)
Provisions	22	(11.0)	(12.0)
<i>Non-current:</i>			
Other payables	18	(5.6)	(6.9)
Provisions	22	(20.4)	(21.7)
Reported working capital		219.6	261.8
Working capital for non-core businesses	11	(0.6)	(17.4)
Foreign exchange adjustment*		(2.0)	(0.8)
<b>Adjusted working capital</b>		<b>217.0</b>	243.6

\* Working capital is translated at average rather than period end rates.

	Note	2018 £m	2017 £m
Reported revenue		2,741.9	2,878.4
Revenue attributable to business identified as non-core	11	(58.7)	(162.0)
Foreign exchange adjustment		-	18.7
<b>Adjusted revenue</b>		<b>2,683.2</b>	2,735.1

	2018	2017 Restated
<b>Reported working capital to reported revenue</b>	<b>8.0%</b>	9.1%
<b>Like-for-like working capital to sales ratio (adjusted working capital to adjusted revenue)</b>	<b>8.1%</b>	8.9%

## g) Consolidated net worth

Consolidated net worth is one of the primary covenants applicable to the Revolving Credit Facility and the private placement notes. The monitoring of this covenant is therefore an important element of treasury risk management for the Group.

	2018 £m	2017 Restated £m
Net assets	462.9	470.5
Less: non-controlling interests	-	(0.9)
<b>Consolidated net worth</b>	<b>462.9</b>	469.6

# Notes to the Financial Statements

## h) Cash inflow from trading

This is used to understand how the Group is generating cash from trading activities.

		2018 £m	2017 Restated £m
Cash generated from operating activities	26	<b>109.6</b>	93.4
Add back:			
- Decrease/(increase) in inventories	26	<b>(30.1)</b>	0.3
- Decrease in receivables	26	<b>(9.3)</b>	(46.8)
- Increase in payables	26	<b>(6.5)</b>	(6.7)
<b>Cash inflow from trading</b>		<b>63.7</b>	40.2

## i) Like-for-like sales

Like-for-like sales is calculated on a constant currency basis, and represents the growth in the Group's sales per day excluding any acquisitions or disposals completed or agreed in the current and prior year. Revenue is not adjusted for branch openings and closures. This measure shows how the Group has developed its revenue for comparable business relative to the prior period. As such it is a key measure of the growth of the Group during the year.

	SIG Distribution £m	SIG Exteriors £m	Ireland & Other UK £m	UK & Ireland £m	France £m	Germany £m	Poland £m	Air Handling* £m	Benelux £m	Mainland Europe £m	Group £m
Statutory revenue 2018	752.7	382.1	103.4	<b>1,238.2</b>	663.6	426.9	156.6	148.2	108.4	<b>1,503.7</b>	<b>2,741.9</b>
Non-core businesses	(51.5)	(3.4)	(3.5)	<b>(58.4)</b>	-	(0.3)	-	-	-	<b>(0.3)</b>	<b>(58.7)</b>
Underlying revenue 2018	701.2	378.7	99.9	<b>1,179.8</b>	663.6	426.6	156.6	148.2	108.4	<b>1,503.4</b>	<b>2,683.2</b>
Statutory revenue 2017	801.9	444.0	139.7	<b>1,385.6</b>	660.7	433.5	142.8	154.1	101.7	<b>1,492.8</b>	<b>2,878.4</b>
Non-core businesses	(60.0)	(40.1)	(41.4)	<b>(141.5)</b>	-	(8.5)	-	(12.0)	-	<b>(20.5)</b>	<b>(162.0)</b>
Underlying revenue 2017	741.9	403.9	98.3	<b>1,244.1</b>	660.7	425.0	142.8	142.1	101.7	<b>1,472.3</b>	<b>2,716.4</b>
<i>% change year on year:</i>											
Underlying revenue	(5.5)%	(6.2)%	1.6%	<b>(5.2)%</b>	0.4%	0.4%	9.7%	4.3%	6.6%	<b>2.1%</b>	<b>(1.2)%</b>
Impact of currency	-	-	(1.3)%	<b>(0.1)%</b>	(1.2)%	(1.2)%	(0.8)%	(1.3)%	(1.3)%	<b>(1.2)%</b>	<b>(0.7)%</b>
Impact of acquisitions	-	-	-	-	-	-	-	-	-	-	-
Impact of working days	(0.3)%	(0.4)%	(0.4)%	<b>(0.3)%</b>	(0.1)%	-	(0.4)%	(0.4)%	0.4%	<b>(0.1)%</b>	<b>(0.2)%</b>
<b>Like-for-like sales</b>	<b>(5.8)%</b>	<b>(6.6)%</b>	<b>(0.1)%</b>	<b>(5.6)%</b>	<b>(0.9)%</b>	<b>(0.8)%</b>	<b>8.5%</b>	<b>2.6%</b>	<b>5.7%</b>	<b>0.8%</b>	<b>(2.1)%</b>

\* Air Handling segment represents the business managed from The Netherlands, with further air handling product category trading results incorporated within other operating segments.

## j) Gross margin

Gross margin is the ratio of gross profit to revenue and is used to understand the value the Group creates from its trading activities.

	SIG Distribution %	SIG Exteriors %	Ireland & Other UK %	UK & Ireland %	France %	Germany %	Poland %	Air Handling* %	Benelux %	Mainland Europe %	Group %
Statutory gross margin 2018	25.3	28.3	23.8	26.1	27.7	26.8	20.1	38.1	23.7	27.4	26.8
Impact of non-core businesses	(0.6)	–	1.4	(0.2)	–	(0.1)	–	–	–	–	(0.1)
<b>Underlying gross margin 2018</b>	<b>24.7</b>	<b>28.3</b>	<b>25.2</b>	<b>25.9</b>	<b>27.7</b>	<b>26.7</b>	<b>20.1</b>	<b>38.1</b>	<b>23.7</b>	<b>27.4</b>	<b>26.7</b>
Statutory gross margin 2017	23.9	28.9	16.8	24.8	27.6	26.3	20.0	38.2	25.8	27.4	26.1
Impact of non-core businesses	(1.2)	(0.5)	8.2	–	–	0.1	–	0.2	–	–	0.1
<b>Underlying gross margin 2017</b>	<b>22.7</b>	<b>28.4</b>	<b>25.0</b>	<b>24.8</b>	<b>27.6</b>	<b>26.4</b>	<b>20.0</b>	<b>38.4</b>	<b>25.8</b>	<b>27.4</b>	<b>26.2</b>

\* Air Handling segment represents the business managed from The Netherlands, with further air handling product category trading results incorporated within other operating segments.

## k) Operating cost as a percentage of sales

This is a measure of how effectively the Group's operating cost base is being used to generate revenue.

	Six months ended 30 June 2018 £m	Six months ended 31 December 2018 £m	Year ended 31 December 2018 £m	Six months ended 30 June 2017 Restated £m	Six months ended 31 December 2017 Restated £m	Year ended 31 December 2017 Restated £m
Statutory revenue	1,381.7	1,360.2	2,741.9	1,439.2	1,439.2	2,878.4
Non-core businesses	(41.0)	(17.7)	(58.7)	(107.2)	(54.8)	(162.0)
Underlying revenue	1,340.7	1,342.5	2,683.2	1,332.0	1,384.4	2,716.4
Operating costs (statutory)	338.6	352.0	690.6	384.1	404.7	788.8
Other items	(19.2)	(45.3)	(64.5)	(73.4)	(89.3)	(162.7)
Underlying operating costs	319.4	306.7	626.1	310.7	315.4	626.1
Property profits	0.3	2.3	2.6	5.8	5.5	11.3
Underlying operating costs excluding property profits	319.7	309.0	628.7	316.5	320.9	637.4
Operating costs as a percentage of statutory revenue	24.5%	25.9%	25.2%	26.7%	28.1%	27.4%
Underlying operating costs excluding property profits as a percentage of underlying revenue	23.8%	23.0%	23.4%	23.8%	23.2%	23.5%

# Notes to the Financial Statements

## I) Operating profit (excluding property profits) / Return on sales (excluding property profits)

This is used to enhance understanding and comparability of the underlying financial performance of the Group by period and segment, excluding the benefit of property profits which can have a significant effect on results in a particular period.

	SIG Distribution £m	SIG Exteriors £m	Ireland & Other £m	Total UK & Ireland £m	France £m	Germany £m	Poland £m	Air Handling* £m	Benelux £m	Total Mainland Europe £m	Parent Company costs £m	Total Group £m
<b>2018</b>												
Underlying revenue	<b>701.2</b>	<b>378.7</b>	<b>99.9</b>	<b>1,179.8</b>	<b>663.6</b>	<b>426.6</b>	<b>156.6</b>	<b>148.2</b>	<b>108.4</b>	<b>1,503.4</b>	<b>-</b>	<b>2,683.2</b>
Underlying operating profit (Note 1 <sup>^</sup> )	<b>20.9</b>	<b>17.3</b>	<b>6.1</b>	<b>44.3</b>	<b>27.8</b>	<b>9.1</b>	<b>3.3</b>	<b>14.8</b>	<b>4.5</b>	<b>59.5</b>	<b>(13.2)</b>	<b>90.6</b>
Property profits	-	-	-	-	<b>(1.0)</b>	<b>(1.6)</b>	-	-	-	<b>(2.6)</b>	-	<b>(2.6)</b>
Underlying operating profit before property profits	<b>20.9</b>	<b>17.3</b>	<b>6.1</b>	<b>44.3</b>	<b>26.8</b>	<b>7.5</b>	<b>3.3</b>	<b>14.8</b>	<b>4.5</b>	<b>56.9</b>	<b>(13.2)</b>	<b>88.0</b>

<sup>^</sup>Underlying operating profit equals segmental result before Other items.

Return on sales*	<b>3.0%</b>	<b>4.6%</b>	<b>6.1%</b>	<b>3.8%</b>	<b>4.2%</b>	<b>2.1%</b>	<b>2.1%</b>	<b>10.0%</b>	<b>4.2%</b>	<b>4.0%</b>	<b>n/a</b>	<b>3.4%</b>
Return on sales (excluding property profits)*	<b>3.0%</b>	<b>4.6%</b>	<b>6.1%</b>	<b>3.8%</b>	<b>4.0%</b>	<b>1.8%</b>	<b>2.1%</b>	<b>10.0%</b>	<b>4.2%</b>	<b>3.8%</b>	<b>n/a</b>	<b>3.3%</b>

\* Return on sales is also referred to as underlying operating margin.

### 2017 (restated)

Underlying revenue	741.9	403.9	98.3	1,244.1	660.7	425.0	142.8	142.1	101.7	1,472.3	-	2,716.4
Underlying operating profit (Note 1 <sup>^</sup> )	3.5	30.1	4.8	38.4	26.2	12.0	1.0	14.4	6.3	59.9	(12.7)	85.6
Property profits	(0.9)	(5.3)	-	(6.2)	(0.5)	(4.5)	-	(0.1)	-	(5.1)	-	(11.3)
Underlying operating profit before property profits	2.6	24.8	4.8	32.2	25.7	7.5	1.0	14.3	6.3	54.8	(12.7)	74.3

<sup>^</sup>Underlying operating profit equals segmental result before Other items.

Return on sales*	0.5%	7.5%	4.9%	3.1%	4.0%	2.8%	0.7%	10.1%	6.2%	4.1%	n/a	3.2%
Return on sales (excluding property profits)*	0.4%	6.1%	4.9%	2.6%	3.9%	1.8%	0.7%	10.1%	6.2%	3.7%	n/a	2.7%

\* Return on sales is also referred to as underlying operating margin.

## m) Other non-statutory measures

In addition to the alternative performance measures noted above, the Group also uses underlying earnings/(loss) per share (EPS), as set out in Note 8, and underlying net finance costs, as set out in Note 3.

### 33. Prior year restatements

As disclosed in the Statement of Significant Accounting Policies, following the transition to the new Auditor certain accounting policies and judgements have been reviewed and refined, resulting in a number of restatements to previously reported numbers. The errors have been corrected by restating each of the affected financial statement line items for prior periods. The following tables summarise the impacts on the Group's Financial Statements.

#### a) Consolidated Balance Sheet

At 1 January 2018	Impact of restatements		
	As previously reported £m	Adjustments £m	As restated £m
Property, plant and equipment	102.4	15.7	118.1
Deferred tax assets	22.6	(8.9)	13.7
Trade and other receivables	468.0	12.4	480.4
Cash and cash equivalents	121.8	(13.6)	108.2
Other assets	621.0	–	621.0
<b>Total assets</b>	<b>1,335.8</b>	<b>5.6</b>	<b>1,341.4</b>
Obligations under finance lease contracts	9.9	13.3	23.2
Non-current other payables	3.8	3.1	6.9
Trade and other payables	429.0	(7.5)	421.5
Other financial liabilities	–	8.0	8.0
Provisions	25.8	7.9	33.7
Deferred tax liability	13.4	(12.0)	1.4
Other liabilities	376.2	–	376.2
<b>Total liabilities</b>	<b>858.1</b>	<b>12.8</b>	<b>870.9</b>
<b>Net assets</b>	<b>477.7</b>	<b>(7.2)</b>	<b>470.5</b>
Retained losses	(50.9)	(7.2)	(58.1)
Other capital and reserves	528.6	–	528.6
<b>Total equity</b>	<b>477.7</b>	<b>(7.2)</b>	<b>470.5</b>

The adjustments to cash and cash equivalents, obligations under finance leases and other financial liabilities resulted in a £34.9m increase to net debt.

#### b) Consolidated Income Statement and Other Comprehensive Income

For the year ended 31 December 2017	Impact of restatements		
	As previously reported £m	Adjustments £m	As restated £m
Revenue	2,878.4	–	2,878.4
Cost of sales	(2,125.9)	–	(2,125.9)
Other operating expenses	(786.4)	(2.4)	(788.8)
Net finance costs	(17.3)	(1.1)	(18.4)
<b>Loss before tax</b>	<b>(51.2)</b>	<b>(3.5)</b>	<b>(54.7)</b>
Income tax expense	(7.4)	2.9	(4.5)
<b>Loss after tax</b>	<b>(58.6)</b>	<b>(0.6)</b>	<b>(59.2)</b>
Attributable to Equity holders of the Company	(1.0)	–	(1.0)
<b>Loss after tax attributable to equity holders of the Company</b>	<b>(59.6)</b>	<b>(0.6)</b>	<b>(60.2)</b>
<b>Total comprehensive expense</b>	<b>(40.0)</b>	<b>(0.6)</b>	<b>(40.6)</b>
<b>Loss per share</b>	<b>(10.1)p</b>	<b>0.1p</b>	<b>(10.2)p</b>

# Notes to the Financial Statements

## c) Consolidated Cash Flow Statement

	Impact of restatements		
	As previously reported £m	Adjustments £m	As restated £m
<b>For the year ended 31 December 2017</b>			
Net cash generated from operating activities	99.7	(6.3)	93.4
Cash flows from financing activities	(123.4)	8.0	(115.4)
Other cash flows	7.1	-	7.1
<b>Decrease in cash and cash equivalents in the year</b>	<b>(16.6)</b>	<b>1.7</b>	<b>(14.9)</b>
Cash and cash equivalents at beginning of the year	104.3	(15.3)	89.0
Effect of foreign exchange rate changes	4.5	-	4.5
<b>Cash and cash equivalents at end of the year</b>	<b>92.2</b>	<b>(13.6)</b>	<b>78.6</b>

## d) Consolidated Statement of Changes in Equity

	Impact of restatements		
	As previously reported £m	Adjustments £m	As restated £m
<b>For the year ended 31 December 2017</b>			
Total equity at 31 December 2015	649.3	(5.3)	644.0
Loss after tax	(121.6)	(1.3)	(122.9)
Other movements in equity	8.6	-	8.6
Total equity at 31 December 2016	536.3	(6.6)	529.7
Profit after tax	(58.6)	(0.6)	(59.2)
Other movements in equity	-	-	-
<b>Total equity at 31 December 2017</b>	<b>477.7</b>	<b>(7.2)</b>	<b>470.5</b>



# Independent Auditor's Report

To the members of SIG plc

## Opinion

### In our opinion:

- SIG plc's Group financial statements and parent company financial statements (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 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; 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.

We have audited the Financial Statements of SIG plc which comprise:

Group	Parent company
Consolidated income statement for the year ended 31 December 2018	Company statement of comprehensive income for the year ended 31 December 2018
Consolidated statement of comprehensive income for the year ended 31 December 2018	Company balance sheet as at 31 December 2018
Consolidated balance sheet as at 31 December 2018	Company statement of changes in equity for the year ended 31 December 2018
Consolidated statement of changes in equity for the year ended 31 December 2018	Related Notes 1 to 14 to the financial statements including a summary of significant accounting policies
Consolidated cashflow statement for the year ended 31 December 2018	
Related notes 1 to 33 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (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, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report (set out on page 46-47) that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation (set out on page 44-45) in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement (set out on page 40) in the financial statements 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 entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation (set out on page 40) in the annual report as to how they have assessed the prospects of the entity, 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 entity 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.

# Independent Auditor's Report

To the members of SIG plc

## Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> <li>■ Prior year adjustments</li> <li>■ Supplier rebates</li> <li>■ Classification of Other items in the Income Statement</li> <li>■ Cash cut-off</li> <li>■ Impairment of Goodwill, Intangible assets and Property, Plant and Equipment</li> </ul>
Audit scope	<ul style="list-style-type: none"> <li>■ We performed an audit of the complete financial information of 8 components and audit procedures on specific balances for a further 6 components.</li> <li>■ The components where we performed full or specific audit procedures accounted for 94% of Underlying Profit before Tax and property profits, 92% of Revenue and 95% of Total Assets.</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>■ Overall Group materiality of £3.6m which represents 5% of Underlying Profit before Tax, excluding property profits.</li> </ul>

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Prior Year Adjustments</b></p> <p><i>Refer to Accounting policies (page 113); and Note 33 of the Consolidated Financial Statements (page 181)</i></p> <p>Our appointment as auditors to SIG plc followed the reporting of significant prior year adjustments relating to 2016 and earlier which were reported within the 2017 Annual Report and Accounts. These prior year adjustments highlighted weaknesses in SIG plc's control environment and underlying IT systems.</p> <p>Our Interim review for the 6-month period ended 30 June 2018 identified further prior year adjustments relating to the 31 December 2017 Balance Sheet. In this context, we undertook additional audit procedures in relation to the comparative amounts and opening balances.</p>	<p>Our audit procedures were designed and performed to allow us to conclude whether the circumstances and evidence available could give rise to adjustments which would require retrospective restatement under IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors'.</p> <p>Our response to the risk of material misstatement in the opening Balance Sheet included the following audit procedures:</p> <ul style="list-style-type: none"> <li>■ Review of the 2017 Annual Report and Accounts, audit workpapers of the predecessor auditor and Group Accounting policies.</li> <li>■ Obtaining SIG plc's accounting papers, associated contractual and legal documents, and journal entries in relation to one-off transactions impacting the 2017 Result and Net Debt position. These transactions included property sale and leaseback transactions and supply chain financing. We examined the underlying documentation to assess whether these transactions had been accounted for appropriately. Obtaining SIG plc's accounting papers in relation to uncertain tax positions, including associated correspondence with the relevant tax authorities. We examined the underlying documentation to assess whether provisions were appropriately recorded in the Balance Sheet.</li> <li>■ Performing substantive tests of detail over cut-off in relation to cash and net debt as at 31 December 2017, with a particular focus on cheque and BACS payments and receipts. Our audit procedures included obtaining bank confirmation letters for all accounts within the UK Distribution and UK Exteriors operating companies.</li> <li>■ Obtaining detail of all property leases within UK Distribution and UK Exteriors operating companies, including SIG plc's assessment of the existence of contractual obligations which require a provision for dilapidations to be recognised. We performed audit procedures which included confirming a sample of leases back to contracts to confirm whether dilapidation obligations were present. We obtained SIG plc's accounting paper in relation to the valuation of any such liabilities and critically challenged the significant assumptions within this assessment. We performed tests of detail to corroborate settlement costs incurred in 2018 and previous reporting periods.</li> <li>■ Obtaining and critically challenging SIG plc's accounting papers against the requirements of the new standard in relation to the transition to IFRS 15, including the treatment of early settlement discounts.</li> </ul>	<p>The audit procedures we performed identified material misstatements which required prior year adjustment in accordance with the requirements of IAS 8.</p> <p>The nature of these prior year adjustments, and the financial impact upon the Income Statement and Balance Sheet at each reporting date, are detailed in Note 33 to the Annual Report. These adjustments relate to the:</p> <p>Restatement of two property sale and leaseback transactions, previously treated as operating leases, now accounted for as finance leases.</p> <p>Reclassification of supply chain financing transactions from Trade Payables to within Other Financial Liabilities and inclusion within Net Debt.</p> <p>Release of provisions for uncertain tax positions where it was not probable that a liability would arise.</p> <p>Restatement of cash to exclude cash in transit where SIG was not in control of the asset.</p> <p>Recognition of a provision and related asset for contractual obligations in respect of dilapidation costs within property leases in the UK and Germany.</p> <p>Recognition of early settlement discounts at point of sale rather than when settled.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Supplier Rebates</b></p> <p><i>Refer to Accounting policies (page 119); and Note 16 &amp; 17 of the Consolidated Financial Statements (pages 150 &amp; 152)</i></p> <p>The Group recognised supplier rebate income in the year of £318.1m (2017: 363.2m) with a receivable balance as at 31 December 2018 of £112.1m (2017: £114.0m).</p> <p>The Group's supply chain pricing structure includes rebate arrangements with suppliers. The terms of agreements with suppliers can be complex and varied. Estimation uncertainty is present in relation to supplier rebates, in particular where amounts receivable are tiered based on volumes purchased or where volumes are estimated, for example where arrangements span the year end. There is opportunity through management override of controls or error to overstate the balance of supplier rebates recognised.</p>	<p>We focused our audit procedures on the areas where Management apply judgement, where the processing is either manual or more complex and where the value in supplier rebate terms of agreements is high, such as non-coterminous year ends.</p> <p>We performed walkthroughs to understand the key processes used to record supplier rebate transactions and identify key controls.</p> <p>We performed analytical review procedures to understand unusual movements in income statement and balance sheet accounts period on period, including ageing analysis.</p> <p>We selected a sample of suppliers in order to obtain independent confirmations to confirm key terms, income and year end receivable.</p> <p>We reconciled income recognised in the period, for the sample of suppliers, based on agreed arrangement terms, income and receivable as confirmed by the supplier. Using confirmed amounts we ensured the appropriate tier was applied.</p> <p>Where third party vendor confirmation could not be obtained for the sample we:</p> <ul style="list-style-type: none"> <li>■ Obtained and reviewed the agreement signed by both parties.</li> <li>■ Validated the purchase volumes used in the calculation of income through sample testing to supporting documentation.</li> <li>■ Recalculated the year end rebate receivable and income recognised in the year based on the validated volumes and the terms of the signed agreement.</li> </ul> <p>Using data extracted from the accounting system, we tested the appropriateness of a sample of journal entries and other adjustments to supplier rebate accounts in the Balance Sheet and Income Statement.</p> <p>We reviewed the appropriateness of the critical accounting judgements and key sources of estimation uncertainty disclosure in respect of supplier rebate amounts recorded in the income statement and balance sheet.</p> <p>We performed the above audit procedures over this risk area at 8 full and specific scope locations, which covered 97% of the risk amount.</p>	<p>The results of our testing were satisfactory and we therefore conclude that supplier rebate amounts are appropriately recognised in the Income Statement and Balance Sheet and the disclosures included are appropriate.</p>

# Independent Auditor's Report

To the members of SIG plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Classification of Other items in the Income Statement</b></p> <p><i>Refer to Accounting policies (page 118); and Note 2 of the Consolidated Financial Statements (page 132)</i></p> <p>Other items in 2018 totals £46.8m (2017: £124.1m). Key components include: restructuring costs £27.7m, amortisation of goodwill and intangibles £8.9m, divestments £6.7m, net operating profit of non-core businesses (£1.2m) and other items £4.7m.</p> <p>Other items are not defined by IFRS and therefore judgement is required in determining the appropriateness of such classification guided by IAS 1. Consistency in items treated as separately disclosed is important to maintain comparability of reporting year-on-year.</p> <p>Underlying profit is a key performance measure of the Group. There exists a risk through management override of controls or bias of judgement of inappropriate classification of these items separately to overstate underlying profit.</p>	<p>We performed walkthroughs to understand the key processes used to record Other items and identify key controls.</p> <p>We obtained evidence of a sample of the Other items to understand the nature of these items and have challenged the appropriateness of separately presenting these items within Other items in line with the Group's accounting policy.</p> <p>We have considered the consistency of SIG plc's approach with reference to Other Items in the prior year.</p> <p>Where an item related to a restructuring project, we inspected the build-up to ensure that the costs were:</p> <ul style="list-style-type: none"> <li>■ Attributable to the restructuring project;</li> <li>■ Incremental in nature, either directly or indirectly;</li> <li>■ Qualify for recognition in the financial statements for the period;</li> <li>■ Have been correctly categorised as a cost or as an Other item in line with the accounting policy.</li> </ul> <p>We have recalculated the amortisation charge in the year and confirmed this is consistent with the Group accounting policy.</p> <p>We obtained calculations of profit or loss on divestment. We agreed divestments to sale agreements and validated the calculation of profit/loss on sale to supporting documentation. We performed analytical review procedures to understand unusual movements in the income statements of divested and non-core businesses separately presented as an Other item.</p> <p>We reviewed management's accounting policy disclosure in respect of Other item classification in the Income Statement.</p> <p>We performed the above audit procedures over this risk area at all full and specific scope locations, which covered 100% of the risk amount.</p>	<p>As a result of our audit procedures we requested that adjustments amounting to £0.8m be made to reclassify costs to underlying. The Group's disclosures are in compliance with the Group's accounting policy, consistent with the guidance in IAS 1 and has been applied consistently.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Cash cut-off</b></p> <p><i>Refer to Accounting policies (page 121); and Note 19 of the Consolidated Financial Statements (page 153)</i></p> <p>The Group has cash of £83.3m (2017: £108.2m) and net debt of £189.4m (2017: £258.7m).</p> <p>The timing of the recognition of payments and receipts is relevant to the reported cash and net debt position of the Group, and is directly linked to financial covenants. Our Interim review for the 6-month period ended 30 June 2018 identified prior year adjustments relating to cash on the 31 December 2017 Balance Sheet.</p> <p>There is opportunity through management override or error to misstate the allocation of cash between periods.</p>	<p>We performed walkthroughs to understand the key processes used to record cash transactions and identify key controls including visiting and performing procedures at the outsourced shared service centre in Chennai.</p> <p>We obtained bank confirmations for all bank accounts at in scope locations as at 31 December 2018 and agreed the bank confirmation amount to the year end bank reconciliation.</p> <p>We obtained and inspected bank reconciliations for material reconciling items and confirmed that all items were recognised in the appropriate accounting period.</p> <p>We tested a sample of consolidation and sub consolidation adjustments to cash to address the risk of management override in cash recognition.</p> <p>We performed full and specific scope audit procedures over this risk area in 11 locations, which covered 84% of the risk amount. We also performed central procedures over Cash, which covered 13% of the risk amount.</p>	<p>Our audit procedures identified cash cut off audit adjustments in the UK components.</p> <p>These adjustments, decreased cash by £3.7m and increased receivables.</p> <p>Our journal entry testing procedures did not identify any instances of inappropriate management override in the recognition of cash across the Group.</p>

# Independent Auditor's Report

To the members of SIG plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Impairment of Goodwill, Intangible assets and Property, Plant and Equipment (PPE)</b></p> <p><i>Refer to Accounting policies (page 120); and Note 12 of the Consolidated Financial Statements (page 145)</i></p> <p>The Group's Balance Sheet includes goodwill, intangible assets and PPE totalling £445.5m at 31 December 2018 (2017: £487.3m).</p> <p>In line with the requirements of IAS 36: "Impairment of Assets", Management test goodwill balances annually for impairment, this assessment includes both intangible assets and PPE.</p> <p>The annual impairment test includes areas of estimation uncertainty and judgement over the future performance of the business for example forecast future trading results and cashflows, specific assumptions such as discount rates and long-term growth rates.</p> <p>Changes to these assumptions or adverse performance could have a significant impact on the available headroom and any impairment that may be required. Especially sensitive are the CGUs; UK Distribution, UK Exteriors and Lariviere.</p> <p>There is an associated risk in the company only balance sheet over the potential impairment of investments in subsidiary undertakings.</p>	<p>We obtained and understood the method applied by management in performing its impairment test for each of the relevant Cash Generating Units ("CGUs") and identified key controls.</p> <p>We performed detailed testing to assess critically and corroborate the key inputs to the valuations, including:</p> <ul style="list-style-type: none"> <li>■ Evaluating the identification of CGUs against the requirements of IAS 36;</li> <li>■ Analysing the historical accuracy of budgets to actual results for a 3-year period to determine whether forecast cash flows are reliable based on past experience;</li> <li>■ Assessing the appropriateness of the method of the impairment model;</li> <li>■ Testing the integrity of the model and underlying data to board approved budgets;</li> <li>■ Benchmarking the discount rate calculation applied, using our internal valuation experts to assist in our testing of whether management's assumptions are within an acceptable range based on comparative market data; and</li> <li>■ Validating that growth rates have been appropriately adjusted to reflect the change in Group strategy.</li> </ul> <p>For all CGUs we calculated the degree to which the key inputs and assumptions would need to fluctuate before an impairment was triggered and considered the likelihood of this occurring. We performed our own sensitivities on the Group's forecasts and determined whether adequate headroom remained also taking into consideration the position reported in the parent company balance sheet.</p> <p>We assessed the disclosures in the intangible assets note against the requirements of IAS 36 Impairment of Assets, in particular the requirement to disclose further sensitivities for CGUs where a reasonably possible change in a key assumption would cause an impairment. In the current year this includes a Brexit sensitivity.</p> <p>We performed the above audit procedures over this risk area at a Group level covering 100% of the risk amount.</p>	<p>We agreed with management's conclusion that no impairments were required, based on the results of our work.</p> <p>Goodwill relating to the Lariviere CGU in France is most sensitive to reasonably possible changes in key assumptions.</p> <p>We consider the disclosures made in note 12 to be appropriate.</p>

## An overview of the scope of our audit

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 66 reporting components of the Group, we selected 14 components covering entities within each of the eight principal countries which the Group operates, which represent the principal business units within the Group.

Of the 14 components selected, we performed an audit of the complete financial information of 8 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 6 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 94% of the Group's Underlying Profit before tax, 92% of the Group's Revenue and 95% of the Group's Total assets. For the current year, the full scope components contributed 170% of the Group's Underlying Profit before tax (offset by the specific scope locations), 84% of the Group's Revenue and 90% of the Group's Total assets. The specific scope components contributed negative 76% of the Group's Underlying Profit before tax, 8% of the Group's Revenue and 5% of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

	2018			
	Number	% Group underlying Profit before tax	% Group Revenue	% Group Total assets
Full scope	8	170%	84%	90%
Specific scope	6	(76%)	8%	5%
<b>Full and specific scope coverage</b>	<b>14</b>	<b>94%</b>	<b>92%</b>	<b>95%</b>

Of the remaining 52 components that together represent 5% of the Group's Underlying Profit before tax, none are individually greater than 5% of the Group's Underlying Profit before tax. For these components, we performed other procedures, including analytical review and/or 'review scope' components, testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

### Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 8 full scope components, audit procedures were performed on 7 of these directly by the component audit teams in the UK, France, Germany, Poland, Ireland and Belgium. For the 6 specific scope components, where the work was performed by component auditors in the UK, Poland, Netherlands and Bulgaria, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

At the start of the audit, a Group wide Team Planning Event was held with representatives from all full and specific scope component teams in attendance. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in the UK, France, Germany, Poland, Netherlands, Belgium and Bulgaria. These visits involved discussing the audit approach with the component team including any issues arising from their work, meeting with local management, attending planning and closing meetings and reviewing key audit working papers on risk areas. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

# Independent Auditor's Report

To the members of SIG plc

## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Group to be £3.6 million, which is 5% of Underlying Profit before Tax, excluding property profits. We believe that Underlying Profit before Tax, excluding property profits provides us with an appropriate basis for materiality. Underlying Profit before Tax is a key metric used by management and investors. We have excluded property profits from the measure used as the basis for materiality as they do not relate to the core trading activities of the Group.

When using an earnings-related measure to determine overall materiality, the norm is to apply a benchmark percentage of 5% of the pre-tax measure, we use Underlying Profit before Tax and remove property profits to establish a measure of normalised earnings.

We determined materiality for the Parent Company to be £3.6 million, which is 2% of Equity, capped at the materiality of the Group.

During the course of our audit, we reassessed initial materiality and amended for final Underlying Profit before Tax, excluding property profits.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £1.8m. We have set performance materiality at this percentage due to this being an initial audit and the outcome of our risk assessment.

Audit work at component locations, for the purpose of obtaining audit coverage over significant financial statement accounts, is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. The range of performance materiality allocated to components was £1.2m to £0.4m.

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.2m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## Other information

The other information comprises the information included in the annual report, set out on pages 1 to 106, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable (set out on page 74)** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting (set out on page 76)** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code (set out on page 63)** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.



## Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- 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.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement (set out on page 106), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in each of the eight principle countries of operation.
- We understood how SIG plc is complying with those frameworks by making enquiries of management, Internal Audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was a susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud and error.

# Independent Auditor's Report

To the members of SIG plc

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on manual consolidation journals, and journals indicating large or unusual transactions based on our understanding of the business; enquiries of Legal Counsel, Group management, Internal Audit, subsidiary Management at all full and specific scope components; and focused testing, as referred to in the key audit matters section above. In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code 2016.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report

## Other matters we are required to address

- We were appointed by the company on 4th July 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is one year, covering the year ending 31 December 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

## Use of our report

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.

### Colin Brown (Senior statutory auditor)

for and on behalf of Ernst & Young LLP,  
Statutory Auditor  
London

7 March 2019

Notes:

1. The maintenance and integrity of the SIG plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Five-Year Summary

Statutory basis	Total 2014 £m	Total 2015 £m	Total 2016 Restated £m	Total 2017 Restated £m	Total 2018 £m
Revenue	2,633.9	2,566.4	2,845.2	2,878.4	<b>2,741.9</b>
Operating (loss)/profit	52.7	65.0	(96.0)	(36.3)	<b>45.0</b>
Finance income	1.0	1.0	1.7	0.6	<b>0.6</b>
Finance costs	(15.2)	(15.6)	(17.0)	(19.0)	<b>(16.4)</b>
Profit/(loss) before tax	38.5	50.4	(111.3)	(54.7)	<b>28.5</b>
Profit/(loss) after tax	34.0	35.4	(122.9)	(59.2)	<b>17.9</b>
(Loss)/earnings per share	5.5p	6.0p	(20.9)p	(10.2)p	<b>3.0p</b>
Total dividend per share	4.40p	4.60p	3.66p	3.75p	<b>3.75p</b>

Underlying basis <sup>^</sup>	Underlying* 2014 £m	Underlying* 2015 £m	Underlying* 2016 Restated £m	Underlying* 2017 Restated £m	Underlying* 2018 £m
Revenue	2,360.3	2,284.8	2,533.9	2,716.4	<b>2,683.2</b>
Operating profit	104.5	92.4	81.2	85.6	<b>90.6</b>
Finance income	0.9	1.0	1.2	0.5	<b>0.6</b>
Finance costs	(13.0)	(12.3)	(15.0)	(16.7)	<b>(15.9)</b>
Profit before tax	92.4	81.1	67.4	69.4	<b>75.3</b>
Profit after tax	65.5	60.2	49.3	51.7	<b>55.5</b>
Earnings per share	11.0p	10.3p	8.3p	8.6p	<b>9.3p</b>

\* Underlying figures are stated before amortisation of acquired intangibles, goodwill and intangible impairment charges, profits and losses on agreed sale or closure of non-core businesses and associated impairment charges, net operating losses attributable to businesses identified as non-core, net restructuring costs, acquisition expenses and contingent consideration, other specific items, unwinding of provision discounting, fair value gains and losses on derivative financial instruments, the taxation effect of Other items and the effect of changes in taxation rates.

<sup>^</sup> All underlying numbers are stated excluding the trading results attributable to businesses identified as non-core.

# Company Financial Statements

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# Company Statement of Comprehensive Income

for the year ended 31 December 2018

	2018 £m	2017 Restated £m
<b>Loss after tax</b>	<b>(6.7)</b>	(7.5)
<b>Items that may subsequently be reclassified to the Company Income Statement</b>		
Gains and losses on cash flow hedges	2.0	(1.6)
Transfer to profit and loss on cash flow hedges	(0.7)	4.1
<b>Other comprehensive income/(expense)</b>	<b>1.3</b>	2.5
<b>Total comprehensive (expense)/income</b>	<b>(5.4)</b>	(5.0)
<b>Attributable to:</b>		
Equity holders of the Company	(5.4)	(5.0)

The accompanying Statement of Significant Accounting Policies and Notes to the Company Financial Statements are an integral part of this Company Statement of Comprehensive Income.

# Company Balance Sheet

as at 31 December 2018

	Note	2018 £m	2017 Restated £m
<b>Fixed assets</b>			
Investments	5	443.2	443.0
Tangible fixed assets	6	2.9	0.3
		<b>446.1</b>	443.3
<b>Current assets</b>			
Debtors - due within one year	7	866.9	938.4
Debtors - due after more than one year	7	5.1	3.3
Deferred tax assets	11	0.4	0.3
Cash at bank and in hand		14.9	10.2
		<b>887.3</b>	952.2
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	8	400.8	438.0
Provisions: amounts falling due within one year	10	0.2	1.6
		<b>401.0</b>	439.6
<b>Net current assets</b>			
		<b>486.3</b>	512.6
<b>Total assets less current liabilities</b>			
		<b>932.4</b>	955.9
Creditors: amounts falling due after one year	9	261.6	258.0
Provisions: amounts falling due after one year	10	0.4	0.3
<b>Net assets</b>			
		<b>670.4</b>	697.6
<b>Capital and reserves</b>			
Called up share capital	12	59.2	59.2
Share premium account	12	447.3	447.3
Merger reserve	12	21.7	21.7
Capital redemption reserve	12	0.3	0.3
Share option reserve	12	1.7	1.3
Exchange reserve	12	(0.2)	(0.2)
Retained profits	12	140.4	168.0
<b>Shareholders' funds</b>			
		<b>670.4</b>	697.6

The accompanying Statement of Significant Accounting Policies and Notes to the Company Financial Statements are an integral part of this Company Balance Sheet.

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 loss after tax for the financial year ended 31 December 2018 of £6.7m (2017: restated £7.5m).

The Financial Statements were approved by the Board of Directors on 7 March 2019 and signed on its behalf by:

**MEINIE OLDERSMA**  
Director

**NICK MADDOCK**  
Director

Registered in England: 00998314

# Company Statement of Changes in Equity

for the year ended 31 December 2018

	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 Restated £m	Shareholders' funds Restated £m
At 1 January 2017	59.1	447.3	21.7	0.3	1.1	(0.2)	191.2	720.5
Profit after tax (restated)	-	-	-	-	-	-	(7.5)	(7.5)
Other comprehensive expense	-	-	-	-	-	-	2.5	2.5
Total comprehensive income	-	-	-	-	-	-	(5.0)	(5.0)
Credit to share option reserve	-	-	-	-	0.2	-	-	0.2
Share capital issued in the year	0.1	-	-	-	-	-	-	0.1
Dividends paid to equity holders of the Company	-	-	-	-	-	-	(18.2)	(18.2)
At 31 December 2017	59.2	447.3	21.7	0.3	1.3	(0.2)	168.0	697.6
Loss after tax	-	-	-	-	-	-	(6.7)	(6.7)
Other comprehensive income	-	-	-	-	-	-	1.3	1.3
Total comprehensive expense	-	-	-	-	-	-	(5.4)	(5.4)
Exercise of share options	-	-	-	-	-	-	-	-
Credit to share option reserve	-	-	-	-	0.4	-	-	0.4
Share capital issued in the year	-	-	-	-	-	-	-	-
Dividends paid to equity holders of the Company	-	-	-	-	-	-	(22.2)	(22.2)
<b>At 31 December 2018</b>	<b>59.2</b>	<b>447.3</b>	<b>21.7</b>	<b>0.3</b>	<b>1.7</b>	<b>(0.2)</b>	<b>140.4</b>	<b>670.4</b>

There was no movement in the merger reserve, capital redemption reserve and exchange reserve in the year. During 2018 the Company allotted 8,747 shares (2017: 87,934) following the exercising of share options.

The accompanying Statement of Significant Accounting Policies and Notes to the Company Financial Statements 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. They have been prepared under the historical cost convention (except for the revaluation of financial instruments which are held at fair value as disclosed below). 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 156.

The separate Financial Statements have been prepared in accordance with Financial Reporting Standard 101, "Reduced Disclosure Framework" (FRS 101) and the Companies Act 2006 as applicable to companies using 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.

The Company has initially applied IFRS 9 from 1 January 2018, the nature and effects of the key changes to the Company's accounting policies in relation to this are as set out in the Group Accounts on pages 116 and 117. In addition, the Company has assessed on a forward looking basis the expected credit losses associated with Amounts owed by subsidiary undertakings. The impairment methodology applied depends on the ability to repay amounts repayable on demand and whether there has been any significant change in credit risk.

The adoption of IFRS 9 has not resulted in any adjustment to the amount recognised in the Company Financial Statements in relation to the impairment allowance for Amounts owed by subsidiary undertakings.

A number of other new standards are also effective, including IFRS 15, from 1 January 2018 but they do not have a material effect on the Company's Financial Statements.

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 and

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
- 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".

## Share-based payments

The accounting policy for share-based payments (IFRS 2) is consistent with that of the Group as detailed on page 120.

## Derivative financial instruments

The accounting policy for derivative financial instruments is consistent with that of the Group as detailed on pages 122 and 123.

## Financial assets and liabilities

The accounting policy for financial assets and liabilities is consistent with that of the Group as detailed on pages 121 and 122.

## 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 120.

## Foreign currency

The accounting policy for foreign currency is consistent with that of the Group as detailed on page 118.

## Taxation

The accounting policy for taxation is consistent with that of the Group as detailed on page 119.

## 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.



# Company Statement of Significant Accounting Policies

## Prior year restatements

As detailed on page 113, as part of the transition to new auditors, the Group has reviewed certain accounting policies and judgements, resulting in a number of errors being corrected by prior year restatements to previously reported numbers. The restatements impacted net debt and EBITDA which had an impact on headline financial leverage and interest cover covenant calculations, but the Group remained within covenant requirements for all relevant periods. The Company accounts have been restated to show the additional interest payable of £0.4m at December 2017 and the related deferred tax asset adjustment of £0.1m as a result of the restatements, increasing the loss after tax by £0.3m for the year ended 31 December 2017.

In addition, as part of the 2018 year end close, the Group corrected its policy for accounting for future dilapidations costs on property leases to account for the cost of reinstating capital modifications on inception of the lease instead of accruing costs over the life of the lease. This gives rise to a prior period restatement, resulting in an increase to fixed assets of £0.2m and to provisions of £0.2m at 31 December 2017, with no impact to the Company Income Statement for the year ended 31 December 2017.

## Critical accounting judgements 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 judgements (other than those involving estimates) that have a significant impact on the amounts recognised and to make 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.

In the course of preparing the Financial Statements, no judgements have been made in the process of applying the Group's accounting policies that have had a significant effect on the amounts recognised in the Financial Statements, other than those involving estimations (detailed below).

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of the assets and liabilities recognised by the Company within the next financial year are detailed below.

## Impairment of fixed asset investments

Determining whether the Company's investments are impaired requires an estimation of the investments' value in use. The key estimates made in the value in use calculation in relation to trading subsidiaries are those regarding discount rates, sales growth rates, and expected changes to selling prices and direct costs to reflect the operational gearing of the business. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money for the Group.

The Group performs investment impairment reviews by forecasting cash flows based upon the following year's budget as a base, taking into account current economic conditions. The carrying amount of investments in subsidiaries at the balance sheet date was £443.2m (2017: £443.0m) with no impairment loss recognised in 2018 or 2017. Of the £443.2m net book value, £435m (2017: £435m) relates to SIG Trading Limited, the largest UK trading subsidiary, and therefore assumptions regarding sales, gross margin and operating profit growth of this subsidiary are considered to be the key areas of estimation in the impairment review process. Appropriate sensitivities in relation to this have been performed and disclosed in Note 5.

## Impairment of amounts owed by subsidiary undertakings

At 31 December 2018 the Group has recognised amounts owed by subsidiary undertakings of £866.4m (2017: £936.4m). The Group recognises an allowance for expected credit losses (ECLs) in relation to amounts owed by subsidiary undertakings based on the ability to repay amounts repayable on demand and whether there has been any significant change in credit risk. Changes in the economic environment or circumstances specific to individual subsidiaries could have an impact on the recoverability of amounts included on the Company Balance Sheet at 31 December 2018.

## 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 Financial Statements

## 1. Loss 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 loss after tax for the financial year ended 31 December 2018 of £6.7m (2017: restated £7.5m).

The Auditor's remuneration for audit services to the Company was £0.4m (2017: £0.2m).

## 2. Share-based payments

The Company had four share-based payment schemes in existence during the year ended 31 December 2018. The Company recognised a total charge of £0.2m (2017: charge of £0.2m) in the year relating to share-based payment transactions issued after 7 November 2002. Details of each of the share-based payment schemes can be found in Note 9 to the Group Accounts on pages 139 to 141.

## 3. Dividends

An interim dividend of 1.25p per ordinary share was paid on 9 November 2018 (2017: 1.25p). The directors have proposed a final dividend for the year ended 31 December 2018 of 2.5p per ordinary share (2017: 2.5p). 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. Total dividends paid during the year, including the final dividend for 2017, were £22.2m (2017: £18.2m). No dividends have been paid between 31 December 2018 and the date of signing the Accounts.

See Note 12 for further details on distributable reserves.

## 4. Staff costs

Particulars of employees (including directors) are shown below:

	2018 £m	2017 £m
Employee costs during the year amounted to:		
Wages and salaries	5.7	7.6
Social security costs	0.6	0.7
IFRS 2 share option charge	0.3	0.2
Pension costs	0.2	0.2
<b>Total</b>	<b>6.8</b>	<b>8.7</b>

The average monthly number of persons employed by the Company during the year was as follows:

	2018 Number	2017 Number
Administration	48	48

## 5. Fixed asset investments

Fixed asset investments comprise investments in subsidiary undertakings, as follows:

	2018 £m	2017 £m
<b>Cost</b>		
At 1 January	650.2	650.2
Additions	0.2	-
At 31 December	650.4	650.2
<b>Accumulated impairment charges</b>		
At 1 January and 31 December	207.2	207.2
<b>Net book value</b>		
At 1 January and 31 December	443.2	443.0

Details of the Company's subsidiaries are shown on pages 206 to 207.

The £0.2m additions of investments in the year relate to the share based payment charge settled by SIG plc but relating to other subsidiary companies.

Of the £443.2m (2017: £443.0m) investment net book value, £435m (2017: £435m) relates to SIG Trading Limited, the largest UK trading subsidiary. At 31 December 2018, a review of the future operating cashflows of SIG Trading Limited using the following year's budget as a base, taking into account current economic conditions, a headroom of £165.5m exists. For there to be no headroom, sales would have to reduce by 6.6% or gross margin would have to reduce by 150bps. The Group considers that a reasonably possible scenario would be a 50bps reduction in gross margin. If this arose, no impairment would be required.

A more detailed sensitivity analysis of the Group's significant CGUs is given on page 147, Note 12 of the Consolidated Financial Statements.

## 6. Tangible fixed assets

The movement in the year was as follows:

	Land and buildings		Plant and machinery £m	Total £m
	Freehold land and buildings £m	Short leasehold £m		
<b>Cost</b>				
At 1 January 2017	0.1	0.8	0.9	1.8
Additions (restated)	-	0.2	-	0.2
Disposals	-	(0.8)	(0.3)	(1.1)
At 1 January 2018	0.1	0.2	0.6	0.9
Additions	-	0.3	2.6	2.9
Disposals	-	-	(0.1)	(0.1)
<b>At 31 December 2018</b>	<b>0.1</b>	<b>0.5</b>	<b>3.1</b>	<b>3.7</b>
<b>Depreciation</b>				
At 1 January 2017	0.1	0.2	0.6	0.9
Charge for the year	-	0.1	0.1	0.2
Impairment	-	0.5	0.1	0.6
Disposals	-	(0.8)	(0.3)	(1.1)
At 1 January 2018	0.1	-	0.5	0.6
Charge for the year	-	-	0.2	0.2
<b>At 31 December 2018</b>	<b>0.1</b>	<b>-</b>	<b>0.7</b>	<b>0.8</b>
<b>Net book value</b>				
<b>At 31 December 2018</b>	<b>-</b>	<b>0.5</b>	<b>2.4</b>	<b>2.9</b>
At 31 December 2017	-	0.2	0.1	0.3

The impairment charge in 2017 of £0.6m relates to the assessment of the fair value less costs to sell of the London office prior to the disposal. No additional impairment review was performed in 2018 or 2017 as there were no further indications of impairment.

## 7. Debtors

	31 December 2018 £m	31 December 2017 £m
Amounts owed by subsidiary undertakings	866.4	936.4
Derivative financial instruments	-	1.2
Prepayments	0.5	0.8
Debtors - due within one year	866.9	938.4
Amounts owed by subsidiary undertakings	3.2	3.2
Derivative financial instruments	1.9	0.1
Debtors - due after more than one year	5.1	3.3
<b>Total</b>	<b>872.0</b>	<b>941.7</b>

Amounts owed by subsidiary undertakings are measured at amortised cost and bear interest at rates between 0.0% and 8.0%.

## 8. Creditors: amounts falling due within one year

	<b>31 December 2018 £m</b>	31 December 2017 Restated £m
Private placement notes	–	21.1
Bank loans	<b>56.6</b>	75.7
Bank overdrafts	<b>7.5</b>	1.6
Amounts owed to subsidiary undertakings	<b>323.3</b>	325.8
Derivative financial instruments	<b>0.3</b>	0.2
Accruals and deferred income	<b>10.0</b>	12.8
Corporation tax	<b>3.1</b>	0.8
<b>Total</b>	<b>400.8</b>	438.0

All of the Company's bank loans and overdrafts are unsecured. The bank loans are guaranteed by certain companies of the Group.

Amounts owed to subsidiary undertakings are measured at amortised cost, are unsecured and bear interest at rates between 0.0% and 4.0%.

## 9. Creditors: amounts falling due after one year

	<b>31 December 2018 £m</b>	31 December 2017 £m
Private placement notes	<b>185.6</b>	183.1
Derivative financial instruments	<b>3.8</b>	3.3
Amounts owed to subsidiary undertakings	<b>72.2</b>	71.6
<b>Total</b>	<b>261.6</b>	258.0

Amounts owed to subsidiary undertakings are measured at amortised cost, are unsecured and bear interest at rates between 0.0% and 4.0%.

Details of the private placement notes (before applying associated derivative financial instruments and prepaid arrangement fees) are as follows:

	<b>31 December 2018</b>		31 December 2017	
	<b>£m</b>	<b>Fixed interest rate %</b>	£m	Fixed interest rate %
Repayable in 2018*	–	–	21.1	5.5
Repayable in 2020	<b>26.9</b>	<b>3.7</b>	26.7	3.7
Repayable in 2021	<b>18.0</b>	<b>3.9</b>	17.8	3.9
Repayable in 2023	<b>44.9</b>	<b>4.2</b>	44.4	4.2
Repayable in 2026	<b>96.2</b>	<b>3.3</b>	94.2	3.3
<b>Total</b>	<b>186.0</b>		204.2	

\* The private placement notes repayable in 2018 were included within creditors: amounts falling due within one year at 31 December 2017.

## 10. Provisions

	Warranty Claims £m	Dilapidations Restated £m	Total Restated £m
At 1 January 2017	2.1	–	2.1
New provisions	–	0.8	0.8
Unwinding of provision discounting	0.1	–	0.1
Utilised	(1.1)	–	(1.1)
At 31 December 2017	1.1	0.8	1.9
Released	–	(0.4)	(0.4)
Utilised	(0.9)	–	(0.9)
<b>At 31 December 2018</b>	<b>0.2</b>	<b>0.4</b>	<b>0.6</b>

	31 December 2018 £m	31 December 2017 Restated £m
Amounts falling due within one year	0.2	1.6
Amounts falling due after one year	0.4	0.3
<b>Total</b>	<b>0.6</b>	1.9

The transfer of economic benefit in respect of the warranty provision is expected to be made within the next financial year.

## 11. Deferred tax

	31 December 2018 £m	31 December 2017 Restated £m
Deferred tax assets	0.4	0.3

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 2017	2.3	–	2.3
Credit to income (restated)	0.1	0.2	0.3
Utilised	(2.3)	–	(2.3)
At 31 December 2017	0.1	0.2	0.3
Credit to income	–	0.1	0.1
<b>At 31 December 2018</b>	<b>0.1</b>	<b>0.3</b>	<b>0.4</b>

Given the future expected profitability of the Company, the directors consider that the recognition of the deferred tax assets above is appropriate.

# Notes to the Company Financial Statements

## 12. Capital and Reserves

There was no movement in the merger reserve, capital redemption reserve and exchange reserve in the year. During 2018 the Company allotted 8,747 shares (2017: 87,934) following the exercising of share options.

	<b>31 December 2018 £m</b>	31 December 2017 Restated £m
Called up share capital	<b>59.2</b>	59.2
Share premium account	<b>447.3</b>	447.3
Merger reserve	<b>21.7</b>	21.7
Capital redemption reserve	<b>0.3</b>	0.3
Share option reserve	<b>1.7</b>	1.3
Exchange reserve	<b>(0.2)</b>	(0.2)
Retained profits	<b>140.4</b>	168.0
<b>Total reserves</b>	<b>670.4</b>	697.6

The movements in reserves during the year were as follows:

	Called up share capital £m	Share premium account £m	Share option reserve £m	Retained profits £m
At 1 January 2017	59.1	447.3	1.1	191.2
Exercise of share options	–	–	–	–
Credit to share option reserve	–	–	0.2	–
Fair value movement on cash flow hedges	–	–	–	(1.6)
Transfer to profit and loss on cash flow hedges	–	–	–	4.1
Issue of share capital	0.1	–	–	–
Loss for the period (restated)	–	–	–	(7.5)
Dividends	–	–	–	(18.2)
At 31 December 2017	59.2	447.3	1.3	168.0
Issue of share capital	–	–	–	–
Credit to share option reserve	–	–	0.4	–
Exercise of share options	–	–	–	–
Fair value movement on cash flow hedges	–	–	–	2.0
Transfer to profit and loss on cash flow hedges	–	–	–	(0.7)
Loss for the period	–	–	–	(6.7)
Dividends	–	–	–	(22.2)
<b>At 31 December 2018</b>	<b>59.2</b>	<b>447.3</b>	<b>1.7</b>	<b>140.4</b>

There was no movement in the merger reserve, capital redemption reserve and exchange reserve in the year. During 2018 the Company allotted 8,747 shares (2017: 87,934) following the exercising of share options.

At 31 December 2018 the Company has c.£43.4m of distributable reserves and when required the Company can further increase these distributable reserves from appropriate repatriation of funds from subsidiary undertakings. While the level of distributable reserves is sufficient to support the Group's dividend policy over the short term, the Directors intend to carry out a review during the coming year in order to optimise existing reserves.

Details of the Company's share capital can be found in Note 25 of the Group Accounts on page 167.

## 13. Guarantees and other financial commitments

### a) Guarantees

At 31 December 2018 the Company had provided guarantees of £nil (2017: £14.4m) 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 £8.0m (2017: £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 101 to 103. In addition, the Company recognised a share-based charge under IFRS 2 of £0.3m (2017: charge of £0.2m).

## Fully owned subsidiaries (United Kingdom)

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)  
 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) (x)  
 Ainsworth Insulation Supplies Limited (England) (ii) (xiii)  
 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)  
 Auron Limited (England) (ii) (xix)  
 BBM (Materials) Limited (England) (ii)  
 Blueprint Construction Supplies Limited (England) (ii)  
 Bondec Boards Limited (England) (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 Slate & Tile Limited (England) (ii)  
 Capco UK Holdings Limited (England) (ii) (xiv)  
 Carpet and Flooring (South West) Limited (England) (ii)  
 Ceilings Distribution Limited (England) (i) (ii)  
 +Central Refractories Scotland Limited (Scotland) (ii)  
 Cheshire Roofing 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)  
 The Coleman Group Limited (England) (ii) (xviii)  
 Coleman Roofing Supplies Limited (England) (ii)  
 Conservatory Village Limited (England) (ii)  
 Construction Material Specialists Limited (England) (ii) (xvi)  
 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)  
 Drainage Online Limited (England) (ii)  
 Drainex Limited (England) (ii) (viii)  
 Dyfed Roofing Centre Limited (England) (ii)  
 Eurisol Limited (England) (ii)  
 Euroform Products Limited (England) (ii)  
 Eviee Limited (England) (ii)  
 <Fastplas Limited (Scotland) (ii)  
 Fibreglass Insulations Limited (England) (ii)  
 Fireseal (North West) Limited (England) (ii)  
 Firth Powerfix Limited (England) (ii) (vii)  
 Flex-R Limited (England) (xv)  
 Formerton Limited (England) (ii)  
 Formerton Sheet Sales Limited (England) (ii)  
 Franklin (Sussex) Limited (England) (ii)  
 Freeman Group Limited (England) (i) (ii)  
 Freeman Holdings Limited (England) (ii)  
 General Fixings Limited (England) (ii)

The Greenjackets Roofing Services Limited (England) (ii) (xv)  
 G.S. Insulation Supplies Limited (England) (ii)  
 Gutters & Ladders (1968) Limited (England) (ii)  
 Harris Roofing Supplies Gloucester Limited (England) (ii)  
 >HHI Building Products Limited (Northern Ireland) (ii)  
 Hillsborough Investments Limited (England) (i) (ii) (iii)  
 Impex Avon Limited (England) (ii) (xv)  
 Insulation and Machining Services Limited (England) (ii)  
 Insulation Express Limited (England) (ii)  
 Insulslab Limited (England) (ii)  
 +J. Danskin & Company Limited (Scotland) (ii)  
 John Hughes (Roofing Merchant) Limited (England) (ii)  
 John Hughes (Wigan) Limited (England) (ii)  
 Jordan Wedge Limited (England) (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)  
 Kitson's Thermal Supplies Limited (England) (ii) (v)  
 Landsdon Holdings Limited (England) (ii) (xv)  
 Landsdon Limited (England) (ii) (x)  
 Leaderflush + Shapland Holdings Limited (England)  
 Lee and Son Limited (England) (ii)  
 Lifestyle Partitions and Furniture Limited (England) (ii) (vi)  
 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)  
 Mayplas Limited (England) (ii) (ix)  
 M.C. Insulation Supplies Limited (England) (ii)  
 Metall Architektur Limited (England) (ii)  
 Metecho Limited (England)  
 MP Acoustics Solutions Limited (England) (ii)  
 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) (xvii)  
 Parking Ventilation Equipment Limited (England) (xv)  
 Penkridge Holdings Limited (England) (ii)  
 Plastic Pipe Supplies Limited (England) (ii)  
 Polytech Systems Limited (England) (ii) (xvii)  
 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)  
 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)  
 SAS Direct and Partitioning Limited (England) (ii)  
 Scotplas Limited (England) (ii)  
 Scotwarm Insulations Limited (England) (ii)  
 S.G. Insulation Supplies Limited (England) (ii)  
 Sheffield Insulations Limited (England) (i) (ii) (iii)  
 Shropshire Roofing Supplies Limited (England) (ii)  
 SIG Building Solutions Limited (England) (ii)  
 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 Fifteen Limited (England) (ii)  
 SIG Dormant Company Number Fourteen 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) (ii) (xvii)  
 SIG Dormant Company Number Thirteen Limited (England) (ii)  
 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 Energy Management Limited (England) (i) (ii)  
 SIG EST Trustees Limited (England) (i) (ii)  
 SIG European Holdings Limited (England) (i)  
 SIG European Investments Limited (England)  
 SIG Express Limited (England) (ii)  
 SIG Finance Limited (England) (ii)  
 SIG Fixings Limited (England) (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 (IFC) Limited (England)  
 SIG Insulations Limited (England) (ii)  
 SIG International Trading Limited (England) (i)  
 SIG Logistics Limited (England) (ii)  
 SIG Manufacturing Limited (England)  
 SIG Offsite Limited (England) (ii)  
 SIG Retirement Benefits Plan Trustee Limited (England) (i) (ii)  
 SIG Roofing Supplies Limited (England) (i) (ii)  
 SIG Scots Co Limited (Scotland) (i)  
 SIG Specialist Construction Products Limited (England) (ii)  
 SIG Sustainable Solutions Limited (England) (ii)  
 SIG Trading Limited (England) (i)  
 SIG Trading (KSA) Limited (England) (ii)  
 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)  
 Specialist Fixings and Construction Products 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)  
 T D Insulation Supplies Limited (England) (ii)  
 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)  
 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)  
 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)  
 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)  
 William Smith & Son (Roofing) Limited (England) (ii)  
 Window Fitters Mate Limited (England) (ii)  
 The 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 (United Kingdom)

Passive Fire Protection (PFP) UK Limited (England) (51%) (ii)  
SIG Building Systems Limited (England) (79%)

- + Registered Office Address: 95 Westburn Drive, Cambuslang, Glasgow, G72 7NA, United Kingdom
- < Registered Office Address: The Unit, Waverley Place, Newtown, St Boswells, Melrose, TD6 0RS, United Kingdom
- > Registered Office Address: 6-8 Balmoral Road, Balmoral Industrial Estate, Belfast, Northern Ireland, BT12 6QA, United Kingdom

## Fully owned subsidiaries (overseas) (including registered office addresses)

Air Trade Centre Nederland B.V. (The Netherlands) - 1e Tochtweg 11, 2913 LN Nieuwerkerk aan den Ossel, The Netherlands

Asimex Klimaattechniek B.V. (The Netherlands) - Tielensstraat 17, 5145RC, Waalwijk, The Netherlands

Beleggingsmaatschappij Interland Techniek B.V. (The Netherlands) - Tielensstraat 19, 5145RC, Waalwijk, The Netherlands

BLH Bauelemente für Luftungstechnik Hennen GmbH (Germany) - Johann-Philipp-Reis-Strasse 1, 54293 Trier, Germany

Ethisol S.A.R.L. (France) - Rue Charles Lindbergh - 35150 Janze, France

Gate Pizzaras SL (Spain) - Ponferrada, Villamartin Leon, Spain

Barcol-Air B.V. (The Netherlands) - Cantekoogweg 10-12, 1442 LG Purmerend, The Netherlands

HCKP B.V. (The Netherlands) - Tielensstraat 19, 5145RC Waalwijk, The Netherlands

Holland Conditioning Parkeersystemen B.V. (The Netherlands) - Tielensstraat 19, 5145RC Waalwijk, The Netherlands

Hillsborough (Guernsey) Limited (Guernsey) - Martello Court, PO Box 119, Admiral Park, St Peter Port, HY1 3HB, Guernsey

Hillsborough Investments (Guernsey) Limited (Guernsey) - Martello Court, PO Box 119, Admiral Park, St Peter Port, HY1 3HB, Guernsey

Holland Conditioning B.V. (The Netherlands) - Tielensstraat 19, 5145RC Waalwijk, The Netherlands

Houdstermaatschappij Gisama B.V. (The Netherlands) - Tielensstraat 19, 5145RC, Waalwijk, The Netherlands

Isolatec b.v.b.a. (Belgium) - Scheepvaartkaai 5, Hasselt 3500, Belgium

Interland Techniek B.V. (The Netherlands) - Tielensstraat 17, 5145RC, Waalwijk, The Netherlands

J S McCarthy Limited (Ireland) - Ballymount Retail Centre, Ballymount Road Lower, Dublin 24, Ireland

Larivière S.A.S. (France) - 36 bis rue delaage, 49100 Angers, France

LITT Diffusion S.A.S. (France) - 8-16 rue Paul Vaillant Couturier 92240 Malakoff, France

Maury S.A.S. (France) - Chemin de la Plaisse, 73370 Le Bourget-du-Lac, France

MIT International Trade S.L. (Spain) - Carretera Sarria a Vallvidrera, 259, Local 08017, Barcelona, Spain

Meldertse Plafonneerartikelen N.V. (Belgium) - Bosstraat 60, Lummen 3560, Belgium

MPA BXL N.V. (Belgium) - Z. 4 Broekooi 200, Asse 1730, Belgium

Multijoint SA (Switzerland) - Route du Nant-d'Avril 101, 1217 Meyrin, Switzerland

Profant Lufttechnik Handels GmbH (Austria) - Statteggerstrasse 131, 8045 Graz, Austria

Saftair Ventilation S.A.S. (France) - 15 rue du Levant, 76590 Torcy Le Petit, France

Sebemex S.A.S. (France) - 21 rue du Luxembourg, 37100 Tours, France

SIG Aftbouwspecialist B.V. (The Netherlands) - Het Sterrenbeeld 52, 5215 ML's-Hertogenbosch, The Netherlands

SIG Air Handling Bulgaria Limited (Bulgaria) - 301, Tzarigradsko chaussee Blvr, Sofia 1582, Bulgaria

SIG Air Handling N.V. (Belgium) - Hoogstraat 180, B-1930, Zaventem, Belgium

SIG Air Handling Hungary Kft (Hungary) - 2040 Budaors, Gyar utca 2, Hungary

SIG Air Handling International B.V. (The Netherlands) - Tielensstraat 17, 5145RC, Waalwijk, The Netherlands

SIG Air Handling The Netherlands B.V. (The Netherlands) - Tielensstraat 19, 5145RC Waalwijk, The Netherlands

SIG Air Handling Romania srl (Romania) - 1st Urban district, Sos, Odoi No. 307-309, 2nd Floor Right Module Room 1, Bucharest, Romania

SIG Belgium Holdings N.V. (Belgium) - Z. 4 Broekooi 200, Asse 1730, Belgium

SIG Building Products Limited (Ireland) (ii) - Ballymount Retail Centre, Ballymount Road Lower, Dublin 24, Ireland

SIG Central Services B.V. (The Netherlands) - Bedrijfweg 15, 5061 JX Oisterwijk, The Netherlands

SIG Construction GmbH (Germany) - Maybachstrasse 14, 63456 Hanau-Steinheim, Germany

SIG Financing (Jersey) Limited (Jersey) - 44 Esplanade, St Helier, JE4 9WG, Jersey

SIG France S.A.S. (France) - 8-16 rue Paul Vaillant Couturier, 92240 Malakoff, France

SIG Germany GmbH (Germany) - Maybachstrasse 14, 63456 Hanau-Steinheim, Germany

SIG Holdings B.V. (The Netherlands) - Bedrijfweg 15, 5061 JX Oisterwijk, The Netherlands

SIG International Trading FZE (UAE) - Jabel Ali, Dubai, UAE

SIG Nederland B.V. (The Netherlands) - Bedrijfweg 15, 5061 JX Oisterwijk, The Netherlands

SIG Property GmbH (Germany) - Maybachstrasse 14, 63456 Hanau-Steinheim, Germany

SIG Technische Isolatiespecialist B.V. (The Netherlands) - Zijlweg 1, 5145 NR Waalwijk, The Netherlands

SIG Services Limited (Jersey) - 44 Esplanade, St Helier, JE4 9WG, Jersey

SIG Stukadoorspecialist B.V. (The Netherlands) - Hoogeveenweg 160, Nieuwerkerk a.d. Ossel, 2913 LV, The Netherlands

SIG Trading (Ireland) Limited (Ireland) (viii) - Ballymount Retail Centre, Ballymount Road Lower, Dublin 24, Ireland

SIG Sp. z.o.o. (Poland) - ul. Kamienskigo 51, 30-644 Krakow, Poland

Sitaco Sp. z.o.o. (Poland) - ul. Kamienskigo 51, 30-644 Krakow, Poland

Sitaco Sp. z.o.o. Spolka Komandytowa (Poland) - ul. Kamienskigo 51, 30-644 Krakow, Poland

Societe Industrielle de l'Ouest des Produits Isolants S.A.S. (France) - Chemin de Rouville, 27460 Alizay, France

Technische Handelmaatschappij "Inatherm" B.V. (The Netherlands) - Tielensstraat 17, 5145RC, Waalwijk, The Netherlands

WeGo FloorTec GmbH (Germany) - Juri-Gagarin-Ring 11, 19370 Parchim, Germany

WeGo Systembaustoffe GmbH (Germany) - Maybachstrasse 14, 63456 Hanau-Steinheim, Germany

## Controlling interests (overseas) (including registered office addresses)

Insulation and Dry Lining Trading LLC (Qatar) (49%) - P.O. Box 18698, Doha, Qatar

SIG Middle East LLC (UAE) (49%) - P.O. Box 215851, Dubai, UAE

### 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

## Life President

Sir Norman Adsetts OBE, MA

## Secretary

Richard Monro FCIS

## Registered number

Registered in England  
998314

## Registered office

10 Eastbourne Terrace  
London W2 6LG  
United Kingdom

Tel: 0114 285 6300  
Fax: 0114 285 6349  
Email: [info@sigplc.com](mailto:info@sigplc.com)

## Corporate office

Adsetts House  
16 Europa View  
Sheffield Business Park  
Sheffield S9 1XH  
United Kingdom

Tel: 0114 285 6300  
Fax: 0114 285 6349

## Company website

[www.sigplc.com](http://www.sigplc.com)

## Listing details

### Market Reference Sector

UK Listed  
SHI.L Support Services

## Registrars and transfer office

### Computershare Investor Services PLC

The Pavilions  
Bridgwater Road  
Bristol BS13 8AE

## Auditor

### Ernst & Young LLP

1 More London Place  
London SE1 2AF

## 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  
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

### Peel Hunt LLP

Moor House  
120 London Wall  
London EC2Y 5ET

## Financial public relations

### FTI Consulting Limited

200 Aldersgate  
Aldersgate Street  
London EC1A 4HD

## Financial advisers

### Lazard & Co Limited

50 Stratton Street  
London W1 J8LL

## Shareholder 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 GMT each business day.

Email: Access the Computershare website [www-uk.computershare.com/investor](http://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 2018 the annual tax-free allowance on dividend income across an individual's entire share portfolio has reduced from £5,000 to £2,000. Above this amount, individuals pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. Shareholders should seek independent financial advice as to how this change will impact their personal tax obligations. 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.

If you have any tax queries, please contact a financial advisor.

## WEBSITE AND ELECTRONIC COMMUNICATIONS

Shareholders receive notification of the availability of the results to view or download on the Group's website [www.sigplc.com](http://www.sigplc.com), unless they have elected to receive a printed version of the results.

We encourage our shareholders to accept all shareholder communications and documents electronically instead of receiving paper copies by post as this helps to reduce the environmental impact by saving on paper and also reduces distribution costs.

If you sign up to electronic communications, instead of receiving paper copies of the annual and half-yearly financial results, notices of shareholder meetings and other shareholder documents through the post, you will receive an email to let you know this information is on our website.

If you would like to sign up to receive all future shareholder communications electronically, please register through our registrars Computershare at [www.investorcentre.co.uk/ecomms](http://www.investorcentre.co.uk/ecomms).

## Financial calendar

Annual General Meeting	– to be held on 8 May 2019	Final Dividend payment	– 5 July 2019
Interim Results 2019	– announcement August 2019	Interim Dividend payment	– November 2019
Full Year Results 2019	– announcement March 2020		
Annual Report and Financial Statements 2019	– posted to shareholders March/April 2020		

## Shareholder analysis at 31 December 2018

Size of Shareholding	Number of shareholders	%	Number of Ordinary Shares	%
0 - 999	660	33.43	270,292	0.05
1,000 – 4,999	713	36.12	1,600,826	0.26
5,000 – 9,999	200	10.13	1,344,632	0.23
10,000 – 99,999	223	11.30	6,801,446	1.15
100,000 – 249,999	51	2.58	7,681,249	1.30
250,000 – 499,999	30	1.52	9,691,877	1.64
500,000 – 999,999	28	1.42	20,228,102	3.42
1,000,000+	69	3.50	543,938,558	91.95
<b>Total</b>	<b>1,974</b>	<b>100.00</b>	<b>591,556,982</b>	<b>100.00</b>

# Shareholder Notes



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